



IDA19

**The Demand for IDA19 Resources and
the Strategy for their Effective Use**

Development Finance Corporate IDA and IBRD (DFCII)

May 24, 2019

ACRONYMS AND ABBREVIATIONS

Fiscal year (FY) = July 1 to June 30

ACLED	Armed Conflict Location & Event Data Project	CPF	Country Partnership Framework
ADB	Asian Development Bank	CPIA	Country Policy and Institutional Assessment
AfDB	African Development Bank	CPR	Country Performance Rating
AFR	Sub-Saharan Africa Region	CPSD	Country Private Sector Diagnostics
ARTF	Afghanistan Reconstruction Trust Fund	CRW	Crisis Response Window
ASEAN	Association of Southeast Asian Nations	CSO	Civil Society Organization
ASP	Adaptive Social Protection	CwA	Compact with Africa
AU	African Union	DE4A	Digital Economy for Africa
BEAC	Bank of Central African States	DFCII	Development Finance Corporate IDA and IBRD
BOAD	West African Development Bank	DPF	Development Policy Financing
CAEWDP	Central Asia Energy Water Development Program	DPO	Development Policy Operations
CAREC	Central Asia Regional Economic Cooperation	DRC	Democratic Republic of the Congo
CARICOM	Caribbean Community	DRM	Disaster Risk Management
CARs	Central Asia Regional Links Program	DSA	Debt Sustainability Analysis
CASA	Central Asia South Asia	DSF	Debt Sustainability Framework
CAT-DDO	Catastrophe Deferred Draw-Down Option	DT	Disruptive Technology
CEMAC	Central African Economic and Monetary Community	DT4D	Disruptive Technology for Development
CEN	Country Engagement Note	EAP	East Asia and the Pacific Region
CERC	Contingent Emergency Response Component	ECA	Europe and Central Asia
CILSS	Permanent Inter-State Committee for Drought Control in the Sahel	ECFS	Eurasian Center of Food Security
CLMVT	Cambodia, Laos, Myanmar, Vietnam and Thailand	ECOWAS	Economic Community of West African States
CMAW	Creating Markets Advisory Window	EFI	Equitable Growth, Finance and Institutions
COMRURAL	Honduras' Rural Competitiveness Project	EFF	Extended Fund Facility
		FAM	Famine Action Mechanism
		FCI	Finance, Competitiveness, and Innovation

FCS	Fragile and Conflict-affected Situations	MPA	Multi-pronged Approach
FCV	Fragility, Conflict and Violence	MDB	Multilateral Development Bank
FEWS	Famine Early Warning Systems	M&E	Monitoring and Evaluation
GBV	Gender-based Violence	MENA	Middle East and North Africa Region
GCI	General Capital Increase	MFD	Maximizing Finance for Development
GCRP	Global Crisis Risk Platform	MFI	Multilateral Financial Institution
GDP	Gross Domestic Product	MIC	Middle-Income Country
GEMS	Geo-Enabling Initiative for Monitoring and Supervision	MDRI	Multilateral Debt Relief Initiative
GNI	Gross National Income	MIGA	Multilateral Investment Guarantee Agency
GP	Global Practice	MTR	Mid-Term Review
GRIF	Global Risk Financing Facility	NCBP	Non-Concessional Borrowing Policy
GW	Gigawatt	NGO	Nongovernmental Organization
GWh	Gigawatt hour	ODI	Overseas Development Institute
HCI	Human Capital Index	OPCS	Operations Policy and Country Services
HCP	Human Capital Project	PBA	Performance Based Allocation
HDPG	Human Development Practice Group	PCPI	Post-Conflict Performance Indicator
HIPC	Heavily Indebted Poor Country	PDNA	Post-Disaster Needs Assessment
ICT	Information and Communication Technology	PDO	Project Development Objective
IBRD	International Bank for Reconstruction and Development	PEF	Pandemic Emergency Financing Facility
IDB	Islamic Development Bank	PforR	Program for Results
IEG	Independent Evaluation Group	PG	Practice Groups
IFC	International Finance Corporation	PLR	Performance and Learning Review
IFI	International Financial Institution	PNG	Papua New Guinea
IMF	International Monetary Fund	PPP	Purchasing Power Parity
INGO	International Nongovernmental Organization	PPPs	Public Private Partnerships
IP	Implementation Progress	PRA	Prevention and Resilience Allocation
IPF	Investment Project Financing	PSW	IDA IFC-MIGA Private Sector Window
ISR	Implementation Status and Results Report	RAP	Results and Performance of the World Bank Group
JET	Jobs and Economic Transformation		
LCR	Latin America and the Caribbean Region		
LIC	Low-Income Country		

RECA	Remaining Engaged in Conflict Allocation	TAA	Turn Around Allocation
		TAR	Turn Around Regime
RGAP	Regional Gender Action Plan	UN	United Nations
RMR	Risk Mitigation Regime	UN-CARICOM	United Nations-Caribbean Community
RSW	Refugee Sub-Window		
RRA	Risk and Resilience Assessment	UNCTAD	United Nations Conference on Trade and Development
SAR	South Asia Region	UNHCR	United Nations High Commissioner for Refugees
SCD	Systematic Country Diagnostic		
SDFP	Sustainable Development Finance Policy	UNODC	United Nations Office on Drugs and Crime
SDG	Sustainable Development Goal	USAID	United States Agency for International Development
SDPG	Sustainable Development Practice Group	WAEMU	West African Economic Monetary Unit
SDR	Special Drawing Right	WAPP	West African Power Pool
SME	Small and Medium Enterprise	WB	World Bank
SMP	Staff Monitored Program	WBG	World Bank Group
SSA	Sub-Saharan Africa	WDR	World Development Report
SUF	Scale-Up Facility	WHR	Window for Host Communities and Refugees
SUW	Scale-Up Window		
SWEDD	Sahel Women Empowerment and Demographic Dividend		

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
I. INTRODUCTION	1
II. PROGRESS AND CHALLENGES TO ACHIEVING THE 2030 AGENDA	3
A. Urgency of the 2030 Agenda and Opportunities for IDA Countries	3
B. IDA, together with the IFC and MIGA, Delivers for IDA Countries	6
III. IDA’S REGIONAL AND SECTORAL APPROACHES FOR IMPLEMENTING IDA’S CORE PROGRAM	10
A. Regional Approaches for IDA19	10
B. Practice Groups Approaches for IDA19	23
IV. RESOURCING IDA19	28
A. IDA19 Countries Financing: Needs, Approach, and Architecture.....	28
B. IDA19 Financing Scenarios	51
C. A Focus on Implementation.....	58
V. ISSUES FOR DISCUSSION	63

LIST OF ANNEXES

Annex 1: Proposed Changes to the Allocation and Financing Framework under IDA19	64
Annex 2: Proposed Fragile, Conflict and Violence (FCV) Envelope	67
Annex 3: The IDA Regional Window - Details on Proposed Adjustments to Instruments	73
Annex 4: Proposed Changes to the Crisis Response Window (CRW) Framework.....	76
Annex 5: Strategic Initiatives.....	79
Annex 6: Country Graduation Considerations.....	85

LIST OF BOXES FIGURES AND TABLES

Boxes

Box 1. The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) Strategic Outlook in IDA Countries	8
Box 2. Digital Economy for Africa Initiative	13
Box 3. The Africa Human Capital Project.....	14
Box 4. Key Success Stories of IDA18 Implementation and Opportunities for IDA19 in Latin America and the Caribbean Region (LCR)	23
Box 5. Human Development in Practice: The Human Capital Project.....	24
Box 6. Sustainable Development in Practice: The World Bank Group (WBG)’s Ag Observatory.....	25
Box 7. Equitable Growth, Finance and Institutions (EFI) in Practice: The Productivity Project	26
Box 8. Infrastructure in Practice: Technology in Transport Initiative	27
Box 9. The Proposed Sustainable Development Finance Policy	33
Box 10. Disruptive Technology for Development (DT4D) Program	38

Box 11. A Review of IDA’s Crisis Toolkit	47
Box 12. Progress in Potential Arrears Clearance and Re-engaging Countries	50
Box 13. Progress in IDA18 Implementation.....	62

Figures

Figure 1. Poverty Evolution and Outlook in IDA Countries	3
Figure 2. Economic Growth in the World and IDA Countries	4
Figure 3. WBG Financing in IDA Eligible Countries IDA14-IDA18 (US\$ billion).....	6
Figure 4. Project Example of MFD Approach in Afghanistan Energy Sector.....	16
Figure 5. ECA Regional Priorities for IDA Delivery	19
Figure 6. Demand from Regions for IDA19 Resources (US\$ billion).....	28
Figure 7. Translating IDA19 Strategic Directions into the Operational and Allocation Framework	30
Figure 8. Proposed Financing Structure under IDA19.....	32
Figure 9. FCV Envelope	35
Figure 10. CRW Allocations IDA16-IDA18 and Proposed IDA19 Envelope (US\$ billion)	42
Figure 11. Summary of Non-Core Concessional IDA Allocations.....	52
Figure 12. Core Concessional Allocations to IDA FCS in IDA18 and IDA19 and Contributing Factors to IDA19 Indicative Allocation.....	54
Figure 13. Base Scenario - Per Capita Core IDA allocations from IDA16-IDA19 Base (US\$).....	55
Figure 14. Base Scenario - Change in Concessional Core IDA Support Relative to IDA18.....	55
Figure 15. Per Capita Allocations (percent change from IDA18 in Nominal US\$)	56
Figure 16. Summary of IDA19 Scenarios and Proposed Implications on Key Priorities	57
Figure 17. Share of Total IDA	59
Figure 18. IEG ratings of IDA project outcomes	59
Figure 19. IDA Gross Disbursements and IPF Disbursement Ratio.....	60
Figure 20. IDA Gross Disbursements by IDA Cycle.....	60

Tables

Table 1. Options for Countries to Deliver CRW-funded Crisis Responses	45
Table 2. Summary of IDA19 Financing Scenarios	53

EXECUTIVE SUMMARY

i. **The world has made great strides in poverty reduction, but global headwinds and emerging challenges threaten both hard-fought development gains and further progress.** Extreme poverty has fallen in IDA countries, from 49 percent in 2002 to 31 percent in 2015. The impressive progress made by several IDA countries demonstrates that the Sustainable Development Goals (SDGs) are attainable. Nonetheless, there is urgency to do more. Around five out of six people in IDA countries live on less than US\$5.5 a day and are at risk of relapsing into poverty if they are exposed to a shock. There are also more violent conflicts than at any time in the past 30 years and the largest forced displacement crisis since World War II. Growth has often come with inequalities and led to exclusion. The jobs challenge is acute in IDA countries with youthful populations: around 28 million jobs are needed each year in IDA countries simply to meet the growing number of young men and women coming of working age. Hunger, after years of decline, is on the rise, returning to levels from a decade ago. Climate change is threatening agricultural systems and, by 2050, close to 150 million people could become climate migrants in Sub-Saharan Africa (SSA), Latin America and South Asia. To compound these challenges, an increasing number of IDA countries are at risk of debt distress, making them more vulnerable to shocks and less able to borrow sustainably to meet their development needs, including their massive human capital development needs. Absent swift action, rising risks and vulnerabilities could severely undermine progress made in the fight against poverty and bring regional and global spillovers.

ii. **IDA19 responds to this urgency with a comprehensive package that focuses on achieving sustainable and inclusive growth, investing in people, and building resilience.** IDA19 offers a suite of priorities that deepen the five IDA18 Special Themes of Climate Change, Fragility, Conflict and Violence (FCV), Gender and Development, Governance and Institutions, and Jobs and Economic Transformation (JET). IDA19 will also emphasize cross-cutting issues such as debt, disability, human capital, and technology. The policy commitments in the IDA19 package are tailored to achieve lasting impact and are targeted at the key constraints that are keeping IDA countries from achieving the SDGs and the World Bank Group (WBG) twin goals.

iii. **IDA19 sets ambitious goals, building on the strong delivery record of IDA18, combined with the International Finance Corporation (IFC) and the International Bank for Reconstruction and Development (IBRD) recent capital increases.** IDA18 implementation to date has been strong. IDA countries have demonstrated their capacity to deliver at much larger financing volumes, while maintaining the quality of their programs. With IDA18 support, IDA countries have also scaled up in difficult areas, as seen in IDA18's doubling of resources to Fragile and Conflict-affected Situations (FCS) and the launching the Private Sector Window (PSW) and the Refugee Sub-Window (RSW). The IFC capital increase has set a strong trajectory for IFC financing in IDA countries, while increased IBRD access will benefit IDA blend countries and IDA graduates over the next decade. Recent progress demonstrates that IDA is the ideal vehicle to help countries to meet the world's most pressing development challenges.

iv. **Demand for IDA19 financing is strong, underscoring the need to sustain IDA programming at scale.** Regional approaches and Country Partnership Frameworks (CPFs) advance the IDA19 Special Themes. The launch of important initiatives such as the Human Capital Project, the Digital Economy for All (including the Digital Economy for Africa), the Joint

International Monetary Fund - World Bank (IMF-WB) Multi-pronged Approach for Addressing Emerging Debt Vulnerabilities, as well as several sub-regional interventions, provide further groundwork for IDA19. Regional priorities and country strategies focus more on addressing binding constraints to growth, FCV drivers, prevention and preparedness, and advancing partnerships as one WBG across the public and private sectors. These will then be operationalized and then operationalized through programs and projects across IDA countries.

v. **IDA19 will refine IDA’s resource architecture, including by increasing the Core IDA envelope that supports country programming and also by enhancing IDA’s Windows.** First, proposed adjustments to the *Core IDA* allocations framework will: (i) strengthen debt management in IDA countries; and (ii) provide enhanced and more tailored support to IDA FCS with a focus on prevention. Second, proposed adjustments to *IDA Windows* will: (i) expand the Regional Window to support strategic initiatives, including on human capital and digital economy, and on regional fragility, including in the Sahel; and (ii) enhance IDA’s crisis toolkit to support early response to slower onset crises. Additionally, IDA19 will support policy reform by enabling the Regional Window to support Development Policy Financing (DPFs). IDA19 will also retain a strong focus on the private sector with the proposed continuation of the PSW and initiatives promoting the uptake of innovative technologies for development. Finally, IDA19 proposes to simplify and refine IDA’s allocation architecture by consolidating the FCV-related allocations, increasing the share of Core IDA resources while reducing the share of set-asides, introducing a Regional Public Goods Envelope and harmonizing nomenclature to improve clarity. This architecture will also provide some degree of flexibility in resource allocation within clearly defined parameters.

vi. **This paper presents three financing scenarios for IDA19, with varying degrees of concessionality and volume to support the proposed IDA19 program.** The Base Scenario is US\$80 billion, which maintains IDA18 financing in real terms. The Low Scenario is US\$72 billion, and the High Scenario is US\$86 billion. The Base Scenario supports IDA19’s key priorities by scaling up Core support in FCS and non-Core funding through the Regional Window. The High Scenario provides further resources to support these priorities. The size of the concessional IDA envelope varies across scenarios due to three factors: (i) overall replenishment volumes; (ii) overall allocation choices (i.e. the distribution between concessional and non-concessional, and between Core and non-Core resources); and (iii) strategic choices along IDA’s hybrid model to balance long-term financial sustainability as elaborated in the IDA19 Financing Framework Paper.

vii. **It will be essential for IDA19 to build on the momentum of IDA18.** The SDG and the twin goals demand it. The challenges of the next decade are significant, and could bring significant regional and global spillovers unless they are addressed. Global headwinds are also approaching, and the coming decade will be marked by higher risks and vulnerabilities. IDA countries have demonstrated that they have the capacity needed to absorb the resources they need to tackle the challenges and achieve global goals. Backed by the IDA18 delivery record, IDA19 can reach further and deliver more. Given the level of ambition, resourcing IDA19 will require strong contributions from IDA financing partners. In particular, the concessionality required for the FCV scale-up, expanded Regional Window, and the elimination of the non-concessional transition support, necessitate strong partner contributions.

viii. **Guidance from IDA Participants is requested on the IDA19 proposed scenarios, the specific policy adjustments proposals, and Management recommendations, as follows:**

- (a) Do the financing scenarios present a suitable range to adequately respond to IDA countries' needs in IDA19?
- (b) Do Participants agree with the proposals summarized in Annex 1 regarding the FCV Envelope, Crisis Response Window, Regional Window and Arrears clearance set-aside? Do they support the overall architecture and limited flexibility?
- (c) Do Participants concur that Moldova and Mongolia should graduate from IDA at the end of IDA18?

I. INTRODUCTION

1. **With ten years to 2030, there is elevated urgency to accelerate progress towards the Sustainable Development Goals (SDGs).** Progress made towards the SDGs over the last decade has been uneven across regions and countries. While extreme poverty¹ has declined globally from 36 percent in 1990 to 8.6 percent in 2018, the extreme poverty rate has fallen in most IDA countries at a much slower pace: from 49 percent in 2002 to 31 percent in 2015. The pace has been particularly slow in Sub-Saharan Africa (SSA). Two thirds of the world’s poor now live in IDA countries, with a third of those in living in Fragile and Conflict-affected Situations (FCS) and five out of six people in IDA countries in 2015 are considered at high or moderate risk of relapsing into poverty.² Broadening the definition of poverty to include access to education and basic infrastructure, data from the 75 current IDA countries shows that the share of the poor increases to almost 70 percent. Furthermore, projections paint an alarming picture for IDA countries: while non-IDA countries could reduce the extreme poverty rate to under 1 percent by 2030, it may be as high as 24 percent in IDA countries, equivalent to more than 500 million people, 87 percent of them living in SSA and about half in FCS.³

2. **As elaborated in the “IDA19 Overview” paper, several challenges require attention and global headwinds threaten progress towards these goals.** Climate change is threatening agricultural systems and, by 2050, close to 150 million people could become climate migrants in SSA, Latin America and South Asia. Pollution poses increasing risks to human health, including plastic debris floating across oceans and visible on the world’s beaches, mangroves, coral reefs and waterways. External shocks, combined with low incomes, lack of opportunity, food insecurity, demographic imbalances, weak institutions, and fragility, conflict and violence, are driving both voluntary and involuntary migration. This imposes disproportionate social, economic and security risks and burden on the host countries. These challenges require collective global action before they take crisis proportions. Rising public debt levels and risks in IDA countries could adversely impact progress towards the SDGs. This situation could be further worsened in the event of a global economic slowdown.

3. **Given these challenges, a robust IDA19 Replenishment is critical to continue advancing the ambitious agenda presented in IDA18.** With the introduction of the hybrid financial model, IDA18 increased the scale of financing to support IDA countries to meet the SDGs. It also introduced innovative windows to address some of the emerging challenges and opportunities, such as forced displacement through the Refugee Sub Window (RSW), as well as increased private sector support through the Private Sector Window (PSW). The strong operational delivery through IDA18 must be sustained in IDA19. There is also an urgent need to exploit new growth pathways through advances in technology, which could unlock new growth potential in the digital economy, strengthen governance, improve climate resilience, and boost human

¹ Measured as the number of people living under US\$1.90/day in 2011 purchasing power parity (PPP) terms.

² Income/consumption of US\$5.5 per day is the international poverty line for Upper Middle-Income Countries (UMIC) and shows what the poverty rate would be in IDA countries if they had the same criteria for what it takes to be poor in UMICs. Even though a large fraction of the population in IDA countries may not be extremely poor (under US\$1.9 per day), they would likely be classified as poor in most middle-income countries. Although “only” a third of people in IDA countries are extremely poor, five out of six are poor by the US\$5.50 standard.

³ World Bank. 2018. Poverty and Shared Prosperity 2018: Piecing Together the Poverty Puzzle. Washington, DC.

development. Achieving the SDGs will require concerted efforts across the development community to support IDA countries and ensure none are left behind.

4. **The ‘Demand for IDA19 Resources and the Strategy for their Effective Use’ is based on this agenda, with the ambition to sustain the scale and innovations begun in IDA18, while enhancing its efficiency and effectiveness through a one WBG approach.** The IDA19 scenarios presented in this paper build upon the IDA18 implementation experience to increase focus on high-impact initiatives at both country and regional levels while improving the efficiency and effectiveness of IDA operations. It also integrates a broader WBG approach by implementing the ‘Forward Look’,⁴ now strengthened by the 2018 capital increase for the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC). The capital increase for the IBRD and the IFC translates into increased access for lower-middle income countries (including IDA blend countries) and an overall increase of IFC commitments to IDA countries over the next decade.

5. **The proposed use of IDA resources aims to advance the progress being made on the five IDA18 Special Themes of Climate Change, Fragility, Conflict and Violence (FCV), Gender and Development, Governance and Institutions, and Jobs and Economic Transformation (JET).** In addition to these Special Themes, IDA19 will focus on four cross-cutting issues, namely, debt, disability, human capital, and technology. Flagship initiatives such as the Human Capital Project and Digital Economy for Africa initiative, as well as the Joint International Monetary Fund - World Bank (IMF-WB) Multi-pronged Approach (MPA) for Addressing Emerging Debt Vulnerabilities will help advance progress on these issues in IDA19.

6. **The remainder of the report outlines the context for IDA19, IDA countries demand for IDA resources and proposals for their effective use.** Section II summarizes progress made by IDA countries and challenges they face in meeting the SDGs by 2030.⁵ Section III describes the demand for IDA resources, highlighting strategic initiatives proposed for IDA19. The section also highlights how IDA will work with the IFC and the Multilateral Investment Guarantee Agency (MIGA), as well as other development partners to maximize development impact. Section IV presents three financing scenarios (a Low Scenario, a Base Scenario and a High Scenario) to support the proposed strategies outlined in Section III and their operational implications. Section V summarizes the paper and seeks guidance from IDA Participants on key Management proposals.

⁴ The Forward Look serves as the overarching roadmap for how the WBG can best support its member countries to advance economic transformation and contribute to the attainment of the SDGs. See Forward Look – A Vision for the World Bank Group in 2030, Development Committee paper, October 2016.

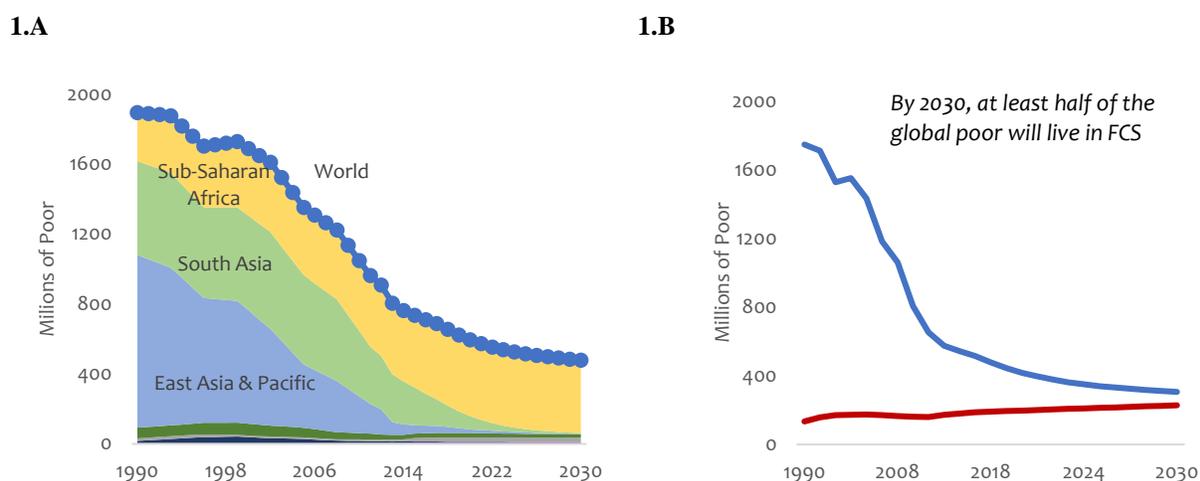
⁵ See “IDA19 Overview” paper: “Ten Years to 2030: Growth, People, Resilience”, May 2019 for details.

II. PROGRESS AND CHALLENGES TO ACHIEVING THE 2030 AGENDA

A. URGENCY OF THE 2030 AGENDA AND OPPORTUNITIES FOR IDA COUNTRIES

7. As discussed in the “IDA19 Overview” paper, unless progress is significantly accelerated, the goal of ending poverty by 2030 is at risk. Poverty levels remain elevated, particularly in FCS, poorer economies and SSA. Recent WB estimates suggest that at current Gross Domestic Product (GDP) growth rates, by 2030, there would be half a billion poor people living in IDA countries, with SSA hosting most of the poor. Furthermore, current projections indicate that, by 2030, at least half of the world’s poor people will live in FCS (see Figure 1).⁶ This poses the risk that the first of the SDGs – *to end poverty in all its forms everywhere* – will not be achieved by 2030.

Figure 1. Poverty Evolution and Outlook in IDA Countries



Source: World Bank staff based on WDI, 2019.

Note: IDA poverty figures in chart 1b do not capture all IDA countries due to missing data.

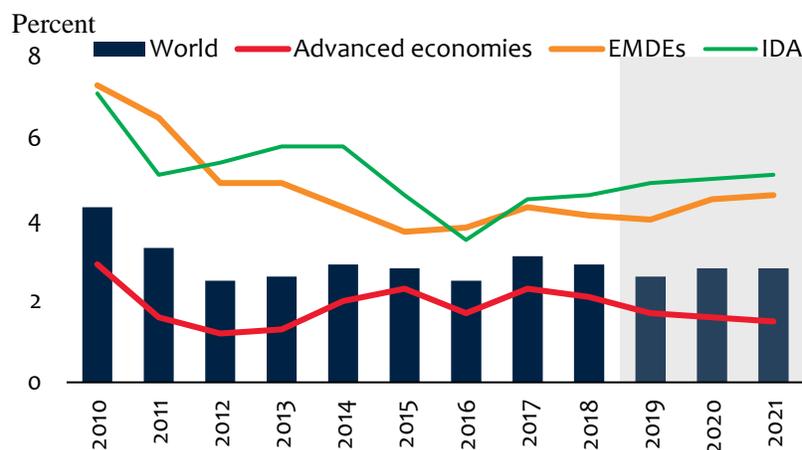
8. **Growth rates in IDA countries are projected to rise marginally between 2019 and 2021, but will not be enough to reduce poverty to below three percent by 2030.** Aggregate growth in IDA countries is projected to pick up from 4.6 percent in 2018 to an average of five percent over 2019-2021, but downside risks persist amid a softer global outlook (see Figure 2).⁷ In addition, elevated debt risks in several IDA countries could adversely impact priority public spending that is critical in promoting inclusive growth. Currently, about 50 percent of the IDA countries covered under the joint World Bank-International Monetary Fund (WB-IMF) Debt Sustainability Framework for Low-Income Countries (LIC DSF) are at high risk of external debt

⁶ Authors’ calculations and World Bank. 2018. “Poverty and Shared Prosperity 2018: Piecing Together the Poverty Puzzle.” Washington, DC: World Bank.

⁷ The 2018 Poverty and Shared Prosperity report projected poverty rate reduction scenarios considering the historical country and regional growth averages from 2005-2015. The only scenario where global poverty rates were at three percent in 2030 was when a real annual growth rate of six percent and a shared prosperity premium of two percentage points were assumed.

distress or in debt distress. Around two-thirds of IDA FCS are assessed at high risk of (or already in) debt distress.⁸

Figure 2. Economic Growth in the World and IDA Countries



Sources: World Bank.

Note: EMDEs = emerging market and developing economies. Shaded area indicates forecasts. Aggregate growth rates calculated using constant 2010 US dollars GDP weights. Data for 2018 are estimates.

9. **Furthermore, FCV and other drivers of vulnerabilities such as natural disasters, violent conflict, displacement, and climate change could severely undermine hard-fought development gains.** FCV disproportionately impacts the most vulnerable people and communities, limiting their human capital and economic opportunities.⁹ Forced displacement continues to worsen and has become increasingly complex and protracted—the average refugee spends 10 years in exile,¹⁰ with substantial socio-economic impacts on both refugee and host communities. The number of registered refugees in countries receiving support from the IDA Refugee Sub-Window (RSW) has increased by 25 percent from 2016 to 2017.¹¹ FCV risks can also be push factors for economic migration, leading to the loss of human capital within the country and increased pressures on host countries. Similarly, in the absence of decisive policy action, extreme weather shocks could lead to an additional 100 million extreme poor by 2030. Significant investments and efforts of IDA countries and development partners are needed to mitigate and adapt to climate change.

⁸ Of the 32 IDA FCS on the *FY19 Harmonized List*, 29 are covered by the joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries. Of these 29, only one country (Myanmar) is at low risk of debt distress, 10 are at moderate, and 18 are at high. See also *Addressing Debt Vulnerabilities in IDA Countries: Options for IDA19*.

⁹ World Bank Human Capital Index, 2018. Among the 20 lowest ranked IDA countries on the Human Capital Index (HCI), 14 are IDA FCS, and more than half of the extreme poor in these IDA FCS face severe deprivations in education and in access to basic infrastructure, such as energy, water, and sanitation. The average HCI for FCS is 0.40, compared to a global average of 0.57. Under current conditions, children born in FCS will be only 40 percent as productive as adults than they could be if they had complete education and full health.

¹⁰ World Bank. 2016. *How Many Years Have Refugees Been in Exile?* Policy Research Working Papers. By Xavier Devictor, Quy-Toan Do.

¹¹ The number of refugees in Bangladesh and Uganda has increased significantly over this period of time.

10. **To mitigate the risks that slow growth will threaten the achievement of the SDGs, a focused approach is critical.** Governance and institutions need to be strengthened to unleash the potential of markets and promote job-rich structural transformation. However, this cannot be done without IDA countries empowering and promoting equality and inclusion, especially for women, girls and people with disabilities. To achieve the inclusive growth needed to substantially reduce poverty, IDA countries will need to seize the opportunities afforded by rapid technological changes, as well as maintain sustainable debt levels, and invest significantly in human capital. IDA countries will also need to prepare for the increased risks brought about by climate change, which could reverse potential gains if not effectively managed.

11. **Past and present successes show that progress is possible with the right policies and strong support from IDA and other partners.** Since IDA's establishment in 1960, 35 countries have successfully transitioned to middle income status and graduated to IBRD. IDA projects have improved the lives of huge numbers of people in IDA countries, helping them to escape poverty and fragility. In Vietnam, for example, the extreme poverty rate fell from 38 in 2002 to below 3 percent in 2018.¹² With IDA support, access to household infrastructure improved dramatically: in 2016, 99 percent of the people in Vietnam used electricity as their main source of lighting, up from 14 percent in 1993. In the Sahel, IDA has helped to empower young women and girls by improving health services, encouraging ongoing education, and enhancing their life skills and vocational skills. In Yemen, IDA has helped build resilience, protect vulnerable Yemenis, financing five critical projects, including emergency vaccination and income support reaching 1.45 million households facing famine. In Afghanistan, IDA supported projects have generated 5,500 kilowatts of power, built 850 kilometers of roads, and provided 63 million liters of drinking water per day, benefiting 4.5 million people. In Ethiopia, Bank dialogue under the RSW has led to the adoption of reforms that shift away from the decades-old encampment model and offer refugees socio-economic rights, including to move freely, work, and access services. IDA has helped Haiti immunize 640,000 children and ensured skilled birth attendants at 20,000 births. These examples demonstrate IDA's capabilities to respond to prevalent and emerging challenges faced by IDA countries.

12. **Yet, IDA countries face significant funding gaps to achieving the SDGs, even with stronger efforts to mobilize domestic resources.** Developing countries face an estimated of US\$2.5 trillion annual financing gap to achieve the SDGs.¹³ The WB estimates that the financing gap in IDA countries to guarantee access to the most essential health services between 2020 and 2030 ranges from US\$975 billion to US\$1.1 trillion. For IDA19, this financing gap translates to approximately between US\$272 billion and US\$289 billion. Other estimates indicate that US\$2.4 trillion is the cost for LICs and Middle-Income Countries (MICs) to reach the poverty reduction SDG target by 2030, only in the three core social sectors.¹⁴ These amounts far exceed what IDA countries can be expected to mobilize domestically, which means that external resources play a critical role in the financing of the SDGs.

13. **Achieving the SDGs will require concerted efforts across the development community to support IDA countries and ensure that no-one is left behind.** The headwinds and challenges

¹² World Development Indicators, poverty headcount ratio at \$1.90 a day (2011 PPP) percent of population.

¹³ World Investment Report 2014, UNCTAD.

