The Demand for IDA18 Resources and the Strategy for their Effective Use

IDA Resource Mobilization Department (DFiRM)
May 31, 2016
Box 7. WBG Support Contributed to Containing Ebola ........................................... 28
Box 8. IDA’s Toolkit for Risk Management, Preparedness and Crisis Response ............. 28
Box 9. Results from IDA Regional Projects .................................................................. 31
Box 10. Leveraging IDA to Enable Private Sector Financing, IFC and MIGA Support for Development ........................................................................................................ 33
Box 11. Natural Lag Between Commitments and Disbursements ................................ 44
Box 12. Eligibility Criteria for Access to IDA Grants by Regional Institutions ............ 88

Figures
Figure 1. Country Progress towards MDGs .................................................................... 3
Figure 2. WBG Country Engagement Model .................................................................. 7
Figure 3. EFI Alignment with the SDGs ........................................................................ 17
Figure 4. SD at the Heart of Country and Global Agendas ............................................. 18
Figure 5. HD at the Core of the SDGs ......................................................................... 20
Figure 6. Demand from Regions for IDA18 Resources ............................................... 22
Figure 7. Growing Share of IDA Set-Asides ................................................................ 25
Figure 8. Demand from Regions for IDA18 Regional Program .................................... 30
Figure 9. Summary of Non-Core Concessional IDA Allocations .................................. 39
Figure 10. Core Concessional Allocations to FCS/FCV in IDA17 and IDA18 and Contributing Factors to IDA18 Allocation ................................................................. 41
Figure 11. Base Scenario – Change in Concessional Core IDA Support Relative to IDA17 .................................................................................................................. 42
Figure 12. The Emerging Markets Bond Index (EMBI) -Current and Recent Graduates (bps) .......................................................... 81
Figure 13. The WB Lending Scenarios -Current and Recent Graduates ......................... 83
Figure 14. Growth in Concessional Core IDA Relative to IDA17 ................................... 97
Figure 15. Per-capita Support across Scenarios and Country Groups ............................ 97
Figure 16. FCS/FCV Allocations (FCV Adjusted and Unadjusted with Respect to IDA17) .... 98
Figure 17. Shifts in a Region’s Share of Core Concessional Resources ......................... 98
Figure 18. Credit and Grants under Base Scenario by Country Group ......................... 99
Figure 19. IDA18 Performance Orientation .................................................................. 100
Figure 20. Per Capita Allocation Ratio between Best and Worst Performers ............. 101
Figure 21. Change in Per-Capita Allocations. Fitted Curve ...................................... 101
Figure 22. Overview of Simulation Scenarios .............................................................. 102
Figure 23. Debt Burden Indicators without Shocks ...................................................... 103
Figure 24. Debt Burden Indicators under Shock Scenarios ......................................... 104
Figure 25. Debt Distress Ratings of IDA Clients ......................................................... 104
Figure 26. Interest Spread over LIBOR for IDA Clients .............................................. 105

Table
Table 1. Summary of IDA18 Financing Scenarios (in US$ billion) ................................. 38
Table 2. Summary of Proposed Changes to the Allocation ........................................... 43
**ACRONYMS AND ABBREVIATIONS**

Fiscal year (FY) = July 1 to June 30

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAAA</td>
<td>Addis Ababa Action Agenda</td>
</tr>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>AFR</td>
<td>Africa Region</td>
</tr>
<tr>
<td>CAMP4ASB</td>
<td>Climate Adaption and Mitigation Program for the Aral Sea Basin</td>
</tr>
<tr>
<td>CAT-DDO</td>
<td>Catastrophe Deferred Draw-Down Option</td>
</tr>
<tr>
<td>CCSAs</td>
<td>Cross-Cutting Solutions Areas</td>
</tr>
<tr>
<td>COP21</td>
<td>Conference of the Parties</td>
</tr>
<tr>
<td>CPF</td>
<td>Country Partnership Framework</td>
</tr>
<tr>
<td>CPR</td>
<td>Country Performance Rating</td>
</tr>
<tr>
<td>CRW</td>
<td>Crisis Response Window</td>
</tr>
<tr>
<td>DPO</td>
<td>Development Policy Operation</td>
</tr>
<tr>
<td>DRM</td>
<td>Domestic Resource Mobilization</td>
</tr>
<tr>
<td>EAP</td>
<td>East Asia and Pacific Region</td>
</tr>
<tr>
<td>ECA</td>
<td>Europe and Central Asia Region</td>
</tr>
<tr>
<td>ECD</td>
<td>Early Childhood Development</td>
</tr>
<tr>
<td>EFI</td>
<td>Equitable Growth, Finance and Institutions</td>
</tr>
<tr>
<td>FCS</td>
<td>Fragile and Conflict-affected Situations</td>
</tr>
<tr>
<td>FCV</td>
<td>Fragility, Conflict and Violence</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GNI</td>
<td>Gross National Income</td>
</tr>
<tr>
<td>GPs</td>
<td>Global Practices</td>
</tr>
<tr>
<td>HD</td>
<td>Human Development</td>
</tr>
<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IRM</td>
<td>Immediate Response Mechanism</td>
</tr>
<tr>
<td>LCR</td>
<td>Latin America and Caribbean Region</td>
</tr>
<tr>
<td>MDGs</td>
<td>Millennium Development Goals</td>
</tr>
<tr>
<td>MDRI</td>
<td>Multilateral Debt Relief Initiative</td>
</tr>
<tr>
<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
</tr>
<tr>
<td>MNA</td>
<td>Middle East and North Africa Region</td>
</tr>
<tr>
<td>MTR</td>
<td>Mid-Term Review</td>
</tr>
<tr>
<td>MWRD</td>
<td>Senegal River Basin Multi-purpose Water Resources Development Project</td>
</tr>
<tr>
<td>NDCs</td>
<td>Nationally Determined Contributions</td>
</tr>
<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OECs</td>
<td>Organization of Eastern Caribbean States</td>
</tr>
<tr>
<td>PBA</td>
<td>Performance-Based Allocation</td>
</tr>
<tr>
<td>PICs</td>
<td>Pacific Island Countries</td>
</tr>
<tr>
<td>PNG</td>
<td>Papua New Guinea</td>
</tr>
<tr>
<td>PSW</td>
<td>Private Sector Window</td>
</tr>
<tr>
<td>SAR</td>
<td>South Asia Region</td>
</tr>
<tr>
<td>SCD</td>
<td>Systematic Country Diagnostics</td>
</tr>
<tr>
<td>SD</td>
<td>Sustainable Development</td>
</tr>
<tr>
<td>SDGs</td>
<td>Sustainable Development Goals</td>
</tr>
<tr>
<td>SDI</td>
<td>Service Delivery Indicators</td>
</tr>
<tr>
<td>SDR</td>
<td>Special Drawing Rights</td>
</tr>
<tr>
<td>SGBV</td>
<td>Sexual and Gender Based Violence</td>
</tr>
<tr>
<td>SMP</td>
<td>Staff Monitored Program</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>SUF</td>
<td>Scale-Up Facility</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>WBG</td>
<td>World Bank Group</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

i. In a world of burgeoning ambitions and escalating risks, the 18th Replenishment of IDA (IDA18) needs to respond with an innovative paradigm shift. In 2015, the international community established a far-reaching development agenda, encompassing the broad and inter-connected Sustainable Development Goals (SDGs) for 2030, an ambitious and universal agreement on climate, and a framework for disaster risk management. The international community asked the World Bank Group (WBG) to innovate and do everything in its power to be a critical implementation agent for achieving these goals. The WBG’s Forward Look exercise responds to this call by taking a long-term perspective to ensure that the WBG is “fit for purpose” to advance both its own twin goals of reducing poverty and boosting shared prosperity as well as this ambitious 2030 Agenda. In the context of the Forward Look, IDA is critical for the WBG’s capacity to support the world’s poorest and most fragile countries in pursuing this Agenda.

ii. Progress toward these heightened ambitions, however, has been – and will be – tested by complex and inter-related challenges. Fragility, conflict and violence (FCV) constitute one of the most pressing challenges to the SDGs and the global community. The world’s worst refugee crisis since World War II underlines the scope and impact of conflict and violence. Climate change related shocks represent another increasingly global challenge, with the worst impacts being felt by the poor and those least able to adapt. Further exacerbating these vulnerabilities are natural disasters, pandemics, reduced private capital flows, and slowing global economic growth.

iii. Building on progress already achieved, IDA’s results focus makes it uniquely well placed to help clients set the stage to achieve the SDGs. IDA has a long-standing track record of helping clients i.e., prioritize their development needs, address their constraints, and deliver meaningful results. IDA’s long-standing focus on monitoring, measuring and achieving results is now embedded systematically into IDA operations and applies even in the most complex circumstances. The early engagement of the WBG in Myanmar, our meeting’s host country, is just one of the most recent examples of how IDA can apply the full range of its tools to support countries on their development path: convening power; integrated multi-sector expertise; advisory services across both public and private sectors; and non-earmarked financing.

iv. The six IDA regions have expressed unprecedented demand for resources under IDA18 and – with the support of the WBG Global Practices (GPs) – have sound strategies to use IDA resources effectively. Each region sets out its strategy for IDA18, highlighting priorities how IDA, in collaboration with the rest of the WBG, can help achieve them. Key themes which emerge from these strategies are addressing fragile and conflict-affected situations (FCS), reducing vulnerability to climate and other pressures, promoting competitiveness and jobs – particularly for women and youth, strengthening governance and institutions, building more inclusive societies and closing remaining human development gaps, and developing sustainable infrastructure. In addition, promoting and strengthening regional integration and cooperation remains a critical priority to enlarge markets and diversify economies.

v. In recognition of the enhanced global ambitions, as well as the constraints facing many contributing partners, IDA18 reflects the most innovative package of financing ever proposed. As outlined more extensively in the companion Financing Framework paper, all of the IDA18 financing
scenarios presented for consideration presume that IDA effectively, yet sustainably, leverages its own equity for the sake of IDA clients. In addition to supporting the escalating demand for IDA resources, this innovative financing package represents a fundamental shift in how efficiently IDA can use partners’ limited resources. With the proposed innovations, IDA18 would dramatically increase the leveraging power of every partner contribution from 1:2 in IDA17 to 1:3 in IDA18. However, IDA’s ability to provide concessional financing for the poorest remains fundamentally dependent upon continued grant contributions from partners.

vi. **With this kind of innovative financing and continued partner support in IDA18, IDA could deliver a historic funding package for its clients and the international community to achieve their amplified ambitions.** It could double financial support to address FCS/FCV. And it could do so while also increasing support to strong performers and non-FCS – which would continue to receive the bulk of IDA financing – to help them integrate into the global economy. For the first time, it could provide a meaningful source of funding for host governments struggling to meet the needs of refugees and local populations. It could begin to meet the pent-up demand for greater regional integration, critical for economic transformation. It could collaborate closely with IFC and MIGA to share risk and mobilize increased private sector investment in the poorest and riskiest environments. It could provide sufficient crisis response and preparedness capacity for a world increasingly in need of it. It could provide transitional support to current and recent IDA graduates – many of which still have significant poverty pockets and lingering vulnerabilities while facing a sharp drop in WB resources – to make their transition more sustainable and secure. And it could do all this while retaining strong performance incentives and promoting debt sustainability.

vii. **The four potential IDA18 financing scenarios provide different combinations of overall replenishment volume and distribution between concessional and non-concessional components.** All of the scenarios assume a larger financing envelope relative to IDA17. Under the Management-proposed scenario (Base Scenario), the IDA18 replenishment volume would amount to US$75 billion, which would correspond to US$52.3 billion for concessional Core IDA and a doubling of concessional Core support for FCS/FCV. Volumes under other scenarios range from US$65 billion to US$80 billion. The volume of most windows in non-Core concessional IDA are assumed to remain constant across scenarios. The allocations differ across scenarios in three primary aspects: (i) replenishment volume; (ii) global policy choices – such as the degree of concessionality and the distribution between Core and non-Core IDA windows; and (iii) country-level policy choices. Under the Low Scenario, the overall envelope reflects only one-half of the increase of the Base Scenario over IDA17. In addition, among other things, the Low Scenario translates into a drop in resources for FCS/FCV compared to the Base Scenario. The two High Scenarios – which have the same replenishment volume but financed differently – would better meet the expressed demand for both concessional and non-concessional resources.

viii. **In summary, the challenging global context and the international community’s call for a step change in Financing for Development call for a fundamental paradigm shift in IDA18.** The ambitions are high. The challenges are real. Significant innovation and solid partnership will be required to shift the trajectory to achieve SDGs set for the year 2030. This paper presents the very strong demand for IDA resources, along with IDA’s proposals to ensure that such resources bring solutions to our clients’ most challenging development problems, which increasingly spillover to the rest of the world. IDA is innovating to do all in its power to support our clients. Partners’ support for
the most ambitious IDA Replenishment ever will be an investment in a world of greater growth, opportunity and resilience.

