

## Second IDA20 Replenishment Meeting

Virtual Meeting – June 28 to 30, 2021

### Co-Chairs' Summary

1. IDA Deputies and Borrower Representatives (Participants) met virtually on June 28-30, 2021 to discuss the IDA20 policy priorities, results framework, and financing package. The meeting was co-chaired by **Mr. Axel van Trotsenburg**, World Bank Managing Director for Operations, and **Mr. Denny Kalyalya**, the IDA20 Independent Co-Chair. Representatives from the African Development Bank (AfDB), the Asian Development Bank (ADB), the International Fund for Agricultural Development (IFAD), and the Inter-American Development Bank (IADB) attended the meeting as observers. The meeting was informed by ten papers, each covering critical aspects of IDA20's five Special Themes and four Cross-Cutting Issues, the IDA20 Results Measurement System (RMS), as well as the Request for Resources and Financing Framework. The discussions further benefitted from extensive consultations leading up to the meeting, including eight technical sessions, engagements with individual and groups of Participants, as well as meetings with representatives from civil society. Participants shared seven non-papers as well as detailed written comments prior to the meeting, some of which had been addressed in the Staff Written Statement.

### Introduction and Overview

2. **Mr. van Trotsenburg** opened the meeting by thanking Participants for their strong support and constructive inputs in preparing for the meeting. He stressed the importance of a successful and ambitious IDA20 replenishment and the need for global solidarity to mobilize the necessary resources for the poorest countries that have been hit relatively harder by the COVID-19 crisis. In that regard, he commended the announcement of the Russian Federation to re-join the international coalition of IDA donors and participate in the IDA20 replenishment. He also confirmed that the Government of Japan would host the Final IDA20 Replenishment Meeting in Tokyo in December 2021. **Mr. van Trotsenburg** welcomed the strong political support for the IDA20 replenishment as had been expressed by the Heads of State at the Summit on Financing African Economies in Paris on May 18, 2021 and at the meeting of the G7 Finance Ministers in London on June 4-5, 2021. He explained how IDA, as part of the World Bank Group, has joined the coordinated global effort to bring the pandemic to an end. He welcomed the new partnership with the African Union Vaccine Acquisition Task Team that complemented the existing coalition with COVAX and others on ensuring equitable access to safe, effective, quality, and affordable COVID-19 vaccines, therapeutics, and diagnostics.

3. **Mr. Kalyalya** underscored that the pandemic was not over in most IDA countries, and that it would continue to have long lasting effects on development, undermining the countries' path towards achieving the Sustainable Development Goals (SDGs) by 2030. He reiterated that IDA had already mobilized very substantial support to help IDA countries respond to the health and economic crises from COVID-19 while staying on track to deliver on IDA's longer-term development priorities. Agreeing on a robust IDA20 package would therefore be critical to further

support countries' response to the pandemic as well as assisting them to recover and build back better from the crisis, towards a green, resilient, and inclusive future.

## **IDA20 Strategic Directions and Policy Commitments**

4. The deliberations commenced with **Ms. Manuela Ferro**, Vice President of Operations Policy and Country Services (OPCS), providing the background and context for the IDA20 discussions. She observed that by the end of FY21, IDA had delivered \$53 billion in financial commitments since the beginning of the COVID-19 crisis, of which 47 percent had been directly dedicated to the four pillars of the World Bank Group (WBG) COVID-19 strategy. IDA resources made up the largest share of the multilateral response to COVID-19 for IDA countries and had helped to finance 43 national vaccination programs.

5. **Mr. Akihiko Nishio**, Vice President of Development Finance, explained how the proposed IDA20 package, under the Overarching Theme of "*Building Back Better: Towards a Green, Resilient, and Inclusive Future*," would support countries in continuing to respond to the unfolding crisis while laying the foundation for a sustainable recovery. The Overarching Theme would be sustained by four mutually reinforcing Cross-Cutting Issues and five Special Themes as endorsed by Participants at the First IDA20 Replenishment Meeting in April 2021.