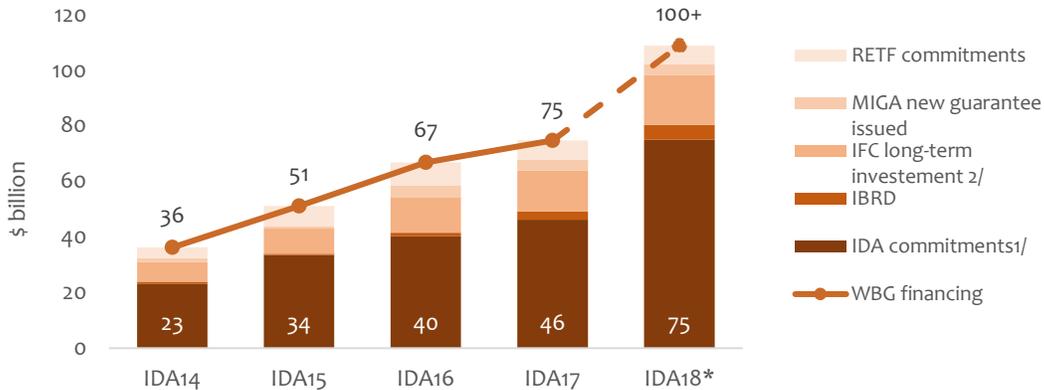
¹⁴ The Overseas Development Institute (ODI) estimates of what it would cost to reach the Poverty SDG target by 2030. Financing the end of extreme poverty, ODI 2018.

faced by IDA countries underscore the importance of IDA’s support to advance the development agenda, working in partnership with country authorities, other multilateral and bilateral financing agencies, civil society organizations and the private sector. This support is required to ensure that gains from growth are shared, poverty is reduced across all IDA countries including in SSA, and progress is accelerated to increase the feasibility of achieving these ambitions in IDA countries. This urgency calls for a bold global response through the IDA19 Replenishment.

B. IDA, TOGETHER WITH THE IFC AND MIGA, DELIVERS FOR IDA COUNTRIES

14. **Total WBG financing to IDA countries has expanded significantly over the past 15 years.** Total commitments from IDA, IBRD, IFC, MIGA and trust funds to the current 75 IDA countries¹⁵ have nearly tripled from US\$36 billion in IDA14 to an expected US\$100 billion in IDA18. IDA commitments have increased from an annual average of US\$7.8 billion during IDA14 to over US\$24 billion in IDA18 to date.¹⁶ The IFC has increased its annual long-term investments (own account and mobilization) in IDA countries from US\$2.4 billion during IDA14 to US\$6.8 billion in the first year of IDA18, while MIGA has ramped up annual new guarantees to private sector from US\$0.5 billion during IDA14 to US\$1.2 billion in the first year of IDA18 (see Figure 3). During IDA18, IFC and MIGA engagement in IDA countries has been further enhanced by IDA support through the IDA18 Private Sector Window. IDA financed about two thirds (US\$24 billion) of total US\$36.2 billion of WBG commitments in IDA countries in FY18. IDA commitments are projected to reach US\$22 billion in FY19 and higher again in FY20.

Figure 3. WBG Financing in IDA Eligible Countries IDA14-IDA18 (US\$ billion)



Notes:

1/ Based on the IDA18 country list including those receiving transitional support in IDA18 but excluding all other IDA graduates. IDA18 includes commitments through the Private Sector Window (PSW).

2/ Includes IFC own account commitments and mobilization amounts. IFC own account commitments exclude short-term financing and country amounts for regional projects. IFC mobilization amounts exclude country amounts for regional projects.

* Staff estimates. Assumes full utilization of IDA18 resources.

¹⁵ Figure reflects WBG commitments to IDA eligible countries including countries receiving transitional support under IDA18, but do not include past IDA graduates (such as India that graduated at the end of IDA16).

¹⁶ Including FY19 projections and Board approvals under the Private Sector Window.

15. The transformative IDA18 and the recent US\$13 billion capital increase in the IBRD and the IFC have better positioned the WBG to pursue its twin goals of eradicating extreme poverty and boosting shared prosperity as outlined in the Forward Look.

- (a) IDA18 targeted a 50 percent increase in resources to IDA countries and implementation so far has been strong. IDA commitments reached US\$37.5 billion as of April 30, 2019,¹⁷ compared to US\$27.1 billion at a comparable period in IDA17. Nearly two thirds of IDA commitments were received by the Sub-Saharan Africa Region (AFR) (65 percent), followed by the South Asia Region (SAR) (25 percent). Total commitments to IDA FCS and the four Risk Mitigation Regime (RMR) countries during the first 22 months of IDA18 reached US\$9.6 billion, double the commitments over the same period in IDA17 and total commitments to Small States almost tripled to US\$866 million (see Box 13).
- (b) The IBRD General Capital Increase (GCI) discussions underscored the importance of support for IDA blend countries, increasing their access to IBRD resources and introducing differentiated terms. Increased access by blends and recent IDA graduates allows a potential scale-up in financing from IBRD to augment IDA resources and eliminates the need for IDA transition support, which featured under IDA17 and IDA18 when IBRD resources were more constrained. The capital increase also enables a predictable approach to IDA transfers which are important to IDA financing.
- (c) The IFC GCI has positioned it to increase its share of investments in IDA and FCS countries where the needs are greatest and private sector investments scarcer (see Box 1).

16. IDA is an essential vehicle for supporting IDA countries to achieve their development goals because it exploits synergies across the WBG, offers long-term commitment to IDA countries, demonstrates a track record as a trusted partner and focuses on results. This places IDA in a strong position to help countries address their development challenges. IDA's strengths lie in: (i) the depth of its global and local knowledge that allows customization of best practices and technologies from anywhere in the world to the local context; (ii) a combination of deep analytical skills, hands-on experience, and knowledge embedded in financing; (iii) a multi-disciplinary and multi-sector approach; and (iv) an ability to work with both the public and private sectors to Maximize Finance for Development (MFD). IDA is an essential tool for building resilience and crisis response. IDA's counter-cyclical financing and policy advice helps countries in times of weaker growth to preserve essential public investments and services and build targeted social safety nets to protect the most vulnerable. IDA's convening power and partnerships with multilateral, bilateral and private actors; and a results-based implementation capacity framework gives it the edge to deal with the toughest challenges facing global development. IDA resources also help to mobilize and leverage other sources of financing for development. The IDA18 Replenishment, and the transformation in IDA's financial model, has enhanced IDA's ability to

¹⁷ This includes US\$304 million IDA Board approvals under the IDA PSW.

provide resources at scale to countries that have limited access to resources on appropriate terms that they need for their development.

Box 1. The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) Strategic Outlook in IDA Countries

As part of the capital increase package, the IFC aims to reach a 40 percent share of its commitments in IDA countries by FY30, out of which 15 to 20 percent of commitments will be in low-income IDA and IDA Fragile and Conflict-affected (FCS) countries*. Given these ambitious targets, the IFC will continue to scale up its investments in IDA countries applying diagnostic tools such as the Country Private Sector Diagnostics (CPSD), advisory approaches through the Creating Markets Advisory Window (CMAW) and blended finance tools such as the IDA Private Sector Window (PSW). This will allow the IFC to build up a pipeline of bankable projects and substantially increase its commitments to IDA countries, reaching approximately 30 percent share of commitments by FY23, out of which approximately 11 percent will be in low-income IDA and IDA FCS countries.

Expanding guarantees into IDA countries has been one of the priority areas for MIGA over the last several strategic cycles. During the last five years alone, MIGA has grown its portfolio in IDA countries consistently, including more recently with the help of the MIGA Guarantee Facility under the PSW. Although MIGA’s specific medium-term strategy for IDA19 is yet to be formulated, MIGA will continue to collaborate with the World Bank (WB) and the IFC to scale up its guarantees in IDA countries. MIGA will do this by applying the four pillars of MIGA’s strategy – (i) growing core business, (ii) innovating applications, (iii) creating projects for impact, and (iv) creating markets. In the IDA19 cycle, MIGA will deepen its collaboration with the WB and the IFC, so that the World Bank Group (WBG) addresses policy reform, upstream project development, advisory, investment, and mobilization using the Cascade approach**, which will enable the WBG to increase delivery in IDA countries.

Notes:

* This target is based on IDA17 eligible countries.

** Through this approach the WBG helps countries maximize their development resources by drawing on private financing and sustainable private sector solutions to provide value for money and meet the highest environmental, social, and fiscal responsibility standards, while reserving scarce public financing for those areas where private sector engagement is not optimal or available.

17. **IDA19 begins on July 1, 2020, at the start of the final decade before the 2030 target date for achieving the SDGs.** The innovations in IDA18 have been instrumental to aligning resources towards the achievement of the SDGs; including through a substantially larger resource envelope, a stronger focus on FCS and new IDA Windows that support the private sector and refugees and host communities. IDA19 Replenishment calls for sustained efforts to support the urgent development needs of IDA countries to protect hard-fought development gains and enable further progress towards the SDGs and the twin goals.

18. **The IDA19 overarching theme, “Ten Years to 2030 – Growth, People, Resilience”,** highlights the need for investments that would promote human capital, foster inclusive and sustainable growth and plan for and respond to the shocks that IDA countries are exposed to. Together with the five Special Themes, and IDA’s ability to provide tailored solutions to IDA countries in response to global challenges, this overarching theme encompasses the WBG comprehensive strategy to deliver on IDA19 development priorities.¹⁸

¹⁸ See “IDA19: An Overview, “Ten Years to 2030 – Growth, People, Resilience”.

19. **IDA19 will consolidate the policy agenda of the IDA18 Special Themes – namely Climate Change, FCV, Gender and Development, Governance and Institutions, and Jobs and Economic Transformation – which are all critical to accelerate progress towards poverty reduction.** Through these Special Themes, IDA will focus on addressing fragility risks and help strengthen governance and institutions, facilitate the unlocking of market potential and promote a job-rich structural transformation supporting IDA countries. IDA will seek to empower and promote equality and inclusion, including for women and girls and people with disabilities, which will fuel the productive work force needed to realize the economic transformation required to accelerate growth. Finally, IDA will seek to address underlying drivers of dramatic productive changes and increased risks brought about by climate change.

20. **In addition to these Special Themes, which were continued from IDA18, IDA19 also proposes to include a focus on four cross-cutting issues – debt, disability, human capital and technology.** Policy commitments for these cross-cutting issues are included in the Special Themes. Flagship initiatives such as the Human Capital Project and Digital Economy for Africa initiative, as well as the joint IMF-WB MPA for addressing emerging debt vulnerabilities will help advance progress on these issues in IDA19.

III. IDA'S REGIONAL AND SECTORAL APPROACHES FOR IMPLEMENTING IDA'S CORE PROGRAM

21. **IDA's core program is implemented through its regional approaches and country strategies.** The WBG's country-focused engagement model is underpinned by analysis of development challenges and guided by both government priorities and the WBG's comparative advantages. Each Country Partnership Framework (CPF) reflects the plan for this engagement, outlining key pillars and objectives, targeted results and programming to be financed and achieved. The Performance and Learning Review (PLR) updates this program by incorporating lessons and changing country dynamics. These plans include IFC's and MIGA's areas of focus to enable private sector development. Country strategies have been strengthened to better reflect a focus on MFD through the cascade approach¹⁹ and to incorporate IDA Special Themes.

22. **Regional approaches align with the IDA19 overarching theme – Growth, People, and Resilience – as well as the five Special Themes of Climate Change, FCV, Gender and Development, Governance and Institutions, and JET.** The six regional approaches for the IDA19 period are presented in more details in the next section. In addition to consolidating country level strategies, these address regional issues which are important for the deployment of IDA Regional Window.

23. **The WBG's Global Practices (GPs) provide thematic expertise to effectively implement country strategies and regional approaches.** Most of the IDA19 priorities, including the Human Capital Project (HCP), digital economy, institutional strengthening, gender, FCV, transparency and accountability, will all require cross-practice collaboration to enable IDA countries to achieve results. Moreover, each region is increasingly drawing upon the synergies of all arms of the WBG to achieve their development objectives, as well as other partners such as the IMF, the United Nations (UN), Multilateral Development Banks (MDBs) and other development partners.

A. REGIONAL APPROACHES FOR IDA19

The Sub-Saharan Africa Region in IDA19

24. **The challenge to meet the SDGs and twin goals will be won or lost in Africa.** The Region hosts 39 IDA countries²⁰ and accounts for 65 percent of IDA18 commitments as of the end of April 2019. Looking forward, the AFR will continue to play a key role in ensuring that IDA19 delivers.

25. **The AFR faces complex and multi-dimensional development challenges.** Decelerating economic growth in recent years, along with continued high population growth, have slowed the pace of poverty reduction. While progress has been made in reducing the poverty rate on the continent, the number of poor people in SSA continues to rise, from 276 million in 1990 to 413

¹⁹ Through this approach the WBG helps countries maximize their development resources by drawing on private financing and sustainable private sector solutions to provide value for money and meet the highest environmental, social, and fiscal responsibility standards, and reserve scarce public financing for those areas where private sector engagement is not optimal or available.

²⁰ Including IDA countries in non-accrual status such as Eritrea, Somalia, Sudan, and Zimbabwe.

million in 2015.²¹ In 2015, more than 50 percent of the global poor lived in Africa, and forecasts estimate that this will rise to 87 percent by 2030, if current trends continue. At the current modest pace of economic and social advancement, too many of the increasing number of African youths will be denied the opportunity to live up to their potential. In addition, forced displacement is a key issue, with the AFR hosting more than 26 percent of the world's refugee population (6.3 million in 2017). FCV risks are rising. Climate change is exacerbating existing challenges, as people, communities, and governments struggle to adapt and build resilience. AFR IDA countries continue to face vulnerabilities, including slower-onset crises, such as drought and food insecurity. Governance remains a long-term challenge.

26. **IDA18 implementation is ongoing with strong results.** Some recent (FY18) results from WBG engagement in Africa include:

- 24.94 million people in the region received essential health, nutrition, and population services.
- 270,000 Africans benefited from labor market programs, and 4.63 million from job-focused interventions.
- 3.68 million people in the region benefited from social safety net programs.
- 21.63 million African students benefited from direct interventions to enhance learning.
- 270,000 Africans were reached with financial services.
- 3,270 kilometers of roads on the continent were constructed or rehabilitated.

27. **The AFR strategy aims to step up the existing engagement in IDA19.** Rather than settling for business as usual (which would reduce the AFR poverty rate only to 23 percent by 2030), the AFR's approach aims to fully embrace innovation and digital technologies to accelerate poverty reduction. The new strategy for the WBG Africa Region has selected these priorities:

- (a) *Investing in human capital*, with women's empowerment and health as areas of special attention.
- (b) *Economic transformation and job creation*, with the emphasis at the macro level being put on responsible fiscal policy, debt management, adequate monetary policies, and structural reforms (trade, competition, investment policy) to enhance productivity, boost economic growth, and MFD. Furthermore, it will promote adoption of new technologies critical to create jobs, strengthen governance, and improve key services such as health and education.
- (c) *Private sector development*, including support for improvements in the business environment through fiscal sector reforms, comprehensive business reforms and investment policy promotion to advance the MFD agenda. These efforts will be

²¹ Measured as the number of people living under US\$1.90/day in 2011 Purchasing Power Parity (PPP), the global extreme poverty has declined from 36 percent in 1990 to nine percent in 2018.

complemented by micro-level interventions to support worker productivity through several lenses, including gender, youth, informal and small farms/firms in SSA.

- (d) *Adapt to climate change*, including by addressing its negative impacts on food security and coastal areas, and its contribution to FCV.

28. The AFR also commits to step up WBG engagement to address:

- (a) *FCV drivers*, through greater focus on prevention and inclusive approaches. There will also be a greater focus on the regional dimensions of fragility, which will lead to new country-level programming and regional programming, including at least three sub-regional programs for the Sahel, the Horn of Africa, and the Lake Chad region.
- (b) *Women's economic empowerment*, including to: promote women's entrepreneurship and their access to more and better jobs; reduce fertility for improved maternal and child health; and keep girls in school to enable countries to capture a demographic dividend.²²
- (c) *Deepening regional integration*, via support for larger and transformative regional integration projects.²³ This will build on existing initiatives in the region, such as the West Africa Power Pool network and African Continental Free Trade Area among others.
- (d) *Ensuring macro-economic stability and debt management*, through partnership with the IMF to support macroeconomic programs.

29. The One-WBG approach will be critical to achieving impact in the AFR in IDA19. In a context of increased public debt, bringing in private capital is more crucial than ever. Collaboration across IBRD, IFC and MIGA in Africa has grown over time and spans a range of activities at the country, sector and thematic levels. This collaboration includes the preparation of joint CPFs, joint investment projects, notably for quality infrastructure and the financial sector, and joint advisory services and investment climate activities. Three African countries (Cameroon, Cote d'Ivoire and Kenya) have been part of the nine pilots of the MFD approach.

²² The operationalization of the region's approach is being driven by a Regional Gender Action Plan (RGAP) (FY18-FY22), which is built around three 'channels of action': The RGAP will be implemented through three main channels of action: (1) integrating gender in country level strategic documents and policy dialogue (e.g. SCDs, Poverty Assessments, CPFs); (2) integrating gender into WBG operations; (3) research and research uptake, including through impact evaluations from the Africa Region Gender Innovation Lab, which allow project teams to see what works and what does not to close gender gaps.

²³ World Bank. 2018. "Supporting Africa's Transformation: Regional Integration and Cooperation Assistance Strategy for the period FY18-FY23"

Box 2. Digital Economy for Africa Initiative

Africa is lagging the rest of the world in internet access. In 2017, only 22 percent of people reported having access. To enable people in Africa to harness the benefits of digitization, the World Bank Group together with the African Union (AU) announced the ambitious goal of digitally enabling every African citizen, business and government by 2030. This will entail building digital infrastructure, skills, entrepreneurship, platforms, an enabling regulatory framework and financial services. The Digital Economy for Africa initiative unlocks potential to boost jobs, financial inclusion and productivity, and is a key enabler to attract private sector investment in Africa.

30. **Existing and new partnership work between the AFR and bilateral/ multilateral development partners is focused on four themes:** FCV (notably in the Sahel, Lake Chad Region, and the Horn of Africa); MFD (G20 Compact with Africa);²⁴ the Digital Economy for Africa Initiative (Box 2); and the Human Capital Project (Box 3). To tackle these issues, IDA is well positioned to deliver knowledge-based, multi-sectoral solutions; to draw in the private sector through a WBG approach; and to address regional challenges by means of solutions at scale, working with regional partners such as the African Development Bank (AfDB) where applicable. IDA will also support sub-regional initiatives such as the Sahel Alliance,²⁵ working with the international community to take urgent and coordinated action in the Sahel, a region threatened by insecurity and afflicted by alarming rates of poverty. Furthermore, IDA will seek to build a longer-term development approach to complement humanitarian efforts. To achieve success, multilateral and bilateral partners are counted on to address security and political hurdles, to enable operational delivery in areas that are hard to access, to bring additional financing for development, and to contribute expertise and resources to tackle ambitious agendas that require all hands-on deck.

²⁴ The G20 Compact with Africa (CwA) was initiated under the German G20 Presidency to promote private investment in Africa, including in infrastructure. The CwA's primary objective is to increase attractiveness of private investment through substantial improvements of the macro, business and financing frameworks.

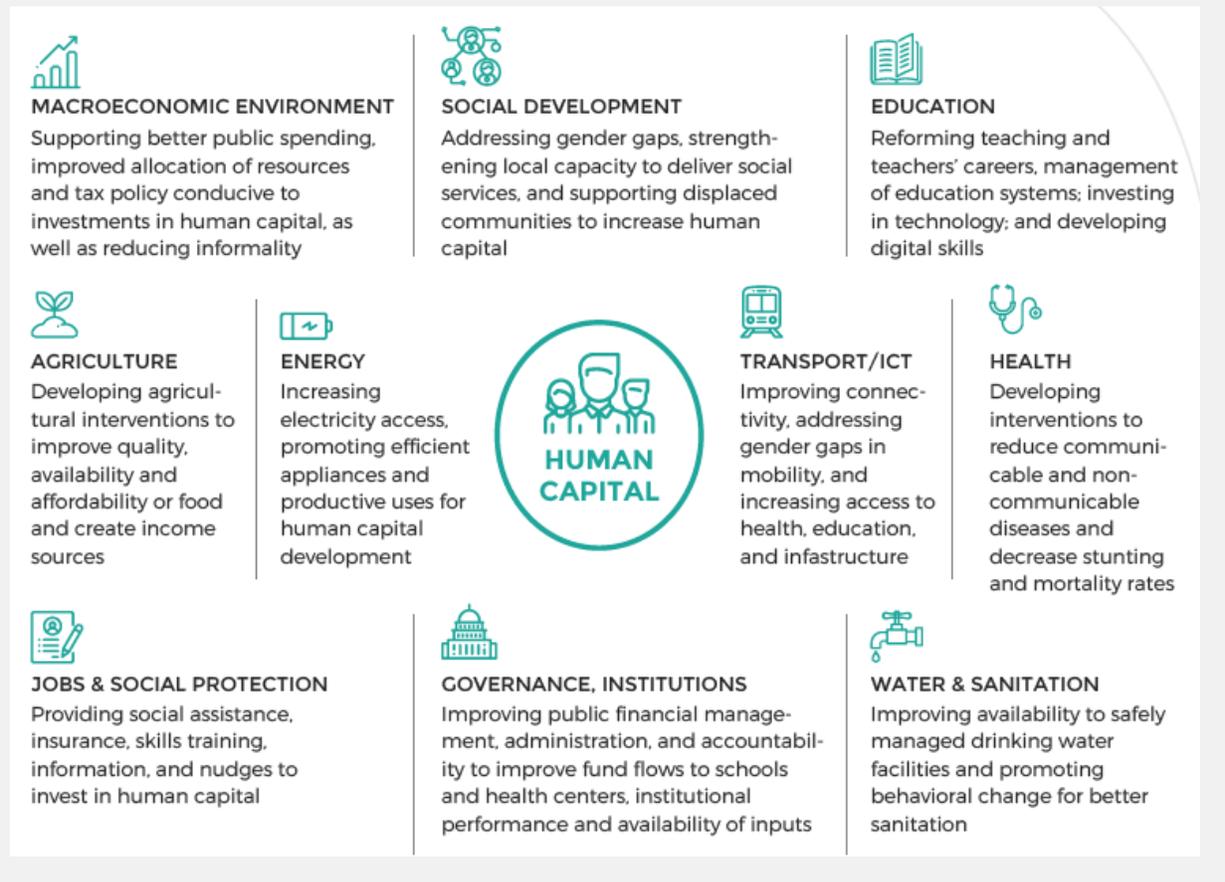
²⁵ The Sahel Alliance aims to achieve more effective aid coordination and enhance the support from development partners to the region, in order to more generally contribute to stabilizing the security situation and eradicating poverty, by developing solutions for rural areas, creating employment for young people, improving energy infrastructure and the fight against climate change, and strengthening governance.

Box 3. The Africa Human Capital Project

The Human Capital Project (HCP) is helping countries to prioritize more and better investments in people for greater equity and growth, central to achieving the Sustainable Development Goals (SDGs) and the World Bank Group (WBG)'s twin goals. HCP is a platform that facilitates outcome driven policy action on many fronts: mobilizing resources; governance; regulation of non-state actors; empowering women and girls; and, raising public awareness and demand for quality services.

The WBG is at the forefront of helping countries strengthen their human capital. The WBG has mobilized resources for a special support effort in Africa, where the needs and potential gains are the highest. Twenty-four African countries have joined a coalition of over 60 countries as members of the HCP, committing to a set of accelerated investments in their human capital. While every country faces unique obstacles and opportunities, three widespread challenges put at risk young African's survival, education and health: high fertility; Fragility, Conflict and Violence; and suboptimal financing. As girls reach adolescence, social norms which emphasize their childbearing and domestic roles at the expense of their income generating role lead many to drop out of school. This, in turn, leads many girls to start having children early, contributing to higher maternal health risks and higher lifetime fertility, while also reducing their access to jobs, which in turn reduces the perceived and actual incentives for households to invest in girls' education. A focus on women's economic empowerment can motivate greater investments in women's human capital. In addition, issues related to fertility and demographics are especially relevant in SSA, given the current high rates of population growth and the opportunity to capture a demographic dividend if these rates are reduced quickly.

The World Bank is gearing up support to address these issues together with IDA countries and partners, based on a new Human Capital Plan for the Sub-Saharan Africa Region launched at the Spring Meetings in April 2019.



The South Asia Region (SAR) in IDA19

31. **The SAR hosts six IDA countries²⁶ and comprises 25 percent of IDA18 commitments as of April 30, 2019.** Looking forward, SAR will play a significant role in ensuring that IDA19 delivers.

32. **The SAR has been growing faster than any other region, but challenges remain.** The multi-dimensional poverty rate in SAR is 26.6 percent, well above the global average of 18.3 percent. The SAR is also lagging behind global averages for social indicators, particularly for education and access to basic services. The SAR countries rank low on the Human Capital Index (HCI) with an average of 0.46 compared to 0.57 globally. This is driven in most countries by stunting and low-quality schooling and has stark implications for future growth and productivity. Infrastructure is not keeping up with the rapid urbanization and the needs of the population. The region faces several economic vulnerabilities, with domestic demand driven by higher private consumption relative to exports, increasing public debt, and sizeable fiscal and current account deficits. Pressure is deepened by FCV in some areas. Long-term sustained and inclusive growth for poverty reduction and shared prosperity is not guaranteed. Moreover, the gains in poverty reduction and shared prosperity are threatened by the region's vulnerability to natural disasters and climate change, with an estimated 800 million people living in climate hotspots.

33. **In IDA19, the WBG is prioritizing three areas for strategic engagement to address the challenges in the SAR.** Across these areas, the WBG will work together to maximize financing for development, de-risk investments, create markets, and promote the uptake of technologies to facilitate development. IDA financing, including from IDA Windows, will continue to be critical in supporting the three priority engagement areas:

- (a) *Support sustained and inclusive growth*, including reforms for macroeconomic stability, reforms for private sector-led job creation, initiatives to support economic diversification, quality infrastructure development, and expanding access to financial markets.
- (b) *Build human capital*, focusing on access and quality of education and skills development, improvements in health, basic services (e.g., water, sanitation), and addressing gender inequity.
- (c) *Strengthen resilience*, including tackling climate risks (e.g., through climate smart agriculture, coastal and forest renewal), strengthening disaster preparedness, improving environment management, and addressing FCV drivers, including those related to refugees and returnees, and weak governance and institutions.

34. **In doing so, IDA will also help to leverage development partner resources for SAR.** IDA has used partnerships to scale up its response, from delivering basic services to refugees in the midst of a massive refugee crisis in Bangladesh to supporting the federalism agenda and post-earthquake reconstruction in Nepal. In Afghanistan, IDA resources supplement funds from the

²⁶ IDA countries include Afghanistan, Bangladesh, Bhutan, Maldives, Nepal (FCV pilot) and Pakistan. Additionally, Sri Lanka is an IDA graduate from the region receiving transition support under IDA18.

Afghanistan Reconstruction Trust Fund (ARTF), the largest World Bank-administered financing source in the country and one of the largest multi-donor Trust Funds in the WB.²⁷ The ARTF is a critical source of funding for support to key national priority programs in Afghanistan. Its pooled funding helps to reduce fragmentation and lower the administrative burden on the government. Through the PSW, IDA leverages the capacity of the IFC and MIGA, including in the power sector (see Figure 4). In Bangladesh, IDA’s strong partnerships with development partners cover a number of agendas, including support to health and education, rural electrification and agricultural technology, private sector development, skills, and water supply and sanitation. Also, at the regional level, the WB and the Asian Development Bank (ADB) have collaborated through the Central Asia Regional Economic Cooperation (CAREC) and South Asia Sub-Regional Economic Cooperation.

Figure 4. Project Example of MFD Approach in Afghanistan Energy Sector



Objectives	Challenges	PSW Implementation	Expected Impact
<ul style="list-style-type: none"> • Support the establishment of Afghanistan’s first IPP • Create a market that will increase private investment in Afghanistan’s infrastructure sector 	<ul style="list-style-type: none"> • Fragile state with significant need for power and private sector development • Contractual risks no track record of government and off taker being counterparts 	<ul style="list-style-type: none"> • Political Risk Insurance (PRI) with breach of contract cover from the Risk Mitigation Facility for IFC debt, IFC mobilized amount and IFC equity • MIGA to cover breach of Contract and War & Civil disturbance risks using MIGA Guarantee Facility 	<ul style="list-style-type: none"> • Increase access to electricity • Promote greater market competitiveness (first IPP) • Improve resilience through use of indigenous source of energy

The Middle East and North Africa (MENA) Region in IDA19

35. **The MENA Region has two active IDA countries, Yemen and Djibouti, each of which face critical challenges that require creative approaches.** Yemen, which is historically the poorest country in the region, is again in the midst of conflict, placing the country at the epicenter of interrelated emergencies that the United Nations describes as the “*world’s worst humanitarian crisis*”.²⁸ More than three years of fighting have devastated the economy, destroyed critical infrastructure leading to chronic food insecurity verging on famine, and created the conditions for the world’s largest cholera epidemic. The other IDA country in the Region, Djibouti, is a Small State grappling with its own development challenges and buffeted by exogenous shocks and spillovers in an unstable neighborhood. Capitalizing on its strategic geographic location, its

²⁷ IDA delivers one-fourth, while the ARTF delivers three-fourth of Afghanistan’s program.

²⁸ See UN Office for the Coordination of Humanitarian Affairs press release on 2019 Humanitarian Needs Overview for Yemen report.

economy has grown at an average of eight percent over the period 2013-2018, although more than 20 percent of the country's population of 800,000 remains in extreme poverty and is increasingly concentrated in the capital city.

36. Adaptive support in Yemen is informing global development practice in the critical frontier issues of FCV. In Yemen, IDA is testing operational modalities to address the compound crises that are increasing in frequency, complexity and duration worldwide. Drawing on more than two decades of assistance, IDA was able to respond rapidly to the onset of conflict. Longstanding engagement at the sectoral level and strong WBG/UN partnership, as well as IDA's convening power, were used to leverage financing and knowledge, and to mobilize a multi-dimensional operational response. IDA has achieved significant results that complement humanitarian efforts by preserving institutional capacity and human capital, and thereby promoting resilience and investing in future recovery.²⁹ Also, by channeling a large share of IDA support through resilient service delivery institutions, IDA has engaged local institutions to manage and deliver critical assistance, such as the Yemen Social Fund for Development and the Public Works Program, both of which were established with earlier IDA support. These critical institutions represent the few functional delivery mechanisms by which Yemenis can receive essential benefits. If sustained and strengthened, these institutions can play an essential role in the immediate term and through Yemen's future transition to peace and stability. Nonetheless, the decrease in economic organization and investment, along with the damage to social networks and communities, affects the health and education systems, which will take a long time to fully recover. This suggests that the effects of the conflict on human social capital will continue long after stability returns. See "IDA19 FCV Special Theme" for details on the WB's response in Yemen and lessons learned.

37. In Djibouti, IDA's program responds directly to the country's complex development challenges and limited implementation capacity. IDA is supporting Djibouti's Vision 2035 by providing a focused program addressing human capital, private sector development and job creation. IDA Windows will also continue to help the government to respond to the regional effects of food insecurity and the impact of refugee flows.

38. The MENA region's demand for IDA19 resources is strong, particularly given the complex challenges the region faces. A defining challenge for IDA19 in Yemen, and in other countries mired in FCV, will be to balance emergency assistance while retaining the flexibility and agility to expand development support as conditions allow. IDA is well-placed to play this role and to help outline a strategy that will respond to post-conflict recovery, reconstruction and development needs, and that will help sequence and coordinate future WB and international assistance. Also, in Djibouti, demand for IDA19 resources remains high to support an ambitious program and to safeguard development gains from regional spillovers. Future IDA support is expected to target: (i) energy sector reform identified as a binding constraint to competitiveness and private sector development; (ii) the telecoms sector – a central piece of Djibouti's vision to become an Information and Communication Technology (ICT) hub in the Horn of Africa; and (iii) unlocking trade and investment with neighbors (including Ethiopia) by improving transport and logistics connections.

²⁹ Bank Operations in Active Conflict – Operational Experiences in Yemen since 2015 – A Lessons Learned Study (forthcoming).

The Europe and Central Asia (ECA) Region in IDA19

39. **The ECA Region hosts five IDA countries³⁰ and comprises three percent of IDA18 financial commitments as of April 30, 2019.**

40. **The ECA Region is at a turning point, with risks tilted to the downside.** Growth peaked in 2017, but global risks have since risen. Progress on ensuring shared prosperity and reducing poverty has been slow in several countries. These countries struggle with weak competitiveness and challenges in adapting to faster innovation. An aging population and outward migration of youth present further challenges and potential for rapid loss of human capital. The WBG will therefore continue to focus on strengthening productivity and resilience through solid foundations, enabling markets, and human capital.