### Key Decision Points on Allocation Policies

<table>
<thead>
<tr>
<th>Envelopes</th>
<th>Issue</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concessional IDA</td>
<td>o Country Performance Rating exponent reduction</td>
<td>Para 57, 85-101</td>
</tr>
<tr>
<td></td>
<td>o Elimination of MDRI netting out</td>
<td>Annex 6</td>
</tr>
<tr>
<td></td>
<td>o Elimination of grant discount</td>
<td>FCV paper</td>
</tr>
<tr>
<td></td>
<td>o Larger annual minimum base allocation</td>
<td></td>
</tr>
<tr>
<td>Regular PBA system</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>o New Risk Mitigation regime for FCV</td>
<td>Para 58, 85-101</td>
</tr>
<tr>
<td></td>
<td></td>
<td>FCV paper</td>
</tr>
<tr>
<td>Exceptional regimes</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>o New sub-window for refugees</td>
<td>Para 74, 85-101</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Annex 5</td>
</tr>
<tr>
<td></td>
<td>o Special consideration for small states</td>
<td>FCV paper</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Para 75</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Annex 5</td>
</tr>
<tr>
<td>Regional Program</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>o IDA16 and IDA17 graduates excluding India</td>
<td>Para 61-66</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Annex 4</td>
</tr>
<tr>
<td></td>
<td>o India.</td>
<td>PSW paper</td>
</tr>
<tr>
<td>Transitional Support</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>o New private sector risk mitigation window: guarantees plus IDA equity</td>
<td>Para 77-79</td>
</tr>
<tr>
<td>Non-concessional IDA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Sector Window</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Adjustments</th>
<th>Issue</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjust terms of concessional Core financing for small states</td>
<td></td>
<td>Para 59</td>
</tr>
<tr>
<td>Harmonize terms of financing from the Regional Program with Core financing</td>
<td></td>
<td>Para 76</td>
</tr>
<tr>
<td>Enable cancellation/recommitment of financing from IDA16 and IDA17 graduates</td>
<td></td>
<td>Annex 5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Para 67</td>
</tr>
</tbody>
</table>
I. INTRODUCTION

1. At a time of great global opportunity and risk, this paper sets out the extremely high demand for IDA18 resources and the strategy for their effective use. IDA18 is the first Replenishment after the “trajectory shift” of 2015, in which the international community agreed to dramatically more ambitious and broader development goals. It is also taking place in the context of the WBG’s Forward Look exercise to take a longer-term perspective to ensure that the institution will remain “fit for purpose” to advance the ambitious 2030 agenda. But progress toward these development goals has been – and will be – tested by increasingly complex and inter-related challenges: fragility and conflict, climate change, natural disasters, refugees, pandemics, rising inequality, reduced private capital flows, and slowing global economic growth. To best prepare for these challenges, a strong IDA18 Replenishment is needed at a scale that can boost growth, resilience and opportunity among the world’s poorest countries for the benefit of all countries.

2. Based on IDA’s past success in delivering results, heightened risks facing clients and the international community’s amplified ambitions, demand for IDA18 is at an all time high. Both well-established and new clients seek significantly increased core IDA financing – combined with critically important analytics and advice – to support their development priorities. This demand is strong across the full spectrum of clients, whether to address the drivers of fragility, provide quality infrastructure, address climate vulnerabilities, promote regional integration, provide countercyclical financing to strengthen social safety nets to protect the poor, and/or when opportunities arise to begin the complex and arduous task of reconstruction. In addition, demand for the chronically oversubscribed Regional Program continues to grow strongly, fueled by its success in providing regional solutions to complex challenges which cross national borders. And with disasters becoming more frequent and their impacts more severe in IDA countries, the demands for IDA’s Crisis Response Window (CRW) continue to rise.

3. In response to evolving needs and ambitions of its clients in IDA18, IDA is innovating to ensure the organization remains as effective as it can be to help achieve international development goals. Most importantly, given projections that by 2030 an estimated 50 percent of the global poor will live in IDA FCS – not to mention the massive human and economic costs of fragility and the strong negative spillovers for neighboring countries and the rest of the world – IDA is proposing to significantly enhance its support for FCS. And given that forcibly displaced populations are so often the result of fragility and conflict, scaled up support for refugees and host communities is also proposed. This said, it is critically important that this enhanced support does not come at the expense of well-performing IDA countries still in need of assistance on their path toward resilience. And finally, even as countries transition out of IDA, some of them have significant pockets of poverty for which continued financial support will be critical to attaining the WBG goal of eliminating extreme poverty.

4. In addition, IDA is innovating its financial model to dramatically increase leverage of partner contributions. This will allow significant expansion of IDA’s financial capacity to meet the ambitions of the 2030 agenda building on the strength of development partners’ support. This paradigm shift will allow every dollar of IDA18 Partner contributions to mobilize three dollars in IDA commitment authority, up from a ratio of one:two in IDA17. The financing scenarios presented for consideration in IDA18 build on these financial benefits for the sake of IDA clients. In this context, however, it cannot be overemphasized that IDA’s leveraging ability is closely linked to partner
contributions and the sustainability of IDA’s financing model. The financing scenarios also tailor the concessionality of leveraged resources to client’s debt sustainability (See the companion “IDA18 Financing and Leveraging Framework Paper” for further discussion).

5. **This paper is organized as follows.** Section II examines the global development context, including the newly agreed global ambitions and the challenges for achieving them. This section also describes IDA’s unique capacities as part of the WBG to enable IDA clients to achieve these goals. Section III presents a summary of the regional strategies – as supported by the GPs – to implement IDA’s core program and deliver results for clients in IDA18. Section IV outlines the proposed financing scenarios for IDA18, including the proposals to most effectively capture the benefits provided by leveraging IDA’s equity, and explains the range of options and trade-offs related to those scenarios. Section V sets out issues for discussion.

II. THE NEW GLOBAL AMBITIONS AND CHALLENGES

A. ADDRESSING HEIGHTENED GLOBAL AMBITIONS

6. The IDA18 Replenishment coincides with a paradigm shift in the international community’s global aspirations toward a far-reaching and ambitious development agenda. This agenda – including agreement on the 17 comprehensive and inter-connected SDGs, the large-scale and universal COP21 agreement on climate mitigation, adaptation and finance, and the Sendai Framework for disaster risk management – builds on the unfinished MDG agenda. This represents a trajectory shift in the development dialogue. The 17 comprehensive and inter-connected SDGs and 169 associated targets bring together economic, social and environmental priorities on a significantly larger scale, along with a greater focus on quality, equity and sustainability. The 21st Conference of Parties (COP21) agreement aims to collectively address climate change and strengthen disaster resilience, complemented by measures under the Sendai Framework for disaster risk management. Implementing COP21, like the SDGs, requires strong support for country-driven strategies and priorities as well as the additional financing needed to implement the Intended Nationally Determined Contributions (NDCs).

7. **The financing needs to promote Global Public Goods and tackle the new commitments under the SDGs, COP21 and the Sendai framework are immense.** The Addis Ababa Action Agenda (AAAA) on Financing for Development recognized that achieving the SDGs would require “an equally ambitious, comprehensive, holistic and transformative approach with respect to the means of implementation.” At around US$135 billion a year, Official Development Assistance (ODA) is far from enough to finance the achievement of the SDGs. AAAA presents a framework for intensified, synergistic financial solutions to unlock, multiply and catalyze flows across all sources of financing – public and private, domestic and international – to achieve the SDGs.

8. **Recognizing the significantly higher ambitions agreed in 2015, participants at the first IDA18 Replenishment meeting in Paris called for similarly high ambitions for IDA18.** They agreed on the importance of contributing to the implementation of the ambitious 2015 goals. Reflecting this, they called for anchoring the overarching theme for IDA18 in the 2030 context, recommending the

---

1 OECD DAC.
theme “Toward 2030: Investing in Growth, Resilience and Opportunity.” (see the companion paper on the Overarching Theme) In addition, they re-affirmed the Financing for Development paradigm and endorsed increased IDA leveraging from IDA18, so as to maximize the available resources for the task ahead.

B. ADDRESSING HEIGHTENED CHALLENGES

9. While attention has turned to the SDGs, in many IDA countries, significant progress is still needed to achieve the 2015 Millennium Development Goals (MDGs). While exciting progress was made e.g., with the world meeting the global MDG1 target of halving the proportion of the population living in extreme poverty five years ahead of the 2015 deadline, the agenda is still unfinished (Figure 1). Progress has been uneven across both countries and the individual MDGs. The largest gaps are increasingly concentrated in countries with high fertility rates, natural resource-based countries and those challenged by FCV. Progress towards some of the non-income MDGs – especially infant mortality, maternal mortality and sanitation – has been particularly troublesome. Among 77 IDA countries, 74 have made insufficient progress in reducing infant mortality, and half have made insufficient progress in reducing hunger.

Figure 1. Country Progress towards MDGs
(in percent of countries)

Source: World Bank Group
10. **Looking ahead, IDA countries face a number of long-term global trends that could complicate the achievement of the SDGs.** Demographic and growth transitions, urbanization, climate change, rising inequity, aging populations and globalization are particularly challenging in IDA countries, where capacity and resources to manage these trends are limited. In some parts of the world, climate change has the potential to significantly slow – possibly even reverse – progress on poverty reduction. The World Bank’s “Shock Waves” report² highlights the impacts of climate change on agricultural productivity and food prices, heat waves, floods and droughts, which in turn have other health consequences. Climate change is currently estimated to result in more than 100 million additional people living in poverty by 2030, with every new estimate worse than the last. Similarly, rapid population growth and a swelling working-age population present difficult challenges, particularly for FCS. As more people seek jobs in urban centers, without sufficient planning, there could be two billion people globally living in slums by 2030.

11. **In addition to these long-term trends, IDA countries face significant economic risks.** Sharply lower commodity prices, subdued trade, and higher cost of financing has narrowed the options for policy makers in IDA countries, putting at risk hard-won achievements in poverty reduction. The extreme poor and near poor are the most vulnerable to downturns. Thus, in IDA countries where growth slowed in 2015, the 50 percent of extreme poor and near poor are particularly at risk. Globally, extreme poverty will decline much more slowly than it did in the 1990s, making it harder to share prosperity with the poorest. The World Bank’s Global Monitoring Report 2015-16 estimates that – even if developing countries were to realize the same country-specific per capita growth rates seen during the 2004-2013 period – the global 3 percent poverty rate target would still be missed.³ Most recent estimates suggest the target will be missed by an even larger margin.

12. **These challenges and risks are compounded by vulnerability to more frequent and severe adverse events, such as conflict, violence, refugees, and natural disasters.** Repercussions from fragility and conflict are increasingly felt nationally, regionally and globally. Challenges confronted by refugees and host communities are increasingly spilling over far beyond their origin. IDA countries are the source of about half of the world’s 19 million refugees at the end of 2014, and host to about one-third of them. Forced displacement has huge human costs to those forced to flee their homes, including increased risks of violence and lack of access to educational opportunities, food, and health care. Forced displacement also strains the capacity of governments trying to provide access to basic services, especially health, education, and waste disposal.

13. **Natural disasters have similarly become more frequent and their impacts more severe in IDA countries – with almost three times as many adverse events in the last decade as during the 1980s, and with economic damage about six times larger.** IDA countries are highly vulnerable to natural disasters, with an estimated impact on GDP 20 times higher in developing countries than in industrialized nations.