6. Alongside the IDA20 policy discussions, Management provided an overview of the importance of *partnerships* in effectively implementing IDA programs and operations; *IDA19 delivery and IDA's response to the pandemic*; and how the *proposed IDA20 package* would help countries cope with the COVID-19 pandemic, build back better, and grow greener, more resilient, and inclusive. **Ms. Mari E. Pangestu**, World Bank Managing Director of Development Policy and Partnerships, provided additional highlights on how IDA leverages development partnerships at various levels, through country, regional, or global counterparts, or in thematic or sectoral engagements. This included the ongoing coordinated response to the pandemic with GAVI/COVAX, the World Health Organization, the Africa Vaccine Acquisition Task Team initiative, the United Nations, and bilateral donors to accelerate vaccine rollout and ensure equitable and affordable access to all.

### ***Special Themes***

#### ***Human Capital***

7. Participants welcomed and emphasized the introduction of **Human Capital** as a Special Theme in IDA20, appreciated the life-cycle approach, and offered constructive comments and suggestions in key areas, including equitable and inclusive COVID-19 vaccination roll-out, strong and resilient education and health systems and universal health coverage, adaptive social protection, nutrition, and One Health. Some Participants inquired about the timeframe and framework for IDA's support to national COVID-19 vaccination plans and the rollout in IDA countries. Several Participants stressed the importance of reproductive, adolescent, and maternal health outcomes, ambitious sub-targets for IDA countries characterized as Fragile and Conflict-affected Situations (FCS), and a heightened focus on inclusion, by increasing attention to addressing the differentiated needs of persons with disabilities and vulnerable groups, including

LGBTQIA+ individuals, across other Special Themes and Cross-Cutting Issues. Many Participants also emphasized the need for access to quality education for boys and girls and requested that this be clearly reflected in the policy package. Management took note of the additional suggestions and will consider options to strengthen the narrative and specific policy commitments to fully reflect IDA20's critical role in these areas. Management agreed with the importance of supporting women in their ability to make decisions that impact their sexual and reproductive lives and committed to explore options for further refining the IDA20 policy package in that regard. Management also committed to further sharpen the focus on adolescent health by adding an explicit reference in the policy commitment.

### *Climate Change*

8. Participants welcomed IDA's alignment with the new **Climate Change** Action Plan (CCAP2), along with Management's plan to provide annual updates on CCAP2 implementation, the first of which would be provided in advance of the United Nations Climate Change Conference (COP26) in November 2021. Participants welcomed IDA's ambition to reach 35 percent climate co-benefits, with at least 50 percent adaptation, and to align all new Bank operations with the Paris Agreement by FY24. Many Participants sought more details on IDA's approach to phasing out fossil fuels, and some stressed the importance of taking country-specific circumstances into account. In this regard, Management noted that IDA's approach was consistent with the policy commitment on Paris Agreement alignment and was reflected in the CCAP2. On the policy commitment to support Nationally Determined Contributions, some Participants called for greater ambition to reach the 1.5-degree goal of the Paris Agreement, and some suggested that support to the development and refinement of Long-Term Strategies be included within that commitment. Some Participants also called for a higher target for IDA's support to key systems transitions, including through Development Policy Operations. Participants stressed the importance of energy access and a high level of ambition with regards to renewable energy. Management indicated that it will consider options to refine the IDA20 policy package, including on measuring the number of people living in IDA countries with access to new/improved electricity (already included as an RMS indicator) and those with access to clean cooking. Participants also welcomed the new focus on green finance and crisis preparedness.

9. Participants called for more ambition in IDA20 on **nature and biodiversity**, particularly in light of COP15 in Kunming. Some Participants called for the development of tools to measure, track, and report on nature finance under IDA20. Management agreed to include an RMS indicator that tracks the number of IDA countries supported to implement and/or update their National Biodiversity Strategies and Action Plans. Management also noted that the WBG planned to develop a methodology that would track project financing that generates biodiversity and ecosystems services co-benefits, aligned with the post-2020 biodiversity framework.

### *Gender and Development*

10. Participants expressed strong support for the **Gender and Development** Special Theme and for the proposed new policy commitments on childcare and fiscal policy, as well as the continued focus on jobs and economic recovery, especially through digital approaches. Several Participants underlined the strong linkages between gender and human capital and the need to

urgently address gender gaps in education and health systems. Participants stressed the importance of girls' and boys' sexual education and prevention and response to gender-based violence (GBV), also underscoring the need to strengthen partnerships with relevant UN agencies. Some Participants suggested to increase the targets on the prevention of GBV and on governance and fiscal reforms and explore if these policy commitments could be further refined. Management noted that several IDA20 policy commitments were innovative, represented new areas of engagement for IDA, and were designed as stretch targets. Management took note of Participants' suggestions to review the targets on the prevention of GBV and on governance and fiscal reforms and will explore if policy commitments could in that regard be further refined.