41. **In IDA19, the ECA Region aims to focus strategically on the following issues:**

- (a) *Jobs and Economic Transformation*, through a WBG approach responding to transformational opportunities while crowding in private sector, including through PSW support to IFC and MIGA engagements;
- (b) *Sustainability and Climate Change*, through promotion of reliable energy and environmental stewardship; and
- (c) *Governance and Institutions* through ongoing efforts across ECA IDA countries (see Figure 5).

42. **The ECA Region aims to maximize the use of resources from the IDA Regional Window, as regional programs are becoming increasingly important for catalyzing change in the region.** The IDA Regional Window could see a strong increase in demand of up to US\$500 million in IDA19 and potential utilization of the Scale-up Facility, where relevant. In Central Asia, the opening up of Uzbekistan's economy has provided new incentives for regional collaborations. There is potential in the Western Balkans to deepen regional integration around Kosovo in IDA19. The current active lending portfolio of Central Asia comprises nine regional projects valued at US\$886 million. Several more are in the pipeline, including a series of investments under the Digital Central Asia South Asia (Digital CASA) regional program, as well as the Central Asia Regional Links Program (CARs). In addition, the WB is managing multiple trust funds for regional dialogue. Many are on-going under the rubric of the Central Asia Energy Water Development Program (CAEWDP) or coordinated with CAREC. Many are on-going under the rubric of the Central Asia Energy Water Development Program (CAEWDP) or coordinated with CAREC. IDA18 allocations to ECA will not be enough to match the larger envisaged program and meet expected demand under IDA19. Taking the WBG's unique position to lead the regional agenda, ECA is currently preparing a regional engagement note (the focus being on Central Asia and beyond), which shows a very large potential and demand for multiple regional integration/cooperation projects across Practice Groups (PGs) on climate/environment, water, digital connectivity, agriculture, trade and transport and energy (trade and connectivity). IDA countries and other development partners like the EU and the ADB, as well as Russian and Chinese institutions, are looking to the WB to play a leading role in regional integration and connectivity,

³⁰ Kosovo, the Kyrgyz Republic, Moldova, Tajikistan (FCV pilot) and Uzbekistan.

including through quality physical infrastructure, and also on the knowledge and institution building front.

Figure 5. ECA Regional Priorities for IDA Delivery

Jobs and Economic Transformation		Sustainability and Climate Change
<p>The WBG is responding to transformational opportunities. In Uzbekistan, DPOs have opened space for private sector growth and job creation. New interventions are being designed to catalyze privatizations and PPPs in the banking, chemicals, and solar sectors. Other examples of JET-relevant interventions include the Kosovo Youth Inclusion and Entrepreneurship Program, the Kosovo Digital Economy project, Skills and Jobs for a Digital Age in Moldova, Early Childhood Education in Uzbekistan, and the Tajikistan Community and Youth Resilience Program.</p> <p>The IDA Private Sector Window (PSW) has been used to provide concessional financing to enable IFC investment in the first-of-its-kind private equity fund for SME investments in the Kyrgyz Republic. It is expected to spur creation of a local private equity market for SMEs by addressing perceived risks.</p> <p>The Creating Markets Advisory Windows (CMAW) has been leveraged by IFC to conduct upstream work on developing a sustainable cotton market in Uzbekistan, scoping for telecom privatization, supporting dairy value chain development in the Kyrgyz Republic, and mapping automotive SMEs in Kosovo.</p> <p>MIGA has helped deploy political risk insurance guarantees in Kosovo and Moldova's financial sector, and is looking for a similar opportunity in Uzbekistan.</p>		<p>The WBG is promoting reliable energy and stewardship of the environment in Kosovo.</p> <p>The WB is scaling up its current engagement on Energy Efficiency (US\$31 million), started in FY14, with an additional financing of 10 million euros from the European Commission in FY19. The joint donor effort has led to the creation of an Energy Efficiency Fund, which will ensure a sustainable institutional and financing mechanism for the future.</p> <p>The WB is also expanding its engagement in the water sector (currently US\$24 million) started in FY17, with an additional US\$40 million in FY20 to support Kosovo in implementing a comprehensive water management strategy.</p> <p>IFC is looking at wind and solar projects in the country to help diversify the energy mix and reduce reliance on obsolete coal-based generation.</p>
<p>Governance and Institutions <i>For inclusion, regional integration, and more effective government</i></p>		
<p>In Moldova, the WBG is strengthening cadaster management (including through equal property rights for women), reducing fiscal risks and levelling the playing field for private investment, and increasing in the reliability of electricity supply through links with the European electricity market.</p>	<p>In the Kyrgyz Republic, the WB's Economic Governance DPO and the Local Integrated Development Project focus on strengthening government capacity.</p>	<p>In Tajikistan, projects under the FCV umbrella have helped support institution building in the agriculture and tourism sectors. Energy sector governance is also covered under the Power Sector Financial Recovery Project.</p>
<p>In Kosovo, the WB aims to strengthen capacity and institutions through the Financial Sector Strengthening Project and the Real Estate and Geospatial Infrastructure Project.</p>	<p>In Uzbekistan, a DPO and Institution-Building loan are supporting the restructuring of the whole economy.</p>	<p>At the regional level, the IDA Regional Program has been used to support regional integration in Central Asia and expansion to South Asia (Digital CASA), regional disaster risk management with the EU, and Central Asia railroads.</p>
<p>IFC is leveraging PSW and CMAW to scale up delivery in IDA FCS. IFC's Investment Climate and Corporate Governance advisory and interventions to improve access to finance for MSMEs remain an integral part of IFC's programming with IDA.</p>		
<p>MIGA is also supporting mobilization of private sector investments in the most challenging markets through PSW.</p>		

The East Asia and the Pacific (EAP) Region in IDA19

43. **The EAP Region hosts 15 IDA countries, 10 of which are Small States.**³¹ The EAP Region comprises four percent of IDA18 financial commitments as of April 30, 2019.

44. **The EAP Region has made good progress towards eliminating poverty, but substantial challenges remain in ensuring inclusion and addressing the various forms of vulnerability.** In Southeast Asian countries, inclusive growth has been limited. In the Pacific countries, their small size and remoteness limit economic opportunities, and geographic dispersion of populations make the delivery of services expensive and challenging. The limited data available suggests that incomes of the bottom 40 percent have grown more slowly in the Pacific than in other countries in East Asia. While extreme poverty is relatively low, and the poverty rates are generally declining, inequality and vulnerability remain high in the Region. In Southeast Asian countries, the political dimension of inclusion remains a challenge, and in the Pacific countries, high exposure to economic crises and natural disasters heightens vulnerability. In resource-rich IDA countries in EAP (Papua New Guinea (PNG), Mongolia, Timor Leste), major challenges remain in effectively managing revenue from natural resources to mitigate risks, creating economic opportunities, investing in human capital, and delivering high-quality services.

45. **The EAP Region plans to build momentum for continued strong engagement in IDA19.** The IDA programs are organized around five pillars:

- (a) *Strong support for macroeconomic and public expenditure management.* This is a core pillar active in almost all IDA countries, supported by series of Development Policy Financing (DPF) in almost all Pacific countries, and PNG, and active policy dialogue and analytical services in all southeast Asia countries.
- (b) *Investment to fill key connectivity and energy gaps.* This is reflected in a large portfolio in the transport sector in the Pacific countries, PNG, Timor-Leste, and Cambodia. There is also a strong engagement in energy (PNG, Solomon Islands, Laos, Myanmar) to expand access to energy among the poor and to promote renewables.
- (c) *A renewed focus on human capital investment.* Substantial investment is being planned for all Southeast Asia countries with a focus on nutrition and delivery of education, health, and social support. There is increased attention to human development among some Pacific countries (Samoa, PNG, Tonga, and Marshall Islands) and Timor-Leste.
- (d) *Active involvement in the sustainability agenda,* and in particular, green growth policy reforms supported by DPFs (e.g., in Laos), fishery and coastal management in the Pacific, forestry and land management (Laos, Cambodia), disaster risk

³¹ This includes Fiji, a Small State which will be reclassified to blend country borrower status starting July 1, 2019. Other IDA countries in the region include Cambodia, Kiribati (Small State), Lao People's Democratic Republic, Marshall Islands (Small State), Micronesia (Small State), Mongolia, Myanmar, Papua New Guinea, Samoa (Small State), Solomon Islands (Small State), Timor-Leste (Small State), Tuvalu (Small State), Tonga (Small State) and Vanuatu (Small State). Additionally, Vietnam is an IDA graduate from the region receiving transition support under IDA18.

management (Southeast Asia and Pacific), and the emerging priority of Marine Plastics across most IDA countries in the region.

- (e) *Making better use of technology* to enhance the efficiency of service delivery and improve access to finance.

46. **Efforts to implement the MFD approach will continue in EAP in IDA19.** In the Pacific, several MFD enabling activities have been identified, including in energy in PNG and Fiji, agriculture in PNG and Samoa, ICT in Tuvalu, and Water Supply in Kiribati. In Cambodia, financial sector reforms and corporate and government debt capital market establishment have been supported, including financial sector development (payment systems, deposit insurance, insolvency and value chain financing), and bonds (technical assistance from the Debt Management Facility to support government bond market development, combined with IFC investment in the first corporate local currency bond with support from the PSW Local Currency Facility). In Myanmar, IFC Advisory and the WB Finance Competitiveness and Innovation (FCI) practices have supported improvements to the legal and regulatory framework to strengthen investor protections, streamline investment entry procedures, and improve the investment incentive regime.

47. **The WBG will continue to work closely with key development partners, particularly the ADB, Australia and New Zealand, along with regional organizations, in EAP in IDA19.** Through co-financing with other development partners and partnerships with regional organizations, IDA support increases impact and scale while reducing fragmentation, and strengthens regional collaboration. Many bilateral and multilateral engagements focus on providing joint and consistent policy framework and coordinated support for macro and sectoral reforms, as well as providing technical assistance and knowledge sharing. Also, for the first time in FY17, the WBG received a waiver from the Board of Directors to apply the procurement rules of the ADB so that the two institutions could co-finance a transport sector operation in Fiji in a seamless way.

The Latin America and the Caribbean Region (LCR) in IDA19

48. **The LCR hosts eight IDA countries, five of which are Small States.**³² The LCR comprises two percent of IDA18 financial commitments as of April 30, 2019.

49. **The slow recovery following the 2016 economic downturn in LCR is hampering progress towards achieving the WBG twin goals and the SDGs.** The persistent high-levels of poverty is one of the main challenges. For example, 24 percent of Haitians live in extreme poverty. In addition, social and environment vulnerability and inequality in access to basic services pose threats to the development of human capital and increasing productivity, critical towards sustained inclusive growth. Finally, exposure to natural disasters can cause enduring negative social and economic effects.

50. **The development challenges facing the region require multi-faceted efforts, which is reflected in the IDA's strategic engagement around three pillars:** (i) setting the stage for

³² IDA countries include Dominica (Small State), Grenada (Small State), Guyana (Small State), Haiti, Honduras, Nicaragua, St. Lucia (Small State), and St. Vincent and the Grenadines (Small State). Additionally, Bolivia is an IDA graduate from the region receiving transition support under IDA18.

economic recovery; (ii) strengthening infrastructure services; and (iii) investing in human capital and protecting the poor. In addition, the WBG focuses on two cross-cutting areas of particular relevance for the region: (i) sustainability and resilience (both environmental and social); and (ii) transparency and accountability. ‘Inclusion’ will remain a critical component of the IDA program in the Region. These pillars translate to the following priorities:

- (a) *Support the economic recovery*, focusing on catalyzing macro-fiscal reforms to strengthen growth, promoting economic opportunities, and enhancing competitiveness of existing industries to support private sector growth.
- (b) *Continue strengthening infrastructure* and infrastructure services, particularly on water and energy security.
- (c) *Improve social and environmental resilience*, through (i) investing in human capital and protecting the poor by reducing vulnerability, and (ii) implementing holistic regional resilience and Disaster Risk Management (DRM), including strengthening integrated approaches for urban resilience, improving financial protection mechanisms and instruments, and identifying regional opportunities to enhance hydrometeorological and climatic information services, and catalyzing the use of new technologies for risk identification and knowledge.
- (d) *Strengthen governance and institution building* to improve transparency and accountability. This effort includes strengthening public financial management and improving government capacity to produce key data.

51. IDA19 support will be critical to achieving both public and private investments in these focus areas. A joint WB-IFC roadmap has been developed to deepen collaboration with the private sector – including on renewable energy and urban development – and to identify potential Public Private Partnerships (PPPs) – including delivery of water and solid waste services and health services. MIGA is also looking to support this roadmap through its traditional political risk insurance and through the PSW as private sector demand materializes.

52. In IDA19, the WBG will deepen collaboration with development partners to achieve long-term results. In Haiti, partnerships among UN agencies, the United States Agency for International Development (USAID), the Center for Disease Control, the Caribbean Development Bank, and the Agence Française de Développement have been critical in yielding positive outcomes on health and educational service delivery. Across the Caribbean, the Global Risk Financing Facility (GRIF) is likely to be a key instrument of collaboration with development partners to build resilience. GRIF is a US\$145 million multi-donor Trust Fund financed by the United Kingdom and Germany which was launched during the 2018 Annual Meetings in Bali. GRIF aims to establish and/or scale up pre-arranged risk financing instruments, including market-based instruments, to enable earlier and more reliable response and recovery to climate and disaster shocks, and over time to a wider range of crises. In Honduras, in the agriculture sector, IDA will continue to be part of the Alliance for the Dry Corridor (Alianza para el Corredor Seco), which relies on evidence-based research and best practices from all major food security donors in agriculture and health in the country, such as USAID, the European Union, and Global Affairs Canada (see Box 4).

Box 4. Key Success Stories of IDA18 Implementation and Opportunities for IDA19 in Latin America and the Caribbean Region (LCR)

The Rural Competitiveness Project (COMRURAL) is currently Honduras' flagship project for promoting agricultural competitiveness and exports. The project contributes to implementing several IDA themes: (i) Maximizing Finance for Development (MFD), (ii) climate change; (iii) gender; and (iv) jobs and economic transformation. COMRURAL, approved by IDA in 2008 (US\$23 million) and expanded through an Additional Financing in 2017 (US\$25 million), is widely recognized throughout Honduras for its success in linking smallholder farmers to domestic and international markets. This success has been achieved through support to commercial production and post-harvest value addition structured under the "productive alliances" model. The preparation of the second phase (US\$150 million) is already underway for delivery by the end of FY19. Through this additional financing, IDA will continue to make value chains not just more competitive, but also more inclusive for vulnerable groups such as youth, women and indigenous people, creating new and higher skilled employment opportunities along the value chain, such as in agro-processing, marketing, and logistics. COMRURAL is expected to: (i) reach the more disadvantaged to address issues of the 'dry corridor' and areas specifically affected by climate change, equity concerns, and concerns about push-forces on migration; (ii) crowd in financial intermediaries into the agricultural sector, and strengthen Small and Medium Enterprises (SMEs) and rural productive alliances, including on procurement processes, financial management, marketing and negotiations; and (iii) create the conditions to additionally leverage an estimated of US\$170 million from the private sector by investing in strategic institutional and policy measures to improve the agribusiness enabling environment and the capacity of the public sector to leverage private finance.

The emergency engagement with Dominica in the aftermath of Hurricane Maria was successful in helping the Government respond to the disaster. Category 5 Hurricane Maria struck Dominica on September 18, 2017, causing severe damages and losses amounting to more than 200 percent of the island's GDP. Working closely with the Government and development partners, the World Bank (WB) led a Post-Disaster Needs Assessment (PDNA) prepared in record time and presented at the United Nations-Caribbean Community (UN-CARICOM)'s donor pledging conference. The WB was the first to come with support for the country's reconstruction efforts through all possible windows, including using the Contingent Emergency Response Component (CERC) of its existing Disaster Vulnerability Reduction Project and US\$50 million from IDA's Crisis Response Window (CRW) on grant terms.

B. PRACTICE GROUPS APPROACHES FOR IDA19

53. **Human Development.** Human development is at the core of WB's efforts to improve people's lives. It spans education, health, social protection and jobs, and links to several SDG targets, including SDG 3 (health) and SDG 4 (education). The Human Development Practice Group (HDPG) supports country efforts to achieve goals related to developing and strengthening their human capital. IDA has been a key source of support to education and health, providing up to US\$47 billion in financing to strengthen health and education systems since 2000. The PG's ten-year goals include support to countries in (i) decreasing child stunting by 40 percent; (ii) achieving universal literacy among 10-year-olds; (iii) decreasing the fertility rate by 20 percent in countries with total fertility rates over four; (iv) doubling social protection coverage of the poorest quintile in low-income countries; and (v) providing safe drinking water and sanitation for all schools in the bottom 30 countries in the HCI, with a particular focus on gender. To achieve these goals, HDPG is constructing a robust program of interventions in health, education, and social protection and jobs that will help increase growth and productivity and individual well-being by building a stronger stock of human capital (see Box 5).

Box 5. Human Development in Practice: The Human Capital Project

The Human Capital Project (HCP) is an initiative to help create the political space for national leaders to prioritize transformational human capital investments. The HCP's key objective is to catalyze rapid progress toward a world in which all children arrive in school well-nourished and ready to learn; can expect to attain real learning in the classroom; and are able to enter the job market as healthy, skilled, and productive adults. The project has three pillars:

- The Human Capital Index (HCI), which quantifies the contribution of health and education to the productivity of the next generation of workers. Countries can use the HCI to assess how much income they are foregoing because of human capital gaps, and how much faster they can turn these losses into gains if they act now.
- A robust measurement and research effort, to complement the HCI and help countries take effective action. This can help countries gain further insights into what type of interventions work and where to target resources, for example, through the Service Delivery Indicators initiative, which measures the quality of service delivery through facilities surveys.
- A “whole of government” engagement approach, to help countries tackle the worst barriers to human capital development. Work has begun to support countries in developing strategic approaches to accelerating human capital outcomes. Over 60 countries have already expressed a strong commitment to do so by formally joining the HCP. This effort will extend to more countries in the coming months.

54. **Sustainable Development.** The Sustainable Development Practice Group (SDPG) urges a fundamentally transformed WBG approach to deliver basic needs (e.g., food, water, urban services, energy, transport) with a renewed focus on environmental sustainability and social inclusion. New scientific evidence continues to surface to confirm that the natural resources needed to support the delivery of the basic needs for poverty reduction, growth, and human capital are under severe pressure. Last year, global carbon emissions rose by 2.7 percent (to an all-time high); almost 60 percent of the largest aquifers passed their sustainability point; 25 percent of the world's largest cities experienced water shortages; seven million people died from polluted air; and 45,000 people a day fled their homes due to conflict or climate change. Citizen requests to address sustainable development challenges are on the rise, with more demonstrations worldwide focused on climate change, women's empowerment, and gender violence. In 2018, research also suggested that while the window to avoid severe negative effects of climate change seems to be closing rapidly, time is still available to correct this path. The SDPG anticipates the WBG to step up on climate action, scale up its focus on social sustainability, adjust its assistance to respond to Gender-based Violence (GBV) and new livelihood models for the vulnerable, and adopt innovative sustainable technologies to fast forward progress in areas where support is most needed, such as in FCS. As such, SDPG interventions center around urbanization and poverty reduction, protection of oceans and water resources, climate change, and agricultural value chains (see Box 6).

Box 6. Sustainable Development in Practice: The World Bank Group (WBG)'s Ag Observatory

The Sustainable Development Practice Group (SDPG) supports innovative technologies with potential to enable sustainable development efforts. For instance, the WBG's Ag Observatory makes agricultural meteorology (weather data for agricultural value chains) available at 9km x 9km resolution updated every four hours. None of the IDA countries have this data resolution via their national meteorology networks. The Ag Observatory data allows governments to make high resolution information a public good and facilitate private service provision of weather and extension advisories to farming communities and other stakeholders along the entire value chain – farmers, input providers, logistics planners, traders, and policy makers. The Ag Observatory has held demonstrations for over 2,000 WBG staff and national partner agency staff. The team is now helping the Governments of Kenya, Ethiopia, Zambia, and Zimbabwe to operationalize national Ag Observatories. The Eurasian Center of Food Security (ECFS) is also preparing to mainstream an Ag observatory for the Black Sea area (a globally critical wheat exporter) and Central Asia.

55. **Equitable Growth, Finance and Institutions (EFI).** The EFI Practice Group supports IDA countries to advance structural reforms to manage risks and promote inclusive and sustainable growth. It also supports IDA countries to build capable, efficient, open, inclusive, and accountable institutions. Achieving the SDGs will require the implementation of sound macroeconomic and financial policies at the national and global levels to secure economic growth and preserve stability. Growth in IDA countries are expected to stall in 2019, and progress on poverty reduction is also expected to remain slow, reflecting a global outlook dominated by downside risks. Debt vulnerabilities have also increased in IDA countries in recent years, reflecting rising debt levels and shifts in the composition of debt towards more expensive and riskier sources of finance. To confront this increasingly difficult environment, IDA countries must implement policy measures to boost economic growth, enhance inclusiveness, and re-build fiscal buffers. Against this backdrop, EFI is planning to increase support to five key strategic priorities under IDA19: climate resilience, MFD, human capital, digital transformation (see Box 7), and governance and institutions. In addition, recognizing that the primary responsibility for addressing debt vulnerabilities lies with borrowers, EFI is committed to supporting the WBG implement a Multiphase Programmatic Approach to help countries address debt vulnerabilities.

Box 7. Equitable Growth, Finance and Institutions (EFI) in Practice: The Productivity Project

The EFI-led Productivity Project brings frontier thinking on the measurement and determinants of productivity to support policy reforms. The analytical agenda is informed by dialogue with academics and policy makers and is grounded with extensive empirical work in IDA and IBRD countries. The initiative contributes to a better understanding of the impacts of new technologies and how to harness them for inclusive growth. The project is being operationalized across all regions and has already yielded several publications, addressing critical topics in the development debate:

- **The Innovation Paradox: Developing Country Capabilities and the Unrealized Promise of Technological Catch Up.** Given that the returns to technology transfer from advanced countries to follower countries are extremely high, this publication seeks to explain the paradox of why developing countries invest little in such innovation. It argues that the key to the paradox is the lack of complementary physical and human capital factors, particularly firm managerial capabilities, that are needed to reap the returns to innovation investments. The volume offers guidance on how to identify the true binding constraints and the effective implementation and evaluation of policies to redress them.
- The second publication, **Productivity Revisited: Shifting Paradigms in Analysis and Policy**, presents 'Second Wave' thinking that is revolutionizing productivity measurement and diagnostics, as well as the design of productivity increasing policies. The publication stresses the need for policy makers to take a broader conception of firm performance that goes beyond efficiency concerns to product quality upgrading, and expansion of IDA country demand. Given recent reconsideration of the literature on both conceptual and empirical grounds, policy needs to shift away from eliminating distortions as the key to productivity growth toward firm upgrading initiatives and the encouragement of more productive entering firms. Furthermore, creating experimental and innovative societies is essential to productivity growth. It also requires establishing an enabling environment (ecosystem) that facilitates them doing so.
- The third publication, **High-Growth Firms: Facts, Fiction, and Policy Options for Emerging Economies**, shows that firms exhibit occasional periods of high growth, and hence, it is more appropriate to focus on high growth episodes rather than high growth firms. However, these episodes are very hard to predict based on observable firm characteristics. Consequently, the publication recommends that Governments should not attempt to targeting high growth episodes, but rather shift toward policies that improve the quality of firm growth by supporting innovation, managerial skills, and firms' ability to leverage global linkages and agglomeration. It also proposes a new ABC framework of growth entrepreneurship: improving Allocative efficiency, encouraging Business-to business spillovers, and strengthening firm Capabilities.
- The fourth, arriving in fall 2019, **Harvesting Prosperity: Technology and Productivity Growth in Agriculture** is of special relevance to IDA countries as it targets the remaining extreme poor, most of whom are found in rural areas and who are likely to be in particularly need to adapt to climate change. The study argues that the gains from reallocating land and labor are likely less than traditionally thought. Rather, the critical driver is likely the adaptation and adoption of new technologies that permits upgrading existing crops and diversification into others that will increase incomes and employment.

For more details check <http://www.worldbank.org/en/topic/competitiveness/brief/the-world-bank-productivity-project>

56. **Infrastructure.** Substantial infrastructure investments are needed to achieve the SDGs and the WBG twin goals. A large number of poor people remain without access to decent quality basic infrastructure service. For instance, 1.1 billion live without electricity, one billion live more than two kilometers away from an all-weather road, four billion lack access to internet, and three billion lack access to clean cooking. Lack of access to infrastructure services directly affects the well-being of the poor and limits their ability to improve human capital and labor incomes. Infrastructure contributes directly to several SDG targets and is a critical enabler for many others. Greening infrastructure is key for addressing global environment challenges. The World Bank Climate Change Action Plan targets 17.5-gigawatt hour (GWh) of battery storage, 36 gigawatt (GW) renewable energy, 1.5 million GWh energy savings, and increased investments in efficient and clean cooking and heating in 20 countries. Under Digital Development, the focus is on leveraging broadband access for all and digital technologies to foster inclusive and sustainable growth through improved productivity, job creation, human skills development, improved governance, and social transformation. The Infrastructure Practice Group (IPG) supports WB teams to facilitate private sector solutions for infrastructure by disseminating best practices, strengthening government capacity building, enhancing enabling environment and de-risking key development projects. High quality infrastructure investments are also critical to build and sustain human capital. The heightened importance of closing human capital and digital divides calls for specific investments to improve access to social services and ensure that health and education facilities are safely connected to power, transport (see Box 8), and digital networks.

Box 8. Infrastructure in Practice: Technology in Transport Initiative

Enabling cargo drones as a new mobility paradigm has tremendous potential to overcome the challenges associated with delivering vital health supplies and other urgent goods, when the status quo is one of limited road networks, rugged terrain, and poor all-weather connectivity. Through the Lake Victoria Challenge, which brings together technology developers to solve local logistics problems, the WB transport team is working to (i) better understand the feasibility of a commercial and humanitarian drone corridor in East Africa; (ii) evaluate the demand, willingness to pay, potential suppliers of service, and infrastructure needs; as well as (iii) bring together state of the art regulation when it comes to creating both a safe and enabling environment.

IV. RESOURCING IDA19

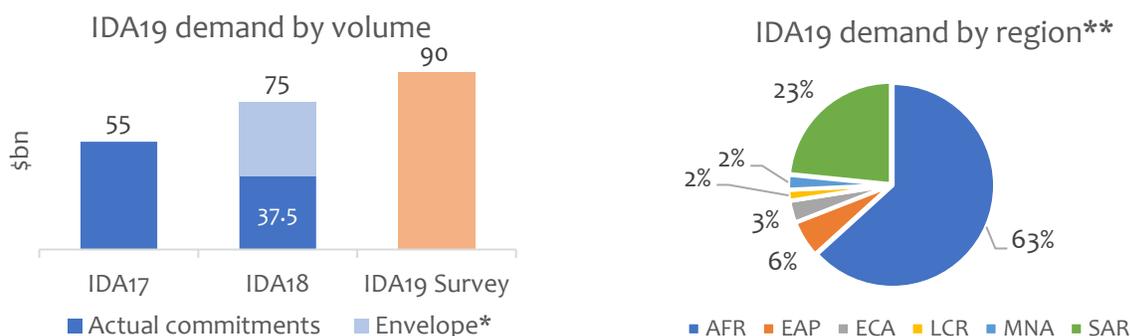
A. IDA19 COUNTRIES FINANCING: NEEDS, APPROACH, AND ARCHITECTURE

57. **The IDA19 Replenishment seeks to sustain the scale and momentum of IDA18, responding to the urgency to meet the SDGs and the WBG twin goals and to leave no-one behind.** This section describes IDA financing needs, both in terms of Core and non-Core IDA financing.³³ Three scenarios are presented which provide a range of options and trade-offs.

58. **IDA19 resources are expected to support up to 74 countries over the period of FY21-FY23.** This includes Fiji, which will be reclassified as a blend country borrower starting July 1, 2019. Two current IDA countries, Mongolia and Moldova, are expected to graduate from IDA on July 1, 2020. For the purposes of this paper, it is assumed that two of the five countries currently in non-accrual status with IDA and/or IBRD, namely Eritrea and Somalia, are likely to re-engage with IDA by the start of IDA19.

59. **IDA countries in all six Regions have expressed strong demand for programmable resources in IDA19.** Figure 6 summarizes these demands, which amount to over US\$90 billion for IDA19, compared to the US\$75 billion of the overall IDA18 envelope. Core funding demand represents around three-quarters of this amount. Demand from IDA FCS is high and expected to grow. Core funding to IDA FCS accounts for around one-quarter of the demand for all Core IDA funding (or US\$15.2 billion), which represents a 24 percent growth in Core funding to IDA FCS compared to IDA18.³⁴ Similar to the IDA17 and IDA18 Replenishments, around 63 percent of demand for IDA resources is from the AFR.

Figure 6. Demand from Regions for IDA19 Resources (US\$ billion)



Notes:

* IDA18 envelope is based on the IDA18 reference exchange rate of 1.40207. Actual commitments may change based on the actual exchange rates used at the time of Board approval. ** Crisis response, Arrear clearance set-aside, and potential demand for inactive countries, as well as PSW are excluded from the pie chart.

³³ For a definition of Core and non-Core components see paragraph 62 and Annex 1.

³⁴ Based on the FY19 *Harmonized List of Fragile Situations*. This excludes Risk Mitigation Regime (RMR) countries (Guinea, Nepal, Niger, and Tajikistan). Including the RMR countries, IDA19 demand would stand at \$19.1 billion for the Core allocations, compared to \$14.4 billion under IDA18.

60. **To respond to IDA countries demand and sustain momentum, IDA will enhance its operational approach to focus more on outcomes and impact.**³⁵ IDA seeks to ensure that resource allocations are mapped to IDA19 priorities as outlined in the “IDA19 Overview” paper. The overall thrust is outlined below and expanded in specific proposals (see Figure 7):

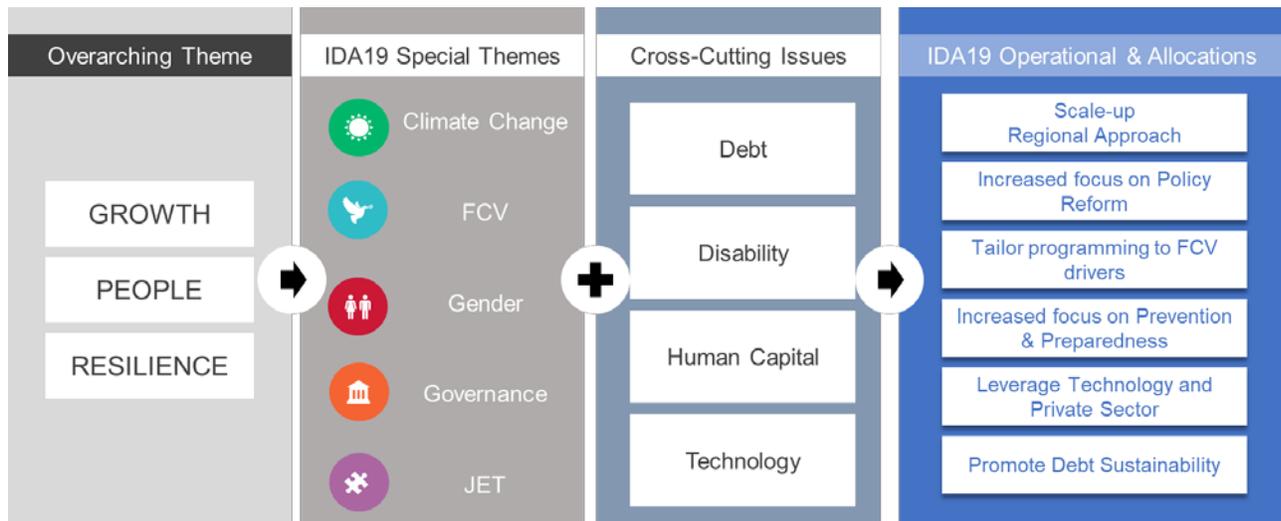
- (a) *Scaling up a regional approach.* IDA19 will leverage the Regional Window as a key vehicle to support regional initiatives at scale, e.g. Digital Economy for Africa and the Human Capital Project (see Annex 5). This regional emphasis will also help to address the sub-regional dimensions of fragility, recognizing that people, violence, arms, and illicit financial flows, all cross borders, including in the Sahel, the Lake Chad region and the Horn of Africa.
- (b) *Scaling up FCV support through a more differentiated approach.* IDA19 will continue to scale up resources to FCS, applying lessons from IDA18 and adopting a more differentiated approach along the FCV continuum, in line with the upcoming WBG FCV Strategy.
- (c) *Focusing more on policy reform.* The Regional Window will introduce regional DPFs to support policy reforms among neighboring countries. The Prevention and Resilience Allocations (PRA) and the Turn Around Allocations (TAAs) in the FCV Envelope will be linked to government plans to reduce fragility and to the achievement of milestones that will be reviewed annually. The new Sustainable Development Finance Policy (SDFP) will incentivize sustainable borrowing policies in IDA countries (see paragraph 66).
- (d) *Focusing more on prevention and preparedness.* IDA19 will enhance support for countries that foster resilience and are committed to proactively mitigating risks through early action. This includes reforms to the CRW to strengthen linkages to resilience-building and finance earlier responses to slower-onset crises (See “Review of the IDA Crisis Toolkit” paper). Furthermore, the Regional Window will in some cases support single-country projects that focus on prevention and preparedness for natural disasters and pandemics, given their cross-border spillover effects. Under the FCV Special Theme, IDA will focus more on the prevention and mitigation of FCV risks, building on insights from the “Pathways for Peace Report”,³⁶ including by embedding the use of Risk and Resilience Assessments (RRAs) and providing enhanced support to countries at heightened risk of large-scale conflict and violence (the PRA) and emerging from conflict or social/political crisis with a window of opportunity to prevent relapse (the TAA).