14. **While global financial flows can help buffer the above challenges, the remarkable increase in such flows to developing countries has largely bypassed IDA countries.** Specifically, IDA

---


countries benefited from less than 20 percent of the flows in external financing, as these flows were concentrated in only a few mostly resource rich countries.⁴ Beyond external flows, the scope for increasing domestic resource mobilization (DRM) in the short term is limited by the small tax base in many IDA countries. As a result, increasing DRM in IDA countries will require continued long-term engagement and committed capacity building efforts, combined with enhanced tax collection results from expenditure reforms. With respect to ODA, IDA countries continue to rely on concessional financing, and yet non-IDA countries are benefiting from a large – and growing – share of these concessional flows. It will be essential to ensure that scarce concessional financing is targeted and used as efficiently and effectively as possible.

15. The heightened ambitions, development challenges and limited financing options for IDA countries underscore the crucial need for scaling up development finance to IDA countries. While unlocking, leveraging and catalyzing private flows and domestic resources will also be a critical component of the agenda, a robust IDA – combining strong partner contributions with IDA’s ability to leverage additional financing – will be essential for the international community to implement its ambitious development agenda.

C. Within the Context of the Forward Look and Increasingly Interconnected World, IDA’s Role as Implementer

16. The WBG’s Twin Goals of eliminating extreme poverty and boosting shared prosperity in a sustainable manner provide a strong foundation for implementing the 2030 development agenda. There are strong links between the SDGs, with their inclusive framing of the development ambitions, and the WBG goals, which provide a tool and a structure for selectivity and setting priorities for country level interventions.

17. The WBG has a unique ability to help the world address complex problems at the global, regional and country level, and to do so at a meaningful scale. This capacity is rooted in a number of important and inter-connected attributes:

- **Country presence:** With offices in over 100 countries, and long-term relationships in many more, the WBG’s global presence helps to customize global knowledge to local conditions and facilitate knowledge sharing among countries.

- **Multi-sectoral expertise:** The WBG’s new structure introduced in 2014 has strengthened its ability to bring its global knowledge more effectively and efficiently to its country engagements. Its ability to integrate its multi-sector expertise provides an important platform for setting the global agenda and working with partners to tackle both country and global challenges. Also, the One WBG approach brings together tools and partnerships of both the public and private sectors to find development solutions in a way that few other organizations can match.

- **Efficiency:** As part of the WBG’s ongoing efforts to do more with less, the Expenditure Review and Strategic Planning and Budgetary Process is on track to achieve savings of US$400 million by the end of FY18, having identified the specific measures needed to achieve this target. In addition, the WBG’s new country engagement model – introduced as part of the 2014 new organizational structure – strengthens the line of sight from WBG interventions to the WBG

twin goals of reducing poverty and boosting shared prosperity. It also helps the WBG work with other development partners to maximize the effectiveness of ODA resources and enhance coherence across institutions.

18. **In the Forward Look discussions with its shareholders, the WBG is building on this strong foundation and considering options to respond to the ambitious 2030 agenda – not only to do more, but to do things better** (Box 1). The new strategic planning and budgeting process is enabling the WBG to identify opportunities for further enhancing efficiency, including by better integrating trust funds into the planning and budgeting process. At the same time, the World Bank has been delivering on new commitments that clearly add value – including in the areas of safeguards, gender, and climate change – but will invariably also add to costs.

<table>
<thead>
<tr>
<th>Box 1. The WBG Forward Look</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Forward Look exercise is a joint Board-Management effort to ensure that the WBG remains fit for purpose and becomes a Better WBG to deliver on the 2030 Agenda. The exercise will help underpin Governors’ decisions in due course on voice and investments needed for IDA, IBRD, IFC and MIGA. Five areas of focus were presented to Governors at the 2016 Spring Meetings:</td>
</tr>
<tr>
<td>• Working with all client segments;</td>
</tr>
<tr>
<td>• Leading on global and regional issues;</td>
</tr>
<tr>
<td>• Providing customized knowledge products;</td>
</tr>
<tr>
<td>• Working with the private sector as One WBG; and</td>
</tr>
<tr>
<td>• Making the “billions to trillions” agenda a reality.</td>
</tr>
<tr>
<td>Engagements between Board and Management are ongoing, particularly with respect to financial capacity, and a final report will be delivered to Governors at the 2016 Annual Meetings.</td>
</tr>
</tbody>
</table>

19. **In the context of the Forward Look, IDA is critical for the WBG’s capacity to support the world’s poorest and most fragile countries in pursuing the 2030 Agenda.** Building upon the WBG attributes noted above, IDA brings a unique and powerful set of services to its client countries, as described in the Strategic Directions paper.

20. **IDA’s country-based, un-earmarked model, results culture, and multi-sector approach positions it ideally to deliver on the SDGs.** IDA’s country-owned model supports countries’ efforts to build resilient, inclusive economies, which in turn become new markets for the global economy. IDA’s multi-sectoral reach and long-term engagement help countries build the institutions and capacity to grow domestic and external resources, and ensure that resources are well spent. In addition, IDA’s policy advice, standards, and tools help countries make sound decisions in choosing quality

“If you look at almost all of the great projects we’ve done, as a Foundation, IDA money has been an absolutely critical element of virtually every one of those projects.”

*Bill Gates, speaking at 2016 Spring Meetings Panel*

http://live.worldbank.org/a-new-vision-for-financing-development-bill-gates
infrastructure investments that are financially, socially and environmentally sustainable. Moreover, IDA helps improve country statistical systems which are critical for producing quality data for domestic policy formulation, as well as monitoring and measuring results. These systems also support the broader global need for data to measure progress towards the 2030 goals.

III. IDA’S REGIONAL STRATEGIES AND GLOBAL PRACTICES’ IMPLEMENTATION OF IDA’S CORE PROGRAM

21. IDA’s support to individual IDA countries is customized, based on strong analysis, government’s priorities, and the WBG’s comparative advantage. As part of the new organizational structure described above, the new country engagement model engages all parts of the WBG, is evidence based, and supports countries’ efforts to end extreme poverty and boost shared prosperity in a sustainable manner. The framework aims to be country-led and to increase selectivity in line with the WBG’s mandate and comparative advantage. First, a Systematic Country Diagnostic (SCD) is conducted to identify the critical constraints and opportunities for reducing poverty and boosting shared prosperity. This then informs the Country Partnership Framework (CPF), which guides the country engagement of all parts of the WBG, beginning with the member country’s own vision of its development goals, and is shaped by the WBG’s comparative advantage (Figure 2).

Figure 2. WBG Country Engagement Model

22. The strategies of the Regions, as supported by the expertise of the GPs, set out IDA’s comparative advantage and define areas of focus. IDA’s Operational Regions have prepared strategies that identify priority activities for the IDA18 period. The combination of the heightened development ambitions and the significant challenges facing IDA countries has led each region to express their largest ever demand for IDA resources – nearly double their allocations of IDA17 core resources. Such high demand for IDA is accompanied by sound strategies to put such IDA resources to effective use, in most cases, building on strong foundations already in place. In addition, IDA’s cross-cutting Special Themes are increasingly integrated into the region’s analytic work and dialogue with its clients. 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 UN, and many others. Section II.A below summarizes these regional strategies (see Annex 2 for more detail) and Section II.B sets out how the GPs support implementation.
A. REGIONAL STRATEGIES

23. SUB-SAHARAN AFRICA (SSA): While there was much progress towards the MDGs, across Africa, significant gaps remain. With an estimated 700 million people – 35 percent of the population – living on less than US$1.90 a day in 2015, extreme poverty still remains unacceptably high. Moreover, while income poverty was reduced, access to quality education or basic health services remains limited. About half of the world’s situations of FCV are in Africa, and many FCV situations face the additional challenge of refugees (Box 2). Many commodity exporting countries have felt the impact of the end of the commodity super-cycle, including some large IDA borrowers such as Nigeria. This same phenomenon also affects some recent IDA graduates. Looking forward, three challenges stand out: the depth of remaining poverty in Africa; unevenness in shared prosperity; and persistent disparities in non-income dimensions of development.

Box 2. IDA Regional Work for Refugees

A recent operation financed by IDA’s Regional Window has begun in the Horn of Africa to help support the 30,000 refugees that have fled to Djibouti from conflict in Yemen and a sizable Somali refugee population that already existed. The proposed IDA operation brings together Djibouti, Ethiopia and Uganda in a collective and coordinated response to the refugee crisis across both national and regional borders to improve access to basic social services, expand economic opportunities, and enhance environmental management. MNA has expressed strong demand for even greater such support in IDA18.

24. With 40 IDA countries in SSA collectively receiving half of IDA’s financing – subject to performance – the region’s strategy closely aligns with the IDA18 special themes. The changes in the global economy and trends in fragility have led the Africa region to focus on governance and public sector capacity, competitiveness and employment, and vulnerability and resilience. The Africa region’s priorities for fragile states are to create a functioning state, reduce elite capture, and support service delivery, all with a strong gender lens. Three FCS (Somalia, Sudan, and Zimbabwe) could re-engage with IDA during the IDA18 period, requiring support for potential pre-arrears clearance grants and arrears clearance operations (see Arrears clearance section below). With the right policies and investments in high-quality human capital, Africa can create youth cohorts that are healthier, more educated, more skilled and more productive.

Box 3. Results from IDA Engagement in Africa

In DRC, the following were achieved with IDA support: 2,176 km roads reopened; 2,917 km roads maintained; and increased mobility to three million people; 363,000 people provided access to improved water; assisted births increased from 47 to 80 percent; and institutional strengthening also resulted in restructured State-Owned Enterprises’ debt.

Uganda Local Government Management Service delivery led to local governments registering an increase of at least 20 percent in own source revenues.

In the CPF for Chad, analysis of fragility drivers enabled WBG to identify critical drivers of fragility in areas such as climate change, gender inequalities, demographic growth, and weak governance and failing institutions.

Exceptional IDA resources benefitted Mali at the height of its crisis, sustaining disbursements and supporting macro stability. IDA support strengthened Sahel regional integration and female empowerment, and will soon address irrigation and climate change.

---

5 See “Africa’s Future and the World Bank’s Support to It,” (March 2011).
25. **As elsewhere, African economic transformation depends crucially on infrastructure development to remove bottlenecks.** Energy access particularly remains a major challenge. Yet Africa is blessed with huge untapped potential for renewable energy, including hydro, solar, and geothermal, that can improve electricity access while addressing climate change challenges. WBG is committed to delivering 1 GW of solar energy of grid-connected solar energy projects across Africa, and to provide 5 million off-grid consumers with modern energy services by 2023. Given the policy agenda involved, the size of investment required, and the important role for the private sector, the unique combined synergies of the entire WBG will be critical for this endeavor.

26. **Experience during IDA16 and IDA17 has reconﬁrmed strong and increasing African demand for IDA resources,** with country-level commitments signiﬁcantly front-loaded under both Replenishments, and the need to make tough ﬁnancing decisions that leave strong projects unfunded. In FY15, the ﬁrst year of IDA17, the region delivered US$10.4 billion in new commitments. Given that strong ﬁrst year, commitments will be lower in FY16 (expected to reach US$8.5 billion) and FY17, as the region will run out of available IDA17 funds, even allowing for commitment of the IDA17 Scale-Up Facility (SUF) resources. The strong demand from African countries for ﬁnancing under the SUF is further evidence of the keen demand from clients and the capacity to put them to good use. Moreover, Africa’s pent-up demand for resources from the IDA Regional Program continues to grow unabated, reaching nearly three times its IDA17 allocation. And ﬁnally, the region is a strong client for the CRW. Thus far in IDA17, 70 percent of the total CRW envelope has gone to Africa.

27. **Africa’s demand for increased IDA resources is compelling.** Meeting the challenge of the SDGs requires sustained and accelerated growth across Africa. The climate change agenda set out at COP21 has further elaborated the challenges African countries face. The global economic downturn, the end of the commodity supercycle, and the associated decline in foreign direct investment (FDI) to Africa, have exposed the vulnerabilities in many countries, especially the resource rich. This is playing out partly in increased market borrowing by many African countries, which has in turn raised the risk of a return to high and unsustainable levels of debt in a number of poor countries. In this context, a robust IDA18 which includes leveraged IDA resources would provide an important opportunity to help clients meet their demand for higher volumes of ﬁnancing to support their development agendas, while maintaining a careful focus on debt sustainability. IDA18 will also be important for Angola, a country which graduated from IDA at the start of IDA17, and is affected by both a commodity price shock and constrained IBRD headroom.