### *Fragility, Conflict and Violence*

11. Participants welcomed the IDA20 commitment to deepen support for implementation of the **Fragility, Conflict and Violence (FCV)** Strategy, including through sub-targets for IDA FCS in some of the IDA20 special themes. Some Participants noted the importance of the FCV Envelope and the Window for Host Communities and Refugees (WHR) to support the continued operationalization of the Strategy. Further, some Participants highlighted their continued interest in staff presence in IDA FCS and asked for an update on the IDA19 commitment. Many Participants welcomed the focus on partnerships in IDA FCS, with some noting the importance of close cooperation with UN organizations. Management noted that IDA was on track to reach the IDA19 commitment over a three-year period (FY21-23), and that a strong footprint in IDA FCS would continue to be prioritized in IDA20. Several Participants underscored the need to further deepen partnerships in FCS, including through systematic joint assessments with UN partners. Management stressed that partnerships were central to IDA's work, particularly in FCV settings, and that IDA20 will further cement partnerships in IDA FCS, including with UN agencies, CSOs, and local partners. Management agreed with Participants on the importance of private sector investments and the enhanced role of the Private Sector Window (PSW) in IDA FCS, and will continue strengthening PSW programming in IDA FCS, with active participation of IFC and MIGA. Management noted that nearly half of PSW commitments in IDA19 to date supported investments in IDA FCS. Some Participants stressed the importance of strengthening core governance functions and asked for higher ambitions on this policy commitment. Management confirmed that support in this area would build on IDA19 progress on core governance functions and will explore how the IDA20 policy package can be further refined in this regard.

### *Jobs and Economic Transformation*

12. Participants acknowledged the progress made on the **Jobs and Economic Transformation (JET)** agenda and emphasized the importance of focusing on inclusive digitalization, investments in agriculture and food security, addressing constraints to Micro, Small and Medium Enterprises (MSMEs) and sectors with high potential, including by improving connectivity and strengthening regional and global value chains. Participants also highlighted the need to push hard for a strong business environment and participation in trade and regional integration for economic diversification. Many Participants stressed the relevance of the PSW in supporting private sector investment and job creation and creating markets in the most fragile and difficult settings and the criticality of WBG collaboration. Management agreed that IFC and MIGA's high ambitions in IDA FCS would be essential to the successful implementation of the JET agenda in IDA20.

Participants noted the continued focus on quality infrastructure investments and on high-potential sectors that could drive job creation and welcomed the new commitment to foster support for private sector recovery, including inclusive technology adoption, and financial markets resilience. Some Participants also emphasized the need to consider the quality of jobs created.

### *Cross-Cutting Issues*

13. Participants welcomed the focus on **Crisis Preparedness** as a Cross-Cutting Issue. They emphasized the importance of making an ambitious effort in IDA20 to mainstream preparedness efforts in country programs through tailored approaches across IDA countries. Some Participants asked for stronger incentives to scale up and sustain investments in crisis preparedness, including by further promoting the use of instruments like Contingency Emergency Response Components (CERCs) and Catastrophe Deferred Drawdown Options (Cat-DDOs). Other Participants called for strong collaboration with Development Partners, including through Multi-Donor Trust Funds. Management noted that IDA's approach was to mainstream crisis preparedness across core operations, building on the success in mainstreaming natural disaster preparedness, which was financed largely through PBA.

14. Participants welcomed the **policy commitments related to crisis preparedness** and asked for more information on how the actions would be incentivized and operationalized, including what activities would be supported. Several Participants called for the standalone policy commitment to be more concrete. Some Participants also called for enhanced crisis preparedness metrics and integration into existing country engagement instruments. Management undertook to elaborate further on the policy commitments and noted that it was also considering enhanced tracking and reporting of IDA's support for crisis preparedness to make the scope of this work more visible. On CERCs, some Participants called for removal of financing caps on CERCs under the Crisis Response Window (CRW) Early Response Financing. Management clarified that the caps only applied to pre-allocated CERCs and were kept modest as such as they entailed opportunity costs of setting aside CRW resources for a contingent event that may or may not materialize. On the request by some Participants for a larger CRW, Management agreed that an appropriately-sized CRW was important and committed to continue monitoring CRW usage carefully, in regular consultation with Participants and IDA Executive Directors, with a view to reallocate unused funds across windows if needed.