³⁵ The proposed approach will simplify the IDA architecture nomenclature by using the term ‘Allocations’ to describe Core IDA resources, replacing the use of the term ‘Regimes’. Furthermore, the term ‘Windows’ will be used to describe non-Core IDA resources, replacing the use of the terms ‘Facility’ or ‘Sub-Window’. E.g. the Risk Mitigation Regime will be known as ‘Prevention and Resilience Allocation while the Scale-up Facility will now be known as the ‘Scale-up Window’.

³⁶ See United Nations; World Bank. 2018. “Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict,” Washington, DC: World Bank. Available at <https://openknowledge.worldbank.org/handle/10986/28337> License: CC BY 3.0 IGO.

- (e) *Leveraging technology and the private sector.* IDA19 will support the adoption of innovative and transformative technologies in IDA countries through various enhancements. An expanded Regional Window will support the Digital Economy for All agenda, including through the Digital Economy for Africa initiative. The PSW will enable the IFC and MIGA to support this agenda through risk mitigation and co-investments in connectivity and digital entrepreneurs in key hubs. The PSW will continue to promote private sector investment in IDA countries, critical to sustainable growth. Furthermore, the Regional Window will support piloting emerging technologies in IDA operations where there are strong spill-over effects.
- (f) *Promoting debt sustainability.* In IDA19, IDA will promote debt sustainability through a new SDFP, which incentivizes sustainable borrowing and encourages creditor collaboration (see paragraph 66, Box 9 and “Addressing Debt Vulnerabilities in IDA Countries: Options for IDA19” paper).

Figure 7. Translating IDA19 Strategic Directions into the Operational and Allocation Framework



61. **The proposed resource architecture for IDA19 is based on some key tenets.** These are informed by the lessons from IDA18 implementation and feedback from IDA Participants, including from the IDA18 Mid-Term Review (MTR). The resource allocation architecture will:

- (a) *Maintain the primacy of Core IDA resources.* Core IDA resources – which provide unearmarked country envelopes, aligned with CPFs – are fundamental to IDA’s value proposition. Under IDA19, Management seeks to strengthen the Core IDA resource allocations. The Performance Based Allocations (PBA) system will remain the centerpiece of core resource allocations, while the FCV allocations will enable targeted resource boosts linked to monitorable commitments in select IDA FCS. The IDA19 scenarios increase the share of core allocations relative to thematic windows, reversing the trend since IDA15 of increasing share of set-asides.

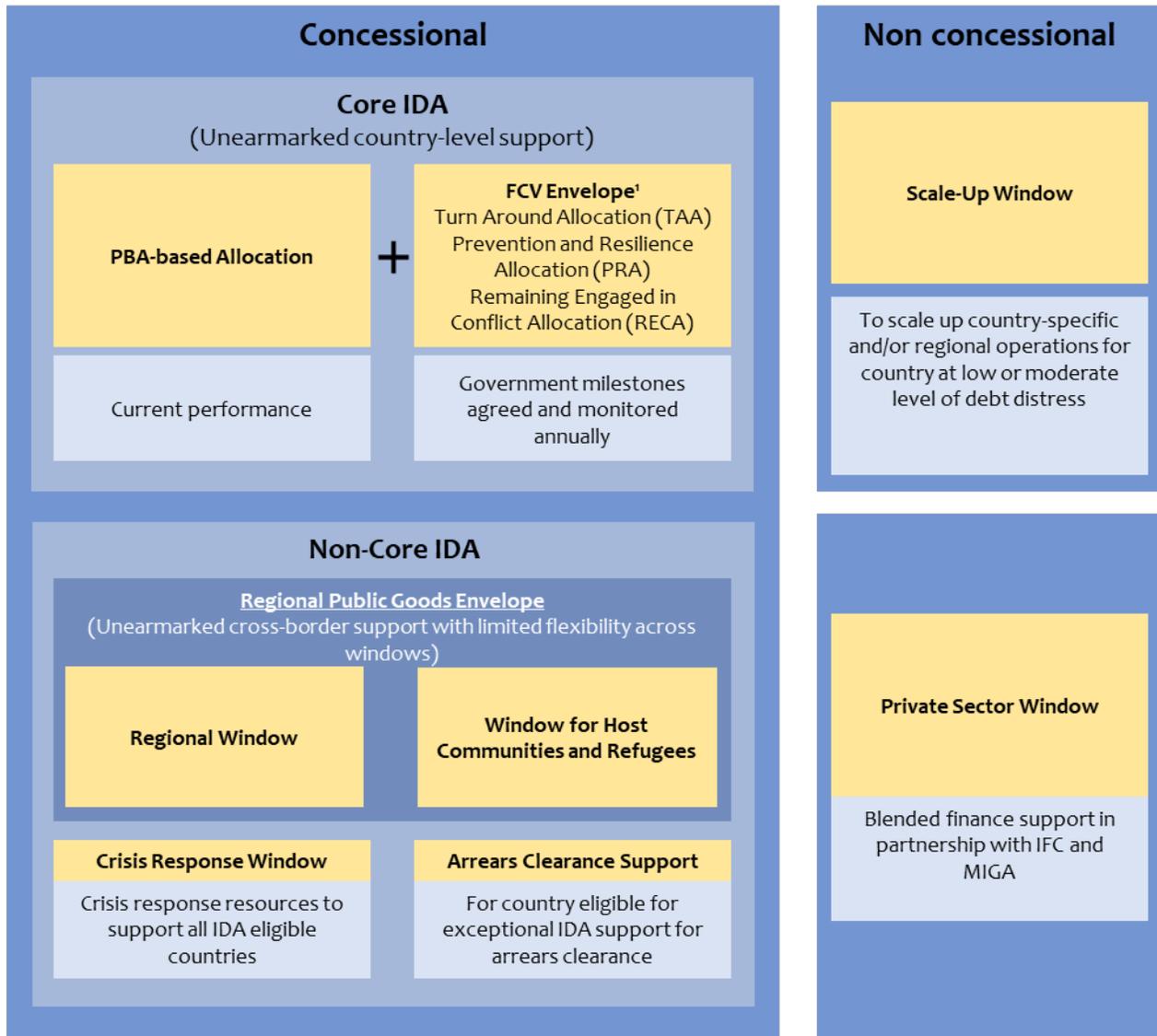
- (b) ***Improve responsiveness and efficiencies across IDA core allocations and windows.*** Management will ensure efficient and equitable resource allocation while adjusting to emerging demand as follows:
- i. Building on the existing resource efficiencies across the Core IDA allocations, Management proposes to adopt a similar approach to managing the non-Core concessional Regional Window (formerly known as the Regional Program) and the Window for Host Communities and Refugees (WHR) (formerly known as the RSW) under a Regional Public Goods Envelope with limited flexibility (see paragraph 70). No changes are proposed to the resource architecture of the CRW, Scale-Up Window (SUW) (formerly Scale-Up Facility) and PSW (See Figure 8).
 - ii. In line with current practice, most allocation adjustments across envelopes and windows will be made through the IDA MTR formal consultation with IDA Participants and subsequent Board approval.³⁷ This process allows for course corrections and reallocations across both Core IDA and non-Core IDA Windows (concessional and non-concessional).
- (c) ***Calibrate the level of non-concessional IDA resources based on reduced number of SUW eligible countries.*** Following feedback from IDA Participants at the IDA18 MTR, Transitional Support financing to recent IDA graduates will be eliminated. The SUW will be the only non-concessional financing envelope under IDA19. The size of the SUW will be constrained by the number of eligible countries, notably countries at low or moderate risk of debt distress under the LIC DSF.

Demand for Core IDA in IDA19

62. **Demand for IDA19 Core funding is at an all-time high to sustain country programs to meet the SDGs and twin goals.** IDA19 Core funding will provide unearmarked support to all IDA-eligible countries for priority interventions that have a strong and direct impact on poverty reduction as identified through the regional approaches and CPFs. Core funds also provide counter-cyclical financing, which will be crucial in light of the challenging global economic environment and potential headwinds that IDA countries could face in IDA19. These resources offer the main financial support to IDA countries to advance the IDA priorities, including the IDA19 Special Themes and cross-cutting issues. Core IDA allocations under the PBA are expected to account for around two-thirds of the total IDA19 resource envelope and provide predictable resources with incentives to reward high performers.

³⁷ Within the PBA, as per current practice, Management will manage limited intra-regional and inter-relational reallocations of resources, within limited parameters and ensuring adequate performance orientation is maintained.

Figure 8. Proposed Financing Structure under IDA19



¹ Also includes pre-arrears clearance grants as part of reengagement processes

63. **The proposed Core allocation adjustments focus on (i) promoting sustainable development financing in IDA countries and (ii) providing targeted enhanced support for IDA FCS facing specific FCV risks.** These proposed adjustments are expected to maintain Core country allocations at the same level as in IDA18 in real terms.

64. **Several key features of Core IDA will remain in IDA19.** The PBA formula has served IDA18 well and will remain the same in IDA19. The annual base allocations will also be maintained at SDR15 million to provide a minimum level of resourcing to achieve results at scale. Small Economies will continue to receive significant resources in IDA19. As implemented under IDA18, the Review of the Small Island Economies Exception will be applied in IDA19. Based on these criteria, no new Small Island Economies are expected to gain access to IDA or graduate in IDA19.

65. **IDA19 will seek to promote debt sustainability in IDA countries.** As outlined in the “Addressing Debt Vulnerabilities in IDA Countries: Options for IDA19” paper, IDA Management proposes to introduce a SDFP to support IDA countries on a path to sustainable development finance that enhances progress toward achieving the SDGs and twin goals. The policy introduces a Debt Policy Enhancement Program to enhance incentives for countries to move toward sustainable financing. A policy-based set-aside of IDA allocations will be applied to countries with high debt sustainability risks that are unable to meet well-defined and actionable policy milestone(s) to strengthen debt carrying capacity.³⁸ Those countries will have part of their allocation set-aside until these milestones are met. (See Box 9 on the proposed SDFP).

Box 9. The Proposed Sustainable Development Finance Policy

The primary objective of the proposed Sustainable Development Finance Policy (SDFP) will be to assist IDA countries to pave a path of sustainable development finance that enhances progress toward achieving the Sustainable Development Goals (SDGs). The SDFP will build on IDA’s already very strong foundation for addressing debt sustainability. It would replace the Non-Concessional Borrowing Policy (NCBP) in light of the substantially changed development finance landscape since the introduction of the NCBP in IDA14.

Countries need scaled-up access to sustainable sources of development finance to achieve the SDGs, in a context of limited supply of concessional finance. Developing countries face an estimated US\$2.5 trillion annual financing gap to achieve the SDGs. Even as the financing needs of IDA countries remain substantial, rising debt levels, shifts in the composition of debt and growing contingent liabilities have increased debt vulnerabilities and are potentially constraining access to finance. As of end-January 2019, 34 out of the 68 IDA countries covered under the joint World Bank (WB) - International Monetary Fund (IMF) Debt Sustainability Framework (DSF) are assessed at high risk of external debt distress or in debt distress. At the same time, for many countries at low or moderate risk of debt distress, safety margins have eroded.

The proposed SDFP is anchored by the IMF-WB Multi-pronged Approach (MPA) and has two key pillars:

1. The Debt Policy Enhancement Program to strengthen incentives for countries to move toward sustainable financing; and
2. The Creditor Collaboration Program to enhance transparency and outreach on sustainable lending practices using IDA’s global platform and convening role.

The proposed Debt Policy Enhancement Program introduces a policy-based set-aside of IDA allocations to incentivize countries to introduce policies that reduce debt sustainability risks stemming from weaknesses in fiscal policy, debt management and/or debt reporting. A policy-based set-aside would be determined by progress made to improve policy performance, including through customized policy actions informed by the country’s DSF. This approach creates an explicit and clear incentive for IDA countries to take immediate steps to implement policies that reduce debt vulnerabilities so that the policy-based set-aside could be released.

Country progress under the Debt Policy Enhancement Program will be made publicly available on a regular basis to send a clear signal to debtors and creditors alike. This reporting will also facilitate monitoring of the overall effectiveness of the SDFP. Periodic reviews of the SDFP will be carried out, submitted to the Board, and publicly disclosed. The proposed SDFP and the Debt Policy Enhancement Program are detailed in “Addressing Debt Vulnerabilities in IDA Countries: Options for IDA19” paper.

³⁸ As part of the IMF-WB MPA to debt, several analyses have been performed which demonstrated the trade-off between addressing debt management performance and maintaining support for IDA FCS as presented in the IDA19 Sustainable Development Finance Policy proposal.

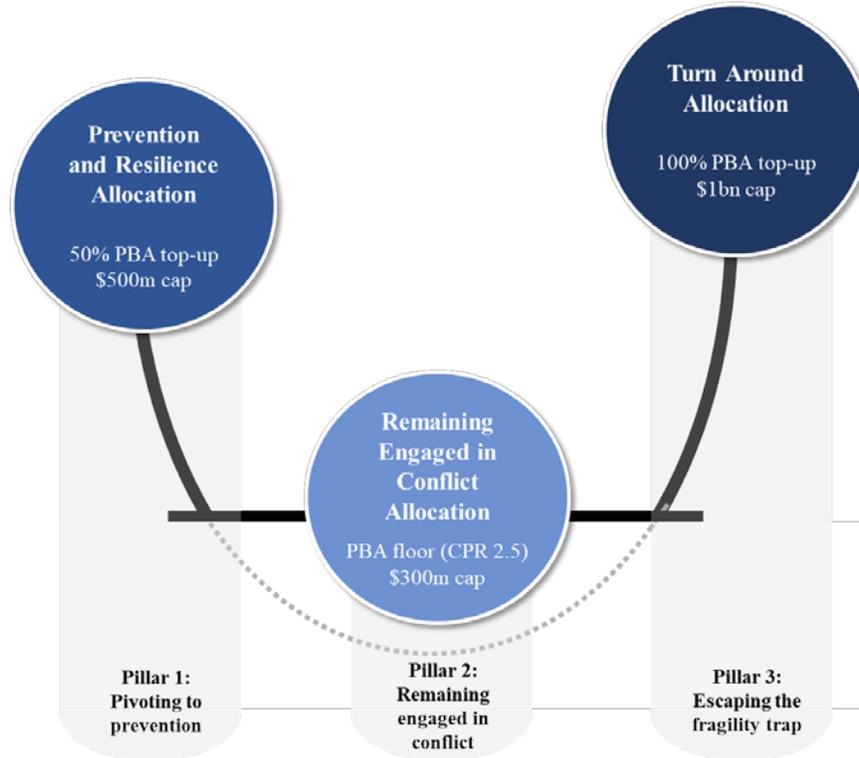
66. **In IDA FCS, IDA19 proposes to consolidate, simplify and refine the financing toolkit available to IDA countries experiencing a range of FCV challenges.** This will be done through an FCV Envelope. The FCV Envelope will be used to top up PBA allocations based on clear rules to provide tailored support along the FCV continuum, with one enhanced financing tool dedicated to each Pillar of Engagement of the FCV Strategy (see Figure 9). Criteria for each allocation will also align with the forthcoming FCV list.

67. **The FCV Envelope will be part of Core IDA and comprise three FCV-related country allocations:**

- (a) The **Prevention and Resilience Allocation (PRA)** will provide enhanced support for countries at risk of falling into high-intensity conflict or large-scale violence, where the Government is committed to addressing the underlying FCV drivers. This is an evolution of the Risk Mitigation Regime (RMR) implemented under IDA18. In IDA19, the PRA will be a key tool under Pillar 1 of the FCV Strategy (*Pivoting to prevention*). PRA countries will receive a 50 percent boost to their PBA up to a national top-up cap of US\$500 million for IDA19. It is anticipated that around eight countries will receive PRA support in IDA19.
- (b) A new **Remaining Engaged in Conflict Allocation (RECA)** will enable IDA to maintain a base level of engagement in a small number of countries that experience high-intensity conflict and have extremely limited government capacity. The design of this allocation builds on lessons learned from the IDA18 MTR exceptional allocation to Yemen.³⁹ The RECA will be a key tool under Pillar 2 of the FCV Strategy (*Remaining engaged in conflict*). It is anticipated that around two to three countries might receive RECA support in IDA19. The RECA also codifies the ability of the WB to partner with UN agencies or International Nongovernmental Organizations (INGOs) in certain limited circumstances for development projects that benefit RECA countries.
- (c) The **Turn Around Allocation (TAA)** will continue to support countries emerging from a period of conflict, social/political crisis or disengagement, and where there is a window of opportunity to pursue reforms that can accelerate its transition out of fragility and build resilience. Some refinements are proposed from the previous Turnaround Regime (TAR) implemented under IDA18. The TAA will be a key tool under Pillar 3 of the FCV Strategy (*Escaping the fragility trap*). The TAA will double the country's PBA up to a national cap of US\$1 billion per country during IDA19.

³⁹ See paragraphs 25-27 of "IDA19 FCV" paper on lessons from IDA18 engagement in Yemen.

Figure 9. FCV Envelope



68. The design of the FCV Envelope draws heavily on lessons from IDA18, including lessons emerging from the RMR, TAR, the RSW and from Yemen, as well as from Bank-wide experience on how IDA can most effectively support IDA FCS countries facing different kinds of FCV risks. Bundling the three allocations into one envelope is expected to bring several benefits. First, conceptually, the bundling helps to deal with the complexity of the FCV toolkit. Each FCV-related allocation is a necessary tool, and multiple tools reflects the differentiated approach to FCV. Given that the allocations share common features, including in-cycle identification, eligibility-based processing and annual reviews, PBA-aligned financing, and full integration into the country portfolio, they are amenable to being dealt with in one envelope. Second, bundling enables IDA to respond in a more agile and flexible way when countries move between points on the FCV continuum – i.e. from heightened risk of conflict, into high-intensity conflict, post-conflict transformation, and/or back again. Such movements are often non-linear and cannot be predicted for a given country at the outset of an IDA cycle. The FCV Envelope caters for this, without requiring set-asides. Third, bundling reduces rigidity in the allocations, which will enable IDA to adjust allocations and ensure that IDA funds for FCS are fully utilized within the cycle. By linking TAA and PRA to milestones, this reinforces IDA’s focus on performance, albeit a different type of performance – not based on Country Policy and Institutional Assessment (CPIAs) and Country Performance Rating (CPRs), but on the achievement of targeted milestones that align with the purpose of the allocation. Using the expanded PRA and TAA approach, the scale-up can be directly linked to country commitments, which is expected to increase potential for uptake and progress towards these milestones. The tools will also be re-named to describe

better their purpose and function.⁴⁰ For further detail regarding the FCV Envelope, including criteria and processing, see Annex 2 to this paper, and the “IDA19 FCV Special Theme” paper.

Demand for non-Core Resources in IDA19

69. **In IDA19, the non-Core envelope will be expanded, and its architecture will be refined to pursue the IDA19 strategic directions and to reflect the key tenets outlined above (see paragraphs 61-62).** These proposals support a scaled-up regional response, increased policy focus, promotion of early response and preparedness, and promoting technology adoption and private sector support. The Regional Window and the WHR will be managed as a Regional Public Goods Envelope with some flexibility for re-allocations between the windows up to a maximum of US\$0.5 billion before the IDA19 MTR. As mentioned earlier, this limited flexibility within defined parameters aims to increase responsiveness to IDA countries demand over the replenishment cycle and maximize efficiency in resource utilization.

IDA Regional Window

70. **In IDA18, the Regional Program has been a key mechanism to deepen regional integration and support global public goods.** Demand for the Regional Program is high as countries continue to: build and consolidate investments in infrastructure to open transport corridors; work towards facilitating power trade across countries, managing shared natural resources and collectively addressing common challenges; and provide global public goods. The 2018 Independent Evaluation Group (IEG) evaluation of the WBG support to regional integration noted the important role that IDA has played to foster regional integration and highlighted IDA’s outcomes in terms of expanding infrastructure and connectivity, improving regional global public goods, and supporting regional institutions.⁴¹ IEG also noted the effectiveness of the regional approach to countries facing special challenges, including landlocked countries, Small States, and FCS. The evaluation emphasized the WB’s comparative advantage in leveraging its global knowledge, its comprehensive set of financing instruments, its synergies as one WBG, and its ability to catalyze regional actors and sources of finance.

71. **There is strong demand in IDA19 for the Regional Program to deepen regional integration in every region, by building on existing programs and introducing new critical initiatives. In IDA19, the Regional Program will be renamed as the Regional Window.** Demand for Regional Window resources is at an all-time high in the AFR, given its extensive needs and high ambition for regional integration, expressed in the AU’s Vision 2063.⁴² IDA’s regional engagement in the AFR will include: multi-modal transport infrastructure in key corridors; solar development and energy interconnections across three power pools connecting 20 countries; and value chains for selected agricultural products. In the SAR, efforts will focus on the regional electricity market within South Asia, as well as with Central Asia and potentially East

⁴⁰ The term ‘regime’ will be replaced with the term ‘allocation’, to better describe its function as a supplement to the country allocation. As a result, the IDA19 framework will comprise only ‘allocations’ and ‘windows’. Allocations support countries and sit within Core IDA, while windows support operations addressing a certain theme, and most of these will sit within a Regional Public Goods Envelope.

⁴¹ IEG. Two to Tango: An Evaluation of World Bank Group Support to Fostering Regional Integration, Revised, March 19, 2019, CODE2019-0001/2.

⁴² It aims to build an integrated continent across a number of areas critical, unlocking new pathways for rapid economic growth, job creation, innovation and access to services.

Asia; economic corridor infrastructure; economic connectivity, including trade, investment and the role of private sector; water resource management; and management of shared natural resources and disaster risks. In ECA, regional projects have increased and gained importance in Central Asia with links to South Asia, and a growing potential in the Western Balkans. A focus on multi-country cooperation is envisaged in trade and transport, climate, water, digital connectivity, and agriculture. In EAP, IDA will support integrated water resource management and disaster risk management programs across Cambodia, Myanmar and Lao PDR. In the Pacific Islands, IDA19 will support integration initiatives in aviation, communications, environmental management and disaster financing, as well as the “Blue Pacific” strategy.⁴³ These efforts are aligned to the interests of the Association of Southeast Asian Nations (ASEAN) and Cambodia, Laos, Myanmar, Vietnam and Thailand (CLMVT) for regional collaboration on infrastructure, energy and human capital. In LCR, efforts will focus on building holistic resilience in the Caribbean and Central America, with deeper engagement on consistent approaches to resilience and DRM at the regional level.

72. The IDA Regional Window is well-suited to provide the cross-border solutions for emerging opportunities and challenges. The Regional Window will support the Digital Economy for Africa initiative, which aims to strengthen digital infrastructure and services such as broadband internet, identification systems, payment systems, and e-commerce. It will enhance human capital interventions in education and in health, such as through coordinated disease surveillance systems. The initiative will also build on IDA efforts to leverage the private sector and advance innovative finance to support digital entrepreneurship in IDA countries. The Regional Window will address drivers of fragility through sub-regional and multi-sectoral approaches that create economic opportunities, provide basic services, restore state presence, and rehabilitate key infrastructure with focus on the Sahel, Lake Chad Region and the Horn of Africa, based on Regional RRAs.

73. In IDA19, on a limited basis, the Regional Window will further tap into opportunities to support single country operations that clearly demonstrate significant regional or global spillovers. During the IDA17 replenishment discussions, IDA Participants agreed to enable, on a case-by-case basis and subject to a two-step process of early consultation with and approval by IDA Executive Directors, the IDA Regional Program to finance projects with financial participation of only one IDA country where the project will have significant transformational impact in the region.⁴⁴ This provision will be leveraged in IDA19 to support global public goods for instance through the Marine Litter Program (see 2019 Spring Meetings background note). Pollution from marine litter is a growing global oceans crisis. Plastic debris floating across oceans and visible on the world’s beaches, mangroves, coral reefs and waterways poses significant threats to marine ecosystems, coastal livelihoods and health along the food chain. This responds to global calls to action on marine litter, including the July 2017 G20 Action Plan, and aligns with action being taken by many countries on this issue, including IDA countries. IDA is establishing an initiative to address the plastics problem comprehensively with better upstream policies, waste management systems and cleanup efforts. IDA will build on its engagements in the blue economy and on pollution/waste management, including existing pipelines and leveraging private sector

⁴³ The “Blue Pacific” strategy integrates a strong convergence between healthy oceans, climate change, disaster risk management, and economic wellbeing.

⁴⁴ World Bank. 2014. Additions to IDA resources: seventeenth replenishment - IDA17: maximizing development impact (English). Washington, DC: World Bank Group. Also see background note to third IDA17 replenishment meeting- Strengthening support for regional projects, October 2013.

financing, from both corporate producers and technology providers. IDA19 will also galvanize support for prevention and preparedness relating to cross-border risks, such as certain natural disasters and pandemics by enabling the IDA Regional Window to finance single-country operations that clearly demonstrate positive spillovers, for example when a multi-country agreement calls for the implementation of activities that can be financed through an IDA operation.

74. The Regional Window will support the adoption of innovative technology solutions for IDA countries, leveraging the WB ‘Disruptive Technologies’ trust funds projects pipeline. The Regional Window will support the modular building blocks of country-scale and regional solutions (both technology solutions and standards and rules) under open-source principles, thereby creating public goods. See Box 10.

Box 10. Disruptive Technology for Development (DT4D) Program

DT4D is an example of a sector- and technology- agnostic trust fund, looking for solutions across the World Bank Group (WBG) portfolio. The implementation approach is designed to be agile: a) teams have one year to implement and test the solution in real-time; and b) successful solutions are ready for scale up through the IDA portfolio.

Scaling up blockchain solution to value chains in Haiti

One of the DT4D pilot applications proposed a blockchain solution that provides a payment, finance and traceability platform to local farmers, so they can sell their products directly to final buyers in more profitable markets, such as the US. The pilot is being tested with mango producers to eliminate the cost of distribution through intermediaries and increase producers’ direct access to markets and finance. This will increase farmers’ proceeds and eliminate the need for middle-men. The pilot was implemented by the WBG and the counterpart has been informed, with only one IDA country agency interacting in the pilot phase.

The Blockchain solution applied to the pilot initially focused on one product, the mango. The application, and the pilot, can be scaled up to become accessible to more farmers across the Haiti and beyond. This requires the creation of the following building blocks: a) a blockchain technology platform that can operate at national scale with multiple products (technology platform); b) standardized smart contracts and arbitration rules applicable at national level (smart contracts standards); c) standard e-payment systems linked to financial institutions (financing standards); d) privacy and data standards for credit rating and traceability purposes (privacy and traceability standards). The outcome of this implementation will be a series of modular building blocks (e.g., blockchain platform, standard smart contract platform, privacy and traceability standards) that can be deployed at national-scale in Haiti and transferred to other IDA countries.

The IDA Regional Window could support the development of these building blocks and scale it in IDA operations. In so doing, IDA can support and build the capacity of each IDA country agency to implement these modules.

75. Under IDA19, Management proposes to enable the Regional Window to support Development Policy Financing (DPFs). As noted by the recent IEG evaluation of the IDA Regional Program, one of the key challenges that needs to be addressed for deeper regional integration is the harmonization of policies, revamping of regulations and strengthening of institutions across countries.⁴⁵ This can be supported efficiently by using policy instruments

⁴⁵ IEG (*Two to Tango: An Evaluation of World Bank Group Support to Fostering Regional Integration*). “If the WBG intends to scale up its regional integration current and future initiatives, it needs to address constraints related to its internal business model and institutional arrangements. Likewise, the WBG will have to intensify efforts to convene current players and new private sector actors.”

available in the WBG, including DPFs. Regional DPFs can support coordinated policy reforms among neighboring countries, including support for regional power pools and trade facilitation projects. DPFs would be used selectively to help unblock constraints to deeper integration, for example, in reaching the last mile by enabling power trade across countries. There are other areas which would benefit from coordinated actions, such as expanding the potential for digital solutions, which will depend on countries adopting similar policies and standards. By enabling compatibility of systems across borders, greater potential will be realized in the economies of scale for private sector investors who will find larger markets for investment. To ensure selective use of these instruments, regional DPFs would rely on the same criteria as national DPFs adapted for regional considerations, including on the determination of each participating country's contributions to the operation. For example, countries will need to meet the same macroeconomic requirements and safeguards as required for the national programs. DPF proposals for Regional Window support will be reviewed and prioritized each fiscal year in IDA19 using a similar upstream approach that that used for considering SUF proposals. Management expects that Investment Project Financing (IPFs) will continue to be the main instrument for the IDA Regional Window. To maintain the Regional Window's primary focus on IPFs, the total financing of DPFs will be capped at ten percent of the Regional Window, amounting to around US\$740 million in the Base Scenario. The standard rules in terms of leverage ratio between national and regional allocations and terms will be adopted for regional DPFs.⁴⁶ The amount of Regional Window resources allocated to each participating country will be determined considering the fiscal needs (as in National DPFs), the strength of the reform program by each country, and agreements with participating countries. See Annex 3 for details.

76. In IDA19, the Regional Window will also seek to strengthen collaboration with Regional Organizations. Currently, the IDA Regional Program has supported regional organizations that play an important role in the preparation and implementation of regional projects. Since most of these organizations have not had independent revenue streams to support these programs, limited grants have been provided, and have been capped at 10 percent of the Regional Program. However, waivers have been sought in two projects, for which the best identified organizations to support the implementation had the ability to repay IDA.⁴⁷ Based on lessons learned, Management proposes to extend financing on credit terms to select organizations that have the capacity to repay when they offer the best available option to support the implementation of regional projects. Financing would be based on an assessment of the economic appraisal of the project, the legal status of the regional organization, and its creditworthiness to repay the IDA credits. Very few organizations would meet the creditworthiness assessments and, as a consequence, the use of this provision will be highly selective. It would also be based on the

⁴⁶ IDA financing for qualified regional investments and activities is normally funded one third from the national IDA allocation and two thirds from the regional IDA envelope. For Small States, (countries with populations of 1.5 million or less), 20 percent cap is extended enabling a leverage four-fifths resources from the regional envelope. A lower level of topping-up is applied when regional IDA resources are limited relative to demand. For instance, if interest is strong while the regional IDA envelope is insufficient, regional IDA contribution to a regional project may be reduced to half or lower instead of two thirds. This increases the total size of regional projects that would benefit from regional IDA funding. A lower level of leverage is also applied if some project components are primarily national in nature. Regional project components benefit from the topping-up of regional IDA, while the national components need to be financed fully from the country's national IDA envelope.

⁴⁷ Credits were channeled through (i) the West African Development Bank (BOAD) of the Western Africa Economic Monetary Union (WAEMU) Affordable Housing Project and financed through from the Scale-Up Facility; and (ii) the Bank of Central African States (BEAC) to support strengthening Financial Institutions in the Central African Economic and Monetary Community (CEMAC).

nature of the intervention, for example to enable the regional organization to on-lend to beneficiaries. See Annex 3 for details.