28. **SOUTH ASIA (SAR): While the region has been making tremendous development progress and showed strong resilience at the time of economic downturn, there is a vast unaddressed agenda as well as major development challenges brought forward by global trends.** The region is home to more than 300 million extremely poor people and inequality is rising. Multiple forms of economic and social exclusions persist, including barriers to female labor force participation, child marriages, lack of structural reforms, the lowest tax revenue level in the world, weak regional cooperation, and governance challenges affecting competitiveness. South Asia scores low on vital dimensions of environmental and health sustainability, faces increased frequency of natural disasters that disproportionately impact the poor, and suffers from fragility, which affects nearly all South Asian countries to varying degrees. Finally, urbanization and demographic transitions call for significant efforts to become drivers of progress rather than growth impediments.
29. **IDA’s strategy in South Asia closely corresponds to the IDA18 special themes.** Private sector development and regional integration are priorities, with an emphasis on job creation and economic modernization, improving global competitiveness of countries in the region, and bridging infrastructure and connectivity gaps. Greater social and financial inclusion is also critical, with a focus on female labor force participation and gender equality in access to jobs, assets and public services. Strengthened governance and security remains of utmost importance in such areas as DRM and tax administration, enhancing accountability and citizen feedback, strengthening governance at the local level, improving the regulatory and business environment, and fighting against corruption by strengthening public service delivery, public procurement and financial management.

30. **IDA provides significant support to clients in South Asia and demand continues to grow.** Bangladesh and Pakistan are among IDA’s biggest borrowers and under IDA17, IDA also provided exceptional transitional support to India. Other IDA clients in the region include Afghanistan, Bhutan, Maldives, Nepal, and Sri Lanka, which is proposed for graduation from IDA’s concessional window after IDA17. The region plans to scale up support in the policy priority areas under IDA18, including a 33 percent increase of lending with climate co-benefits based on the region’s Climate Action Business Plan. The region also plans to scale up its work related to FCV, as presented in Box 4. Looking ahead, South Asia will see one of the world’s largest movements of population from rural to urban areas over the next 25 years. With nearly 75 percent of the urban infrastructure yet to be built in the region, this presents a major opportunity to build more sustainable infrastructure for the benefit of the region and beyond.

<table>
<thead>
<tr>
<th>Box 4. South Asia Plans to Scale up Support for FCV</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Supporting <strong>job creation and service delivery</strong> in a fragility-sensitive way, e.g.:</td>
</tr>
<tr>
<td>o working at the community level (scaling up support to Afghanistan’s National Solidarity Program);</td>
</tr>
<tr>
<td>o introducing new operations such as Entrepreneurship and Jobs in Maldives and FATA Job Creation and Growth program in Pakistan;</td>
</tr>
<tr>
<td>o improving people’s access to economic opportunities (e.g., Trans Hindukush Road Connectivity project in Afghanistan or Bangladesh Regional Connectivity project);</td>
</tr>
<tr>
<td>• Assisting clients in meeting the needs of internally <strong>displaced peoples</strong>, including a path towards returning to their homes with attention to basic services and livelihoods.</td>
</tr>
<tr>
<td>• <strong>Tackling gender issues</strong> as an essential element (e.g., leadership role of women in Community Development Councils in the National Solidarity Program of Afghanistan or scaling up Bangladesh programs that help bring and keep girls in general education);</td>
</tr>
<tr>
<td>• Supporting <strong>regional integration</strong> through projects that help give people economic connectivity and stake in a less violent future (e.g., Central Asia South Asia (CASA)–1000 power transmission project, and projects between Pakistan and Afghanistan: development of the Kunar River Basin; and support for highway and customs interconnectivity);</td>
</tr>
<tr>
<td>• Continuing focus on <strong>basic fiscal and macroeconomic issues</strong> in support of strengthening governments’ ability to function. This remains central to addressing fragility.</td>
</tr>
</tbody>
</table>

31. **MIDDLE EAST AND NORTH AFRICA (MNA):** The region is experiencing conflicts and violence and terrorist threats that are destroying lives, reversing development gains, and betraying the Arab Spring’s promise of greater economic and social inclusion. Compounded by the steep decline in oil prices, the region’s growth prospects have been revised downwards, and the
certainties that underpinned past development gains have been overturned. With millions of poor and vulnerable people affected, the tide of refugees spilling into other countries and regions underscores the global implications of instability. These unprecedented events represent a defining challenge for the international community including the World Bank.

32. **Responding to the rapidly deteriorating regional situation, the new WBG Strategy for MNA aims to use development to advance peace and stability.** The strategy is organized around four pillars. Two of them address the causes of conflict and violence: renewing the social contract in the region through inclusive and meaningful political and socioeconomic structures; and supporting regional cooperation and interdependence in the least integrated region in the world. The remaining pillars address the immediate consequences of violence: building resilience to the shock of massive displacements; and preparing for recovery and reconstruction wherever and whenever peace comes. To finance the ambitious strategy, the WBG, the Islamic Development Bank Group and the UN are seeking to mobilize additional resources in support of recovery and reconstruction in MNA.

33. **IDA has a central role to play in the WBG Strategy in MNA,** both for the two IDA17 clients (Djibouti and Yemen) and more broadly by mobilizing a global coalition, applying WBG operational and analytical experience to coordinate support, and providing its established fiduciary capability to catalyze and help manage the volumes of concessional financing required. IDA’s trusted role in aid effectiveness and coordination is a powerful asset for MNA. In Djibouti, IDA has supported some of the country’s most challenging development needs related to extreme poverty, climate change, and now the refugee shock. The new Horn of Africa project to support refugee hosting communities represents a new partnership between AFR and MNA (covering Djibouti, Ethiopia and Uganda) (Box 2).

34. **In MNA countries, IDA could play a pivotal role to prepare for post-conflict reconstruction, recovery, and transition.** IDA’s global experience in post-conflict support and reconstruction can provide a strong signaling effect that can help crowd in partners, enhance government commitment to reform, and institute strong controls to ensure that reconstruction resources are well spent and deliver results.

- In preparation for a resolution to the ongoing conflict in Yemen, the World Bank has conducted a preliminary damage and needs assessment (focusing on critical infrastructure, physical assets and service delivery needs) and estimated the cost of rehabilitation of basic infrastructure in health, education, energy, water, transport and housing at between US$4-5 billion.
- Because of the conflicts, GNI per capita of Syria has declined significantly.7 If peace can be concluded in Syria, the international community will face unimaginable humanitarian and development challenges in seeking to rebuild.8 While difficult to calculate, current estimates

---


7 Syria is currently classified as an IBRD country and is not eligible for IDA resources. However, Syria could be found to be eligible for concessional IDA financing under IDA18. Such determination would require, under existing World Bank policy, an assessment which shows that relative poverty determined by GNI per capita in Syria is below the operational cut off (currently US$1215 for FY16, and it is estimated that Syria’s GNI per capita is now below this level) and a lack of creditworthiness for IBRD lending. Implementation of a strategy for assistance to Syria would be undertaken when conditions permit and there are systems and institutions in place in Syria to meet IDA’s policy and legal requirements.

8 According to UNHCR estimates, as many as 250,000 people have been killed since the onset of the conflict; around 4.7 million people have fled the fighting to Syria’s immediate neighbors—Iraq, Jordan, Lebanon, and Turkey; over 7.6 million Syrians have been
suggest that Syria’s infrastructure reconstruction needs are in the range of US$150-200 billion. IDA could have a central role to play – in strong partnership with others – in this effort (Annex 3).

35. Finally, the MNA region is also at the center of the global forced displacement challenges, which IDA18 is poised to help address. The turmoil in Syria, Iraq, Yemen and Libya has unleashed one of the largest refugee crises since World War II. Many of them fleeing their homes have sought refuge in neighboring countries that are themselves fragile and already experiencing acute economic distress. IDA has the potential to be a leading financier in the global effort to provide much needed development support to refugees in MNA countries and beyond. IDA could potentially play a significant role in operationalizing a global response to forced displacement, in partnership with others, and as a complement to humanitarian efforts. In IDA17, an exceptional concessional US$200 million allocation to Jordan and Lebanon was made to support the large refugee populations they are hosting, particularly from Syria. This funding was closely coordinated with IBRD and the MENA facility to provide a substantial program of support to these countries.⁹

36. EUROPE AND CENTRAL ASIA (ECA): The region is facing a shifting economic, social and political landscape with increased volatility, fragility and risk. Its past achievements are under threat. Growth is at 60 percent of pre-crisis levels, and the ongoing contraction in the Russian economy, slow growth in the Eurozone, and a first time fiscal deficit in Kazakhstan have had spill-over effects on neighboring IDA countries. Progress in poverty reduction is reversing in many countries, and many are vulnerable with a low ability to deal with shocks. The end of the commodity super-cycle, as well as ongoing geo-political tensions, have had an adverse impact on IDA clients. The prevalence of refugees is creating new challenges to the region.

37. IDA support to five countries in ECA – Kosovo, Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan – is closely aligned with IDA priorities. Climate action is a focused area including natural resource vulnerability e.g., water stress for Central Asian countries and drought in Kosovo, energy tariff and subsidy reforms, renewable energy e.g., hydropower in Central Asia, and sustainable energy supply. IDA is providing important support to addressing unfinished structural challenges including improving the business climate and enhancing institutional quality, enhancing attention to connectivity and regional cooperation, improving and ensuring the relevance of education and skills agendas, and continued attention to priority infrastructure and services. There will also be a greater focus on the foundational governance causes of instability.

38. Regional cooperation especially across Central Asia can unleash greater potential. Kyrgyz Republic, Tajikistan, and Uzbekistan participate in several regional programs on energy and water security, road transport, electricity transmission and trade, and fiber optic network. In Tajikistan and

---

⁹ Lending by IDA of US$200 million would leave US$350 million of the intended Syrian refugee support operations to be covered by IBRD. For the remaining IBRD loans to be provided on regular IBRD terms, development partner funding to the MENA Facility to buy down the cost would be required in order to provide financing on terms equivalent to concessional IDA terms. Under this scenario, these two critical projects for refugees would be financed by a combination of IBRD loans bought down to concessional levels using the MENA Facility and regular IDA loans provided as an exceptional allocation.
Uzbekistan, IDA is supporting a regional Climate Adaption and Mitigation Program for the Aral Sea Basin (CAMP4ASB), and which will be extended to other Central Asian countries during IDA18. The CAMP4ASB seeks to reap the benefits from regional cooperation and collaboration to address the mounting challenges of climate change, which often transcend borders in Central Asia. A regional IDA grant was also provided to the Executive Committee of the International Fund for Saving the Aral Sea to strengthen the platform for coordination and implementation at the regional level. A second phase of CAMP4ASB is under preparation, which will add more countries to the program.

39. The WBG’s strategy in the ECA region focuses on several critical areas that align with the SDGs, the WBG’s twin goals, and IDA18’s Special Themes. These include education and skills, vulnerability and inclusion, climate action, private and financial sectors, resilience and diversification, energy and natural resources, with gender, governance, open information and citizen engagements as cross-cutting areas. Looking ahead, transitional IDA support in IDA18 would be critically important for the three ECA countries which graduated from IDA at the start of IDA17 – Armenia, Bosnia and Herzegovina, and Georgia – as IBRD’s headroom is now more constrained for these countries than it was in IDA17.

40. EAST ASIA AND PACIFIC (EAP): Notwithstanding the region’s solid progress in reducing extreme poverty, outcomes vary across the diverse region, and an estimated 336 million people still live in poverty and are vulnerable to falling back into extreme poverty. For example, in Vietnam, a third of the population are poor or near poor. In addition, maternal and child mortality as well as malnutrition remain high in Cambodia, Lao PDR, Myanmar, Papua New Guinea (PNG), and Timor Leste. Furthermore, the region is home to seven countries currently classified as fragile: Myanmar and six countries in the Pacific. More broadly, there are 15 IDA-eligible countries in the region including Cambodia, Lao PDR, Mongolia, Myanmar, numerous Pacific Island Countries (PICs), PNG, Timor Leste, and Vietnam, which is expected to graduate at the end of IDA17.

