

15th Replenishment of the International Development Association - Please sir, can I have some more?

What is IDA?

The International Development Association (IDA), along with the International Bank for Reconstruction and Development (IBRD), constitute the World Bank. Formed in 1960, IDA was established to support economic growth, reduce poverty and improve living conditions. IDA loans support primary education, basic health services, clean water and sanitation, infrastructure and institutional reforms. Whereas IDA provides long-term¹ interest-free loans² and grants to 81 of the world's poorest, or low-income, countries,³ the IBRD provides advice and investment to middle income countries. By the end of 2006, IDA had provided a total over the years of US\$161 billion in concessional loans and grants to 108 countries⁴.

How does IDA decide which countries are eligible to borrow its resources?

Three factors determine whether countries are eligible for IDA assistance:

- **A country's relative poverty** - if a country's Gross National Income (GNI) per person falls below an established threshold (US\$1,025 per year in FY2007);
- **Lack of creditworthiness** - if a country exceeds the above threshold, but is not credit worthy enough to borrow on market terms from IBRD. Countries who remain above the GNI for more than two years face accelerated (or hardened) terms of repayment;
- **Blend countries** - if a country is eligible for IDA based on its GNI, but is also credit worthy enough to be eligible for IBRD resources, it is called a blend country;⁵

Almost half of IDA eligible countries are in Africa. In 2006, Pakistan, Vietnam, Tanzania, Ethiopia and India were the top five IDA borrowers.

How does IDA decide how to allocate resources to countries?

Allocations to IDA countries are determined by three factors: country income levels; country performance in implementing economic and social policies that "promote growth and poverty reduction"; and their debt sustainability.

¹ IDA's loans are for 35 or 40 years, with a 10 year grace period before repayment on the principal is due.

² Interest free loans are also called concessional loans or IDA credits. Although interest-free, borrower countries are currently expected to pay a service fee of 0.75% on disbursed balances and repay them per footnote 1 above.

³ For a full list of borrowing countries, on-line at

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:21205370-pagePK:51236175-piPK:437394-theSitePK:73154,00.html>

⁴ "What is IDA?", on-line at

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:21206704-menuPK:83991-pagePK:51236175-piPK:437394-theSitePK:73154,00.html>

⁵ There are 15 blend countries: Albania, Azerbaijan, Bolivia, Bosnia-Herzegovina, Dominica, Grenada, India, Indonesia, Pakistan, Papua New Guinea, Serbia, St. Lucia, St. Vincent, Uzbekistan and Zimbabwe.

How is IDA funded?

The IBRD raises most of its funds by posting bonds on the world's financial markets. In contrast, IDA is funded in part by income generated through the IBRD and the International Finance Corporation ('transfers') and by countries repaying previous IDA credits ('reflows'), but for the most part by contributions from the richer member countries ('donors'). Each replenishment covers a three year period. For IDA 14, the replenishment contributions accounted for \$18 billion of the \$33 billion fund. Among the 40 countries that contributed to the fund, the largest share came from the Group of Seven (G7) countries and Sweden, providing 66.2 percent of all pledges. Canada contributes CDN\$318.27 million annually to IDA, one-tenth of Canadian total aid allocation. The current replenishment expires in June 2008.

The IDA Replenishment Process - Looking Back at IDA 14

Besides determining the financial commitments of donor countries, replenishments provide governments an opportunity to influence how their money is spent⁶. Working through around 40 IDA deputies, past negotiations have allowed donors to establish the policy, operational and financial framework (the 'conditions') to guide future lending. Successive replenishments then build on this. The outcomes of IDA 14, therefore, set the stage for IDA 15.

- Donors used the IDA 14 replenishment to recommit to “Working Together to Achieve the Millennium Development Goals (MDGs)”. Under this banner, donor countries focused on using IDA to expand access to utilities and infrastructure as a means of helping countries build stronger economies and achieve the MDGs. They emphasized investing directly in clean water projects, reliable power and better communications for poor communities.
- They underscored the need to strengthen the investment climate for IDA countries, and to strengthen efforts by IDA to support small and medium enterprises.
- Countries proposed developing an enhanced results-based framework to assess country progress in meeting the MDGs, and monitor development outcomes of IDA programs and projects. In addition to monitoring the impacts of IDA-funded programs, governments recommended the Bank help countries develop their own strategies to build domestic statistical capacity for monitoring results.
- Discussions also focused on a new country performance-based allocation (PBA) of funds. While “country-owned” poverty reduction strategy papers (PRSPs) are the basis of assistance to IDA countries, the PBA ascribes each country a rating that determines the volume of available funding. The PBA takes a weighted average of a borrower’s “country policy and institutional assessment” (CPIA) scorecard (80%) (see box below), and its performance on outstanding loans (20%). This rating is then scaled up or down depending on the country’s governance performance (per the CPIA). Finally, this, combined with an assessment of a country’s relative poverty, determines the final allocation of funds.
- With the volume established the grant/loan mix is then determined through a new debt sustainability framework that establishes a country’s level of debt distress. In essence, less debt-burdened countries get a “green” light and receive their funds as concessional loans; high risk countries get a “red” light and receive just grants; countries in between get an “amber” light and a mix of 50% loans/50% grants. That said, 20% of all grants are held back with one chunk (11%) being reallocated (again using the traffic light system) at a later date to reward countries with good policies. The remaining 9% is withheld as an

⁶ Since 2001, a small number of developing countries have been invited to participate as “observers”.