77. **The 2019 IEG review noted that the Regional Program has allocated most of the resources to the AFR, as agreed with IDA Participants.** This reflects the strong demand from African leaders for regional integration to reduce the adverse effects of the very high fragmentation in the economies across the continent. The IEG evaluation underscored the need to explore ways to respond to untapped integration potential and growing demand in other regions, which also present diverse challenges. The IEG review also recommended greater attention to the design of projects to improve the assessment of cross-border spillovers, with robust indicators to track and report such results. The IEG review also highlighted the need to enhance the strategic approach to regional integration. High-level commitments to regional integration already exist in the WBG Forward Look. The format for presenting regional strategic directions may vary given the different roles and focus of regional integration across regions and themes. IDA management will strengthen results monitoring at the regional level to capture aggregated cross-border impacts, while also being more rigorous at the individual project level.

The RSW / Window for Host Communities and Refugees (WHR)

78. **The RSW has made a lot of progress in a short time.** As of May 2019, 14 countries are eligible for the RSW.⁴⁸ As of end-2017, these countries cumulatively host around 72 percent of the refugees (6.4 million refugees) residing in IDA and blend countries. So far, 18 RSW projects in nine countries have been approved across multiple sectors, totaling US\$913 million, with a healthy pipeline for the rest of IDA18.⁴⁹ IDA's policy dialogue and financing on refugee related issues has been a game changer in contributing to a whole-of-government development approach to refugee management. In Ethiopia, dialogue led to the adoption of reforms that shift away from the decades-old encampment model and offer refugees socio-economic rights, including to move freely, work, and access services.⁵⁰ In Cameroon, Chad, Niger, the Republic of Congo, and Uganda, IDA is supporting the transition from humanitarian to national service delivery on health, education, and social protection. In Bangladesh, IDA is helping the Government to adopt a medium-term approach to their emergency response by strengthening systems to respond to the Rohingya crisis. In Rwanda, IDA helped the Government to adopt a Strategic Plan for Refugee Inclusion to expand refugee access to services and economic opportunities and is now supporting its implementation. In Pakistan, dialogue is underway on more predictable terms of stay for some Afghans and on economic inclusion by enabling refugees to open bank accounts.

⁴⁸ Bangladesh, Burkina Faso, Burundi, Cameroon, Chad, Djibouti, DRC, Ethiopia, Mauritania, Niger, Republic of Congo, Rwanda, Pakistan and Uganda.

⁴⁹ Under IDA18 FCV Policy Commitment 4, IDA committed to increase the number of operations targeting refugees and their host communities. This commitment is on track. See Annex 1.

⁵⁰ The use of P4R for the *Ethiopia Economic Opportunities Program* (P163829) is considered key in the timely passage of the Refugees Proclamation providing a wide range of rights for refugees, including the right to live freely, work, access education, obtain legal documentation and open bank accounts. The program supports the government's approach to development solutions for refugees, while expanding jobs and economic opportunities to benefit both Ethiopians and refugees. The passage of the proclamation was a condition of project effectiveness.

79. **Growing refugee numbers are placing increasing pressure on host communities and increasing pressure on governments to find development opportunities for both groups.** From end-2016 to end-2017, the 14 RSW countries cumulatively experienced a 25 percent increase in their refugee populations.⁵¹ This also creates opportunities for IDA to build on progress to date and continue supporting the adoption and implementation of sound policies for socio-economic inclusion of refugees and host communities.

80. **In IDA19, the window will continue to be a tool to support medium- to long-term development for refugee and host communities.** Based on experience during IDA18, the WHR will retain its main elements, which have worked well. The purposes of the window, its eligibility criteria, and the operations that it funds remain the same. All operations will target both refugee and host communities for medium- to long-term socio-economic solutions. The window will continue to focus on supporting the adoption and implementation of sound refugee policies in IDA countries. Addressing the needs of, and opportunities for, women and children amongst displaced populations and host communities will continue to be a priority.

81. **Under IDA19, financing for the window will remain broadly the same as in IDA18.** In IDA19, the size of the window will be SDR1.4 billion (or around US\$2 billion).⁵² The number of eligible countries is expected to increase only slightly. For countries at high risk of debt distress, financing will be provided on grant terms. For countries at low to moderate risk of debt distress, funding will be provided 50 percent in grants and 50 percent in the applicable credit terms of the country. As a refinement, Management proposes that financing provide up to 90 percent of the total project amount, complemented by at least 10 percent from the country's PBA.⁵³ There will be a national cap of US\$500 million per country. As a further refinement, IDA19 will introduce a minimum allocation of US\$10 million to provide countries that have notional allocations of less than US\$10 million with a minimum level of financing to have impact at a certain scale. Like in IDA18, the window will provide 100 percent grants to countries that experience a sudden massive inflow of refugees, defined as receiving at least 250,000 new refugees or at least one percent of its population within the last 12 months from the start of the IDA19 cycle or during the IDA19 cycle.⁵⁴

82. **The window design could also be simpler at the margin.** In IDA18, the RSW was a sub-window within the Regional Window, but in practice there has been little benefit in this arrangement. As a result, Management proposes that it become its own window. This reflects the maturity of the window beyond its first IDA cycle and a simplification of the IDA19 architecture. The window will be part of the Regional Public Good envelope, recognizing the important public

⁵¹ Staff estimate based on data from United Nations High Commissioner for Refugees (UNHCR).

⁵² Given the sensitivity and complexity of these projects and accompanying dialogue, some caution should be considered before scaling up WHR volumes quickly between IDA18 and IDA19. Over-subscription may be dealt with via reallocations at IDA19 MTR.

⁵³ In IDA18, the RSW financed up to five-sixth of the project amount, and countries contributed at least one-sixth from their regular PBA. Experience suggests that these fractions introduced some confusion and skepticism into the dialogue with IDA clients and caused delay in country access to the RSW (see paragraph 37). For simplicity, Management proposes that the PBA portion of WHR projects in IDA19 be adjusted to 10 percent.

⁵⁴ Once the threshold of a 'sudden massive inflow' has been reached, the country can access 100 percent grants for new operations for the remainder of IDA19. In these exceptional cases, countries will still be required to contribute at least 10 percent from national IDA, but this will be provided on grant terms. NB: Countries that were eligible for the grant exception during IDA18 are not eligible for continued access to the grant exception in IDA19, unless those countries experience a new sudden massive inflow of refugees.

good that host countries provide to manage the spillovers of forced displacement. Correspondingly, its title will change to the Window for Host Communities and Refugees (WHR).

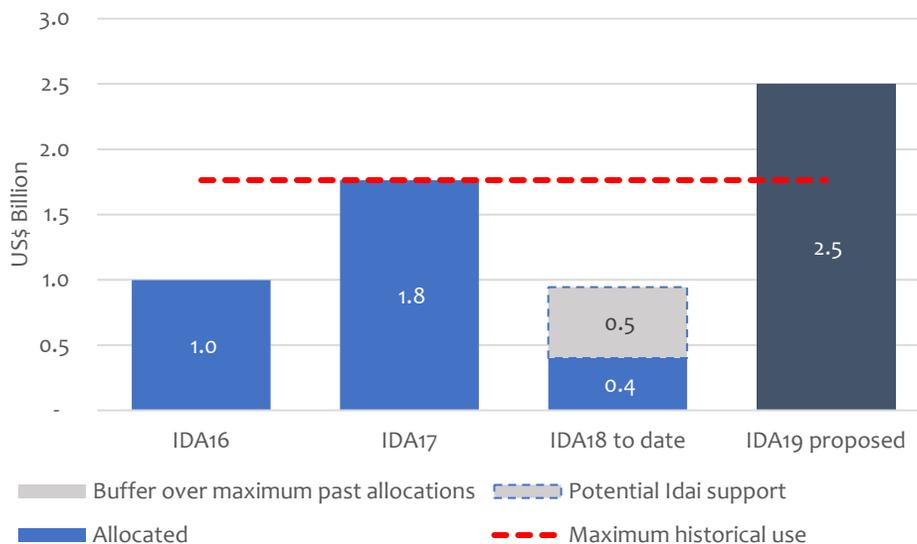
Crisis Response Window (CRW)

83. **The CRW provides valuable support to respond to major natural disasters, public health emergencies and severe economic crises, and, therefore, help IDA countries return to their long-term development paths.** The CRW marked a paradigm shift in IDA’s crisis response from ad-hoc interventions that entailed restructurings and reallocations, which diverted resources from long-term development, to a more systematic approach. Since IDA16, the CRW has allocated US\$3.2 billion towards crisis response. The CRW has also adapted to evolving crisis demands over the years, for instance by expanding its scope to cover public health emergencies after the devastating 2014–2015 Ebola epidemic. The IEG’s recent Synthesis Report on the CRW⁵⁵ was presented to IDA Deputies in April this year.

Financing of CRW

84. **A key lesson from CRW implementation to date is the inherent difficulty in sizing the overall CRW envelope, given the wide range of risks covered and the unpredictability of what crises would materialize and when.** Demand for CRW resources has fluctuated considerably across replenishments. In IDA18, CRW utilization was modest during FY18 and much of FY19. Cyclone Idai then hit southern Africa in April 2019 and is expected to result in CRW financing of up to US\$545 million.

Figure 10. CRW Allocations IDA16-IDA18 and Proposed IDA19 Envelope (US\$ billion)



⁵⁵ World Bank. 2019. IDA’s Crisis Response Window: Lessons from IEG Evaluations. Synthesis Report. Independent Evaluation Group. Washington, DC: World Bank

85. **For IDA19, Management proposes a slightly reduced CRW envelope, which should still adequately support resource needs.** One main consideration for sizing the envelope is the trade-off between setting aside adequate resources and the actual level of utilization. For IDA19, the proposed CRW envelope is US\$2.5 billion. Although this is slightly reduced from the IDA18 envelope of US\$3 billion,⁵⁶ it is still US\$700 million higher than the CRW’s maximum historical utilization level (in IDA17) and nearly double the average utilization over the last two replenishments of US\$1.4 billion (Figure 10). This envelope sizing should allow the CRW to adequately respond to crisis demand in IDA19. Should demand turn out to be modest in the initial years of IDA19, unused CRW resources could be reallocated to other windows at the IDA19 MTR.

Enhancements and Proposed Policy Changes to the CRW Framework

86. **After nearly a decade of experience with CRW implementation, IDA19 proposes further reforms to ensure the CRW continues to be fit for purpose in the cycle ahead.** These reforms also seek to address the question of whether and how the CRW could contribute to the ongoing WBG shift towards crisis prevention and preparedness. It bears emphasizing that this shift is already being galvanized by an extensive set of initiatives in the WBG.⁵⁷ Any proposals for the CRW to spur this shift should also be mindful of preserving its core character as a crisis *response* mechanism, as the CRW is not intended to finance upstream interventions *before* a crisis occurs. The resilience agenda is supported through country allocations in the IDA core program, and it is critical that it continues to be mainstreamed as part of these core programs. That said, Management believes the CRW could play a part in contributing to resilience-building in various ways. First, access to CRW resources will be linked more explicitly to efforts to “building back better”, through strengthening crisis-related programming in the recipient country’s core IDA portfolio *after* a crisis. Second, the CRW will seek to incentivize crisis preparedness through Contingent Emergency Response Components (CERCs). Third, the proposed policy changes for the CRW to support earlier responses to slower-onset crises will be linked to resilience-building efforts. See Annex 4 for the proposed changes to the CRW framework and the “Review of the IDA Crisis Toolkit” for details (also see Box 11).

i. Enhancements to be Accommodated Under Current Framework

Strengthening the Linkages with Core IDA Programming

87. **Going forward, the linkages between the CRW (as a *response* vehicle) and core IDA programming will be further strengthened and made more explicit.** Core IDA programming is the mainstay of IDA financing, and the primary means to support crisis risk management in countries.⁵⁸ In IDA19, CRW recipients will be required to demonstrate a stronger focus on prevention and preparedness in their *post-crisis* core IDA programming. This is expected to be reflected in country engagement products, particularly programming documents— CENs, CPFs, and PLRs. The documents should cite the amount of and rationale for CRW support already

⁵⁶ The IDA18 CRW envelope was subsequently reduced from US\$3 billion to US\$2.25 billion after the IDA18 MTR in November 2018.

⁵⁷ See World Bank, Global Crisis Risk Platform (July 2018).

⁵⁸ The IDA19 proposed policy commitment on supporting health preparedness plans will also strengthen core programming in this area. See “IDA19 Special Theme Paper: Governance and Institutions.”

provided, lessons learnt and how these inform the country's subsequent core programming. The aim is to demonstrate how prevention and preparedness have percolated beyond CRW-funded operations to broader core programming agendas.⁵⁹ This is especially relevant for IDA countries that face recurrent crises. To avoid denying access to critical CRW support during a disaster, such requirements would apply in the *post-crisis* period. The format of the CRW Eligibility Note will also be updated to include information on whether a country is a first-time or repeat CRW beneficiary, and the extent to which it has strengthened resilience-building efforts after past crises for which it has received CRW support.

Encouraging Resilience via Contingent Arrangements

88. **CERCs are contingent financing tools that help countries to better prepare financially for crises by reallocating uncommitted balances from existing projects to disburse quickly in the event of a disaster.** A CERC is embedded in an IPF during preparation (or through project restructuring) as a contingent component and can be pre-allocated with funds or without initial allocation (often called a zero-dollar CERC). CERCs enhance preparedness by having teams frontload the preparatory work, including by engaging with IDA countries in strategic dialogue on crisis risk management and agreeing on the implementation modalities to be used during a crisis, so as to avert the need to scramble amid an emergency. In recent fiscal years, around one in five projects have embedded a CERC. However, feedback indicates that countries and Bank teams are generally reluctant to trigger CERCs when a crisis hits, as these typically extract funds from existing projects whose original objectives could be jeopardized if new resources are not then replenished.

89. **IDA19 will promote greater use of CERCs by making it explicit that the CRW can provide financing to reduce the aforementioned opportunity costs and clarifying the modalities for doing so.** Two modalities are envisaged.

- (a) ***Top-up approach:*** The CRW could, on an ex-post-basis, top up project funds that are drawn down using CERCs for crisis response. This could primarily be done using zero-dollar CERCs. Countries could trigger their CERCs first to meet immediate crisis needs and apply for CRW financing thereafter, including for topping up the project(s) if needed. Several benefits are envisaged. First, it enhances resilience-building by encouraging IDA countries to develop preparedness plans to make CERCs operationally ready for drawdown. Second, it could help galvanize greater IDA country government buy-in, including adopting a strategic approach to identify suitable projects for such use. Third, a well-designed CERC would speed up disbursement when triggered. Currently, CRW funds are typically processed as Additional Financing to existing projects, which takes longer. Using CERCs to release quick-disbursing funds for crisis response and topping up the project funds thereafter with CRW monies would reduce the time for critical funds to reach crisis-affected communities. It should be noted that the CRW top-ups are not guaranteed at the outset, unlike the pre-allocated approach (below).

⁵⁹ The requirement does not apply to countries in non-accrual to IDA as they have no core IDA programming, e.g., Somalia and Zimbabwe. Going forward, as has been conveyed to the Board, WB would find longer-term solutions to address instances of countries in arrears that experience severe crises, to avoid repeated use of exceptional measures.

- (b) **Pre-allocated approach:** The CRW could also pre-fund a CERC—in part or in whole. The IDA Board (and country parliaments, where applicable) would approve the entire amount of IDA financing for the project, including the use of CRW monies based on pre-determined triggers for the contingent component. This pre-allocated approach has the benefits of conferring the quickest response and strongest incentive effect, as approvals are secured upfront compared to ex-post CRW top-ups. While pre-allocated CERCs are an existing WBG instrument, its application in the context of the CRW will only be limited to CRW early responses—i.e., for food insecurity and disease outbreaks—where clear triggers will be defined upfront (see next section and Annex 4). To limit the CRW’s contingent liabilities, such early responses would be subject to an aggregate cap of 20 percent of the overall IDA19 CRW envelope, i.e., US\$500 million. Country-level caps would be developed too. To qualify for CRW pre-funding, a project needs to demonstrate benefits on how it would enhance resilience. In addition, to avoid substitution vis-à-vis PBA, additionality of expected outcomes should be demonstrated, i.e., pre-allocated CRW funds should only address crisis-related activities and be differentiated from regular project activities that are funded by PBA and other sources. As an example, outcome additionality could be established by way of social protection programs that are scaled up during crises to temporarily cover affected households that are otherwise not beneficiaries of the regular programs. Finally, this modality would be useful for countries that cannot qualify for Catastrophe Deferred Draw-down Options (Cat DDOs) or for events where Cat DDO disbursement triggers are not met.⁶⁰ Table 1 summarizes the options available for countries

Table 1. Options for Countries to Deliver CRW-funded Crisis Responses

Options	Early Response	Other CRW Response
a) Countries that draw on their CERCs for crisis response could subsequently apply for CRW monies to top-up the project. The CRW funds would be processed as Additional Financing. See paragraph 90(a) above.	✓	✓
b) Countries could design a pre-allocated CERC financed in whole or in part by the CRW, if they have new projects that meet pre-conditions on resilience. As CRW funds are pre-allocated, disbursement would be quicker than (a) above.	✓	
c) For countries that do not use CERCs, CRW funds would be processed as per standard IPF, DPF or PforR modalities.	✓	✓
Pre-specified CRW Volume Limits?	Yes	No

⁶⁰ That said, this mechanism is not meant to replicate CAT-DDOs. There are several differences. For instance, CAT-DDOs disburse as budget support.

ii. *Proposed Change to the CRW Framework*

Supporting Earlier Responses to Slower-Onset Events

90. **The CRW will seek to respond at an earlier juncture to tackle slow-onset crises.** Unlike sudden-onset disasters like earthquakes, where the devastation is obvious, and resources can be mobilized faster, the impetus to react to slower-onset events may not be as clear in the earlier stages when the human, health and economic losses could be less visible. While the CRW was originally conceived as a vehicle of last resort, there is a strong case for earlier responses to slower-onset disasters to help contain their effects before they escalate into major crises. This support will also be conditional on preparedness and planning efforts. In addition, it could leverage parametric analytics to improve financing efficiency. It is proposed that such support be deployed in two areas, as follows. Annex 4 contains details on the proposed changes to the CRW framework to enable such early responses.

- (a) **Disease outbreaks:** The CRW will support interventions to contain disease outbreaks that have the potential to take pandemic proportions. Besides saving lives in the affected country, there is also a global public goods rationale to do this given the potential cross-border repercussions of outbreaks. In the interest of consolidating the crisis toolkit and the WBG's fund-raising efforts, the CRW will assume the function currently performed by the Pandemic Emergency Financing Facility (PEF) Cash Window. The PEF Cash Window provides early and rapid funding to countries to launch a surge response against disease outbreaks that have the potential, if not contained early, of spreading very quickly within and across countries. Combining select features of the PEF Cash Window with the CRW will create a valuable product for IDA countries to access resources to address disease outbreaks at an early stage, thereby saving lives and reducing economic losses.
- (b) **Food insecurity:** Natural disasters like droughts, or economic shocks such as the 2007–2008 food price crisis, could lead to food insecurity. Food insecurity could in turn have health repercussions like weakened immune systems, and the negative impacts of malnutrition and stunting could afflict children through to adulthood. Earlier CRW interventions coheres well with the work of the Famine Action Mechanism (FAM), as well as with IDA operations in different sectors that address food insecurity across the prevention, preparedness and response phases. The FAM is an umbrella mechanism that seeks to tackle severe food insecurity and its objectives include promoting investments in long-term prevention and preparedness and finding ways to link early warnings to financing and implementation arrangements. As food insecurity itself is not covered by the CRW, the link to a natural disaster, economic shock and/or public health threat will be needed to qualify, similar to the rationale for the CRW's regional famine response in 2017. It is not proposed to broaden CRW coverage to food insecurity originating solely from political- or conflict-driven causes.

Box 11. A Review of IDA's Crisis Toolkit

This box summarizes selected highlights from the accompanying paper on “Review of IDA’s Crisis Toolkit”. To avoid duplication, the review builds on past papers on this topic and makes references to other IDA19 Replenishment papers where relevant.

The review begins by mapping out various instruments and sources of funds in IDA’s toolkit and bringing them under a consolidated schematic. It shows that IDA has developed an extensive toolkit for helping countries to manage different types of vulnerabilities, at various points of the risk chain—from upstream resilience-building to post-crisis interventions. The wide array of tools also highlights the need to raise awareness of existing solutions and promote more strategic and systematic use of such tools. Within the WB, the Global Crisis Risk Platform (GCRP) was established to further galvanize a coherent institutional approach to crisis risk management across different types of vulnerabilities, with a focus on addressing multi-dimensional risks.¹

For IDA countries, effective crisis risk management requires adopting a combination of tools – both from IDA and other actors – based on each country’s needs and circumstances. No single instrument or funding source can meet all needs. The review emphasizes the role of layered risk financing strategies, which aim to bring together various tools in a coherent fashion to strengthen financial resilience against crises, depending on the frequency and severity of the events that countries face.

The review also assesses the utilization of IDA’s crisis toolkit for addressing different types of risks.²

- For *natural hazards*, IDA financing for disaster risk management (DRM) is sizable, underpinned by firm IDA countries demand. IPFs are the dominant instrument, with some increase in the use of DPFs and PforRs. There is a solid orientation towards mainstreaming resilience. The priorities ahead are: (i) leveraging and mobilization of private capital for DRM; (ii) quality urbanization and infrastructure; (iii) climate-resilient development; and (iv) improving effectiveness in FCV environments.
- For *food security*, the key gaps identified include the need to strengthen mid- to long-term investments which tackle the root causes of severe food insecurity and invest in resilience-building; and to scale up consistent and predictable early action in response to food security early warnings. The Famine Action Mechanism (FAM) seeks to address these challenges by serving as an umbrella mechanism to help tackle food insecurity across both resilience and response, working with various partners.
- For *public health threats*, IDA has supported disease surveillance mainly through the Regional Window given its incentive of 1:3 leverage of PBA. Most IDA countries however still have large gaps in public health emergency preparedness and response capacities, and demand for IDA financing to strengthen pandemic preparedness remains relatively modest. Lessons from past episodes showed that as disease outbreaks are slow-onset crises, more could be done to support earlier interventions to contain their spread and limit repercussions.
- Finally, the review assesses the take-up of crisis financing instruments offered by IDA, and how IDA has supported broader *financial preparedness* to crises through its work on risk pools and market-based mechanisms.

The IDA19 package seeks to address the above in several ways, with a focus on further mainstreaming resilience-building efforts. On policy commitments, under the Governance and Institutions Special Theme, IDA would commit to support at least 25 IDA-eligible countries to strengthen the implementation of pandemic preparedness plans through interventions—including technical assistance, lending and investment. Under the Climate Change Special Theme, there is a policy commitment to support at least 25 countries to reduce the risks of climate shocks on human capital outcomes by supporting programs that incorporate Adaptive Social Protection (ASP) into national systems or reduce climate threats to health. IDA would also do more on under existing frameworks. The Regional Window will support single-country projects that strongly focus on prevention and preparedness for natural disasters and pandemics, when they might address cross-border spillover effects. The CRW would support greater utilization of CERCs (a contingent financing tool that strengthens financial preparedness for disasters), and enhance and make more explicit the linkages between CRW usage and subsequent core IDA programming on resilience. Finally, it is also proposed to allow the CRW to support earlier responses to slower-onset crises (namely, disease outbreaks and food insecurity) and to link such support to resilience-building efforts such as famine preparedness plans.

1/ These are risks that span multiple risk types such as macroeconomic shocks, natural disasters, food insecurity, public health emergencies, and conflict and insecurity; 2/ Depending on the type of risk, various data sources are used

IDA Private Sector Window

91. **The PSW pilot introduced in IDA18 has been an innovative tool for unlocking private sector investments in IDA-only and IDA FCS countries.** As of end-April 2019, a total of US\$304 million of PSW resources has been approved, supporting more than US\$800 million IFC investments and MIGA guarantees, and expected to mobilize an additional US\$1.5 billion of private investments. Some key PSW interventions include:

- (a) Supporting the first raisin processing factory in Afghanistan through political risk insurance;
- (b) supporting the issuance of the first local currency bond in Cambodia;
- (c) investing to support the first leasing company in Haiti; and
- (d) extending bond tenors in the West African Economic Monetary Unit (WAEMU) region.

92. **While the pace of implementing the PSW pilot has been slow relative to other existing IDA Windows, this reflects the complexity of investing in these difficult markets, the need to carefully vet projects to minimize subsidies, and initial small PSW transaction sizes.** From the IDA18 MTR, the PSW is now able to implement more programmatic approaches, which are expected to improve implementation. After the initial ramp-up phase, the post-Concept Review downstream pipeline and midstream opportunities (transaction with identified investments but not at Concept Review yet) have accelerated over the last quarters, with over US\$2.4 billion in place.

93. **Given the emerging lessons and potential impact of the window, Management proposes to continue the PSW with a US\$2.5 billion envelope in IDA19.** There is now a strong pipeline of projects in eligible countries, which would ensure steady resource utilization in IDA19 and continue the efforts commenced under IDA18. Key objectives of IDA19 will guide PSW implementation, with a clear commitment to mobilize and scale up the volume of private investment and focus on high-impact priority areas, such as digital economy, quality infrastructure, and agribusiness and manufacturing linking to value chains. In addition, local currency solutions will be enhanced to support the growth of local businesses. See also the “IDA19 PSW” paper.

IDA Scale-Up Window (formerly Scale-Up Facility)

94. **During IDA18, demand for SUF resources was strong.** Projects across the Regions are facilitating transformations in access to energy, transportation, and water and sanitation services. Over US\$2.6 billion have been committed as of April 2019. Eleven of the 14 SUF-financed operations were in Africa. During FY19, there has been a major uptick in demand from SAR, where transformational projects totaling US\$1.2 billion have been endorsed for SUF financing and are currently under preparation, in addition to two projects already approved. In ECA, projects totaling US\$300 million have been endorsed, accelerating from US\$15 million to US\$205 million from the previous round of endorsements. As of end April 2019, the amount of credits notionally endorsed for IDA18 SUF financing stood at US\$ 6.4 billion.

95. **Deterioration of debt risk ratings across several IDA countries underscores the importance of continued close monitoring of these resources in IDA19.** Management is taking steps to ensure that all applicable IDA policies and lending practices provide IDA countries with incentives to borrow sustainably. Under the SUF, the countries at moderate risk of debt distress are strongly encouraged to integrate SUF credits with grants or highly concessional credits to ensure the overall package is concessional. The recently updated WB-IMF LIC DSF will continue to guide country access to these resources.⁶¹ The SUF will be renamed the Scale-Up Window (SUW) in IDA19.

96. **Under the IDA19 Base Scenario, the proposed amount for SUW reflects the reduction of eligible countries.** Due to deterioration of risks of debt distress, five countries lost their eligibility to SUF since the beginning of the IDA18 replenishment period. This reduction of eligible countries is reflected in the US\$5.5 billion envelope proposed for the SUW under the Base Scenario for IDA19. SUW access for IDA blend countries is expected to remain at no more than the proportion based on their share of the PBA envelope.

Arrears Clearance and Re-Engaging Countries

97. **It is estimated that about US\$1 billion will be needed to support exceptional arrears clearance in IDA19.** This set-aside exists to enable IDA to help countries to clear arrears and fully re-engage with the WB at an appropriate time.⁶² Three countries with loans and credits to IBRD and/or IDA in protracted arrears could potentially become eligible for exceptional IDA support for arrears clearance. Somalia and Sudan have been ring-fenced for potential eligibility under the Heavily Indebted Poor Countries (HIPC) Initiative, while Zimbabwe was not assessed in the context of the HIPC ring-fencing exercises.⁶³ The total arrears to IDA and IBRD from these countries amounted to US\$2.6 billion at end-March 2019 and are projected to reach US\$2.7 billion by end-June 2020. Of those, Somalia is making progress and could reach the HIPC decision point towards the end of IDA18. Thus, the proposed size of the set-aside assumes that Somalia clears arrears in IDA18, and that the remaining unused IDA18 fund for arrears clearance would be carried forward to IDA19. Eritrea and Syria each have small and more recent arrears to IDA, but these countries are not eligible for exceptional arrears clearance support (see Box 12 on country progress).

⁶¹ Countries not subject to a LIC-DSA are considered on a case-by-case basis, subject to: (i) confirmation of alignment with the IDA's Non-Concessional Borrowing Policy (NCBP) and the IMF's Debt Limit Policy; and (ii) consultation across CRO, MTI-GP, OPCS, and DFI

⁶² See "Further Elaboration of a Systematic Approach to Arrears Clearance", June 2007, IDA15.

⁶³ See "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) - Status of Implementation and Proposals for the Future of the HIPC Initiative," November 2011.

Box 12. Progress in Potential Arrears Clearance and Re-engaging Countries

IDA countries in arrears are at differing levels of arrears and progress towards potential clearance during IDA18.

A. Countries eligible for the arrears clearance set-aside

- **Somalia:** The country is making progress towards Heavily Indebted Poor Countries (HIPC) debt relief and received pre-arrears clearance grants in the amount of US\$140 million in FY19 to support reforms and resilience. Somalia's arrears to IDA reached US\$346 million as of April 23, 2019. Recent progress is expected to lead to the Decision Point in IDA18 when all the requirements to qualify for assistance under the enhanced HIPC Initiative are met. These include inter *alia* a track record of six months of an IMF upper credit tranche arrangement.
- **Sudan:** Sudan has accrued US\$991 million arrears to IDA as of April 23, 2019. The timing of Sudan's re-engagement process is still uncertain, but the clearance of arrears to IDA and other preferred creditors is unlikely to take place in IDA18.

B. Other Countries

- **Zimbabwe:** Arrears to IDA amounted to US\$306 million and to IBRD US\$986 million as of April 23, 2019. While several options are under consideration for clearing arrears, including HIPC and non-HIPC routes, limited progress has been made so far in defining and implementing clear steps to concrete progress towards arrears clearance.⁶⁴ The Government has resumed token payments to the WB for the first time since June 2017, the first quarterly payment of US\$1 million (just under a fourth of previous quarterly payments) was made in May 2019. Payments were also made to the AfDB and European Investment Bank, signaling a commitment to re-engage with IFIs.
- **Eritrea** has small and more recent arrears to IDA amounting to US\$97 million as of April 23, 2019, and therefore is not eligible for exceptional arrears clearance support.⁶⁵ The Eritrean authorities have continued dialogue with the WB on re-engagement, and arrears clearance could be initiated towards the end of IDA18.
- **Syria's** arrears to IDA reached US\$10 million as of April 23, 2019.

98. **The estimate of US\$1 billion reflects the uncertainty in the timing of these countries' re-engagement, and assumptions regarding their capacity to finance their arrears clearance.** IDA funds for arrears clearance are handled outside the PBA envelope and require set-asides. At the end of IDA19, if the funds allocated during IDA19 are in excess of the actual costs, the remaining funds will be carried over into IDA20. If the funding set aside is less than the required amount, the amount of the shortfall will be included in the arrears clearance request in the IDA20 Replenishment. In the event of re-engagement, these countries would be assessed for potential eligibility under the TAA in IDA19. In addition, Eritrea, Sudan, and Zimbabwe may also be potentially eligible for pre-arrears clearance grants to finance priority needs as part of their re-engagement process. These pre-arrears clearance grants are not part of the arrears clearance set-aside, but rather dealt with as part of Core IDA.

⁶⁴ In April 2019, there was an agreement on an 11-month Staff Monitored Program (SMP) with the Fund which will begin in May 2019.

⁶⁵ See IDA paper "The Demand for IDA18 Resources and the Strategy for their Effective Use" May 31, 2016.

Graduations

99. Management expects that Moldova and Mongolia will graduate at the end of IDA18.

Both countries have incomes per capita well above IDA's operational cutoff, low poverty headcount rates at US\$1.90 poverty line, and have been IBRD creditworthy for five and seven years, respectively. The decision to graduate these countries is subject to certain risks. The risk of Mongolia's reverse graduation is assessed as low, although a major commodity price shock would increase that risk. Moldova's risk of reverse graduation in the medium-term is also low but could increase if weaker growth of key trade partners and potential changes in international trade and migration patterns undermine exports and remittance flows, especially in case of continued uncertainty on access to other sources of concessional financing, most notably from the European Union. See Annex 6 for details.

100. As endorsed by IDA Participants at the IDA18 MTR, the transition support provided for IDA graduates will be discontinued. Both IDA blend countries and graduates can now access additional resources since the IBRD capital increase, so it is no longer necessary for IDA to dedicate its resources. This will reduce the non-concessional resources in IDA.