41. PICs face unique development challenges due to their extreme small size, remoteness, geographical dispersion, environmental fragility, and high exposure to exogenous shocks (economic, natural disasters, and climate change). IDA’s Regional Program and CRW have proved invaluable in enabling tailored and scaled up support to PICs. In addition, increases in the minimum base allocation, including those proposed in IDA15 and IDA16, have enhanced IDA’s ability to engage with these vulnerable and remote clients.

42. IDA’s strategy in EAP is organized around five pillars: (i) inclusion and empowerment; (ii) jobs and private sector development; (iii) governance and institutions; (iv) urbanization and infrastructure; and (v) disaster risk management and climate change. Selectivity is determined at the country-level, guided by CPFs. A differentiated approach across countries is emphasized, where partnership strategies and country dialogues identify priorities and customize assistance based on specific client needs.

---

10 Thanks to rapid and sustained economic growth over the past two decades, EAP has made spectacular progress in reducing extreme poverty, estimated at 4.8 percent in 2015, excluding Myanmar.


12 In addition to the countries above: Tonga, Vanuatu
43. **Given the evolving trends and challenges facing the region, client demand for IDA support is strong and growing.** In Cambodia, IDA is expected to resume new financing after a five-year pause. A two-year Country Engagement Note is expected to be presented to the Board in FY16. In Myanmar, IDA is recalibrating its program to reflect the priorities of the newly elected government which took office in April 2016 (Box 5). To the extent that IDA18 provides enhanced support to FCS, IDA’s program in Myanmar could be significantly expanded. Transitional support in IDA18 will be critical for Vietnam, which is highly vulnerable to the effects of climate change on its agricultural sector and faces limited access to IBRD.

### Box 5. The World Bank Group Support in Myanmar

In 2011, Myanmar launched major reforms that ushered in its re-engagement with the international community. The WBG supported this re-engagement through timely advice and financing – including arrears clearance – to support this historic transition. Building on the WBG’s first comprehensive SCD in FY15, the WBG’s first CPF for Myanmar since 1984 focuses on three priority areas:

- **a) Reducing rural poverty:** increased agricultural incomes and productivity, rural electrification, community-driven investments in infrastructure and services, improved Ayeyarwady River navigation and flood control, and reduced vulnerability to shocks.

- **b) Investing in people and effective institutions for people:** universal access to and improved quality of essential social services; skills development to empower people to participate in a growing economy; and state institutions to deliver services effectively, including at the local level.

- **c) Supporting a dynamic private sector to create jobs:** diversification beyond extractive-based; increased openness and integration for higher growth; and investments for markets, trade and modern financial institutions.

### IDA Supported Results in Myanmar

**National Community Driven Development Project (2012)** empowers villagers to choose, plan, build, and monitor small infrastructure projects: bridges, roads, health clinics, and schools.

- Currently operating in 27 rural townships, about 3 million people (expected to reach about 7 million) in over 5,000 rural communities will gain better access to improved community infrastructure.

- Communities have built or rehabilitated more than 500 schools, constructed over 500 km of footpaths and roads, and jointly designed and implemented more than 2,100 sub-projects.

**Decentralizing Funding to Schools (2014).** Because of the program: more resources flow regularly to schools; and community participation and oversight have increased.

- Over 37,000 students in 8 townships received stipends in 2014-15.
- The program expanded to a total of 27 townships in school year 2015-16, and over 100,000 stipends have already been awarded.
- The program is expected to expand to about 60 townships in school year 2016-17.

**IDA also supports crisis response in Myanmar:** IDA allocated US$100 million from the CRW to finance Myanmar’s reconstruction and recovery efforts in response to the recent severe floods and landslides related to El Nino. It will be used to increase financing for resilient reconstruction of critical transport and infrastructure.

**Leveraging the full WBG:** IDA, IFC and MIGA have an ongoing Joint Implementation Plan (JIP) in Myanmar on energy, aimed at increasing access to electricity from 30 percent in 2014 to 50 percent in 2020 and achieving universal access by 2030 (7.2 million connections). In addition, 23,000 new connections for clinics, schools and religious buildings will be created, and over 150,000 public lights will be installed.
44. **LATIN AMERICA AND CARIBBEAN (LCR): The global economic deceleration has hit the LCR region hard.** The region’s slowdown in growth has put the private sector under pressure, with many countries suffering from a decline in economic activity, a drying up of capital inflows, and rising financing costs. As a result, LCR countries are facing an economic deceleration that threatens to roll back the hard-won social gains from the past decade. The nine IDA countries in LCR13 include those that are the most vulnerable – Haiti, Central America, the Caribbean, and Bolivia – and with limited resources to counter this slowdown. The four IDA countries of the Organization of Eastern Caribbean States (OECS) – Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines – face similar challenges in that they are small, open economies that have been trapped for years in a cycle of low growth, high debt, and limited fiscal space, exacerbated by a number of external shocks.

45. **IDA’s strategy in LCR is focused on ensuring impact and selectivity in country engagement to meet the WBG Twin Goals and the SDGs.** The regional strategy emphasizes: (i) setting the stage for economic recovery; (ii) strengthening infrastructure services; (iii) investing in human capital and protecting the poor; (iv) sustainability and resilience; and (v) governance and institution building. In Haiti, all of the five IDA18 Special Themes are critical to the Haiti SCD and CPF. Furthermore, IDA’s approach to fragility in Haiti is to engage selectively and pragmatically through its investment operations to reduce vulnerability and support the building of the social contract.

46. **IDA resources have been vital for these LCR governments, and demand for IDA chronically exceeds IDA allocations.** Reviving growth in LCR will require concerted action in and attention to long-standing structural weaknesses. As a result, there is a very strong demand for IDA resources from IDA countries in LCR for IDA18. For the small islands of the Caribbean, an increase in the minimum base allocation in IDA18 would enhance IDA’s ability to promote growth and resilience for these countries. For Bolivia, which is proposed for graduation at the end of IDA17, continued transitional development financing is critically important (see Transition section below).

**B. GLOBAL PRACTICES’ IMPLEMENTATION**

<table>
<thead>
<tr>
<th>Global Practices</th>
<th>EIF</th>
<th>SD</th>
<th>HD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance and Markets</td>
<td>Agriculture</td>
<td>Education</td>
<td></td>
</tr>
<tr>
<td>Governance</td>
<td>Energy and Extractives</td>
<td>Health</td>
<td></td>
</tr>
<tr>
<td>Macroeconomics and Fiscal Management</td>
<td>Environment and Natural Resources</td>
<td>Social Protection and Labor</td>
<td></td>
</tr>
<tr>
<td>Poverty</td>
<td>Social, Urban, Rural and Resilience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and Competitiveness</td>
<td>Transport and ICT</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Water</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cross-Cutting Solution Areas</strong></td>
<td><strong>Climate Change</strong></td>
<td><strong>Fragility, Conflict and Violence</strong></td>
<td><strong>Gender</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Jobs</strong></td>
<td><strong>Public-Private Partnerships</strong></td>
<td></td>
</tr>
</tbody>
</table>

---

13 Bolivia, Dominica, Grenada, Guyana, Haiti, Honduras, Nicaragua, St. Lucia, and St. Vincent and the Grenadines.
47. **GPs aim to provide global knowledge and expertise to help implement country-tailored solutions and achieve results for IDA clients.** As described above in paragraph 17, the WBG’s new structure is intended to bring its knowledge more efficiently to its country engagements. Supported by over 6,800 full-time WBG staff assigned to country offices,14 Country Directors engage directly with clients to examine country-driven priorities and to help identify constraints to poverty reduction and shared prosperity. The GPs help countries implement these reforms by drawing upon their extensive global experience to support timely analytic work, technical assistance, south-south exchanges, and portfolio management. The section below provides a more in-depth description of the three GP Groups.

48. **EQUITABLE GROWTH, FINANCE AND INSTITUTIONS (EFI).** Alongside long-term trends – demographic and growth transitions; the changing nature of globalization; urbanization; and pressures on the world’s resources and climate change – the global economy will continue to experience powerful cycles – the end of the commodity super-cycle; a significant drop in net capital inflows for emerging and developing economies; rising levels of corporate debt; and fiscal pressures in developing countries and depleted fiscal buffers. Global forces are also likely to unleash more frequent disruptions, such as financial and humanitarian crises, pandemics, social instability, and crime. IDA countries need to adjust to long-term trends, and to do so in the context of weak global growth prospects and increased risks and volatility. EFI is well positioned to support IDA clients as they make the adjustments needed to sustain sound macroeconomic foundations and protect recent gains in poverty reduction and equity. Strengthening productivity and public sector efficiency is also critical. Demand for EFI’s services is strong, on both near-term issues and long-term transitions. EFI delivers solutions through a cross-practice approach to provide tangible, positive results for our clients. Five strategic priorities include:

- **Equity and Inclusion.** Access to economic opportunities and high-quality basic services are fundamental to shaping the pathway toward eliminating extreme poverty and building shared prosperity. EFI helps clients address challenges to equity and inclusion, such as greater inequality and our clients' limited evidence base for policymaking. Understanding the distributional consequences of policy reforms is integrated into our analytic work and lending, including Development Policy Operations (DPOs).

- **Public Sector Efficiency.** More efficient public resource mobilization and spending allows governments to improve service delivery. EFI helps IDA clients address the constraints to improving public-sector efficiency, such as the lack of spending prioritization, the lack of budget management and control, and constraints to DRM.

- **Sustainable Macroeconomic Foundations.** Sustainable macroeconomic and fiscal policies provide an enabling environment for broad-based private-sector led growth, and the basis for efficient and effective development planning and public spending without unnecessarily reducing the prosperity for future generations. In the current global economic context, EFI helps clients gauge the right mix between fiscal management, debt policies and growth.

- **Productivity.** More integrated economies with competitive private sectors raise the incomes of the poor by spurring aggregate productivity gains, promoting sustained economic growth, and creating more and better-paying jobs. In collaboration with the IFC, EFI engagements help clients create more competitive sectors. These efforts help IDA countries address the challenges of high unemployment especially among youth, low private investment, and high cost of doing

---

14 Data as of April 30, 2016.
IDA supports countries to spur national, industry-level and firm-level productivity growth through multi-sectoral diagnostics and operations that integrate advisory, convening and financial services, such as the Kenya Productivity Diagnostic, and the Ethiopia Competitiveness and Jobs project.

- **Financial Stability and Deepening.** Deep, diversified, inclusive, efficient, and stable financial systems help reduce poverty and contribute to faster growth, especially among the poor. Impediments to creating such systems, such as: financing gaps for firms and for the poor; infrastructure and housing-finance gaps; and financial-crisis preparedness, are critical areas of EFI’s work. IDA supports countries to raise productivity, foster economic growth, increase access to opportunities through small and medium enterprises and basic financial services, and transform economies through major investments in infrastructure without losing sight of financial stability.

