

IDA19 Implementation Review and Launch of IDA20 Replenishment

Virtual Meeting – April 14-15, 2021

Co-Chairs' Summary

1. IDA Deputies and Borrower Representatives (Participants) met virtually on April 14-15, 2021 to discuss the **implementation status of the IDA19 and launch the IDA20 Replenishment**. The meeting was co-chaired by **Mr. Axel van Trotsenburg**, World Bank Managing Director for Operations, and **Mr. Denny Kalyalya**. Representatives from the African Development Bank, the Asian Development Bank, and the International Fund for Agricultural Development attended the meeting as observers. Discussions on April 14 were focused on adjustments to the IDA19 policy and financing framework and lessons from evaluations by the Independent Evaluation Group (IEG) as part of the IDA19 Mid-Term Review (MTR). On April 15, the discussions focused on the strategic directions for IDA20 and options for IDA balance sheet optimization.

2. Mr. Trotsenburg opened the meeting by welcoming **Mr. Denny Kalyalya as independent co-chair for the IDA20 replenishment**. Mr. Kalyalya has previously served as IDA Borrower Representative and brings a wealth of experience in development finance. He has been a Non-Executive Director at the Board of the African Export and Import Bank and served as the Governor and the Chairman of the Board of Directors of the Bank of Zambia, and as Executive Director at the World Bank. Further, he thanked **Ms. Anshula Kant, the Managing Director and World Bank Group Chief Financial Officer**, for spearheading the implementation of the IDA hybrid model and underlined her important role in guiding the IDA20 replenishment discussion, especially on finance related matters, and he welcomed the **Director General of the IEG, Ms. Alison Evans**, who joined the meeting to share lessons from recent IEG evaluations.

3. Mr. Trotsenburg underlined the **significant challenges facing IDA countries** and the importance of mobilizing the necessary resources for the World's poorest countries through a successful IDA20 replenishment. He noted the **elevated external financing needs** in IDA countries, as documented in recent assessments by the International Monetary Fund (IMF), and the strong client demand for IDA resources in FY22 and beyond. He emphasized how **IDA has stepped up support to countries during the crisis** ranging from vaccine delivery to remote learning, from structural reform to safety nets, and from locust swarms to famines. He noted that IDA had delivered \$39 billion in the twelve months since the onset of the COVID-19 pandemic, almost half of which is for COVID-19 crisis response. Mr. Trotsenburg further highlighted **IDA's re-engagement with Sudan** after nearly thirty years as a major milestone at a time when the country needs help the most, and he thanked the United States' government for providing the bridge loan to enable IDA to clear Sudan's arrears to the institution.

4. Lastly, Mr. Trotsenburg officially announced the **IDA18 Retrospective** that had been shared with Participants prior to the meeting. The Retrospective highlights IDA18's many innovations, including the stronger focus on countries affected by Fragility, Conflict and Violence (FCV), the introduction of the Private Sector Window (PSW), and the transformation of IDA's financing to the hybrid model, which leverages donor contributions with funding from the capital markets.

IDA19 Policy Commitments and Results

5. Participants welcomed the strong implementation progress on the **IDA19 Policy Commitments and results indicators**, which will provide a solid basis for accelerating progress in IDA20. Some Participants asked if the better than expected results despite the shortening of the IDA19 period were on account of the original three-year targets for the IDA19 Policy Commitments not being ambitious enough. Other Participants wished to see more progress on some Policy Commitments. Management reiterated that, measured against the expected delivery of \$70 billion by end-FY22, the strong progress reflected Management's commitment to the ambitious IDA19 policy package, but also the need to adjust to meet urgent needs for health response, vaccines, and safety nets due to the COVID-19 pandemic. Some Participants noted that it was too early to adjust the Policy Commitments, but acknowledged the need for predictability for clients and country teams at the start of FY22, as well as the need to discuss the IDA20 Policy Commitments soon, based on the IDA19 targets.

6. Participants endorsed the proposals to **adjust certain targets** for IDA19 Policy Commitments and indicators in the Results Measurement System (RMS). Participants encouraged Management to step up progress on Policy Commitments on (i) women's empowerment and access to health services, (ii) social sector service delivery in fragile and conflict affected states, (iii) illicit financial flows, and (iv) renewable energy, including battery storage. Management reiterated its commitment to closely monitor progress made in the implementation of all Policy Commitments and agreed to review the proposed adjustments to the aforementioned targets with a view to achieving the original three-year targets for the IDA19 Policy Commitments despite the shortened timeframe.