15. Management agreed with the concerns expressed by Participants on **food and nutrition security** as outlined in the non-paper circulated prior to the meeting. Management noted that IDA already had a very substantive program under implementation, and food and nutrition security would remain a key priority in IDA20 across Special Themes, as also reflected in the policy package.

16. Participants stressed the foundational importance of the **Governance and Institutions** Cross-Cutting Issue and acknowledged that this was well-reflected across all the Special Themes. They called for continued focus on critical policy commitments, including on Domestic Resources Mobilization, Illicit Financial Flows, and Digital Government (GovTech), and suggested a sharp focus on equitable tax systems, public financial management, sustainable public procurement including performance based contracting, and tackling corruption more broadly. Management

acknowledged these important issues and assured Participants that it would look into these issues and explore ways to further refine the IDA20 policy package.

17. Participants welcomed the World Bank's strong engagement on **Debt** management and transparency and the commitment in IDA20 to make further progress with respect to the publication of comprehensive reports on public and publicly guaranteed debt and fiscal risks, with some Participants requesting additional detail on the coverage of these reports. Many Participants noted the substantial progress made under the Sustainable Development Finance Policy (SDFP) and encouraged Management to address the root causes of debt by continuing the strong focus on tailoring support to borrower countries in strengthening debt management capacity, fiscal sustainability, and debt transparency, especially in red light countries. Several participants asked Management to ensure that IDA financing is not used for the purpose of repaying other creditors. Some Participants requested for an additional debt-related policy commitment. Management noted the role that the SDFP would continue to play in incentivizing sustainable financing in IDA countries, while strengthening the quality of debt reporting and debt transparency. Several Participants called for greater engagement under the Program of Creditor Outreach, including on debt data reconciliation, and noted the importance of complementary global initiatives, notably the Debt Service Suspension Initiative and the Common Framework, to address debt vulnerabilities of IDA countries in close collaboration with the IMF. Some Participants called for further exploring strengthening of incentives, including on debt transparency, by linking the grant allocation framework for red-light countries and countries' performance under the SDFP. Management noted that an update would be presented to the Board on the progress of the SDFP and lessons learnt in its first year of implementation and possible options for improvement.

18. Participants stressed the unique role of digital technologies in building resilience and noted that **Technology** was well integrated across Special Themes and other Cross-Cutting Issues with strong technology-related policy commitments. Participants reconfirmed IDA's focus on strengthening the foundations of digital transformation, building on the progress in IDA19. Several Participants acknowledged the importance of cybersecurity and data privacy, and some called for more emphasis on mitigating security risks and vulnerabilities. Management acknowledged these challenges and agreed to revisit the proposal to better reflect this in the policy package. Participants expressed particular interest in addressing the digital divide between and within countries exposed during the pandemic, including through GovTech solutions, to help strengthen policies and regulations and enable universally accessible digital government services. Management agreed with the significance of the issue and reiterated that digital inclusion will feature strongly in IDA20.

### **IDA20 Results Measurement System**

19. **Mr. Johannes Zutt**, Director for Strategy, Results and Risk, OPCS, provided an overview of the revamped IDA20 RMS and its renewed focus on development outcomes. The IDA20 RMS would incorporate key priorities under the IDA20 Special Themes and Cross-Cutting Issues and would be further aligned with the SDGs. Quantitative data reported in IDA20 RMS would be complemented by qualitative results narratives to capture more comprehensively the results achieved by IDA operations to better capture the pathways toward long-term development outcomes.

20. Participants welcomed the proposed IDA20 RMS and IDA's system for managing for results, noting the stronger outcome orientation and tighter linkages of indicators across tiers to show how IDA support delivers intermediate outcomes that set the basis for high-level outcomes. Some Participants raised the possibility of adding more indicators that captured outcomes, more disaggregation, and additional indicators on topics of special importance, including food and nutrition security, inclusion, debt, progressive taxation, quality of jobs in FCS, women's empowerment, and contraceptive prevalence for unmarried women. Participants noted the importance of clarifying linkages with policy commitments wherever possible.