**Figure 3. EFI Alignment with the SDGs**

49. **SUSTAINABLE DEVELOPMENT (SD).** The unfinished infrastructure agenda in IDA countries affects growth, equity and sustainability. Globally, 1.1 billion people live without access to electricity, 2.6 billion lack basic access to sanitation and 900m people don’t have safe, clean drinking water. Conflicts, natural disasters, and environmental stress are displacing an unprecedented number of people, and climate change, a defining challenge of our time, has the potential for 100 million more people falling into poverty from climate impacts if not addressed. The SD Practice Group helps IDA countries find solutions to these challenges by managing their natural, physical and social capital to deliver green, inclusive and resilient growth. The GPs of SD are critical to supporting IDA clients to implement their NDCs under COP21, and the WBG’s commitment to increase climate financing to 28 percent by 2020. SD designs projects and programs which respond to challenges facing IDA countries, as shown below in Figure 4.
Figure 4. SD at the Heart of Country and Global Agendas

50. **Quality infrastructure continues to attract strong demand from IDA countries, as it is critical to their economic transformation.** Green and resilient infrastructure, the quality of infrastructure, regional connectivity and the combination of physical assets with policy and institutional capacity issues are the next generation of demand from IDA countries. IDA is poised to provide strong and quality support, building on its track record and global experience. In Africa, opportunities for growth and poverty reduction would include boosting agricultural productivity and commercial farming. Improvements in infrastructure remain critical to growth. In the power sector, renewable energy can improve electricity access while tackling climate change challenges. Policy reforms to address financial health of utilities are critical to sustainability. Integrated investments in urban planning including transport, electricity, housing, water and sanitation, ICT, are critical to harness the demographic dividend and reap the economic benefits of urban agglomeration. In MNA, infrastructure reconstruction needs are significant. Climate vulnerability is a key challenge in Central Asia and unfinished structural challenges, e.g., level of energy subsidies, are opportunities to stimulate growth. In South Asia, infrastructure development and regional integration, particularly in connectivity, power and water sectors, remain central to sustained and inclusive growth. Addressing energy deficits through cleaner solutions such as renewable energy has the potential to decrease impediments to growth. Renewal of the social contract, public service delivery for the poor and excluded, and interventions to benefit the displaced, youth and women are important in South Asia as well as MNA.
51. **HUMAN DEVELOPMENT (HD).** HD is central to the achievement of WBG’s twin goals of eliminating poverty and boosting shared prosperity, as well as in the achievement of the SDGs. IDA countries have made impressive gains in global HD outcomes over the past two decades. Yet there is a major unfinished HD agenda of unequal access to quality health, education, and social protection services. The global economic slowdown calls for more efficient social sector spending, increases demand for social safety nets and insurance, and puts jobs at risk. Fragility, conflict and refugees add pressure on jobs, social services and safety nets, while increasing the risk of communicable diseases and pandemics. Climate change affects disease transmission, impacts food security and nutrition, and increases the need for effective climate and disaster risk management. Longer term population trends including urbanization, population aging in some countries and youth bulges in others – put pressure on labor markets, pension, health systems and social services demand and underscore the need for sustainable solutions. The mission of the WBG’s HD Practice Group is to create equal chances for people to live healthy, prosperous, and longer lives; secure productive and inclusive jobs; and be resilient in the face of crises. The intergenerational transmission of poverty can be broken by a three-pronged approach:

- **Grow:** IDA will work to make growth inclusive and promote private-sector-led job creation. Job diagnostics and multisectoral policies are critical in this regard, as they underpin skills building, work incentives, contestable labor markets, and greater labor mobility. Investment in education and skills will be crucial to enhance productivity and employability. Demand for IDA-financed analytical work and lending operations in skills programs have increased substantially. For example, IDA supports reforms through the pioneering STEP Skills Measurement Surveys on the supply and demand for skills and the employability of the workforce, and lending operations to improve the quality and relevance of skills development and tertiary education.

- **Invest:** IDA prioritizes a strong, healthy start for all and strengthens systems for universal access to quality, affordable services, and accountability for services. Early nutrition, Early Childhood Development (ECD) and school readiness programs are critical to build a strong and healthy start for all. IDA support for nutrition and ECD is provided multisectorally and holistically. There is a strong demand in IDA countries for investment in high-impact ECD programs. In rural Mozambique, 84,000 young children are benefiting from community-based preschool programs that focus on cognitive, linguistic, socio-emotional and physical skills aimed at increasing chances of success in primary school and beyond. Senegal’s nutrition enhancement project dramatically reduced stunting and underweight rates from over 22 percent to below 10 percent in just three years. IDA is also building the capacity of education systems to raise the quality of basic education and expand access to relevant higher levels of education. For example, in Pakistan, 16,800 teachers were recruited through a transparent, test-based system to help improve education quality.

- **Insure:** IDA works to build resilience to manage shocks and risks, while improving livelihoods and promoting equity and inclusion. It helps countries move from fragmented programs to more harmonized social protection systems to improve resilience and increase productivity. The Rapid Social Response program strengthens social protection systems in low-income countries

---

15 See WBG Education Strategy 2020 “Learning for All.”

across 37 new IDA projects, including in many FCS, reaching 42.1 million beneficiaries. The
Ethiopia Urban Productive Safety Net will reach 4.7 million poor urban dwellers through
unconditional transfers, public works and other interventions to bolster earning opportunities
and resilience. To assist Guinea, Liberia, and Sierra Leone in responding to the Ebola crisis,
IDA has financed essential supplies and drugs, personal protective equipment and infection
prevention control materials, health worker training, hazard pay and death benefits to Ebola
health workers and volunteers. Drawing on lessons from the Ebola outbreak, the WBG, the
World Health Organization and partners are developing a Pandemic Emergency Financing
Facility – an innovative financing model, using a combination of public and private funds, to
cover low-frequency, high-severity outbreaks.

Figure 5. HD at the Core of the SDGs

52. Given the scope of the challenges in the HD arena, IDA relies on and promotes strong
analytics, a results focus, and partnerships:

- **Analytics:** The Systems Approach for Better Education Results initiative helps countries to
assess education policies that shape education quality and outcomes. The STEP surveys
generate data in the supply and demand for skills and the employment of the workforce to
inform policy and skill development strategies. The Service Delivery Indicators (SDI) program,
in partnership with the African Economic Research Consortium and AfDB, provides data about
key SDI in the health and education sectors. Eighteen national SDI surveys have been
implemented in eight countries, capturing the service delivery experience of about 370 million
people. SDI is becoming a major data source for governments to monitor their performance,
and boost accountability for service delivery.
• **Results-Based Financing**: Between 2010 and 2015, Results-Based Financing (RBF) in education has grown to about US$2.5 billion or 20 percent of total education investments, and an additional US$1.3 billion has been committed in the past year alone. Such financing can also expand the quality and reach of health care services in the poorest countries towards Universal Health Coverage. From fiscal years 2011 to 2015, IDA financing provided 413 million people with essential health services.

• **Partnerships**: IDA engages in strategic partnerships – the Global Financing Facility, the Power of Nutrition, R4D, 1000 Days, the Bill and Melinda Gates Foundation, and the Children’s Investment Fund Foundation, to name a few – which significantly scale up impact for our clients. IDA engages in strategic partnerships and mobilizes domestic, private and development partner resources. Key partners include, the Global Financing Facility for Every Woman, Every Child, the Global Partnership for Education, the Rapid Social Response Program, the Power of Nutrition, R4D, 1000 Days, the Bill and Melinda Gates Foundation, and the Children’s Investment Fund Foundation, to name a few.

53. **The WBG’s technical expertise across its GPs, reinforced by the WBG’s Cross-Cutting Solutions Areas (CCSAs), is central to designing IDA18 strategies that promote investments for growth, resilience and opportunity in IDA countries.** The CCSAs are very closely linked to the five IDA18 special themes, which ensures that multisectoral knowledge and solutions are shared across the WBG. Together with the intellectual leadership provided by the CCSAs, the strategies of the regions, supported by the GPs as described above, will serve as the solid foundation for translating IDA18 resources into development results for its clients and the global community.

**IV. RESOURCING IDA18**

**A. IDA COUNTRIES’ FINANCING NEEDS**

54. **To meet the heightened global ambitions agreed in 2015 and mitigate the myriad of challenges in achieving them, the IDA18 Replenishment calls for a paradigm shift.** The next section describes IDA countries’ financing needs – both in terms of Core and non-Core IDA financing. It builds on the country-by-country submissions of significant demand across all client groups. The following section presents four scenarios providing a range of options and trade-offs to help address those needs during IDA18 in order to deliver results for IDA clients. The final section outlines various implementation issues raised by the proposals.

**Core Unearmarked IDA**

55. **A significant scaling-up of Core funding will be needed in IDA18 to match the global community’s ambitions for achieving the SDGs at a time of increased challenges and risks.** IDA18 Core funding will provide unearmarked support to all IDA-eligible countries for priority interventions that have a strong and direct impact on poverty reduction. These priorities are identified through the WBG’s new country engagement model which targets interventions with the clearest link to the WBG twin goals of eradicating extreme poverty and boosting shared prosperity. Through this model, IDA
borrowers increasingly set out their planned use of IDA financing in the new CPF\textsuperscript{17} based on priorities identified in SCDs, other critical diagnostics and the WBG comparative advantage. The predictable and unearmarked nature of Core funding facilitates the multisectoral interventions needed to address the SDGs, including in the areas of infrastructure, agriculture, HD, private sector development and governance. The opportunities and challenges in these areas are further detailed in the regional, sectoral/thematic and country-level strategies in Section III (and Annexes 2 and 3). Core funds also provide countercyclical financing in light of the challenging global economic environment and are a key channel for achieving results in each of the IDA18 special themes.

**Figure 6. Demand from Regions for IDA18 Resources**

![Figure 6: Demand from Regions for IDA18 Resources](chart.png)

56. Each of IDA’s six regions has expressed significantly stronger demand for programmable resources in IDA18, the bulk of which are from Core funding.\textsuperscript{18} Figure 6 above shows that regions have submitted requests for approximately US$90 billion over the IDA18 period, for such programmable resources as compared to the US$52 million in such requests for IDA17.

57. To tackle urgent needs, adjustments to the IDA18 allocation framework are proposed which - when taken together with the higher level of overall financing - would enable a doubling of concessional Core support to FCV relative to IDA17. These proposed adjustments respond to the calls from the international community to greatly scale-up its focus on fragility in IDA18 (see the FCV Special Theme Paper). They build on the significant progress IDA has made in enhancing support to FCS in recent years through Core IDA resources.\textsuperscript{19} The proposed modifications will help target resources to FCSs, while preserving the performance orientation principle of Core IDA financing and

---

\textsuperscript{17} As of Q2 FY16, seven CPFs were delivered (Bolivia, Chad, Côte d’Ivoire, Haiti, Honduras, Mali, and Myanmar); nine SCDs were completed and publicly available (Afghanistan, Bangladesh, Maldives, Sri Lanka, Pacific Islands, Lesotho, Madagascar, South Sudan and Uganda); five SCDs have completed Decision Review (Cameroon, Ethiopia, Kosovo, Mozambique, and Uzbekistan); two additional SCDs have completed Concept Review (Togo, and Sierra Leone).

\textsuperscript{18} Programmable includes Core funding and funding for regional projects, as interventions can be planned ahead by regions, and is not limited to specific sectors.

\textsuperscript{19} In recent replenishments, IDA has progressively adjusted its performance-based resource allocation framework to better address the needs of FCS confronted with particularly challenging situations. As a result, IDA’s Core financial support to FCS in IDA17 is expected to reach US$7.2 billion, accounting for more than 18 percent of the total concessional Core envelope). This represents about a 50 percent increase relative to the level of Core support FCS would have received in IDA17 without the adjustments to the allocation framework agreed for that replenishment.
avoiding the proliferation of new set asides. Thanks to the increased Core envelope assumed for IDA18 in the financing Scenarios, these changes are also consistent with the principle that enhancements to FCSs do not come at the expense of other better performing countries facing their own significant development challenges. The proposed modifications to IDA’s PBA formula include (see also Annex 6 and the accompanying FCV paper):

- An increase in the annual minimum base allocation (from SDR4 million to SDR15 million), which would have the greatest impact on smaller countries, many of which are vulnerable and fragile;
- An increase in the poverty orientation of the PBA formula: building on the changes already introduced in IDA17, the increased poverty orientation would be achieved by reducing the Country Performance Rating (CPR) exponent in the PBA formula from 4 to 3. This adjustment benefits FCS as these countries are generally at the low end of the CPR spectrum; and
- Removal of the grant discount and Multilateral Debt Relief Initiative (MDRI) netting out: These adjustments would primarily benefit FCS who receive most of their assistance on grant terms, and several of which – reflecting their low CPR score – do not significantly benefit from the redistribution of resources from the MDRI netting out. While the grant discount provided a mechanism to address the moral hazard related to the link between IDA terms and debt sustainability, mechanisms in place in the recently updated Non-Concessional Borrowing Policy also address this risk with respect to non-concessional borrowing that can push a country into a higher risk of debt distress and commensurately higher level of grants. Finally, these proposals have the added benefit of simplifying the PBA framework, and enhancing its transparency.

58. Within Core IDA, the Turn-around Regime will continue to provide additional support for fragile countries on the cusp of major positive change, while new flexibility is proposed for IDA18 to support countries at high risk of sliding back into deep fragility. IDA18 Turn-around financing will continue to support countries taking advantage of a significant opportunity to build stability and resilience following the cessation of a conflict or the commitment to a major change in the policy environment. IDA18 also proposes to introduce new flexibility within Core IDA to allow additional resources to target specific drivers of FCV, mitigate identified fragility risks, and support four pre-identified countries (Guinea, Nepal, Niger, and Tajikistan) that present increased risks of fragility. In addition to the doubling of financing through Core IDA, other measures being proposed in IDA18 will also address FCV challenges (Box 6 and the Regional Program section below).