B. IDA19 FINANCING SCENARIOS

101. A large IDA19 financing envelope is needed to meet the urgency of the SDGs and twin goals, to protect hard-fought development gains, and to ensure that no-one is left behind. IDA19 needs to sustain the bold efforts of IDA18 with long-term predictable financing volumes to support the country progress that is underway. IDA19 also requires continued strong support to FCS countries, to address drivers of fragility, to respond to natural or economic crisis and continue to support private sector engagement.

102. IDA's hybrid financial model requires sustained support from development partners to maintain IDA18 levels of financing for IDA countries at the needed level of overall concessionality. IDA's hybrid financial model has three levers, which represent trade-offs for consideration of a target IDA19 Replenishment size. These levers include: (i) overall volumes of the replenishment; (ii) the level of contributions from development partners; and (iii) the target level of concessionality. Change in any of these three levers prompt changes to the others to maintain IDA's long-term financial sustainability. In the light of this and the overall objective to sustain IDA18 levels of support in real terms, development partner contributions remain a critical part of IDA's financial hybrid model.

103. This section presents three scenarios with different combinations of overall replenishment volumes and distributions between concessional and non-concessional resources. The scenarios provide a range of options anchored from a Base Scenario, which maintains IDA18 resourcing levels in real terms and represents a nominal increase of 6.7 percent. The Low Scenario represents a 10 percent decline in real terms compared to IDA18, and a nominal 4 percent decline. The High Scenario represents an 7.7 percent increase in real terms from IDA18, and a nearly 15 percent nominal increase. The concessional IDA envelope varies across scenarios due to three factors:

- (a) The overall *replenishment volume*;
- (b) Overall *allocation choices* (for example, the distribution between concessional and non-concessional, and between Core and non-Core windows);
- (c) *Strategic choices along IDA’s hybrid financing model* to balance long-term financial sustainability (for example, the level of partner contributions, the overall volume with grant element, and financial sustainability metrics)

104. Under the Base Scenario, the IDA19 Replenishment volume amounts to US\$80 billion, of which US\$72 billion will be concessional Core IDA (Table 2). Total volumes under other scenarios range from US\$72 billion (Low Scenario) to US\$86 billion (High Scenario). The non-Core windows and the Core IDA envelope size vary across scenarios. Concessional resources corresponding to these scenarios range from US\$62.8 billion to US\$76.5 billion between the Low Scenario and the High Scenario, compared to US\$63.6 billion in the agreed IDA18 level. Non-Core concessional IDA volumes vary from US\$10.5 billion in the Low Scenario to US\$14.5 billion in the High Scenario, reflecting varying levels of support for key IDA19 priorities (Figure 11). Consequently, the grant element of each scenario varies with the size of the replenishment and the amount of concessional IDA resources. The non-concessional SUW has a modest range from US\$5.5 billion (Base Scenario) to US\$7 billion (High Scenario).

Figure 11. Summary of Non-Core Concessional IDA Allocations

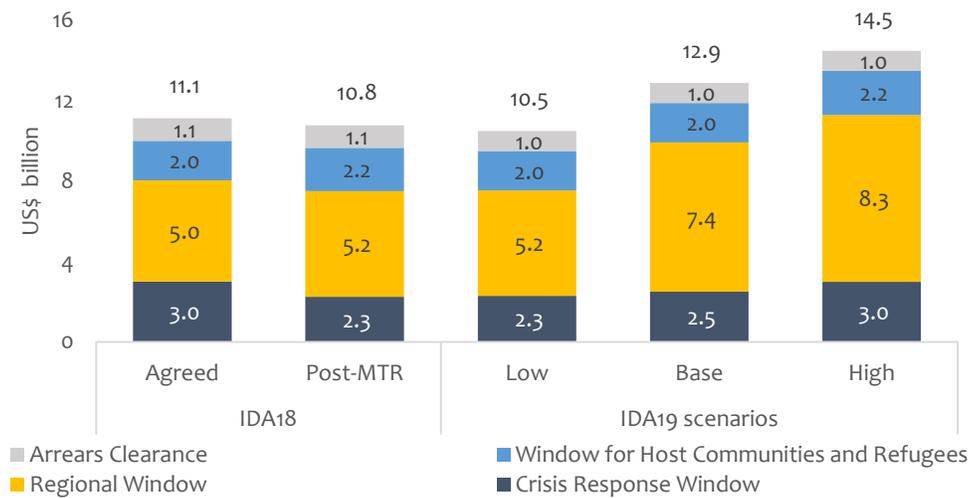


Table 2. Summary of IDA19 Financing Scenarios

(US\$ billion)

In US\$ billion	IDA18 ⁱ		IDA19 scenarios		
	Agreed	Post-MTR	Low	Base	High
1. Concessional	63.6	63.9	62.8	72.0	76.5
I. CORE IDA	52.4	53.1	52.3	59.1	62.0
<i>FCS/FCVⁱⁱ</i>	<i>14.7</i>	<i>14.8</i>	<i>14.6</i>	<i>17.7</i>	<i>18.9</i>
o/w FCV Envelope ⁱⁱⁱ	4.7	4.7	4.5	6.6	7.5
<i>Non-FCS</i>	<i>37.7</i>	<i>38.3</i>	<i>37.7</i>	<i>41.4</i>	<i>43.1</i>
II. NON-CORE IDA	11.1	10.8	10.5	12.9	14.5
<i>Regional & Public Goods Envelope</i>					
Regional Window	5.0	5.2	5.2	7.4	8.3
Window for Host Communities and Refugees	2.0	2.2	2.0	2.0	2.2
Crisis Response Window	3.0	2.3	2.3	2.5	3.0
Arrears Clearance	1.1	1.1	1.0	1.0	1.0
2. Non- Concessional	9.0	8.7	6.7	5.5	7.0
Scale-up Window	6.2	6.7	6.7	5.5	7.0
Transitional support	2.8	2.0	-	-	-
3. Private Sector Window	2.5	2.5	2.5	2.5	2.5
Total	75.0	75.0	72.0	80.0	86.0
<i>Grants</i>	<i>16.7</i>	<i>18.9</i>	<i>17.2</i>	<i>20.1</i>	<i>21.0</i>
Total resources to FCS	14.7	14.8	14.6	17.7	18.9
Grant element: concessional IDA	58%	58%	58%	58%	58%
Grant element: overall replenishment	49%	50%	51%	53%	52%

Key notes

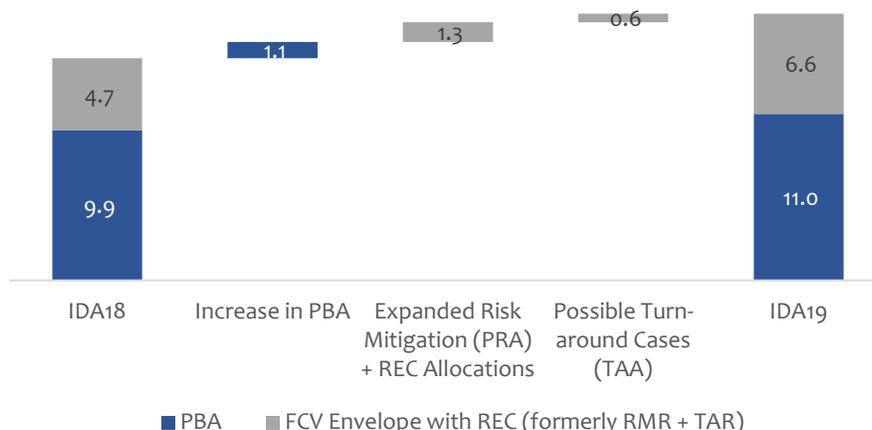
- i* Reflects the planned IDA18 envelope with SDR53.5 billion based on IDA18 reference exchange rate of 1.40207.
- ii* Allocations estimated based on FY19 FCS harmonized list. For the comparison, IDA18 amounts are also based on the FCS countries but include notional additional amounts due to special regimes such as RMR, Turn-around, and post-conflict exceptional allocation, as well special set-aside (e.g., Syria). FCV envelope size is indicative based on potential eligible countries. Thus, if not subscribed, unused amounts are allocated to regular IDA countries through Core IDA allocation (PBA) or inter/intra- regional allocation in the second half of the IDA period.
- iii* The IDA18 envelope for FCV is indicative at the beginning of IDA18, including RMR top-up and notional turn-around resources including US\$1 billion set-aside for Syria.

Base Scenario

105. **The Base Scenario supports IDA19’s strategic directions, keeps the overall IDA envelope constant in real terms, and scales up Core support to FCS countries and non-Core funding through the Regional Window.** Sustaining IDA18 levels of financing in real terms means a nominal volume of US\$80 billion. The Base Scenario enables an estimated 20 percent increase in support to IDA FCS and a nearly 50 percent expansion of the Regional Window from the US\$5 billion in IDA18, to US\$7.4 billion in IDA19.

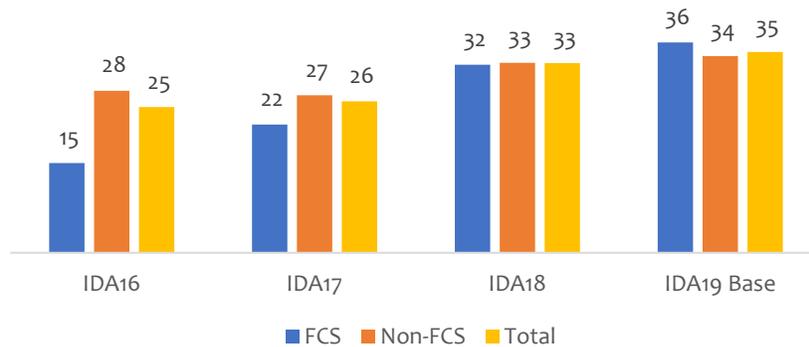
106. **Core IDA allocations will also be increased by 13 percent from US\$52.4 billion to US\$59.1 billion, with most of the increase supporting the increase in financing to IDA FCS, while maintaining IDA18 country allocations in real terms.** This increase in Core allocations is largely driven by the creation of an FCV Envelope estimated at US\$6.6 billion. Used to top-up pure PBA allocations, the FCV Envelope is linked to progress milestones, reducing the risk that allocations are under-utilized. (See Annex 2.) This FCV Envelope could be used to support Syria if conditions for its re-engagement are also met.⁶⁶ Compared to IDA18, the Base Scenario represents an estimated 20 percent nominal increase in Core support to IDA FCS (see Figure 12). Core non-FCS resources are expected to increase by 10 percent in nominal terms, and estimated Core resources to Small Islands/States are expected to increase by 13 percent in nominal terms relative to IDA18 levels. Per capita Core allocations are expected to increase modestly relative to IDA18 levels, with a more pronounced increase in FCS (see Figure 13). This is the first time over the last three replenishments that per capita core allocations are higher in FCS than in non-FCS.

Figure 12. Core Concessional Allocations to IDA FCS in IDA18 and IDA19 and Contributing Factors to IDA19 Indicative Allocation



⁶⁶ In the case of Syria, as stated in the IDA18 Replenishment Report, commitment of IDA funds will require the following: (i) arrangements for the clearance of IDA arrears; and (ii) the WBG’s ability to engage with an appropriate government counterpart and to effectively appraise and supervise projects in the country (whether through staff presence or the use of third-party monitoring agents). If Syria were eligible for the TAA, it could receive up to US\$1 billion, subject to performance.

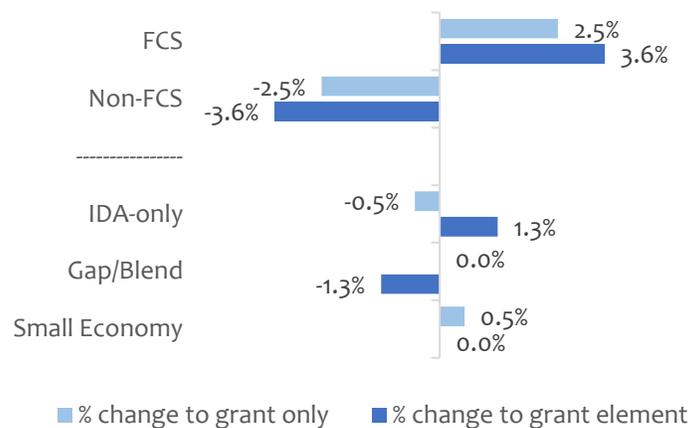
Figure 13. Base Scenario - Per Capita Core IDA allocations from IDA16-IDA19 (US\$)



Note: FCS is based on the Harmonized List of Fragile Situations in the respective fiscal year. IDA16 excludes India.

107. **The Base Scenario reflects an increase in concessionality from 49 percent in IDA18 to 53 percent in IDA19 and maintains concessional targeting to IDA-only and IDA-FCS countries.** The increased concessional resources and reduced non-concessional resources for the IDA19 envelope reflect the rising debt distress in several IDA countries, and IDA’s greater focus on FCS and poorer countries where debt sustainability tends to be weaker. The distribution of the 53 percent grant element shifts towards IDA FCS and IDA-only countries relative to Non-FCS, IDA gap and blend countries. For concessional core IDA, the share of the estimated grant element to IDA FCS and IDA-only countries increases by 3.6 percentage points and 1.3 percentage point respectively, while the share of grant element to the Non-FCS, IDA gap and blend countries is expected to decrease by a similar magnitude (see Figure 14).

Figure 14. Base Scenario - Change in Concessional Core IDA Support Relative to IDA18⁶⁷



108. **In the Base Scenario, non-Core concessional IDA financing increases by 16 percent.** The Base Scenario supports a significant increase in financing for the Regional Window to US\$7.4 billion, representing a 47 percent increase compared to IDA18. This increase will enable the Regional Window to maintain the current regional program and support key IDA19 initiatives,

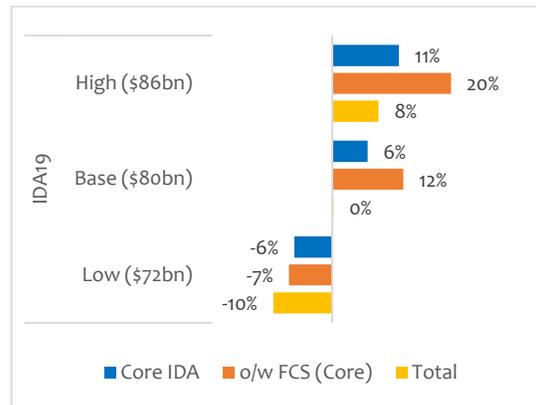
⁶⁷ Data includes inactive countries that are expected to become active during IDA19.

such as the Digital Economy for Africa initiative, the Human Capital Project, and the Sahel initiative. While the CRW envelope is reduced by 17 percent, this is considered adequate based on the level of resources committed in past replenishments. The WHR is maintained in nominal terms, reflecting the expected levels of demand for these resources in IDA19.

Low Scenario

109. **At US\$72 billion, the Low Scenario represents a decrease in nominal terms and a substantial decrease in per capita terms, with less resources going to IDA FCS and regional initiatives compared to IDA18.** The Low Scenario would not support the creation of the FCV Envelope or the proposed scale-up of the Regional Window. Under this scenario, the Core IDA is slightly reduced by 0.2 percent (US\$0.1 billion equivalent) from IDA18 levels, while concessional non-Core IDA decreases by nearly 6 percent relative to IDA18. The Regional Window increases slightly by 4 percent in nominal terms, while the WHR is maintained flat in nominal terms. The SUW increases slightly by 8 percent in nominal terms, as in the Base Scenario. The CRW is reduced by 23 percent. Furthermore, due to expected population growth in IDA countries, under the Low Scenario, IDA resources available per capita would decrease by 10 percent relative to IDA18 or 6 percent in Core IDA (See Figure 15).

Figure 15. Per Capita Allocations (percent change from IDA18 in Nominal US\$)



110. **Under this scenario, limited IDA resources will constrain the proposed FCS support and the Regional Window scale-up with adverse implications on concessionality targeting.** The Low Scenario implies that there would be no scale-up of FCS support through the proposed FCV Envelope, which would be reduced by 5 percent in nominal terms from IDA18 levels. Overall FCS support will also remain slightly below IDA18 levels. The Regional Window would be limited in its ability to support the current programming and particularly the strategic initiatives proposed in IDA19 at scale. These reductions have an impact of reducing the overall concessionality of IDA19 by US\$4.8 billion compared to the Base Scenario.

High Scenario

111. **With very strong donor contributions, the High Scenario offers the opportunity to scale up IDA19 resources in real terms.** The High Scenario will enable a fully scaled differentiated FCV approach, with a higher booster to PRA countries of an additional US\$0.9 billion compared to the Base Scenario. This boost will also provide increased capacity to support re-engaging countries at scale. The High Scenario also enables a scale-up in PBA allocations by US\$2 billion and a further scale-up of the Regional Window by US\$0.9 billion to support more initiatives with regional spillovers. The SUW is slightly increased by 13 percent in nominal terms to US\$7 billion. The High Scenario will increase concessional resources by US\$4.5 billion compared to the Base Scenario.

112. **The financing implications of all scenarios on IDA’s financial sustainability have been assessed by Management.** The Base Scenario assumes that development partners maintain contributions at current levels in US dollar terms. The Low and High scenarios assume a respective decrease and increase in partner contributions (see “IDA19 Financial Sustainability” paper for more information).⁶⁸

113. **Each scenario presents implications for IDA’s delivery on the defined IDA19 priorities.** A summary of the proposed scenarios with a stylized assessment of the related impact on identified priorities is shown in Figure 16.

Figure 16. Summary of IDA19 Scenarios and Proposed Implications on Key Priorities

a: Summary of IDA19 scenarios

Low Scenario	Base Scenario	High Scenario
<ul style="list-style-type: none"> • Reduces from IDA18 in nominal terms • Core IDA decreased 1% (PBA 0%) • Reduced Core FCV support by -0.3% over IDA18 levels (PRA- 33% booster, reduced TAA) • Includes \$0.5b Syria • Regional window flat to MTR level (4% over IDA18 agreed) unable to support initiatives • Refugee Window, PSW flat from IDA18 agreed levels • CRW reduced- reflecting expected utilization (CRW with \$0.5b buffer over IDA17 max levels) • Scale-up Window increased 8% of IDA18 agreed levels (at MTR level) 	<ul style="list-style-type: none"> • Keeps IDA18 volumes constant in real terms • Core IDA increased 11% (PBA 10%) • Boosts Core FCV support by 20% over IDA18 levels through Fragility envelope (PRA- 50% booster, TAA- 100% booster to PBA, RECA. \$0.5b) • Includes \$1b Syria, other re-engaging • Regional window expansion by 47% to support regional initiatives (DE4A, HCP Africa, Sahel etc.) • Refugee Window, PSW flat from IDA18 agreed levels • CRW reduced- reflecting expected utilization (CRW with \$0.7b buffer over IDA17 max levels) • Scale-up Window reduced by 11% of IDA18 agreed levels 	<ul style="list-style-type: none"> • Increases IDA18 volumes in per-capita and real terms • Core IDA increased 18% (PBA 14%) • Boosts Core FCV support by 29% over IDA18 levels through Fragility envelope (PRA- 75% booster, TAA- 100% booster to PBA, RECA. \$0.5b) • Includes \$1b Syria, other re-engaging • Regional window expansion by 64% • Refugee Window flat from IDA18 MTR adjusted levels • PSW, CRW flat from IDA18 agreed levels (CRW with \$1.2b buffer over IDA17 max levels) • Scale-up Window increased 13% from IDA18 agreed levels

⁶⁸ The IDA19 Financial sustainability paper presents the financial implications of these scenarios including on required partner contributions and the resulting impact on IDA’s financial sustainability of each scenario.

b: Stylized impact on identified IDA19 priorities across scenarios

	Operational Impact of Presented IDA19 Scenarios		
	Low Scenario	Base Scenario	High Scenario
Scale-up Regional Approach			
Enhance Policy Reform			
Promote a differentiated approach to FCV engagement			
Increased focus on Prevention & Preparedness			
Leverage Technology and Private Sector			
Promote Debt Sustainability			

Legend:  Unsupported  Moderately supported  Scaled-up support

C. A FOCUS ON IMPLEMENTATION

114. **IDA18 is well on track and is expected to fully utilize its resourcing envelope.** In the 22 months of IDA18, commitments have reached US\$37.2 billion and expected to exceed US\$47.5 billion by end FY19.⁶⁹ This represents a 37 percent increase compared to the same period of IDA17. Delivery of IDA18 by IDA country segments (FCV and Small States) is also remarkably strong. As of end-April 2019, IDA18 commitments to FCV reached US\$9.6 billion, doubling the same in IDA17. IDA lending to the Small States has nearly tripled to US\$866 million. These commitments have demonstrated that IDA countries have the demand and absorptive capacity to deliver (see Box 13 for details).

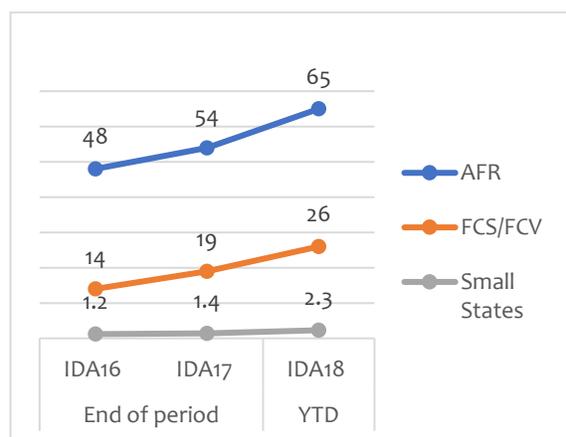
115. **IDA’s large ambitions and financing have substantial implications for project implementation.** The IDA portfolio has seen an increased risk appetite⁷⁰ and growing diversity across its portfolio. The IDA portfolio is becoming more concentrated in the AFR as well as in FCS and Small States. To date, 65 percent of IDA18 commitments have been to Africa, up from

⁶⁹ In this section, IDA18 commitments exclude PSW commitments.

⁷⁰ 82 percent of IDA operations under implementation were rated ‘High’ or ‘Substantial’ on Overall Risk Rating as of FY19 Q3. Source: WB Business Intelligence.

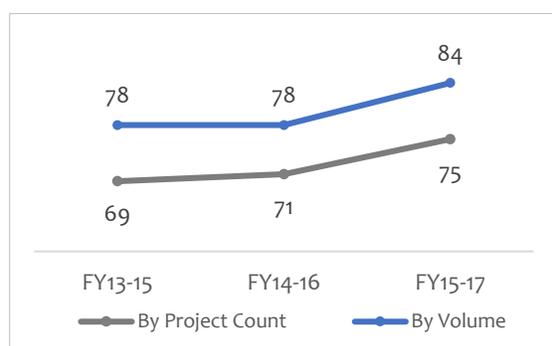
48 percent in IDA16 (at the end of the IDA period). For IDA FCS, the increase has been more pronounced, from 14 percent in IDA16 to 26 percent in IDA18 to date (See Figure 17). IEG outcome ratings have improved in the AFR portfolio (from 61 percent satisfactory of FY12-FY14 closed operations to 71 percent satisfactory of FY15-FY17 closed operations). However, these ratings still lag behind those of other Regions, largely due to lower ratings of small-sized operations.⁷² Furthermore, the risk of debt distress⁷³ is increasingly a concern that will need to be factored into country and operational engagements. Operating in this environment has significant budgetary implications for the WB. The cost of engagement is higher for the riskier operations, as they tend to have longer preparation and implementation time and require more intensive supervision efforts, particularly in environments with low institutional capacity.⁷⁴

Figure 17. Share of Total IDA



116. Proactive management focuses on ensuring continued portfolio performance, satisfactory disbursement levels, and increasing outcome ratings, despite implementation challenges. Management is pursuing several measures to improve project performance and portfolio quality under IDA18, efforts which will continue under IDA19. Measures include enhanced management attention to risk and performance during implementation and emphasis on early identification of problem projects⁷⁵ and

Figure 18. IEG ratings of IDA project outcomes, percent rated Moderately Satisfactory or higher⁷¹



⁷¹ Source: IEG. Including preliminary FY17 data, including only 79 percent of FY17 exits.

⁷² IEG (2019) "The World Bank Group's Results and Performance 2018."

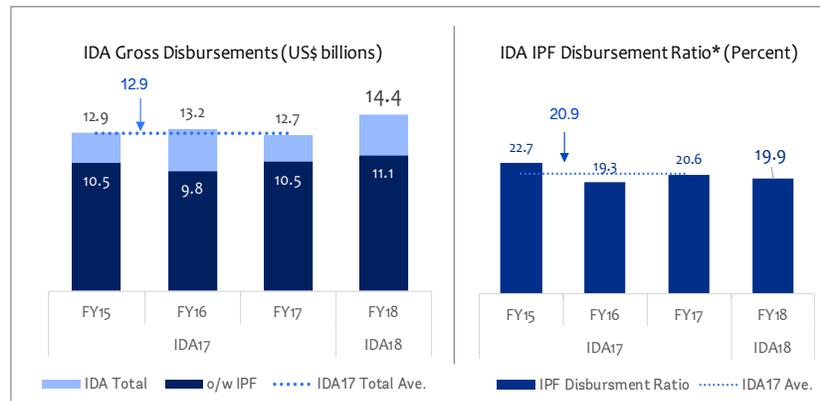
⁷³ The estimated amount of IDA18 grants increased by 30 percent over the two-year period between the replenishment discussions and IDA18 MTR.

⁷⁴ One of the main challenges for the WB is that the quality of operation depends on IDA country governments' institutional quality. A handful of research that have examined predictors of project quality concluded that country institutional quality is one of the major determinants of the project outcomes. See Denizer, C., Kaufmann, D., & Kraay, A. (2013). Good Countries or Good Projects? Macro and Micro Correlates of World Bank Project Performance. *Journal of Development Economics* 105, 288-302; Dollar, D., & Levin, V. (2005). Sowing and Reaping: Institutional Quality and Project Outcomes in Developing Countries. World Bank Policy Research Working Paper No. 3524; Geli, P., Kraay, A., & Nobakht, H. (2014). Predicting World Bank. Project Outcome Ratings. World Bank Policy Research Working Paper No. 7001.

⁷⁵ Problem Projects are projects which are rated unsatisfactory in the progress towards achievements of the Project Development Objective (PDO) and/or the Implementation Progress (IP) in an archived Implementation Status and Results Report (ISR).

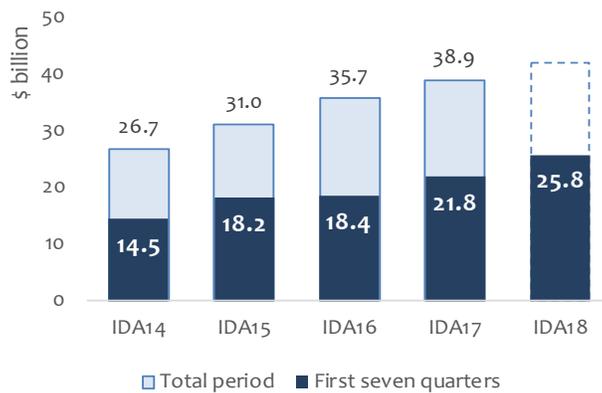
proactive actions.⁷⁶ Management focus on proactive identification is already resulting in improving IDA quality. IEG Outcome ratings for IDA operations have improved from 70 percent of FY13-FY15 exited operations rated as Moderately Satisfactory or higher to 76 percent for FY15-FY17 exited operations (See Figure 18). In addition, overall disbursements have remained high, while the IPF disbursement ratio has been stable. Often, disbursement rates do not gain momentum until two or three years into project implementation due to the need for preparatory work and procurement processes. Therefore, after a substantial scale-up in commitments as has been the case in IDA18, a decrease in the ratio of disbursements to undisbursed balance would be expected. Nonetheless, the IPF disbursement ratio has largely stayed flat (see Figure 19). Also, gross disbursements in the first seven quarters of IDA18 were US\$25.8 billion, more than US\$4 billion higher than during the same period of IDA17, and more than US\$7 billion higher than IDA16 (See Figure 20).

Figure 19. IDA Gross Disbursements and IPF Disbursement Ratio



* The ratio of disbursements during the fiscal year to the undisbursed balance at the beginning of the fiscal year (for IPF only).

Figure 20. IDA Gross Disbursements by IDA Cycle



⁷⁶ According to staff analysis, identification of problem projects is essential in ensuring project quality and problem projects identified before their MTR are three times more likely to obtain a satisfactory rating as those that are identified later.

117. **In IDA FCS, the challenge is ensuring high performance in higher risk environments.** IEG outcome ratings for the FCS portfolio have always been below non-FCS.⁷⁷ During IDA18, several steps have been taken to improve quality, though given the time lag in IEG project assessments, it is not yet known whether these improvements will close the gap. Most importantly, the number of field-based staff in IDA FCS has increased by more than 120, and this IDA18 commitment is well on track to meet the net increase of staffing of 150 by the end of IDA18. Increasing field-based staff is expected to contribute to improving quality, since field-based staff, particularly in FCS, are likely to be better placed to contextualize operations, work closely with IDA country authorities, and coordinate/collaborate with partners including local CSOs. More than half of all operations in IDA FCS are not led by a locally-based task team leader. IEG's Results and Performance of the World Bank Group (RAP) 2018 identified local presence as a major enabler of project quality at entry. IDA18 has also strengthened the employment value proposition to incentivize staff to work in/on FCV. RRAs have been developed as a tool to inform SCDs and CPFs. Efforts are underway to strengthen M&E. To improve agility in FCS, a growing number of FCS country teams are using ICT for digital data collection, M&E, and supervision, leveraging the Geo-Enabling Initiative for Monitoring and Supervision (GEMS) method to remotely supervise and geo-map project portfolio. The forthcoming FCV Strategy will also focus on how the WBG can further increase effectiveness in FCS.

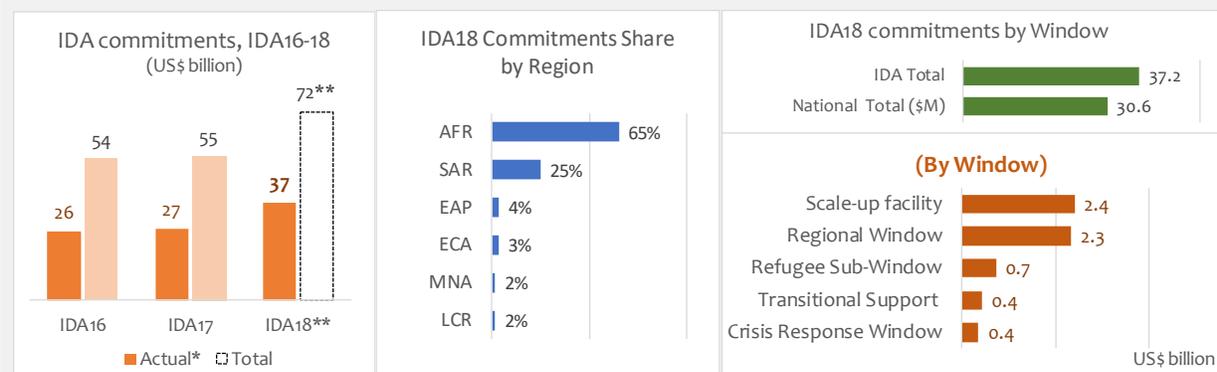
118. **Substantial increases in IDA18 allocations for Small States has led Management to focus attention on scalability and absorptive capacity.** The large increase in financing available to Small States, for some a quadrupling of allocations compared to IDA17, made pipeline preparations for these IDA countries a priority early in IDA18. Bank efforts have focused on achieving economies of scale and reducing administrative burdens on IDA country governments by facilitating programmatic approaches and making more financing available for project preparation. After a slow start, financing to Small States has picked up with US\$866 million committed by the end of FY19 April against Core IDA allocations of US\$1.5 billion for Small States in IDA18.

119. **It is expected that substantial challenges will continue in IDA19 but that they can be managed and overcome effectively.** Project implementation is likely to take more time in challenging environments where IDA is scaling its operations and disbursement patterns (as ratio of portfolio) could decelerate over time. Management is paying attention to these issues, monitoring trends, and taking corrective actions when needed.

⁷⁷ IEG (2019) "Learning from IDA Experience: Lessons from IEG Evaluations, with a Focus on IDA Special Themes and Development Effectiveness."