21. Management took note of the suggestions made and undertook to balance them against the need to maintain continuity of indicators to measure long-term trends, as well as the need to maintain a manageable number of indicators. Management noted that data availability imposed limitations in identifying indicators that were quantifiable, sensitive to regular changes, from widely accepted sources, and prone to aggregation across IDA countries. Management will continue enhancing gender and FCS disaggregation wherever possible while working with clients to address data limitations. Management will review suggestions made and consider making some adjustments to the current proposal for the RMS. This will include measures to improve data collection, better track IDA's support to the COVID-19 response, delivery of National Biodiversity Strategies and Action Plans and domestic resource mobilization, including implementation of progressive tax systems. In the coming months, Management will finalize definitions and baselines for all indicators and will propose performance standards for Tiers 2 and 3 indicators wherever applicable.

### **IDA20 Request for Resources and Financing Framework**

22. **Ms. Anshula Kant**, World Bank Managing Director and Chief Financial Officer, led the discussion with an overview of IDA's financial context. Ms. Kant highlighted that IDA's significant frontloading in FY21 and FY22 had been made possible by IDA's strong capital position that allowed IDA to lean forward counter-cyclically when the needs arose; and that IDA's deployable strategic capital (DSC) cushion also served to absorb negative impacts of the pandemic on IDA's balance sheet, including higher levels of grant financing to client countries caused by increased risk of debt distress. Management reiterated its firm commitment to continuously explore balance sheet optimization opportunities, while considering the needs of IDA country clients, the constraints faced by donors, and the need to protect IDA's longer term financial sustainability.

23. In his remarks on IDA's Ask and the Financing Framework **Mr. Samuel Munzele Maimbo**, Director for Development Finance, Corporate IDA and IBRD, provided further details and articulation on Management's rationale for the proposed design, development, and implementation of the IDA20 architecture, scenarios, and financing proposal.

24. Participants acknowledged the **high financing needs of IDA countries**. They recognized that the needs of IDA countries were well beyond the range of proposed scenarios for IDA20, while taking into account IDA countries' absorption capacities. Some Participants noted that IDA was not the only source of concessional finance to meet these needs even though for most of these countries, IDA remained the most significant one. Participants emphasized the importance of an

ambitious replenishment in IDA20. They also noted the need to prioritize the most vulnerable countries, particularly IDA-only red-light countries and IDA FCS. Participants generally supported the proposals to refine the IDA windows, including: the delegated authority to adjust the size of each window within a range of 10 percent; the proposals under the Regional Window to require PDO-level externalities and to allow two-country operations in all regions; the proposal under the WHR regarding terms for eligible IDA-only yellow-light countries; and the proposal under the PSW to scale-up support to MSMEs. On the PSW proposal, a few Participants asked for additional details on how MSME support will be provided. There was broad support for the proposed sizing of the windows, with recognition that reallocations may be needed during IDA20 to respond to evolving needs.

25. Participants agreed that the range of **financing scenarios** presented provided a good starting point for discussion. Participants observed the significant counter-cyclical response that IDA has provided in IDA19 in response to the crisis and the extraordinary decision by Participants to advance IDA20 to support the scale-up. Participants called for an ambitious financing package, and there was broad support for targeting at least the \$90 billion Base Case with total donor contributions of \$24.9 billion. A few Participants set conditions relating to the introduction of additional balance sheet optimization measures to have more leverage on donor contributions or to a greater ambition on some policy commitments. Some Participants mentioned that donor contributions of \$24.9 billion should be considered the floor and expressed a preference for the \$95 billion High Case or beyond given the high financing needs in IDA countries. Some Participants preferred to keep all scenarios on the table and some expressed readiness to also consider other scenarios.