‘administrative charge’. This fee is then loaned at favourable interest rates to ‘blend’ countries with the return used to offset lost IDA principal reflows and interest income.

- Finally, as a recurring theme of all Bank discussions, donor governments emphasized the importance of donor/recipient partnership, coordinating development assistance, and harmonizing development approaches to increase aid effectiveness.

The Country Policy and Institutional Assessment (CPIA)

The CPIA scorecard measures a government’s policies, and the institutions it has in place, to promote economic growth and poverty reduction. Using 16 criteria, grouped in four equally weighted clusters, the CPIA ranks policies from one (low) to six (high):

- (i) economic management (Macroeconomic Management; Fiscal Policy; Debt Policy);
- (ii) structural policies (Trade; Financial Sector; Business Regulatory Environment);
- (iii) policies for social inclusion and equity (Gender Equality; Equity of Public Resource Use; Building Human Resources; Social Protection and Labor; Policies and Institutions for Environmental Sustainability); and
- (iv) public sector management and institutions (Property Rights and Rule-based Governance; Quality of Budgetary and Financial Management; Efficiency of Revenue Mobilization; Quality of Public Administration; and Transparency, Accountability and Corruption in the Public Sector), also the basis of the country ‘governance’ performance.

The CPIA has been critiqued on a number of levels. Firstly, it rewards country performance using indicators and data generated by the Bank, and using evaluations conducted by Bank staff. Hence the CPIA reflects Bank bias towards neo-liberal policies that have reaped social, economic and environmental havoc in countries. Secondly, the subjective nature of scoring a country’s policies and institutions, using a limited number of criteria, leaves room for substantial error. Finally, CPIA ratings for individual IDA Countries only became publicly available in 2006. Middle-income country ratings are still not disclosed.

*“The World Bank policy scorecard: The new conditionality?”,
Bretton Woods Update, Jeff Powell, November 2004*

During the IDA 14 discussions, civil society groups in Canada highlighted various issues, including: the bias that the debt sustainability criteria placed on export-led growth to the disadvantage of domestically-driven strategies for growth; the challenge of investing in areas of conflict; the near total absence of environmental criteria in the CPIA; the crude nature of the CPIA as a proxy for progress; the absence of disaggregated, as well as final, criteria ratings for individual countries; and the need for total CPIA transparency.

IDA 15 - Please sir, can I have some more?

Donor governments convened in Paris on March 5th and 6th, 2007, to begin the first in a year long series of discussions around the next replenishment of IDA’s coffers. From eleven themes that had been proposed by 16 governments, IDA deputies chose three:

- **Role of IDA in aid architecture** - where does IDA fit into a system with an increasing number of both public (bi-lateral, e.g. China) and private (e.g. the Gates Foundation) donors with broad and sector specific interests; how can IDA be most effective and best harmonize its efforts with other donors in this changing context (be it as a leader, a follower, or filling in gaps); and what new tools does IDA need to meet these objectives.
- **Aid to post-conflict and fragile states** - how much aid should be allocated to fragile states; what systematic criteria need to be developed to allocate new aid to countries in arrears; and what should the Bank’s role be in post-conflict countries (e.g. through Multi-

- Donor Trust Funds) relative to other multilateral organizations, like the United Nations.
- **Country-level aid effectiveness (in-country IDA results and performance, IDA aid allocation system)** - how effective is IDA in producing (and monitoring) results; what needs to change re. assessing country “needs”; how can the PBA model be simplified.

For its part, at the March meeting, Canada proposed a focus on the following three issues: ensuring IDA’s operational and financing instruments are appropriate for fragile states; monitoring the results of IDA programs and building up the country capacity to gather statistical data to be able to perform this function; and, managing debt sustainability in the context of new loans, which Canada hopes will be discussed under aid effectiveness.

Meetings to discuss aid architecture and fragile states took place in Mozambique on June 28-30, with further debates scheduled for Washington on October 23 on debt sustainability, simplifying the PBA, a review of IDA’s internal audit controls and a first meeting for IDA deputies with new Bank President Robert Zoellick. A final discussion is tentatively scheduled for Dublin on November 12-13, with pledges following in Berlin on December 13-14. It is thought that the annual review of World Bank conditionality and the implementation of its “good practice principles”, to be released in late October, will feed into the Dublin meeting.

Show me the money

Once plans for the new IDA framework have been finalized, the focus turns to actual donor commitment. Following the Group of Eight (G8) Gleneagles Summit at which the Multilateral Debt Relief Initiative (MDRI) was announced, G8 leaders promised to “provide additional contributions to IDA [...] to offset dollar for dollar the foregone principal and interest payments of the debt cancelled.” This means “making contributions additional to regular replenishments of IDA” to cover the costs of the cancelled loans.⁷ As a result, for IDA 15 the Bank is looking for US\$26.4 billion in pledges.

Early indications suggest that the current three year IDA replenishment may fall short of the 20% increase (over IDA 14) the Bank is demanding of donors. Despite the G8 pledge at Gleneagles, many countries are now backtracking, blaming domestic budget constraints, perceptions of Bank ineffectiveness, and strained relations leftover from the Wolfowitz era. Europe, Japan, and the US have indicated they may curtail donations or pursue alternate channels, while Canada looks set to meet Bank targets. Now, as IDA deputies are set to meet the Bank President this month in Washington, Zoellick announced a \$3.5 billion contribution of IBRD and International Finance Corporation income towards IDA 15.



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⁷ G8 Finance Ministers’ Conclusions on Development, London, June 10-11, 2005.