Box 13. Progress in IDA18 Implementation

IDA18 implementation is advancing. IDA commitments have continued to advance with a total of US\$37.2 billion* with good utilization across windows during the first seven quarters of IDA18. Nearly two thirds of IDA commitments were received by the Sub-Saharan Africa Region (AFR) (65 percent), followed by the South Asia Region (SAR) (25 percent). After the IDA18 Mid-Term Review (MTR), IDA Windows resources were reallocated in January 2019 to optimize commitment authority. This resulted in increases in resources to the Core PBA, Regional Program, Scale-up Facility and Refugee Sub-Window (RSW) reflecting increased expected demand in IDA18. The Crisis Response Window (CRW), Transition Support and Turn Around Regime set-aside for Syria were reduced. Core program have seen strong utilization (US\$30 billion) accounting for 82 percent of total commitments. The remaining US\$6.5 billion were funded by windows.



Note: * IDA18 actual represents commitments made through the end April of FY19, excluding PSW.

** IDA18 total assumes full utilization of IDA18 resources except for the arrear-clearance set-aside. IDA commitments exclude PSW window. Note that IDA18 total amounts are based on the IDA18 reference rate (US/SDR at 1.40207). However, the actual exchange rates are determined at the time of Board approval so that total IDA18 commitments may be different subject to the actual exchange rate.

The Fragility, Conflict and Violence (FCV) resource scale-up has enabled deeper engagement on FCV.

Total commitments to IDA Fragile and Conflict-affected Situations (FCS) and the four Risk Mitigation Regime (RMR) countries during the first twenty-two months of IDA18 are US\$9.6 billion, more than double the same period in IDA17. Of this, US\$8.1 billion was financed from Core IDA, double that of IDA17. In addition, US\$1.4 billion has been financed from windows, a 74 percent increase since IDA17, including from the Regional Program, the RSW and the CRW. Fifty-six percent of IDA FCS allocations have been utilized, compared with 48 percent at this time in IDA17 and 40 percent at this time in IDA16. The pipeline for the rest of IDA18 is strong.

IDA is also **piloting initiatives** to increase flexibility, leverage technology, expand third-party monitoring, enhance conflict sensitivity in programming to make IDA more effective **in fragile states**

- In the Sahel, IDA is taking a multi-sectoral sub-regional approach to conflict building wells and corridors for herders to reduce conflict, supporting job creation in refugee camps and entrepreneurship in Mali, and restoring services for the vulnerable in the Central African Republic (CAR).
- In Yemen, in a situation of active conflict, a US\$1.36 billion IDA response has helped build resilience, protect vulnerable Yemenis, and preserve development gains, financing 5 critical projects, including emergency vaccination and income support (reaching 1.45 million households) for those facing famine.
- In Afghanistan, a project helping Community Development Councils reached 9,000+ communities, established 2,100+ grain banks, brought 150,000 ha under irrigation, generated 5,500+ KW and built 850km of roads, and provided 63 million liters of drinking water per day, benefiting some 4.5 million people.
- In the Democratic Republic of the Congo (DRC), as of March 2019, IDA18 is financing half the frontline government response to the Ebola crisis, while building a better health care system
- In March, IDA allocated US\$200 million to Lebanon and Jordan to help Syrian refugees. In Jordan, some of these funds will supplement health services that already assisted 111,000 Syrian refugees (64,000 women)

V. ISSUES FOR DISCUSSION

120. **It will be essential for IDA19 to build on the strong momentum of IDA18.** The SDG and the twin goals demand it. The challenges of the next decade are significant, and could bring significant regional and global spillovers unless they are addressed. Global headwinds are also approaching, and the coming decade will be marked by higher risks and vulnerabilities. IDA countries have demonstrated that they have the capacity needed to absorb the resources they need to tackle the challenges and achieve global goals. Backed by the IDA18 delivery record, IDA19 can reach further and deliver more. Given the level of ambition, resourcing IDA19 will require strong contributions from IDA financing partners. This paper presents the demand for IDA resources, together with IDA's proposals to ensure that such resources are adequately targeted and effectively utilized to tackle the world's most challenging development problems.

121. **Views of Participants are sought on the following questions:**

- (a) Do the financing scenarios present a suitable range to adequately respond to IDA countries' needs in IDA19?
- (b) Do Participants agree with the proposals summarized in Annex 1 regarding the FCV Envelope, Crisis Response Window, Regional Window and Arrears clearance set-aside? Do they support the overall architecture and limited flexibility?
- (c) Do Participants concur that there is a case to graduate Moldova and Mongolia from IDA at the end of the IDA18 period?

Annex 1: Proposed Changes to the Allocation and Financing Framework under IDA19

1. The tables below summarize the proposed changes to the allocation and financing policies under IDA19 as compared to the policies agreed upon during the previous replenishment in IDA18.

(i) Core IDA⁷⁸

	Changes to Allocation Policies
<ul style="list-style-type: none"> • Regular Performance Based-based Allocation (PBA) system 	<ul style="list-style-type: none"> • Adjustment to the PBA as follows: <ul style="list-style-type: none"> ○ Introduction of a policy-based set-aside applied to countries with weaker performance on debt management issues, which are not able to meet well-defined and accountable policy milestone(s) to strengthen debt bearing capacity.
<ul style="list-style-type: none"> • Other Core allocations <ul style="list-style-type: none"> ○ Prevention and Resilience Allocation (PRA) ○ Remaining Engaged in Conflict Allocation (RECA) ○ Turnaround Allocation (TAA) 	<ul style="list-style-type: none"> • New Fragility, Conflict and Violence (FCV) Envelope: Bundling the three allocations (PRA, RECA, and TAA) under a new FCV Envelope within Core IDA. The allocation mechanism is simplified across FCV allocations with strong linkages with the PBA. <ul style="list-style-type: none"> ○ Expansion: PRA with expanded access through annual review and eligibility decision; requires commitments and monitoring; 50 percent boost on PBA with a US\$500 million cap. ○ New allocation: RECA for countries in conflict which have capacity to absorb IDA resources; Fixed at a Country Performance Rating floor of 2.5. ○ Change in allocation approach: TAA with 100 percent boost on PBA and US\$1 billion cap.
<ul style="list-style-type: none"> ○ Pre-arrears clearance grants 	<ul style="list-style-type: none"> • No changes to pre-arrears clearance grants.

⁷⁸ Core IDA provides unearmarked support for IDA’s core program in IDA-eligible countries. During IDA19, concessional Core IDA allocations would be determined under: (i) the regular PBA system and (ii) the FCV envelope.

(ii) Non-Core IDA⁷⁹

	Changes to Allocation Policies
<ul style="list-style-type: none"> • Regional Public Goods Envelope <ul style="list-style-type: none"> ○ Regional Window (formerly Regional Program) ○ Window for Host Communities and Refugees (WHR) (formerly Refugee Sub Window) 	<ul style="list-style-type: none"> • Increased flexibility: To be managed as a broad envelope, encompassing the Regional Window and the WHR, with limited resource flexibility between the windows up to US\$0.5 billion before the IDA19 Mid-Term Review. <ul style="list-style-type: none"> • Expanded instrument: Addition of Development Policy Financing as eligible financing instruments beyond Investment Policy Project Financing. Providing Regional Window funding on credit terms to eligible regional organizations. No change to Regional Window leverage rules. ○ Leverage rules change: Changed beneficiary’s co-financing from a country’s PBA (from 1/6 to 10 percent) for WHR
<ul style="list-style-type: none"> • Crisis Response Window (CRW) 	<ul style="list-style-type: none"> • Support to slower-onset events <ul style="list-style-type: none"> ○ Early interventions to tackle slow-onset crisis subject to an aggregate cap of 20 percent (equivalent to US\$500 million). ○ Triggers for CRW early response will be developed.
<ul style="list-style-type: none"> • Arrears Clearance 	<ul style="list-style-type: none"> • No changes in policy. Amount will be adjusted considering potential arrears clearance cases.
<ul style="list-style-type: none"> • Scale Up Window (formerly Scale-Up Facility) 	<ul style="list-style-type: none"> • None

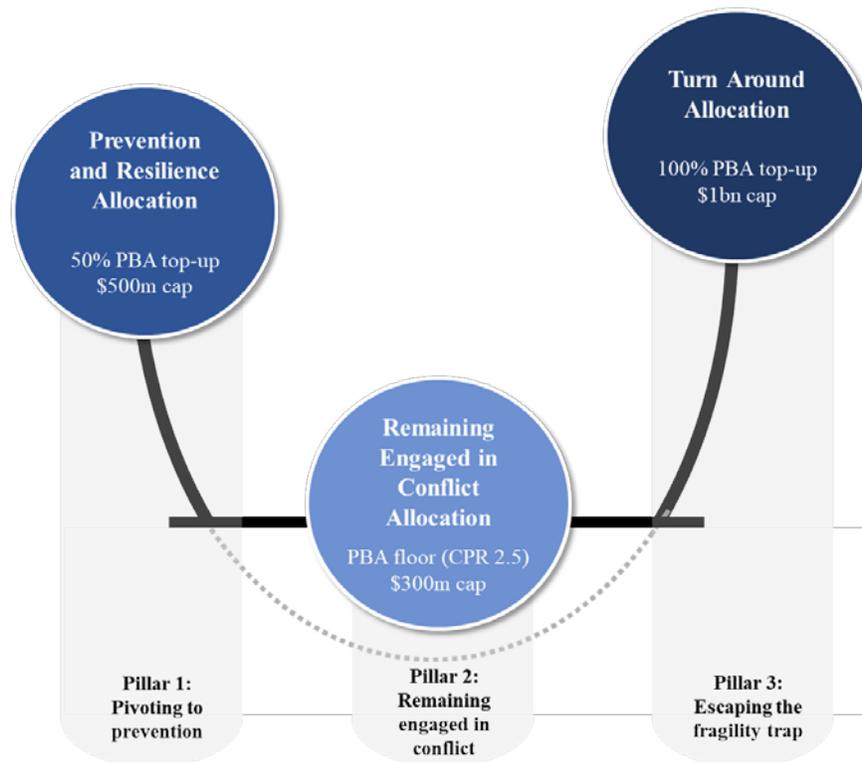
⁷⁹ Non-Core IDA financing provides specific-purpose financing depending on implementation arrangements specific to each window.

	Changes to Allocation Policies
<ul style="list-style-type: none">• Private Sector Window (PSW)	<ul style="list-style-type: none">• Continue at same size as IDA18, but with the following proposed modifications<ul style="list-style-type: none">○ Introduction of transition cycle for countries no longer eligible for PSW under IDA19.○ Introduction of regional PSW projects with partial exception for IDA gap and blend countries in these cases.○ New sub-instrument to support loan purchase obligation under the Blended Finance Facility.○ Adjustment to the Local Currency Facility to facilitate third party co-lending with the International Finance Corporation.
<ul style="list-style-type: none">• Transitional Support	<ul style="list-style-type: none">• Elimination of Transitional Support.

Annex 2: Proposed Fragile, Conflict and Violence (FCV) Envelope

1. **IDA19 proposes to create an FCV Envelope that will contain resources that are dedicated to support IDA Fragile and Conflict-affected Situations (FCS) facing different kinds of FCV risks.** See Figure A2.1 where financing tools are represented on a stylized ‘U curve’, with one tool supporting each Pillar of Engagement. The FCV Envelope will enable IDA to seize opportunities and respond with greater agility to the dynamic needs of IDA FCS countries along the FCV continuum. It will also enable IDA to offer support that is targeted and tailored to the prevailing conflict and fragility dynamics specific to each IDA FCS.

Figure A2.1. FCV Envelope



2. **The design of the FCV Envelope is based on lessons from IDA18,** including lessons emerging from the Risk Mitigation Regime (RMR), Turnaround Regime (TAR) and the Refugee Sub Window (RSW), the World Bank (WB)’s recent experience in Yemen, as well as from Bank-wide experience with Development Policy Operations (DPOs) and Country Partnership Frameworks (CPFs) in FCV settings. Bundling the three allocations into one envelope is expected to bring several benefits to the IDA architecture. First, conceptually, the FCV Envelope aims to make the FCV financing toolkit easier to understand by simplifying and streamlining different allocations into one bundle. Each FCV-related allocation is a necessary tool, responding to different FCV situations along the continuum, but the allocations share common features, including in-cycle identification, eligibility-based processing and annual reviews, Performance-based Allocation (PBA)-aligned financing, and full integration into the country portfolio (see Box A2.1). As a result, the FCV Envelope will be easier for country teams and IDA country government authorities to understand. With objective and transparent criteria, IDA country government

authorities will know in advance the incentive structure, and teams can better prepare for eligibility and resource programming. Second, bundling and in-cycle identification will enable IDA to respond in a more agile and flexible way when countries move on the FCV continuum. Such movements are often non-linear and cannot be predicted for a given country at the outset of an IDA cycle. When they occur, IDA country governments would have to apply for a new allocation, but the common features should make the process simpler and faster than before. Third, the FCV Envelope retains a focus on performance, albeit a different measure of performance from the PBA. The Turnaround Allocation (TAA) and the Prevention and Resilience Allocation (PRA) will be linked to the achievement of targeted milestones that align with the purpose of the allocation and will be reviewed annually.

Table A2.1 Common features of the Fragile, Conflict, Violence (FCV) Envelope

The three allocations comprising the FCV Envelope will share several common features.

In-cycle identification. Eligibility for an allocation can be assessed at any time in the IDA cycle. A country may move between different types of allocations within the Envelope through the IDA cycle, but will receive only one allocation at any given time.

Eligibility-based processing. Each allocation will have an initial eligibility process, and continued eligibility will be based on annual reviews. Decisions to access the FCV Envelope will be made by Development Finance in concurrence with Operations Policy and Country Services in the same way as for IDA18 Refugee Sub-Window (RSW) projects. Where possible, eligibility and annual review processes will be synchronized with the Country Engagement Notes (CEN) / Country Partnership Frameworks (CPF) / Performance and Learning Review (PLR) cycle. If country circumstances change and eligibility arises off-cycle, an Eligibility Note would be submitted to the Board for information. Countries may apply for FCV Envelope allocations in FY20 so that they take effect at the beginning of IDA19.

Performance-based Allocation (PBA)-aligned financing. Allocations will supplement the country's PBA by a percentage amount, up to a national top-up cap for the IDA19 period. Financing will be on the same terms as the country's PBA. Financing from the FCV Envelope should not bring a country's allocation above seven percent of total Core IDA. Countries receiving an FCV-related allocation may continue to access IDA windows.

Prioritization within the country program. The increased allocation comes with an expectation that the country portfolio is recalibrated to focus on the purposes and activities for which the allocation is made.

3. The FCV Envelope will be part of Core IDA and comprise three FCV-related country allocations:

- (a) The *Prevention and Resilience Allocation* will provide enhanced support for countries at risk of high-intensity conflict or large-scale violence. The design of this allocation is based on lessons from the IDA18 RMR program. In IDA19, the PRA will be a key tool under Pillar 1 (*Pivoting to prevention*).
- (b) A new *Remaining Engaged in Conflict Allocation (RECA)* will enable IDA to maintain a base level of engagement in a small number of countries that experience high-intensity conflict and have extremely limited government capacity. The design of this allocation builds on lessons learned from the IDA18 MTR exceptional allocation to Yemen. The RECA will be a key tool under Pillar 2 (*Remaining engaged in conflict*).

- (c) The **Turn Around Allocation (TAA)** will continue to support countries emerging from a period of conflict, social/political crisis or disengagement, and where there is a window of opportunity to pursue reforms that can accelerate its transition out of fragility and build resilience. Only minor refinements are proposed compared to the previous TAR. The TAA will be a key tool under Pillar 3 (*Escaping the fragility trap*).

4. **As a complement to the FCV Envelope, the Window for Host Communities and Refugees (WHR) will support Pillar 4 (Mitigating the externalities and impacts of FCV).**⁸⁰ Only minor refinements are proposed from the previous RSW. The WHR will continue to support operations that promote medium- to long-term development opportunities for refugee and host communities in IDA countries.

Prevention and Resilience Allocation

5. **As a key financial tool in the pivot to prevention, the PRA offers support to governments to take proactive measures against escalating conflict and violence.** It will provide enhanced support for countries at risk of high-intensity conflict or large-scale violence, where the Government is committed to addressing the underlying drivers of conflict and violence. The PRA will enable more agile responses to changing fragility and conflict dynamics, while also ensuring country ownership. Based on lessons from the IDA18 RMR (see paragraphs 28-29 of “IDA19 FCV” paper), the PRA will more specifically prioritize support to address the risk of escalation of conflict and violence within the next three to five years. In doing so, it will apply insights from “Pathways for Peace” to scale up inclusive and preventive approaches across the country’s portfolio.

6. **PRA eligibility will be based on two criteria:** (i) a quantified indicator that identifies countries at risk of high-intensity conflict or large-scale violence;⁸¹ and (ii) the Government has in place a strategy or plan acceptable to IDA that describes the concrete steps that the country will take to reduce the risks of conflict or violence, and the corresponding milestones the Government commits to implement with support from the PRA. These eligibility criteria are designed to provide a basis for IDA programming that is genuinely country-led and focused on reducing conflict and violence. Based on these criteria, approximately eight IDA FCS are expected to benefit from the PRA in IDA19.⁸²

⁸⁰ This is because IDA windows support programs and projects addressing a certain theme, whereas Core IDA supports allocations to countries.

⁸¹ Those at risk of high-intensity conflict will include: (i) countries with a number of conflict deaths relative to the population between 2 and 10 per 100,000 and an absolute number of conflict deaths above 250; and (ii) countries with a rapid deterioration of the security situation (i.e. with a number of conflict deaths relative to the population between 1 and 2 per 100,000, an absolute number above 250, and a rapid increase in casualties, more than double in the last year. This criterion will be based on data from the Armed Conflict Location & Event Data Project (ACLED). Below that range, regular PBA can be used to address low risks of conflict, and above that range, the country may become eligible for the RECA. For inter-personal violence, the criterion will be measured as more than 50 intentional homicide-related deaths per 100,000 people using UNODC data.

⁸² The four IDA18 RMR countries will be required to demonstrate their eligibility under the new PRA criteria. If a country does not meet the new criteria, it would return to regular PBA in IDA19.

7. **The PRA will top up a country’s PBA by 50 percent, up to a national top-up cap of US\$500 million per country for IDA19.**⁸³ Financing will be provided on the same terms as the country’s PBA. While this is a significant top-up, the WB assesses that there is ample demand and absorptive capacity to scale up meaningful programming in these countries, and that prioritization of prevention is warranted, given its net benefits, as outlined in “Pathways for Peace”.

8. **Countries receiving the PRA will recalibrate their portfolio to focus on mitigating the risks of conflict and violence.** This recalibration should be reflected in country dialogue as well as in the pipeline and portfolio of investments and analytical products, as appropriate to each context. The PRA is expected to fundamentally change the WB engagement in the country beyond business as usual. It will facilitate WB engagement with the Government on critical yet difficult issues and scale up best-fit preventive and inclusive approaches. Countries may apply for the PRA at any time during the IDA19 cycle by demonstrating the risks, the Government’s plan to address the risks and accompanying milestones, and the WB’s supportive program.⁸⁴ Continued access to the PRA will be subject to annual reviews.⁸⁵

Remaining Engaged in Conflict Allocation

9. **The RECA will provide a base level of support in rare cases in which a country’s PBA is extremely low due to the often-related combination of high-intensity conflict and weak institutional capacity.** Based on lessons from IDA18 engagement in Yemen (see paragraphs 25-27 of “IDA19 FCV” paper), this new financing tool gives IDA the option to support countries in circumstances where, despite conflict, the WB can meaningfully engage to preserve institutional capacity and human capital that will be critical for the country’s future recovery. This will be a key financing tool for Pillar 2 (*Remaining Engaged in Conflict*).

10. **Eligibility for the RECA will be based on three criteria:** (i) a quantified indicator that identifies countries in high-intensity conflict;⁸⁶ (ii) a Country Policy and Institutional Assessment (CPIA) at or below 2.5; and (iii) a proposed program that is consistent with the RECA.⁸⁷ Based on these criteria, around two or three countries are expected to benefit from the RECA in IDA19.

⁸³ Downwards adjustments to this allocation may be warranted in certain circumstances, such as weak absorptive capacity or debt considerations.

⁸⁴ A PRA Eligibility Note will address: (i) the risks of conflict and violence that the country is facing; (ii) the government’s strategy to mitigate these risks; (iii) milestones that the government commits to meet with support from the PRA, similar to CPF indicators; (iv) a summary of other partners’ activities; and (v) the WB’s proposed approach, including partnerships, adjustments to the program, including policy dialogue, portfolio, and pipeline. The Eligibility Note will be synchronized with CEN/CPF/PLR cycle where possible. If off-cycle, the Eligibility Note would be submitted to the Board for information.

⁸⁵ A PRA annual review will address: (i) how PRA resources have been used; (ii) an update on risks and the Government’s approach to mitigating these risks; (iii) the Government’s performance against the agreed milestones; and (iv) adjustments to the WB program and/or the milestones. In cases where agreed milestones have not been met due to factors within the Government’s control, access to the PRA will be suspended, and the country would return to regular PBA the following FY. Annual reviews will be synchronized with the CEN/CPF/PLR cycle, where possible.

⁸⁶ The criterion will be measured as 10 or more conflict-related deaths per 100,000 people using ACLED data.

⁸⁷ Considerations of RECA eligibility will be captured in the Eligibility Note, that will be synchronized with CEN/PLR cycle where possible. If off-cycle, the Eligibility Note would be submitted to the Board for information.

11. **The RECA will be used to finance a specific set of development activities focused on the WB comparative advantage as a development actor in the country context.** The allocation will enable the country portfolio to focus on development activities that preserve institutions and human capital, such as delivery of basic services and capacity building in key institutions.

12. **Based on lessons learned from IDA18, Management proposes that, in limited circumstances,⁸⁸ IDA funding in RECA countries⁸⁹ may be provided directly to United Nations (UN) agencies and International Nongovernmental Organizations (INGOs).⁹⁰** Such limited circumstances would include:

- (a) *A government request* to provide financing directly to organizations to carry out operations due to capacity constraints of the Government to effectively manage and implement operations;
- (b) *Demonstrated value-added of IDA financing* to ensure activities and outcomes supported by IDA are consistent with IDA's development mandate and are additional (i.e. are not already planned or financed by executing parties);
- (c) *Demonstrated attention to institutional and capacity strengthening* in line with IDA's rationale for engagement in conflict situations by focusing on preserving development gains and building capacity for future recovery; and
- (d) *An exit strategy/sustainability* including that the executing parties have a financing plan that goes beyond IDA to support recurrent costs.

13. **The RECA will top up a country's PBA on the same terms as its PBA.** If the country's Country Performance Rating (CPR) has fallen below 2.5,⁹¹ their PBA will be calculated on the assumption that their CPR remains at 2.5, up to a national top-up cap of US\$300 million.⁹² RECA countries may also access IDA windows, including the CRW.

14. **The RECA designation will enable more agile responses to changing conflict dynamics.** Countries may apply for the allocation at any time during the IDA19 cycle by demonstrating the WB's proposed approach, including partnerships, adjustments to the program, policy dialogue and coordination, portfolio pipeline and risk management including regarding the potential impact of IDA's program on the conflict dynamics. Continued access to the RECA will be subject to annual reviews.⁹³

⁸⁸ This would be in addition to the circumstances where the WB operational policies already allow for such direct financing to UN agencies and/or INGOs (see footnote 45).

⁸⁹ This will apply to RECA countries accessing CRW or other IDA funding.

⁹⁰ In such cases, no commitment charge would apply.

⁹¹ Downwards adjustments to this allocation may be warranted in certain circumstances, such as weak absorptive capacity, or debt considerations.

⁹² During high-intensity conflict, it can be difficult to collect the data needed to generate the country's GNI per capita and population. Where this occurs, the average of the last three years of reliable data will be used for calculations.

⁹³ A RECA annual review will address: (i) how the RECA allocation has been used; (ii) conflict dynamics; and (iii) any adjustments to the WB program. Annual reviews will be synchronized with the CEN/PLR cycle, where possible.

Turn Around Allocation

15. **The TAA will provide enhanced support to countries that are emerging from a period of conflict or social/political crisis or re-engaging with the World Bank Group (WBG), and where the Government is pursuing a reform agenda to accelerate its transition out of fragility and build resilience.** These are countries at a critical juncture in their development trajectory where there is a significant window of opportunity for building stability and resilience to accelerate the transition out of fragility. In IDA19, the TAA refines and simplifies the previous TAR criteria, allocation formula and processing, based on lessons learned from previous cycles (see paragraphs 30-32 of “IDA19 FCV” paper). This is a key tool under Pillar 3 (*Escaping the Fragility Trap*).

16. **Eligibility for the TAA will be based on three criteria:** (i) a CPIA below 3.0 or a period of disengagement; (ii) the Government has in place a strategy or plan acceptable to IDA that describes concrete steps that the country will take to implement a reform agenda that can accelerate its transition out of fragility and build resilience, and the corresponding milestones the Government commits to implement with support from the TAA; and (iii) a Country Engagement Note (CEN) /CPF that makes a compelling case for WB support to the Government’s reform agenda. Based on these criteria, approximately five countries are estimated to benefit from the TAA in IDA19.⁹⁴

17. **The TAA will top up a country’s PBA on the same terms as their PBA.** The top-up will be 100 percent of the country’s PBA (i.e., double their PBA) up to a national cap of US\$1 billion per country during IDA19.⁹⁵ While this is a significant top-up, the WB assesses that there is ample demand and absorptive capacity to scale up meaningful programming in these countries.

18. **Countries receiving the TAA will develop/recalibrate their portfolio to focus on the Government’s reform agenda.** The TAA will not be business as usual. Rather, it will help to scale up and focus the country portfolio on supporting the Government’s efforts to escape the fragility trap. Countries may apply for the TAA at any time by demonstrating the Government’s reform agenda, the WB’s supportive program, and accompanying milestones.⁹⁶ Continued access will be subject to annual reviews.⁹⁷

⁹⁴ Among these could be IDA countries that re-engage with IDA in IDA19. Currently, Eritrea, Somalia, Sudan, Syria, and Zimbabwe are in arrears. In the case of Syria, as stated in the IDA18 Replenishment Report, commitment of IDA funds will require the following: (i) arrangements for the clearance of IDA arrears; and (ii) the WBG’s ability to engage with an appropriate government counterpart and to effectively appraise and supervise projects in the country (whether through staff presence or the use of third-party monitoring agents). If Syria were eligible for the TAA, it could receive up to US\$1 billion, subject to performance.

⁹⁵ Downwards adjustments to this allocation may be warranted in certain circumstances, such as weak absorptive capacity or debt considerations. For countries with a CPR below 2.5, (including RECA countries moving to the TAA or other post-conflict countries with weak institutions), a CPR floor of 2.5 will be used to top-up their PBA before the 100 percent top-up is applied. The same can be done for a re-engaging country that have very low CPIA and CPR. In those rare cases, the CPR floor of 2.5 can be used to calculate their PBA, as if that country were coming from the RECA to the TAR. This eliminates the need for a PCPI.

⁹⁶ The TAA Eligibility Note will address: (i) the significant window of opportunity, and the government’s strategy to seize this opportunity; (ii) milestones that the government commits to meet with support from the TAA, similar to CPF indicators; (iii) a summary of other partners’ activities; and (iv) the WB’s proposed approach, including partnerships, adjustments to the program, including policy dialogue, portfolio, and pipeline. The Eligibility Note will be synchronized with CEN/CPF/PLR cycle where possible. If off-cycle, the Eligibility Note would be submitted to the Board for information.

⁹⁷ A TAA annual review will address: (i) how the TAA has been used; (ii) updates on the implementation of the Government’s reform agenda; (iii) the Government’s performance against the agreed milestones; and (iv) adjustments to the WB program and/or the milestones. In cases where agreed milestones have not been met, or relapse into conflict, access to the TAA will be suspended, and the country would return to regular PBA the following FY.

Annex 3: The IDA Regional Window - Details on Proposed Adjustments to Instruments

1. **At the IDA18 Mid-Term Review (MTR), Bank Management proposed two adjustments to the IDA Regional Program (now known Regional Window under IDA19), aimed to further support regional integration for consideration by IDA Participants.**⁹⁸ The two proposals were: (i) expanding eligible instruments for the IDA Regional Window to Development Policy Financing (DPFs) Instruments to better support regional integration through policy reform; and (ii) providing credit financing –within appropriate limits– to regional organizations with ability to repay to enhance the implementation of regional projects and programs. IDA18 MTR Participants requested further elaboration of the proposals, summarized in this annex.

Regional Development Policy Financing

2. **Regional DPFs provide incentives to coordinated policy and institutional actions to help further advance regional integration goals.** Since inception, the Regional Window has financed regional infrastructure connectivity and other physical investments through Investment Project Financing (IPFs). Supporting the next frontier of regional integration efforts will require more deliberate efforts to build institutions and harmonize policies and regulations across countries, complementing physical investments supported through IPFs. The use of DPFs will be selective and limited to the appropriate circumstances where the cross-border spillover benefits can be optimized through such instruments. In addition to meeting the criteria for the IDA Regional Window,⁹⁹ key prerequisites for the use of DPFs could include:

- **Countries participating in a regional DPF would need to have a common policy framework to coordinate and sequence each country’s policy actions for promoting integration and regional cooperation.** The sequencing of country participation will depend on specific program design—whether all the harmonized reform actions need to be undertaken by all participating countries at the same time or countries’ participation can be sequenced as they each meet agreed prior actions. There would be separate financing agreements with each of the countries participating in the regional DPO (see examples in Box A3.1).
- **The regional DPF would follow the World Bank (WB) Development Policy Financing operational policy,** which includes: (a) maintaining an adequate macroeconomic policy framework as determined by the WB with inputs from the International Monetary Fund (IMF) assessments; (b) identifying a set of critical harmonized policy and institutional actions underpinned by analytical work and agreed between the WB and IDA countries;

⁹⁸ IDA18 MTR: Review of the IDA Regional Program, October 26, 2018.

⁹⁹ IDA Regional Program Eligibility Criteria: IDA regional projects are IDA operations that (i) involve three or more countries, all of which need to participate for the project’s objectives to be achievable; the required minimum number of countries is reduced from three to two if at least one IDA fragile country participates in the regional project; (ii) have benefits, either economic or social, which spill over country boundaries (i.e., that generate significant positive externalities or mitigate negative ones); (iii) provide clear evidence of country or regional ownership and demonstrate commitment of the majority of participating countries; and (iv) provide a platform for a high level of policy harmonization between countries; and (v) are part of a well-developed and broadly supported regional strategy. IDA regional funds can finance projects located in only one country if the project could have a transformational impact on a region or three or more countries (two, if one is a Fragile, Conflict, Violence FCV).

(c) conducting the required assessments on poverty, social and environmental aspects; and
(d) ensuring a satisfactory implementation of the overall regional reform program. Each operation would be approved by the Board.

- **The size of the each DPF would be guided by the specifics of each operation, country context, size of any ongoing national DPFs, and any financing gap or absorptive capacity considerations.** Allocations will be based on project design, taking into account the fiscal needs (same as National DPFs), the strength of the reform program by each country, and agreements with participating countries.
- **To ensure that the investment share of the IDA Regional Window is protected, it is proposed to cap the overall level of financing from IDA Regional Window for DPFs at 10 percent of the total under the IDA19 regional window.** Furthermore, the standard rules in terms of leverage ratio between national and regional allocations and terms will be adopted for regional DPFs.¹⁰⁰

Box A3.1. Examples of Potential Regional Development Policy Financing (DPF) Operations

Digital Economy Integration in West African Economic Monetary Union (WAEMU) Countries. First generation World Bank Group (WBG) Information and Communications Technology (ICT) regional projects have supported digital transformation in Africa (Regional Connectivity Programs, Sector Liberalization and Reform, e-Government projects). A regional DPF can help address challenges of diseconomies of scale by supporting a move towards more integrated regional digital markets. Regional DPOs can help build larger regional markets by addressing some of the drivers of market fragmentation, such as:

- **Removing cross-border barriers to connectivity:** lowering regional transit costs for landlocked countries; promoting regional competition in the wholesale segment; roaming policies; making ‘dark fiber’ on transmission and other infrastructure available for commercial use.
- **Promoting single digital platforms:** removing restrictions on cross-border data flows, storage and cybersecurity; and cross-border identification and verification of digital transactions and services.
- **Promoting single digital financial services:** addressing interoperability of regional payment systems; agent banking; regional fintech regulation; regional consumer protection regulations; and harmonized domestic e-transactions laws.