26. Participants broadly supported the **Balance Sheet Optimization (BSO)** measures proposed by Management, namely, the introduction of 50-year credits for IDA-only yellow-light countries (with an exemption for Small States), and concessional shorter maturity loans (SMLs) in two places, the PBA and the Scale-up Window. Several Participants noted the need to further consider the inter-temporal tradeoffs created by the use of the SMLs and asked for greater clarity on how the use of SMLs for development objectives would be ensured. There was also a call for more information on what types of projects the SMLs were likely to support and the capacity of some IDA countries to absorb SMLs in light of the broader international financing architecture. Some Participants sought further information on the expected allocations to the poorest IDA countries and IDA FCS. Some Participants sought further details on the implementation arrangements for the Scale-up Window SMLs. Some Participants noted that SMLs should be selectively used for operations with shorter time-to-impact trajectories and strong development impact and should not be used to repay non-transparent creditors. Management noted that the allocation of SMLs would operate similarly to the PBA, with allocations based on PBA shares to ensure equity and prevent first-come-first-served outcomes, and with selectivity and development impact ensured through the country model. Management agreed to consider Participants' feedback and outline arrangements in the October papers. Management also agreed to monitor debt sustainability implications of the BSO measures and conduct a review of SMLs at the IDA20 Mid-Term Review.

27. Some Participants recommended more consideration of current needs and the impacts on IDA's financing capacity in future replenishments and requested additional information on



Management's assumptions on factors likely to affect the long term financial sustainability of IDA, for instance demand, including with respect to graduation, growth, and population increase. Several Participants called on Management to continue exploring further BSO measures, beyond the two presented in the papers, so that IDA20 could deliver a \$95 billion High Case volume or beyond with the base case donor contribution of \$24.9 billion. A few Participants requested scenarios with a lower volume of SMLs. Participants emphasized the importance of safeguarding IDA's triple-A rating and long-term financial sustainability in exploring further BSO measures. Participants also largely supported the proposed adjustment in the assumed long-term financing trajectory for IDA21 to 23 from a real flat to a smoothed nominal flat trajectory to avoid the anticipated financing cliff in IDA23. Some Participants asked for additional information on Management assumptions with respect to the impact of this adjustment in terms of real per capita support.

28. Some Participants also asked Management to explore further **frontloading of IDA's Deployable Strategic Capital** to further optimize the balance sheet. Participants discussed the inter-temporal trade-offs and implications of scenarios that involved frontloading from future replenishments, with some Participants calling for frontloading to be considered for the IDA20 financing framework to further scale up its efforts for the recovery of IDA countries after the COVID-19 pandemic and subsequent economic recession, while some expressed concerns about taking from the future, given the need for IDA to provide significant future financing to clients. Some participants also emphasized that any proposals to front load IDA resources should not pre-commit donors to higher contributions in future.

29. Some Participants requested Management to continue exploring the possibility of utilizing possible **Special Drawing Rights (SDR) allocations** for increasing IDA's financing capacity beyond the IDA20 scenarios being discussed. Management welcomed the possibility of using the SDR allocations to top up the IDA20 envelope and agreed to share a note reflecting options for using SDRs to increase IDA's financing capacity, the prerequisites for making such arrangements viable and to keep working in close coordination with the IMF to find actionable solutions to overcome the technical prerequisites.

30. Participants expressed no objection to the proposed **IDA20 contribution encashment schedule**, including the proposed refinement to setting the discount rate for calculating credits and discounts. Management clarified that the methodology for deriving the encashment schedule remained the same as for IDA19 and reflected the updated disbursement schedule of IDA financing. Some Participants asked to continue the same encashment profile as under IDA19. Participants also expressed no objection to the proposed **IDA20 Concessional Partner Loan (CPL) Framework**, which included two new refinements: (i) inclusion of a new maturity option, and (ii) use of a reference period to set the CPL discount rate as described in the IDA20 Financing Framework Paper.

## Next Steps

31. Based on the feedback and endorsement received, Management committed to the following ahead of the Third IDA20 Replenishment Meeting in October 2021:

- a. Further explore options to strengthen the IDA20 narrative and refine policy commitments with a view to presenting these in the draft IDA20 Deputies Report; and
- b. Building on analysis of all scenarios presented in June, develop and present scenarios that will provide an ambitious IDA20 financing envelope of \$90 billion or beyond, including the case of \$95 billion or higher, with donor contribution at Base Case level of \$24.9 billion, by exploring further BSO measures, while considering the needs of IDA countries and continuing to adhere to the principles of protecting IDA's long-term financial sustainability and safeguarding the institution's AAA rating.