---

20 Review and Update of the International Development Association’s (IDA) Non-concessional Borrowing Policy (NCBP), Revision, October 22, 2015, IDA/SecM2015-0161/3
IDA proposes to strengthen its engagement in small states to address their special vulnerabilities and challenges. The unique development challenges of small states have always been an IDA priority, and country and regional programs have been tailored to help them address social and structural sources of vulnerability, deal with underlying policy and institutional weaknesses, and respond to and manage shocks. Three proposed changes for IDA18 would benefit the small states: (i) increase in the annual base allocation from SDR4 to SDR15 billion; (ii) extending favorable lending terms from small island economies to all small states; and (iii) placing a cap of 20 percent on small states’ country contributions to projects under the Regional Program. Taken together, these proposed measures provide a strong package of support to small states that will greatly enhance IDA’s support to them, while having a negligible effect on the level of support being provided to other IDA countries:

- **Increasing the base allocation helps small states disproportionately.** The proposal to increase the base annual allocation from SDR4 million to SDR15 million will greatly benefit IDA-eligible small states where the base allocation represents the bulk of what drives their overall allocation.

- **Extending highly concessional lending terms to all small states would benefit four additional countries:** Bhutan, Djibouti, Guyana, and Timor Leste. In IDA17, favorable lending terms were retained for small island states, and it is proposed that these terms be extended to all IDA-eligible small states. This proposal is motivated by the fact that small states are as vulnerable to natural disasters as small island states and have a lower level of development. Also, as small open economies, external economic shocks are quickly transmitted. Moreover, the UN’s Human Development Index shows that most small states fare worse than small islands and that they have a higher poverty headcount than the small islands for which there is available data.

---

Box 6. IDA18: Key Elements in Financing Support to Benefit FCV

A) Through core IDA financing, a number of measures benefit FCSs:

- a. Ensuring allocations are at scale through increase in the minimum base allocations from SDR4 million to SDR15 million.
- b. Increase the poverty orientation of the regular PBA system, by reducing the CPR exponent from 4 to 3.
- c. Simplifying the PBA – removing the 20 percent grant discount and removing the MDRI netting out.
- d. Providing exceptional support to scale up engagement in four non-FCS (Guinea, Nepal, Niger, and Tajikistan) to mitigate FCV risks.
- e. Continuation of the Turnaround regime.
- f. Possible IDA support for Syria (see footnote 7).

B) Other financing that addresses FCV:

- a. IDA regional sub-window targeting refugees and host communities.
- b. Proposed PSW includes a focus on greater private sector funding in IDA FCS.

---

59. **IDA proposes to strengthen its engagement in small states to address their special vulnerabilities and challenges.** The unique development challenges of small states have always been an IDA priority, and country and regional programs have been tailored to help them address social and structural sources of vulnerability, deal with underlying policy and institutional weaknesses, and respond to and manage shocks. Three proposed changes for IDA18 would benefit the small states: (i) increase in the annual base allocation from SDR4 to SDR15 billion; (ii) extending favorable lending terms from small island economies to all small states; and (iii) placing a cap of 20 percent on small states’ country contributions to projects under the Regional Program. Taken together, these proposed measures provide a strong package of support to small states that will greatly enhance IDA’s support to them, while having a negligible effect on the level of support being provided to other IDA countries:

---

21 In IDA17, IDA’s financing terms were hardened in order to strengthen IDA’s finances and long-term financial capacity. The financing terms for small island states remained unchanged at 40-year maturity, 10-year grace period, and back-loaded principal repayments (2 percent from year 11 to 20 and 4 percent from year 21 to 40).

22 Defined by the World Bank as countries with a population of 1.5 million or less.
- 25 -

- Finally, it is proposed that the threshold for triggering the 20 percent cap in the Regional Program be revised in IDA18 to apply to all small states. Under the IDA Regional Program, countries with small allocations benefit from the 20 percent cap, which limits their national IDA contributions towards regional projects. Established in IDA15, this exception enabled countries with small allocations to participate in regional IDA programs with their larger neighbors (see Regional Program section below).

60. **One of the key strengths of IDA – its non-earmarked nature which allows clients to apply resources to their own sectoral priorities – is at risk of being eroded by set-asides.** Since IDA15, these set-asides as a share of total IDA has grown from 8 to 19 percent in IDA17, and is projected to increase slightly to 20 percent in IDA18. While this decline has been gradual, further set asides would risk undermining the non-earmarked nature of IDA. This is the foundation of its ability to provide predictable counter-cyclical financing channeled to the needs and priorities of the borrowing country, in stark contrast to most other single-purpose funding sources.

![Figure 7. Growing Share of IDA Set-Asides](image)

Transitional Support

61. **As agreed at the IDA18 first Replenishment meeting, this section presents a proposal for a systematic transitional support to IDA graduates to address the drop in their combined World Bank resources, while keeping concessional Core IDA for the poorest countries.** Proposed transitional support is critical for the global community to make progress towards the SDGs, given the importance of continued progress in poverty alleviation in these transitioning countries. In addition, continued access to financing and knowledge will be critical to sustain and deepen gains in poverty reduction and shared prosperity.
The rationale for proposing transitional support is based on three key elements: (i) constrained access to WB resources in an environment of heightened ambitions; (ii) increasingly complex challenges, such as demographic and growth transitions, urbanization, climate change, rising inequity, aging populations and globalization, and risks; and (iii) the fact that such support can now be provided through leveraged IDA resources, without diverting scarce concessional resources away from the poorest borrowers.

The countries poised for graduation ahead of IDA18 (Bolivia, Sri Lanka, and Vietnam, “current” graduates henceforth) as well as those that graduated ahead of IDA17 (Angola, Armenia, Bosnia and Herzegovina, Georgia, and India, “recent” graduates henceforth) are all facing sharp reductions in net transfers. The decline in IDA net flows is compounded by the impact of the accelerated repayment on outstanding IDA credits. In IDA17, a special transitional support window was made available to India due to the limitations that the IBRD’s Single Borrower Limit put on India’s access to IBRD, and the country’s significant poverty levels. IBRD was able to augment support in IDA17 for the remaining recent graduates but in light of the pressure on IBRD’s capital, it may not be possible to provide significant amounts of additional exposure headroom given current equity. This resulted in an unfavorable trend in overall WB net transfers to these countries (Annex 4).

IDA has responded to the international community’s call to mobilize significant financial resources through innovative approaches without diverting resources from the poorest countries. Through IDA’s strong equity, IDA is able to raise debt-financed resources to be lent on non-concessional terms. The availability of these resources makes it possible to provide transitional support to graduates that otherwise are constrained by IBRD while not tying up any concessional resources for graduates.

Based on the rationale described above, IDA proposes to provide phased, transitional support on non-concessional terms to current and recent graduates. Current and recent graduates (except India) would receive transitional support for three IDA cycles. Management recommends that the transitional support be phased as follows: in IDA18, the country would receive the same allocation that it last received as an IDA borrower; two-thirds of its allocation in IDA19, and one-third in IDA20. Given that India received IDA transitional support in IDA17, it would receive the second and the third phases of transitional support (i.e., it would receive two-thirds of the allocation it received in IDA16 in IDA18, and one third in IDA19).

No changes are proposed in the implementation of the contractual acceleration of IDA credits for Bolivia, Sri Lanka and Vietnam in IDA18. IDA reviewed potential adjustments of the acceleration clause, for example, the postponement of contractual acceleration by one replenishment, and concluded that the adjustment would have a relatively small impact in NPV terms on the finances of the affected countries as well as on IDA. It would reduce the average annual debt service for Bolivia by US$5 million, for Sri Lanka by US$15 million, and for Vietnam by US$116 million over the IDA18 period. Furthermore, the acceleration clause has been applied consistently across all existing graduates where the clause was applicable since IDA16. The significant flexibility that has been offered to the past graduates to tailor the debt service to the country’s circumstances will also be offered to the current graduates in the implementation of the acceleration of IDA credits.

23 Albania, Angola, Armenia, Azerbaijan, Bosnia and Herzegovina, China, Egypt, Equatorial Guinea, Georgia, India, Indonesia, Iraq, Macedonia FYR, St. Kitts and Nevis, and the Philippines.
67. **It is also proposed to modify the past practice on cancellation and recommitment of funds in graduates.** In the past, when graduates cancelled IDA projects, the funds were returned to the general IDA pool because these countries were no longer eligible for receiving IDA funds. To enhance flexibility and to promote an effective use of IDA resources, where applicable, cancelled IDA balances from ongoing operations in IDA graduates eligible for transitional financing would be available for recommitment to other purposes in the same country (either to supplement ongoing successful operations or for new activities that are consistent with the CPF). The cancelled funds will be used for recommitments within the same fiscal year, and in all cases before June 30 of the last year of the IDA replenishment cycle within which the cancellation occurs. The recommitted funds will be noted in the project documentation submitted to the Board. For graduates, cancelled funds would be available for recommitment on non-concessional terms.

**Crisis Response Window**

68. **CRW aims to assist IDA countries in responding to severe natural disasters, economic crises, and public health emergencies and epidemics, and help them build resilience and preparedness.** Crises create an enormous economic and social burden on poor countries, which typically have limited resources to respond without diverting resources from core development spending, thus eroding long term development gains and objectives. Since its establishment in IDA16 (after a pilot during IDA15), the CRW has helped to successfully alleviate short- and long-term social and economic impact of crises in a number of poor countries, helping them return to their long term development paths. Enabling resilience and preparedness are CRW objectives that have been part of every CRW-funded project since its inception. This reduces the impact of future crises by enhancing countries’ capacities to respond.

69. **At the beginning of IDA17, CRW envelope was set at SDR0.6 billion, or 2 percent of total Core IDA plus Regional Program resources.** The demand for CRW resources during IDA17 has been extremely strong in response to: Ebola in Guinea, Liberia, and Sierra Leone; floods in Malawi (Box 7); cyclones in Tuvalu and Vanuatu; and the earthquake in Nepal. As a result, the initial allocation was almost fully committed in just the first year of IDA17. During the IDA17 Mid-term review (MTR), a contingent allocation of US$900 million was made available to replenish the CRW.\(^\text{24}\) Also, the eligibility criteria for accessing the CRW were expanded to include public health emergencies and epidemics. Any unused portion of IDA17 CRW resources will be carried over for use in IDA18.

---

\(^{24}\) The replenishment of the CRW was possible by changes to IDA's liquidity policy (see "Enhancing IDA’s Financial Support in IDA17", February 27, 2016, IDA/R2016-0019/1).
Box 7. WBG Support Contributed to Containing Ebola

The WBG was among the first major partners to disburse its funding in response to Ebola. The Ebola Emergency Response Project was approved by the Board on September 16, 2014, only 36 days after the team started project preparation, and disbursed the funding to Guinea, Liberia, and Sierra Leone within nine days. IDA’s CRW provided US$420 million of support for Ebola, as part of the WBG’s total support of US$1.6 billion. IDA has financed essential supplies and drugs, personal protective equipment and infection prevention control materials, health worker training, hazard pay and death benefits to Ebola health workers and volunteers, contact tracing, vehicles, data management equipment, and door-to-door public health education outreach.

<table>
<thead>
<tr>
<th></th>
<th>Guinea</th>
<th>Liberia</th>
<th>Sierra Leone</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cases</td>
<td>5,000</td>
<td>10,000</td>
<td>15,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Deaths</td>
<td>5,000</td>
<td>10,000</td>
<td>15,000</td>
<td>30,000</td>
</tr>
</tbody>
</table>

70. In a world of increasingly frequent and severe adverse events which hit the poor hardest, the CRW is a critical tool for the international community to provide timely and systematic support to IDA countries. The continuation of CRW funding in IDA18 would strengthen global preparedness and help serve as a global contingency reserve to support the most vulnerable in cases of crises. CRW financing in IDA18 would follow the same eligibility criteria as in IDA17. The CRW is one of a strong set of tools at IDA’s disposal to help its clients respond to crises (Box 8).