Promoting Regional Power Trade in the West African Power Pool (WAPP). The 15 countries in the WAPP should have physical interconnections completed by 2021. It is thus timely to look at how to promote power trade and build trust in the power pool to deliver timely and cost-effective energy supplies for importers and assured revenue streams for energy exporting countries. For example, a regional DPF in WAPP can support a Directive recently approved by the Economic Community of West African States (ECOWAS) Council of Ministers on policy and institutional reforms required to be undertaken in a coordinated manner across the region to promote power trade. It can support building trust in power trade, focusing on improving payment discipline by importers and symmetric measures to ensure supply security from exporters. The DPF could support the following reforms:

¹⁰⁰ IDA financing for qualified regional investments and activities is normally funded one third from the national IDA allocation and two thirds from the regional IDA envelope. For Small States, (countries with populations of 1.5 million or less), 20 percent cap is extended enabling a leverage four-fifths resources from the regional envelope. A lower level of topping-up is applied when regional IDA resources are limited relative to demand. For instance, if interest is strong while the regional IDA envelope is insufficient, regional IDA contribution to a regional project may be reduced to half or lower instead of two thirds. This increases the total size of regional projects that would benefit from regional IDA funding. A lower level of leverage is also applied if some project components are primarily national in nature. Regional project components benefit from the topping-up of regional IDA, while the national components need to be financed fully from the country’s national IDA envelope.

- Cross-border trade (through full payment of outstanding arrears, improvement of contracts, enforcement of penalties for non-performance, ring-fencing of cash flows to improve security of payment, etc.).
- Oversight of improvement of creditworthiness of utilities for trade.
- Transparent and competitive pricing of generation.
- Enshrining of broader regional competition and choice in investment decisions.

The first round of DPOs would most likely include countries with existing interconnectors and trade, such as Cote d'Ivoire and Ghana as exporters, and surrounding countries like Togo, Burkina Faso, Mali, and possibly Liberia and Sierra Leone as importers.

3. Credit financing to appropriate regional organizations

- Under IDA18, the IDA Regional Program currently has a 10 percent grant envelope that provides grants to regional organizations to support regional integration initiatives. These organizations play an important role in mobilizing political commitment and providing coordination and management functions across countries. Given that they have no dedicated revenue streams, the IDA grants enable them to play such roles.
- In some instances, depending on the nature of the regional organizations and the nature of the projects, IDA credits (on regular or SUF terms) are not only more appropriate than grants in terms of allocating scarce IDA concessional resources, but are also better aligned with a project's design and objectives (see Box A3.2).
- It is proposed that IDA's menu of support to regional organizations be expanded to include credits, in addition to grants, when circumstances deem credits as the appropriate instrument. Consideration for using IDA credits will be based on: (1) the ability of the regional organization to repay—this could be based on the regional entities' credit rating performed by rating agencies, or assessments based on their revenue streams and cash flows; and (2) the nature and economic assessment of the project—whether it generate revenue and returns for the regional entity to repay the credits. It is expected that use of credits would be limited to a very small number of potential regional entities.

Box A3.2. Projects Financed through IDA Credits to Regional Organizations

The Western Africa Economic Monetary Union (WAEMU) Affordable Housing Project, financed through the IDA Scale-Up Facility (SUF), supported the expansion of access to long-term housing finance, including for underserved households through long-term loans to banks. An IDA SUF Credit was provided to the West African Development Bank (BOAD) for its on-lending activities to commercial banks. BOAD has a strong financial position, stable investment rating and backing by member countries. The project generates financial returns for BOAD to repay its SUF credits to IDA. Approval of the SUF credit to BOAD required a Board waiver.

The project, "Strengthening Financial Regional Institutions in the Central African Economic and Monetary Community (CEMAC)", aims to strengthen the capacity of selected CEMAC regional financial institutions, namely its central bank (Bank of Central African States BEAC), and its supervision and anti-money laundering institutions. IDA provided a credit to BEAC which is not eligible for IDA grant as it has the capacity to borrow and repay the loan. Approval of the IDA regular credit to BEAC required a Board waiver.

Annex 4: Proposed Changes to the Crisis Response Window (CRW) Framework

Supporting Earlier Responses to Slower-Onset Events

It is proposed to allow the CRW to respond at an earlier juncture to slower-onset crises, namely disease outbreaks and food insecurity episodes as discussed in paragraph 90 in the main text. This Annex sets out the policy parameters guiding these proposals. Paragraphs 87 to 89 of the main text present enhancements to the CRW that can be accommodated under the existing framework.

Scope

- (a) **Disease outbreaks:** Diseases similar to those covered by the Pandemic Emergency Financing Facility (PEF) Cash Window.
- (b) **Food insecurity:** Food insecurity itself is not covered by the CRW and could have a variety of causes. The CRW would support early responses to food insecurity that are related to natural disasters, economic shocks and public health threats.

Country Coverage

- (a) **Disease outbreaks:** IDA-eligible countries are covered, similar to PEF Cash Window.¹⁰¹
- (b) **Food insecurity:** The Famine Action Mechanism (FAM)¹⁰² first mover countries¹⁰³—namely, Afghanistan, Chad, South Sudan and Yemen—would be covered on the basis that they would have the triggers and action plans ready by the start of IDA19. Other IDA-eligible countries that have also built technical capacity to provide objective and externally-validated triggers may also be included, subject to a harmonized validation of the triggers, protocols and action plans vis-à-vis those used for FAM first movers. The intent is to apply consistent standards across countries. The list of eligible countries would be finalized at a subsequent date.

Triggers

- (a) **Disease outbreaks:** Same as those currently used for the PEF Cash Window. An independent third party, most likely the Strategic Technical and Advisory Committee on Infections Hazards to World Health Organization, would determine whether an outbreak has breached the trigger values, therefore enhancing the reliability and transparency of the process.

¹⁰¹ The PEF provides financial protection against pandemics. Specifically, the PEF cash window provides early and rapid funding to countries to launch a surge response against disease outbreaks that have the potential, if not contained early, of spreading very quickly within and across countries.

¹⁰² As per paragraph 90, the FAM is an umbrella mechanism that seeks to tackle severe food insecurity and its objectives include promoting investments in long-term prevention and preparedness, and finding ways to link early warnings to financing and implementation arrangements.

¹⁰³ These countries were selected by the FAM via a consensus-based approach with input from partners across governments, United Nations, Red Cross and Non-governmental Organizations. Somalia is also a FAM first mover and would be eligible for IDA financing, including from the CRW, pending the resolution of its arrears.

- (b) **Food insecurity:** Both top-down and bottom-up approaches would be used.
- The top-down approach entails objective triggers using a range of data.¹⁰⁴ Under the FAM, the WB has been working with United Nations (UN) partners, famine experts, Non-Governmental Organizations (NGOs) and other authorities to develop credible models that connect to various layers of financing, including the CRW, should pre-determined triggers be breached. The triggers will be designed as probabilistic thresholds that indicate increased likelihood of food insecurity conditions deteriorating from Integrated Phase Classification (IPC) Phase 3 (*crisis*) to IPC Phases 4 (*emergency*) or 5 (*famine*).¹⁰⁵ These approaches would also provide insight into the structural drivers of triggered events which, coupled with country-level verification, would help ensure that the use of CRW funds meet its eligibility criteria. Some IDA countries that put in place objective and transparent information systems to monitor slow-onset disasters (e.g., conditions that could lead to droughts) may be capable of providing verifiable triggers that can also respond to different layers of risk financing.
 - The bottom-up approach provides the space for assessments outside of purely statistical models, such as risks flagged by country teams with on-the-ground knowledge of emerging stresses. Further analytics could guide decision-making. For instance, the World Bank Group Ag Observatory could generate in near real-time high resolution geospatial and temporal analyses to more proactively target safety net and other interventions. The FAM would identify the factors and protocol that go into bottom-up analyses, including the magnitude and structural drivers of food insecurity.

Triggers help inform the *binary* decision of whether or not the CRW would be mobilized for early response. On the actual *amount* of the drawdown, see next section.

Volume Limits

- (d) **Aggregate Limit:** Given the novelty of this approach and the need to ensure sufficient amount of resources in the CRW for other types of crises, CRW early response interventions would be subject to an aggregate cap of 20 percent of the overall IDA19 CRW envelope, equivalent to US\$500 million.¹⁰⁶
- (e) **Country Limit:** Country-level caps would be developed to ensure that this aggregate amount is not depleted by a few outsized requests. These limits would be firmed up pending an assessment of country coverage and instruments used. The actual amount of drawdown at the time of an emerging crisis would be validated by analyses of the country's needs and availability of other funding sources. In the case of disease outbreaks for instance, a response plan acceptable to the World Bank Group (WBG) to contain the evolving outbreak would be developed and costed to provide greater rigor and justification around

¹⁰⁴ This includes data from Integrated Phase Classification (IPC), Permanent Inter-State Committee for Drought Control in the Sahel (CILSS), Famine Early Warning Systems Network (FEWS Net), Armed Conflict Location & Event Data Project (ACLED), market prices, earth observation (cropland, pastures, precipitation, evapotranspiration) and contextual layers (spatial datasets).

¹⁰⁵ The IPC describes the severity of food insecurity using a five-phase scale that is widely accepted by the international community.

¹⁰⁶ This aggregate cap could be reassessed at the IDA19 Mid-Term Review (MTR) if needed.

the size of the CRW request. Should the emergent crisis escalate into a more severe event, countries could potentially access additional CRW support through the standard CRW eligibility criteria and process.

Promoting Resilience

Early CRW support is expected to help incentivize countries to strengthen their crisis resilience.

- a. **Disease outbreaks:** The availability of early response funding from the CRW would contribute to strengthening health and economic security by requiring beneficiary countries, as a pre-condition to accessing these funds, to develop actionable preparedness and response plans that will help contain an outbreak at early stages, thereby preventing large-scale human and economic losses.
- b. **Food insecurity:** Famine action plans are being developed for the FAM First Mover countries. These cover systematic reviews of a country's exposure to food insecurity risks (and underlying drivers), an examination of existing prevention, preparedness and early action efforts across the humanitarian and development communities and identification of existing gaps, as well as stipulating pre-agreed protocols for enabling early response actions. These action plans should ideally lay out the strategies to help countries close the gaps identified, including through core IDA programming in the realms of social protection and jobs, nutrition, agriculture and water management, among others.

Instruments

As per standard CRW financing, early response interventions could be channeled by way of Investment Policy Financing (IPFs), Development Policy Financing or Program-for-Results. The Contingent Emergency Response Component's (CERC) arrangements (applicable to IPFs) in paragraphs 89 and 90 as well as Table 1 are also envisaged to be used in early response scenarios. In particular, using the CRW to pre-fund CERCs —described in paragraph 90(b)— would only be allowed in the context of slower-onset crises.

Financing Terms

The terms of assistance would be identical to those of standard CRW financing.

Annex 5: Strategic Initiatives

Digital Economy for Africa Initiative

The Opportunity

1. **Africa should think big on digital development.** At the current, incremental pace of economic and social advancement, too many of Africa's expanding youth population will be denied the opportunity to live up to their potential. Digital technologies offer a chance to disrupt this trajectory – unlocking new pathways for rapid economic growth, innovation, job creation, and access to services that would have been unimaginable only a decade ago. Yet there is also a growing 'digital divide', and increased cyber risks, which need urgent and coordinated action to be mitigated.

2. **The time for action is now.** Access to the internet remains out of reach for most people in the continent, with only 22 percent reporting having access in 2017. Too few citizens have digital IDs or transaction accounts – locking them out of access to critical services and e-commerce. Digital startups struggle to attract funding and 'traditional' businesses are only slowly adopting digital technologies and platforms to boost productivity and sales. Few governments are investing strategically and systematically in developing quality digital infrastructure, services, skills and entrepreneurship. To become tomorrow's innovators, entrepreneurs and leaders, Africa's youth need to be empowered with the digital skills and access to technology and markets that are essential to thrive in an increasingly digitized global economy. Governments need to find more nimble and effective means of delivering services and interacting with citizens. Businesses need to utilize digitally-centered business models to connect with the millions of customers previously out of reach due to geography or low income. **Africa has the opportunity to harness the digital economy as a driver of growth and innovation, but if it fails to bridge the digital divide, its economy will be in risk of isolation and stagnation.**

The Big Idea

3. **To thrive in the Digital Economy era, Africa needs coordinated action and ambition equal to the incredible opportunities and potential risks.** Under the leadership of the African Union (AU) and with World Bank Group (WBG) support, Africa is ready to embark on an ambitious Digital Economy initiative – a bold action plan to harness technology and innovation to transform the continent's economies, societies and governments. The Digital Economy for Africa (DE4A) initiative aims to digitally connect every individual, business and government in Africa by 2030, and ensure each is digitally enabled and ready to thrive in the digital economy. The initiative will build and bolster five foundational pillars of the digital economy: a conducive legal and regulatory environment, digital infrastructure, digital skills, digital platforms, and digital entrepreneurship.

What will it take?

4. **Achieving the Digital Economy for Africa will take a collective commitment** by all African countries, development partners, and the private sector **to massively scale up resources** dedicated to building the foundations of a thriving digital economy throughout the continent. It

will need leadership and a vision to push the frontiers of innovation, so that Africa can own its 21st century.

5. **At the national level**, it will require a concentrated effort to build up the five foundations of the digital economy. A simultaneous effort will be needed to mitigate the growing risks of the digital era, including cybersecurity, data privacy and protection, and market concentration. IDA, the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Multilateral International Guarantee Agency (MIGA) can all contribute to this effort.

6. **At the continental level**, it will require a renewed commitment to cross-border integration of digital markets – building from sub-regional to continental levels toward a single digital market for Africa. Such cross-border integration will be critical to generate the economies of scale, network effects and cooperation critical to enable African digital firms to compete regionally and globally, to create the investment case for digital infrastructure (e.g., broadband internet, payment systems) and to enable access to digital services, e-commerce and opportunities for all African citizens and businesses regardless of location. This agenda can be supported with the IDA Regional Window.

7. **To support the initiative, the Sub-Saharan Africa Region (AFR) tentatively foresees US\$4-5 billion of IDA financing between FY20 and the end of IDA19.** This will allow to support policy reforms and interventions, and to leverage the public and private investment needed to build the foundations for a future-ready Africa, also in collaboration with the IFC. This commitment would be accompanied by a call for African countries to increase their spending on digital economy and to prioritize critical reforms.

How do we get there?

8. **The WBG will partner with the African Union (AU) and other stakeholders** to develop a “Digital Economy Initiative Action Plan” to highlight the key policy reforms and investments needed at the national and regional level for the continent to achieve its digital development ambitions. The Action Plan will serve as the blueprint for the AU, national governments, WBG, and development partners to coordinate and concentrate efforts with private sector toward achieving this vision.

Aiming for impact

9. The WBG has set ambitious targets for the initiative by 2030 outlined below:

 Legal and Regulatory Environment for digital Economy	 Digital Infrastructure	 Digital Skills	 Digital Platforms	 Digital Entrepreneurship
Effective competition	Universal Internet network coverage	All 15 year old students with basic 'digital skills' competencies	Doubling of Online Services Index rating for all governments	Tripling the number of new digitally-enabled businesses created annually
Preventing digital divide	Affordable Internet for All at less than 2% of GNI per capita	100,000 graduates in advanced digital skills programs annually	All individuals are able to prove their identity digitally	Financing for Venture Capital to reach .25% of GDP
Protecting against risk of digital exploitation	Interim Milestone doubling broadband connectivity by 2021		At least 50% of the population regularly uses the Internet to access government or commercial services	
Data privacy and protection	"Dig Once Policy" to leverage shared road and power networks		Universal Access to Digital Financial Services	
Cybersecurity	Universal access to electricity as enabler of internet access			

10. In addition, the AFR put forward two intermediate targets to be reached by 2023:

- Increase the percentage of the population with broadband connectivity from 23 percent to 58 percent.
- Increase the percentage of adults making or receiving digital payments from 35 percent to 55 percent.

The Human Capital Project in Africa

The Opportunity

11. With Africa’s population set to more than double by 2050, the continent’s greatest asset will be its capacity to harness its human capital. Yet Africa’s average score on the Human Capital Index of 0.40 lags behind the worldwide average of 0.57. Nearly three million African children under five die of avoidable causes each year; 50 million children in the region are out of school and the learning outcomes of students are low; and maternal mortality in the region is high (547 per 100,000 live births), as is childhood stunting (32 percent of children under five are stunted). For all these components of the Human Capital Index, richer quintiles in each country perform better than poorer quintiles of the population. Additionally, Africa has the highest fertility rate in the world (4.8 children per woman, compared to 2.4 in the world), challenging the prospects for improved human capital outcomes.



40% of its potential

The average HCI in Africa is 0.40. GDP per worker could be 2.5 higher if Africa reached benchmark of complete education and full health (analogous to an extra 1.8% of annual growth over 50 years).

12. But the momentum toward change is strong. Many African countries have stories of progress to share. Fifteen countries from Africa were among the first cohort of countries with a renewed commitment to accelerating their human capital outcomes with support from the World Bank (WB)'s Human Capital Project (HCP). There are currently 23 African countries participating in the HCP – the most of any region. The AFR recently launched a Human Capital Business Plan that will increase and innovate engagement with IDA countries on the human capital agenda.

13. With eleven million youth expected to enter Africa's labor market every year for the next decade, now is the time for urgent action to build and nurture the region's human capital.

What will it take?

14. In many IDA countries in Africa, low human capital outcomes are a consequence of underinvestment. The WB plans to step up its own financing in human capital development in the region in IDA19, while also supporting IDA countries to raise and allocate more domestic resources for Human Capital. Between today and 2023, the WB expects to increase financing for human capital development (defined as investment in education, health, and social protection) in the AFR to an estimated US\$5 billion per fiscal year, starting from a US\$3.4 billion baseline in FY18. Furthermore, the WBG will strive to increase private sector investments in health, education, and nutrition.

15. IDA funding will be sourced from:

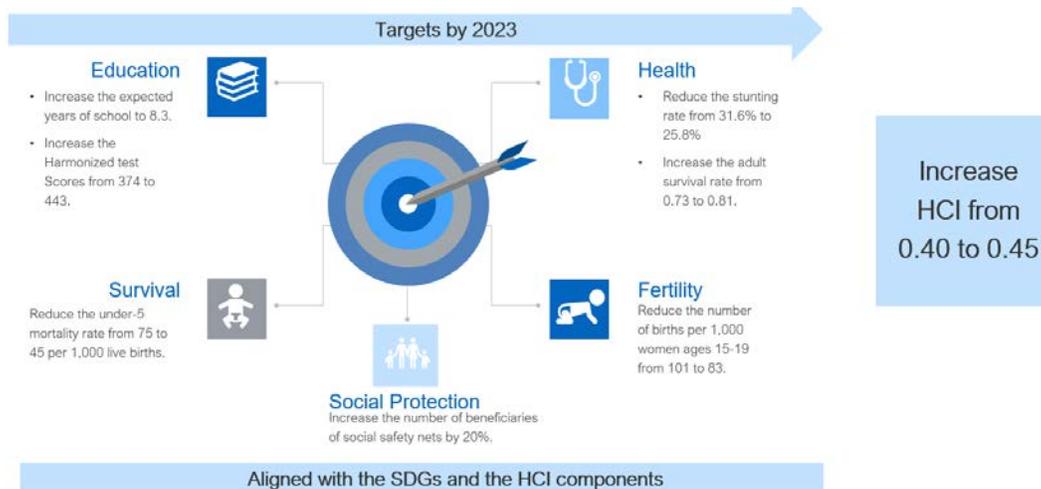
- IDA Performance-based Allocation (PBA), including for Development Policy Financing (DPFs) to support policy reforms.
- The IDA Private Sector Window to mobilize private sector financing, complemented by financing from the IFC and/or the Multilateral Investment Guarantee Agency (MIGA).
- The IDA Window for Host Communities and Refugees to invest in health and education of refugees and host communities.
- The IDA Regional Window to share country experiences across borders and to replicate successful IDA financed projects in other parts of the region for instance, the Sahel Women Empowerment and Demographic Dividend (SWEDD) Project.

How will we get there?

16. Individual project interventions are insufficient to sustainably improve human capital outcomes. This invites the WBG to collaborate more with other development actors to provide better integrated solutions. Furthermore, the WBG's country-based model promotes joint programs with domestic and international partners, public and private, to foster whole-of-society coalitions to accelerate human capital outcomes.

Aiming for impact

17. The AFR has set ambitious aspirational targets on human capital to be achieved by 2023, the end of IDA19.



18. The Africa Human Capital Project provides a unique opportunity to ensure a region in which all children arrive in school well-nourished and ready to learn, can expect to attain real learning in the classroom, and are able to enter the job market as healthy, skilled, and productive adults.

The Horn of Africa Initiative

The Opportunity

19. The Horn of Africa is undergoing profound change. On July 9, 2018, Eritrea and Ethiopia announced a joint declaration of peace. Not long after, Somalia and Eritrea, followed by Djibouti, agreed to re-establish diplomatic ties. These historic events open a new window of opportunity in relations among nations in the Horn of Africa. The rapprochement creates the possibility of redrawing regional economic and security dynamics and of new partnerships to advance peace and prosperity in the sub-region.

The Big Idea

20. The WBG is committed to seizing the opportunity to help deliver stability and prosperity in the Horn. The WB and the European Union (EU) have joined forces to bring together countries

of the subregion, development partners, and investors to complement reconciliation and accelerate economic integration for all the countries of the Horn. Ministers of Finance of Djibouti, Eritrea, Ethiopia, Kenya, and Somalia have been invited to meet during the 2019 Spring Meetings of the WBG and the International Monetary Fund (IMF) to discuss the launch of a “Horn of Africa initiative”. The proposed initiative would focus on three main themes that offer the potential for new commitments and investments by the countries and their development partners:

1. **Regional infrastructure networks:** strengthening the regional networks in energy, transport and information and communications technologies;
2. **Trade and economic integration:** addressing barriers to trade and investment, including development of the financial sector and the regulatory environment;
3. **Human capital development:** harnessing the sub-region’s human capital by improving health and education, strengthening resilience, building skills and addressing population dynamics.

What will it take?

21. The WBG’s current financial commitments in the Horn of Africa are over US\$15 billion and are expected to grow. Important milestones will be the resumption of IDA financing to Somalia (already initiated with a pre-arrears clearance grant) and the re-engagement with Eritrea, which has indicated its readiness to clear its approximately US\$95 million in IDA arrears. The AFR tentatively foresees US\$2 billion of IDA financing between FY20 and the end of the IDA19 period to fund new operations under the Horn of Africa Initiative.

Aiming for impact

22. The rewards of a successful Horn of Africa Initiative can be high. For example:
- In terms of quality infrastructure, regional off-grid solutions by harmonizing standards can help improve energy access in countries with some of the lowest access levels.
 - In the areas of trade and economic integration, more power trade can significantly lower the cost of energy in the sub-region.
 - In terms of human capital, new commitments and investments can help reverse past cycles of fragility which resulted in about nine million displaced people living in the Horn.

Annex 6: Country Graduation Considerations

1. Management expects that Moldova and Mongolia will graduate at the end of IDA18. This annex assesses both countries readiness for graduation.

Moldova

2. **Compared to other IDA countries, Moldova has very low poverty rates and high human development indicators.** Moldova's poverty headcount ratios are below 3 percent both for US\$1.90 and US\$3.20 poverty lines, and its Human Capital Index is the second highest among IDA countries. At US\$2,200, the country's Gross National Income (GNI) per capita (Atlas Method) is about twice as high as the IDA operational cutoff, but still substantially lower than that of two closest comparators, Armenia and Georgia, at their graduations from IDA (US\$3,720 and US\$3,280, respectively).¹⁰⁷

Key Indicators	Year	Value
GDP per capita (current US\$)	2017	2290
GNI per capita, Atlas method (current US\$)	2017	2200
Poverty headcount ratio at \$1.90 a day (2011 purchasing power parity) (percent pop)	2016	0.2
Poverty headcount ratio at \$3.20 a day (2011 purchasing power parity) (percent pop)	2016	1.3
Poverty headcount ratio at \$5.50 a day (2011 purchasing power parity) (percent pop)	2016	16.5
Poverty headcount at national poverty lines (percent pop)	2015	9.6
Gini Index	2016	26.3
Human Capital Index	2017	0.58

3. **Macroeconomic outlook is generally positive.** Growth prospects remain robust thanks to consumer and business confidence, and a continued, albeit slow, normalization of financial conditions. The fiscal deficit is projected to remain below the planned 2.5 percent of Gross Domestic Product (GDP). The monetary stance is projected to remain adequate and consumer inflation is expected to remain low. External position is projected to remain adequate with official reserves reaching approximately 6 months of imports.

4. **However, there are considerable downside risks.** Demographic and institutional vulnerabilities expose the country to fiscal risks. The 2018 tax reform and capital amnesty package and the expected increases on the expenditure side put further pressure on fiscal sustainability. Other risks stem from low productivity levels, inefficient public spending, and projected slowdown in public revenues collection.

¹⁰⁷ Since 2018, the Gross Domestic Product (GDP) is calculated according to the United Nations (UN) System of National Accounts, 2008/European System of Accounts, 2010. As a result, per capita income is estimated to have increased to US\$2,700. Moreover, if population is based on 2014 Census instead of currently adopted official figures, respectively 2.8 and 3.5 million people, then per capita income will exceed US\$3,400.

5. **Risks of debt distress are low.** According to the Joint International Monetary Fund-World Bank Debt Sustainability Analysis (IMF-WB DSA) (December 2017), Moldova's risk of debt distress remains low and overall public debt dynamics are sustainable under all scenarios.

6. **Risks related to access to external financing in the short term are higher.** Deficit financing still relies heavily on external financial sources, which may not materialize in the difficult post-election period. External grants account for 0.9 percent of GDP, with the European Union (EU) being by far the largest donor. Recently, the EU cut its support to Moldova and made it contingent to improvements in rule-of-law and governance, while the IMF put its program on hold.

7. **Vulnerability to external shocks remains high. The domestic economy struggles with large outmigration and skills mismatch, and unsustainable growth model, based in a large part on remittances driven consumption.** Political uncertainty and ongoing political polarization constrain foreign and domestic investments, which are needed to raise labor productivity and export competitiveness, thereby leaving the economy vulnerable in case of a major external shock. Weaker growth of key trade partners and potential changes in international trade and migration patterns could undermine exports and remittance flows. Extreme weather may affect agricultural output impacting overall growth.

8. **If these vulnerabilities materialize, short-term political risks may jeopardize removal of the institutional constraints in the longer term.** No clear winner emerged in the February 24 parliamentary election. Although two political parties supporting implementation of the Association Agreement with the EU won more than half of parliamentary seats, they disagree on many issues and are unlikely to form a coalition. About a third of the seats was taken by a party advocating closer ties with Russia. Given the potential for a long government formation process, the reform agenda and resumption of macro-financial assistance from the EU may be postponed.

9. **The WB is helping Moldova to address risks identified in this note by accelerating economic growth, enhancing investment climate and employment opportunities for the country's population, and strengthening resilience.** With the Country Partnership Framework (CPF) focus areas, including support to skills development and enhancement of economic and service governance, supplemented by climate change as a cross-cutting theme, the WB portfolio includes projects related to health, education, land management, tax administration, business regulations, energy, and climate change adaptation. The key ongoing advisory services and analytical activities include a country economic memorandum on drivers of growth, and technical assistance on implementation of the European Union–Moldova Association Agreement in the areas of economic governance, commercial justice, and energy market development. Since regaining creditworthiness to the International Bank for Reconstruction and Development (IBRD) and blend status in FY14, Moldova borrowed US\$136.7 million from IBRD. However, the cumulative IBRD commitments in FY18 and Q1-Q2 of FY19 amount to only US\$5 million.

Overall risk of reverse graduation

10. **Moldova's risk of reverse graduation in the medium-term is low, but could become substantial in certain circumstances.** Moldova could face a higher risk of reverse graduation in case of a combination of a major external shock and reduced access to other sources of

concessional financing, most notably from the EU. Should both events occur during the first years after graduation, they may result in strong fiscal pressures combined with limited external creditworthiness and major currency devaluation. Otherwise, the risk is low.

Mongolia

11. **Compared to other IDA countries, Mongolia has very low poverty rates, high income per capita, and high human capital index.** Mongolia's poverty headcount ratio at \$1.90 poverty line was 0.5 percent in 2016. However, at the US\$3.20 per day line, it was 6.5 percent, and close to 30 percent (and up by 8 percentage points since 2014) at the national poverty line, which takes into account the climatically determined expenses for housing and heating. While the country's GNI per capita has seen large fluctuations in recent years, it was US\$3,270 (Atlas method) in 2017, exceeding IDA operational cutoff by factor of almost 3. Mongolia has the highest Human Capital Index among IDA countries.

Key Indicators	Year	Value
GDP per capita (current US\$)	2017	3,718
GNI per capita, Atlas method (current US\$)	2017	3,270
Poverty headcount ratio at \$1.90 a day (2011 purchasing power parity) (percent pop)	2016	0.5
Poverty headcount ratio at \$3.20 a day (2011 purchasing power parity) (percent pop)	2016	6.5
Poverty headcount ratio at \$5.50 a day (2011 purchasing power parity) (percent pop)	2016	30.6
Poverty headcount at national poverty lines (percent pop)	2016	29.6
Gini Index	2016	32.3
Human Capital Index	2017	0.63

12. **Mongolia experienced a severe economic slowdown in 2014-2016, but the recent medium-term economic outlook is positive.** Mongolia's economy recovered faster than anticipated due to increased prices and demand in the mineral sector, as well as renewed investor's confidence and better economic policies. Economic growth in 2018 was 6.9 percent and is projected to accelerate to above 7 percent in 2019.

13. **However, substantial external and domestic risks remain.** On the external side, these include the volatility of commodity prices, abrupt changes in demand from China –Mongolia's biggest trading partner– or lengthy border delays/closures, and delays in flagship mining projects. On the domestic side, weaknesses in the banking sector could undermine the fiscal anchor to the macroeconomic program and exacerbate vulnerabilities.

14. **Although the debt to GDP ratio declined from 84 percent in 2017 to 71.5 percent in 2018, and is expected to fall further in the years ahead, important vulnerabilities remain.** The most important vulnerabilities pertain to the path for GDP growth, as well as fiscal and monetary policy management and the impact on the exchange rate. Mongolia's economic recovery program resulted in improved investor confidence, which led to successful refinancing and the issuance of new sovereign bonds throughout 2017. However, Mongolia faces substantial external

debt repayments amounting to \$12.2 billion (close to 100 percent of GDP) in the next four years, of which 45 percent is public sector debt.

15. **The Mongolian economy is highly susceptible to external shocks and boom-and-bust cycles.** Abundant mining resources led to a doubling of the country's GDP in the past 10 years, shifting the country's traditional agricultural (livestock) economy to a largely mining-driven one. Today, mining contributes about 20 percent of GDP, 90 percent of total exports, 20 percent of total government revenue, and more than 70 percent of foreign direct investment inflows. This over-dependence on mineral wealth brought a series of challenges including growth volatility and weakening of institutions of public finance.

16. **Over the last 25 years Mongolia has experienced three recessions and entered six IMF-supported programs, including the current the Extended Fund Facility (EFF).** The government's most recent economic recovery program has been supported by an IMF EFF and a US\$5.5 billion support package provided by a coalition of international partners, including the WBG, the IMF, the Asian Development Bank (ADB), China, Japan, and Korea.

17. **Mongolia's political environment is volatile.** Although the country's transition to democracy has been remarkably peaceful, politics have become increasingly unstable. Fifteen Prime Ministers served the country over the last 25 years with an average tenure of 1.5 years, reflecting instability within coalitions and within ruling parties. The next parliamentary elections will take place in mid-2020.

18. **Mongolia continues to face significant institutional shortcomings.** The political system has produced a robust legal framework regarding fiscal, social, environmental and financial sector administration at the national and local levels, as well as oversight institutions. However, implementation and enforcement gaps have limited the gains to be expected from these enhancements.

19. **IDA's program is focused on increasing economic resilience, by supporting the multi-donor economic recovery program, as well as through a diverse set of operations targeting the social safety net, investments in human capital, management of environmental risks and economic diversification.** The anchor of the current IDA program is a series of Development Policy Financing (DPF) operations, expected to absorb the bulk of funding under IDA18. The DPF series is complemented by the ongoing advisory services and analytical activities in the areas of economic governance, fiscal policy, and public financial management. Mongolia has not so far drawn from IBRD, although it does borrow from other International Financial Institutions (IFIs) on both concessional and non-concessional terms.

Overall risk of reverse graduation

20. **The risk of reverse graduation in the medium-term is low, but it could increase should global commodity prices dynamics change.** Mongolia's lack of effective institutions for macroeconomic stabilization, which combined with very large share of natural resources in exports, results in boom and bust cycles following commodity prices. In case of a major commodity price shock occurring before the ongoing adjustment is completed, the risk of reverse graduation could become significantly higher.