IDA19 Implementation and Adjustments

7. Participants welcomed the very strong support that IDA has provided to IDA countries since the onset of the COVID-19 crisis. Participants endorsed the proposals to:

- a. Frontload \$12.5 billion from FY23 to FY22 on standard IDA financing terms, with 60 percent as a basic top-up to the Performance-Based Allocation (PBA) and 40 percent as an enhanced PBA top-up.
- b. Adjust the size of windows as proposed.
- c. Carry over at least \$11 billion (including estimated \$3 billion donor contributions) from the IDA19 financing envelope to IDA20.

8. Participants noted the very strong **demand for IDA resources** and endorsed the proposal to deliver \$35 billion in FY22. Participants noted that the \$35 billion should not be seen as a "new normal", while some noted the need to avoid a steep financing cliff in the future. Management confirmed that this is not the intent, and the assessment of demand in FY23 and beyond will be presented in the IDA20 Ask Paper. Some Participants inquired on clients' **absorptive capacity** for this increased volume. Management confirmed that absorption and implementation capacity were strong, evidenced by the robust disbursement performance over the previous years, noting also that while IDA is being asked to lean forward, other sources of financing, including bilateral flows and private sector flows, have pulled back. Management undertook to continue to monitor

absorptive capacity closely. Some Participants noted the risk of erosion of **project quality** given the short time to deliver this increased volume in IDA19. Management assured Participants of its ongoing commitment to quality.

9. On the **allocation framework** for the frontloaded \$12.5 billion, Participants supported the revised proposal outlined in the *Note on the Enhanced PBA Top-up for FY22*, which was circulated to Participants on April 12, 2021. Under the framework, the \$12.5 billion will be channeled through the PBA, as follows: (i) 60 percent or \$7.5 billion as a basic PBA top-up for all IDA clients; and (ii) 40 percent or \$5 billion as an enhanced PBA top-up that is also available to all IDA clients but facilitates more targeting. Participants welcomed the strong demand for the IDA19 Windows in FY22 and supported the **proposed adjustments to the Windows**. Participants welcomed the revised proposal to proportionately size the Window for Host Communities and Refugees, by adjusting the Regional Window downward by \$200 million.

Collaboration of Multilateral Development Banks (MDBs)

10. Participants emphasized the importance of continued **collaboration with the IMF, other MDBs, and international partners, including the United Nations**, during the remainder of the IDA19 period and in IDA20. Management agreed that partnerships are essential to an efficient implementation of IDA programs and will further address various dimensions of MDB collaboration and other partnerships in the June papers.

Sustainable Development Finance Policy (SDFP)

11. Participants endorsed the proposal to adjust the **set-aside mechanism under the Sustainable Development Financing Policy** and welcomed making its implementation **replenishment neutral**. Under the original framework, an IDA country that does not satisfactorily implement its Performance and Policy Actions (PPAs) in the second year of a replenishment period will not be able to recover a set-aside. Under the new adjusted framework, this would now be allowed but subject to satisfactory implementation of the PPAs. If, however, a country is unable to satisfactorily implement its PPAs for two consecutive years, irrespective of when this takes place in the replenishment cycle, this would lead to a permanent lost discount. Participants underscored the importance of addressing growing debt vulnerabilities and maintaining a robust incentive system. Participants also noted that the forthcoming IDA20 MTR paper, which will review the experience with the first year of the policy's implementation will provide a timely touchpoint to review progress. Several Participants highlighted the importance of debt transparency and a framework that minimizes the risk of IDA resources being used for debt service to non-transparent loans.

Graduation

12. On **graduation prospects at the end of IDA19**, Participants endorsed Management's recommendation not to graduate any country given the additional headwinds created by the ongoing COVID-19 crisis. Some Participants requested further reflection going forward on the incentives for graduation, given that some countries have been at Blend status for a long time. Management highlighted that the existing Graduation Policy provides strong incentives for future

graduations, and this complements the IBRD capital package undertaking to provide strong access for IDA graduates and provide the lowest price terms for new IDA graduates.

Voting Rights

13. Several Participants requested that the **Voting Rights Review** be completed before pledging for IDA20 in December. Management reminded Participants that the Voting Rights Review is a shareholder driven process and noted that Management stands ready to provide technical support on the matter.

Lessons from IEG Evaluations

14. Participants welcomed evaluations by the IEG that aligned with the themes of special interest to inform discussions, as well as the **improvements in the quality of monitoring and evaluation**. They encouraged Management to ensure that this trend is maintained throughout the crisis by using remote monitoring tools, particularly in IDA FCS. There was mention of the importance to **focus on outcomes** beyond outputs, and of the value of having more **staff in the field** with monitoring and evaluation experience to inform adaptive management and results reporting. IEG noted that while there was no doubt that IDA country programs aim for outcomes, it is working closely with Management to ensure that those outcomes are better articulated at the country program level. Participants queried whether **project quality** is showing signs of erosion during the COVID-19 crisis to which IEG confirmed that no such signs were being observed. As the crisis is still unfolding, both Management and IEG will continue monitoring this closely throughout the project cycle.

Strategic Directions for IDA20

15. Participants welcomed the proposed **strategic directions for IDA20**. Participants endorsed the proposed overarching theme for IDA20 of “Building Back Better from the Crisis: Towards a Green, Resilient and Inclusive Future” and stressed the importance of converting the concept of **‘building back better’** into reality in IDA countries. Participants endorsed the proposed enhancements to the IDA policy architecture as follows:

- a. Continue with the Special Themes of Climate Change, FCV, Gender and Development, Jobs and Economic Transformation; and the Cross-Cutting Issues of Debt and Technology.
- b. Introduce Human Capital as a Special Theme.
- c. Make Governance and Institutions a Cross-Cutting Issue.
- d. Introduce Crisis Preparedness as a new Cross-Cutting Issue.

16. Participants called for strong and ambitious **Policy Commitments** to underpin a green, inclusive, and resilient recovery. Several noted the importance of addressing **inclusion and inequality**, as it relates to human capital, gender, crisis, disability, and inclusive growth. Management noted this feedback and committed to embed inclusion and inequality reduction throughout the IDA20 policy package, reflecting the overarching theme of inclusive recovery. Participants further stressed that the IDA20 Policy Commitments should **match the ambition** of the volume of the financing envelope. Some Participants suggested not to set too early a fixed limit

on the number of Policy Commitments, while other Participants noted the importance of focusing on the level of ambition rather than the number of Policy Commitments. Management emphasized the importance of **selectivity** in Policy Commitments to ensure a strong strategic focus of IDA20, while maintaining the country-driven nature of the IDA model.

IDA20 Special Themes

17. On **Climate Change**, Participants stressed the importance of full alignment with the **Paris Agreement** and the **Climate Change Action Plan**. Participants called for increased focus on **biodiversity and nature-based solutions**, and some requested that biodiversity be made visible within the IDA20 architecture. Participants also noted the importance of **climate-smart agriculture and sustainable energy**.

18. On **Jobs and Economic Transformation**, Participants stressed the heightened importance of job creation in the context of COVID-19, particularly for women and youth. Amid concerns for growing inequality, Participants requested a strong focus on **inclusive growth** under this theme, including through development of quality infrastructure. Participants also emphasized the need to step up **private sector development**, including under the PSW, especially in areas such as agribusiness and digital economy.

19. On **Human Capital**, Participants underscored the importance of stepping up on education, especially **girls' education**, along with **health systems strengthening, nutrition, and social protection**. On **vaccines**, several Participants emphasized the importance of continued focus on vaccine finance and deployment in IDA20. Participants also asked for continued focus on **disability inclusion**. Participants called for a strong emphasis on inclusion and leaving no-one behind.

20. On **Fragility, Conflict and Violence**, Participants highlighted the critical role that IDA19 has played in FCV settings. They called for IDA to continue to deepen this work in IDA20, even in very challenging settings. Participants expressed support for the continuation of the IDA **FCV Envelope**, and urged continued focus on addressing FCV drivers. They also noted the importance of implementation of the FCV Strategy, as well as partnerships in FCV settings. Management noted that there was good progress in implementation of the Strategy and reiterated its commitment to its successful implementation.

21. On **Gender and Development**, Participants highlighted the importance of gender inclusion. They also called for increasing focus on preventing and responding to **Gender-Based Violence** and on women's **access to health services**.

IDA20 Cross-Cutting Issues

22. On **Governance and Institutions**, Participants stressed the foundational role of this cross-cutting issue to sustainable development in IDA countries. Several Participants called for continued focus on critical Policy Commitments, including on **Domestic Resources Mobilization, Illicit Financial Flows, and Debt**. These important policy priorities will continue to receive

prominent attention in IDA20. Participants also noted the importance of **inclusive governance**, including on transparency and GovTech.

23. On **Crisis Preparedness**, Participants called for IDA to step up support to **pandemic and natural disaster preparedness, food security and agriculture sectors** to strengthen resilience to future shocks. In response to questions on specific incentives for investments in Crisis Preparedness, Management pointed to previous efforts in this area and assured continued commitment to this structural issue, which remains core in IDA's policy dialogue, analytical and operational programs.

24. On **Debt**, Participants called for continued emphasis on this cross-cutting issue in IDA20 and highlighted the importance of incentives for enhanced **debt transparency and management**, particularly for the most vulnerable countries. Several Participants pointed to the need to avoid the use of IDA resources for non-transparent debt service. Some Participants pointed to the need for IDA's concessional financing and policy agenda to complement the **G20 debt initiatives** including the Debt Service Suspension Initiative and the Common Framework.

25. On **Technology**, Participants noted the importance of **digital development**, particularly to support IDA countries to develop the necessary infrastructure and strengthen local capacity to engage in the post-COVID world.

Results Measurement System

26. Participants called for increased **outcome orientation** and asked Management to link its results framework where possible with the **Sustainable Development Goals**. Participants also mentioned the importance to continue disaggregating data by gender and FCVs whenever possible.

Balance Sheet Optimization

27. Participants stressed the importance of maintaining IDA's **financial sustainability** and protecting its **AAA-rating**, while exploring balance sheet optimization options. Participants expressed openness to further exploring the two balance sheet optimization options presented for the IDA20 financing scenarios to be discussed in June.

28. On **short-term maturity loans**, Participants requested further information about likely demand for this product, the allocation framework for its use, and the types of operations it would support. Some Participants requested that the short-term maturity loans should support projects where development impact results can be achieved in a short timeframe and that they not be used for debt relief or to repay non-concessional creditors.

29. On the **50-year loans** for countries at moderate risk of debt distress, Participants requested further analysis on long term impacts on debt sustainability. Some donors raised concerns about reducing concessionality at a time of elevated risks for these countries and encouraged Management to explore financing options with different mix of credits and grants for consideration.

30. Participants requested **further analysis on the implications of these proposals** on debt sustainability of IDA countries and on longer-term financial sustainability of IDA consistent with maintaining its AAA-rating. Participants also expressed openness to exploring how to better align the terms for red-light countries with their performance under the SDFP, particularly the ceiling on non-concessional borrowing.

31. Some Participants noted that it was too early to anchor an **overall replenishment volume** at \$94 billion. Management reiterated that this figure presented in the Balance Sheet Optimization paper was illustrative at this time, and Management would present a variety of scenarios for discussion in June 2021. Some Participants requested consideration of further measures, including by increasing the level of concessionality without increasing the additional donor contributions. Others advised caution with regard to options that weaken IDA's longer-term capacity or entail higher donor contributions in the future.

Foreign Exchange Reference Period for IDA20

32. Management confirmed the agreement amongst Participants to adopt the six-month averaging period from March 1, 2021 through August 31, 2021 for setting the **IDA20 reference exchange rates**, as outlined in the Foreign Exchange paper distributed in March 2021 for approval on no-objection basis.

IDA20 Pledging Session

33. Japan generously offered to **host the IDA20 pledging session in December 2021**, provided that travel is possible at that time to enable an in-person meeting. Management acknowledged the offer and expressed hope that travel restrictions will be lifted by the time of the pledging session.

Next Steps

34. Based on the feedback by Participants, Management would submit a **proposal to the IDA Board of Executive Directors** to approve adjustments related to:

- a. IDA19 Financing Framework
- b. IDA19 Policy Commitments & Results Measurement System
- c. SDFP Set-Aside Mechanism

35. Management would commence **preparations for the second IDA20 Replenishment Meeting**, proposed for June 28-30, 2021. In this context, Management committed to prepare:

- a. IDA20 Financing Scenarios, incorporating the two Balance Sheet Optimization options, and any additional feasible options based on suggestions by the Participants.
- b. Papers to inform the discussion of IDA20 Special Themes, Cross-Cutting Issues and Results Framework that take into consideration lessons from IEG evaluations.