Box 8. IDA’s Toolkit for Risk Management, Preparedness and Crisis Response

IDA supports both short-term crisis response and longer-term crisis resilience in a timely and effective manner. IDA’s investment helps countries respond to immediate crises, but also to build future resilience and meet high priority needs to avoid “lost generations.” IDA’s toolkit was strengthened by the creation of the CRW, which compliments Core IDA and allocations from the Regional Program. The CRW is an effective tool for countries to provide emergency response to crisis as well as build long-term resilience and capacity to manage crisis in a systematic way. Resources from the Regional Program can be accessed to alleviate the impact of crises that impact multiple countries for e.g., IDA regional funds used to establish the regional health hub in West Africa for early detection of Ebola type diseases. In case of countries that are subject to frequent crises and disasters, regular IDA funds may be allocated to build capacity to respond to crisis.

Crisis response can be provided through several World Bank instruments:

- **Immediate Response Mechanism** (IRM) is an important instrument that provides rapid access to undisbursed IDA resources to address immediate post-crisis financing needs. IDA countries that have included an IRM contingent emergency response component in projects can access funds through this instrument.
- **Emergency Response Loans** (e.g., US$200 million Nepal Earthquake Housing Reconstruction Project and US$80 million Malawi Emergency Recovery Project) can be used to provide immediate relief.
- Budget support though DPOs can provide fiscal adjustments required as a result of a crisis. This can also provide much needed countercyclical financing and policy advice to help countries protect essential public investments and services and build targeted social safety nets to protect the most vulnerable.
• **Investment Project Financing** may be used to strengthen the capacity of country systems to respond to crises.

To complement the above instruments, IDA management is also considering contingent instruments using leveraged IDA resources. Contingent financing instruments have been used by IBRD and other agencies to provide client countries with liquidity immediately following shocks caused by natural disasters. The IBRD contingent instrument for natural disasters, a Development Policy Loan with Catastrophe Deferred Draw-Down Option (CAT-DDO), allows borrowers to secure immediate access to budget support. Adopting a similar instrument for IDA would fortify their crisis preparedness as well as through the disaster risk management program, which is an ex-ante requirement for the CAT-DDO.

### IDA Regional Program

71. **The IDA Regional Program supports projects designed to tackle challenges and harness opportunities that can only be achieved through coordination and cooperation at the regional level** (See Annex 5 for more detail, including eligibility criteria). While regional infrastructure has been major focus of the Regional Program, demand is also growing for health, disaster risk management and insurance, and forced displacement. For example, the Sahel Women’s Empowerment and Demographics project aims to promote regional knowledge and data, and to increase women and adolescent girls’ empowerment and their access to quality reproductive, child and maternal health services. The regional Pacific Resilience Program aims to strengthen early warning, resilient investments and financial protection. The Regional Program is also supporting regional forced displacement projects in the Great Lakes and the Horn of Africa, (which includes countries from both MNA and Africa – Djibouti, Ethiopia and Uganda) (Box 2).

72. **Due to IDA’s unique global reach and multi-sectoral focus, the IDA Regional Program can spread knowledge on regional approaches that work around the world.** Regional IDA funds helped establish the Caribbean Catastrophe Risk Insurance Facility, which was the first regional catastrophe risk insurance pooling facility covering 16 Caribbean countries. This model is being pursued elsewhere, such as for drought coverage to African states and for hurricane and earthquake coverage to Pacific islands. IDA also has the unique ability to facilitate projects across different regions, such as the Central Asia and South Asia 1000 Electricity Transmission and Trade Project designed to link Central Asia’s surplus energy resources with South Asia’s energy shortages and growing demand. See Box 9 for other projects funded by IDA’s Regional Program and Annex 5 for a full list of regional IDA projects approved to date in IDA17.

73. **Demand for the Regional Program far exceeds supply of funds since it was introduced in IDA13, and projected demand continues to soar in IDA18.** For example, at the time of the IDA17 MTR, Africa’s regional IDA pipeline was oversubscribed two times above its total regional IDA17 allocation, which had already been increased over IDA16. Other regions are similarly moving quickly through their regional allocations and expect to fully use them well before the end of IDA17. The strong results and high demand for regional IDA resources calls for a substantial increase of the regional IDA envelope for IDA18. For each of the regions, regional collaboration and integration remains an increasingly critical element of their development strategies going forward. As a result, and with the Africa region leading the way, the six regions have collectively expressed demand for IDA18 Regional Program financing at more than double the IDA17 IDA Regional Program allocation (Figure 8).
74. **Consistent with the WBG approach to forced displacement presented at the 2016 Spring Meetings, IDA proposes to help IDA countries hosting large number of refugees from IDA countries through a new sub-window within the IDA Regional Program.** The Regional Program is a natural vehicle to support the medium and long-term development needs (income generation, HD and service delivery) of both refugees and their host communities. Refugees pose a regional development challenge as they cross borders and move in search of better opportunities. (See the Fragility, Conflict, and Violence Special Theme Paper.) And addressing the development challenges of refugees and helping to find a durable solution for such situations is consistent with the broad principles for the IDA Regional Program. Since 2009, IDA has financed operations to address forced displacement in Africa, South Asia and Central Asia. By the end of IDA17, more than US$1 billion of IDA resources are expected to fund operations in support of forcibly displaced people in IDA countries. A sub-window under the IDA Regional Program will provide tailored financing that helps to tackle the complex needs stemming from the influx of refugees and spillovers on host community in a context of competing development needs of host countries. Additional robust governance procedures will be introduced for the refugee subwindow. These procedures, the proposed financing terms, and the criteria governing access to the sub-window are in Annex 5 and the FCV paper.\(^{25}\)

---

\(^{25}\) Although there is case-by-case flexibility to allow single-country regional projects (introduced for IDA17) under the regional IDA window on an exceptional basis, it is proposed that single country refugee projects would not require special processing.
Box 9. Results from IDA Regional Projects

Senegal River Basin Multi-purpose Water Resources Development project (MWRD) is part of a 10-year regional, multi-sector program addressing fisheries, irrigation, health and water resources management in Guinea, Mali, Mauritania, and Senegal, as well as including the Senegal River Basin Organization. MWRD1 closed in 2013 reporting impressive results, some even exceeding the original targets. IDA provided US$110 million (national and regional IDA), and support was also provided by AfDB, EC, the Agence Francaise de Developpement, as well as the Netherlands Ministry of Foreign Affairs. One major accomplishment of the project was the formal inclusion of Guinea into the Senegal Basin organization – all four participating countries are now working together through the regional body to manage water resources. This is only the second time the World Bank has brokered such an agreement on international waters (the first time being the 1960 Indus Waters Treaty). A second phase of the MWRD was approved in 2013 (US$212.5 million), including GEF financing.

Results:

- 84 percent of children under five in the project area now sleep under a mosquito net, up from 58 percent at the start of the project – the prevalence of malaria and schistosomiasis decreased;
- Fish stock in the Senegal River rose by 13 percent and in June 2012, 111,598 fish were sold from the main markets and depots rehabilitated under the project;
- Over 4,400 hectares of land was rehabilitated for agricultural use through irrigation and water management;
- Migrants are returning from Dakar to rejoin their local fishing economy; and
- 88 irrigation canals were rebuilt and rehabilitated in the basin.

Great Lakes Emergency Sexual and Gender Based Violence (SGBV) and Women’s Health Project 2014: aims to expand service provision to mitigate the short and medium term impact of sexual and gender based violence, and to expand use of a package of health interventions targeted to poor and vulnerable females in the Burundi, DRC, and Rwanda.

Results:

- The percentage of reported cases of SGBV who receive emergency kits within 72 hours increased from 25 percent to 40.2 percent in DRC;
- Number of poor and vulnerable women benefitting from economic empowerment activities in Burundi -17,000;
- Number of SGBV cases taken to the prosecutor in Burundi increased from 240 in June 2014 to 7080 in September, 2014; and
- Sensitization and advocacy activities to promote gender equality were implemented in Rwanda.

75. Regional integration is particularly important for small states to overcome constraints of a small domestic economy. Under the IDA Regional Program, countries with small allocations benefitted from the 20 percent cap, which limits their national IDA contributions towards regional projects. Established in IDA15, this exception enabled countries with small allocations to participate in regional IDA programs with their larger neighbors. Not only did small states benefit from this exception, but countries with larger populations and small allocations due to weak performance did too. Given the proposed increase in the minimum base allocation, and to maintain the rationale for the original exception, it is proposed that the threshold for triggering the 20 percent cap will now be based on the definition of small states – i.e., countries with a population of 1.5 million or less. Some of the countries that benefitted from the 20 percent cap in the past include Comoros, Micronesia and Vanuatu. For example, Comoros, with an annual allocation of SDR4.2 million in FY15, was able to participate in the Southwest Indian Ocean Fisheries program (SWiOFish) by contributing US$1.2 million from the

---

26 This change would largely result in the same countries being covered.
national IDA envelope, which leveraged an additional US$8.3 million from the regional IDA envelope. The total IDA financing for SWiOFish\textsuperscript{1} was US$91 million and also included Mozambique and Tanzania, as well as the Indian Ocean Commission.

76. For IDA\textsuperscript{18}, it is proposed that the Regional Program financing terms be fully harmonized with those of concessional Core financing. Grant-eligibility under the Regional Program is currently limited to IDA-only non-gap countries at high risk of debt distress. For these countries, resources leveraged under the Regional Program are provided in grant terms. Regional Program financing to other IDA countries, including IDA-only non-gap countries at moderate risk of debt distress,\textsuperscript{28} is provided on applicable IDA credit terms. Under the proposal, the grant/credit distribution of Regional Program financing would match that of concessional Core Financing for all beneficiary countries. In particular, eligibility for grant support under the Regional Program would be expanded to IDA-only non-gap countries at moderate risk of debt distress. Similar to concessional Core financing, Regional Program financing for these countries would be provided as a mix of grants and credits (as per footnote 28). The proposal would help address debt sustainability concerns for moderate risk of debt distress countries in the context of increased volumes of the Regional Program (as under the IDA\textsuperscript{18} scenarios) and the continued application of the current Regional Program grant-eligibility rule (see Annex 7).

Private Sector and Collaboration across IDA/IFC/MIGA

77. IDA, IFC and MIGA’s support to the private sector in IDA countries ranges from creating an enabling environment, to making complementary investments, and to directly investing in the private sector. IDA, IFC and MIGA work together at a strategic level on SCDs and CPFs; at a sector level through Joint Implementation Plans; and at the project level through joint, parallel or sequenced financing. In the past decade, IDA financed projects worth US$71.2 billion to support the private sector, of which US$9.0 billion were in FCS. In the same period, IFC financed US$25.4 billion in IDA countries, of which US$3.1 billion was in FCS. Meanwhile, MIGA’s issuance of guarantees in IDA countries totaled US$9.3 billion in the past decade, of which US$2.9 billion were in FCS.

78. While IDA, IFC and MIGA work together to support the private sector in IDA countries, there are gaps. In some markets, job creation requires pioneering investors to create a demonstration effect for foreign and domestic investors. While IDA helps create an enabling environment for the private sector, it often does not go the last mile to work directly with the private sector to help deal with higher risks and invest in these difficult environments. Meanwhile IFC and MIGA also face constraints in IDA countries. Private capital flows of about US$1 trillion per year to emerging markets are highly concentrated and do not reach the most challenging markets. IFC and private investors face significant challenges related to small private sector and markets, weak investment climate and government capacity, difficulty finding acceptable sponsors, and difficult environmental and social issues, all within a sometimes volatile environment. This leads to both financial and non-financial risks and high costs for investors. Thus smaller and riskier projects with high fixed costs do not pass thresholds for economic viability, managing local currency risks is also a challenge.

\textsuperscript{27} SWiOFish\textsuperscript{2} is under preparation.

\textsuperscript{28} Concessional Core financing to these countries is provided as a mix of grants and credits (half each, under the assumption of elimination of the 20 percent grant discount in the PBA formula).
Therefore, Management proposes a Private Sector Window (PSW) to enable IDA to work with IFC and MIGA to “mobilize” the private sector in IDA countries, with emphasis on FCS. (See forthcoming Private Sector Development paper.) Aligned with efforts to leverage IDA’s equity and as a complement to existing instruments supporting the private sector, US$2.5 billion would be set aside for direct interventions with the private sector with or without sovereign guarantees. This amount would be provided for both existing and new financial instruments on non-concessional terms. The PSW would enable IDA to respond to private sector opportunities through IFC and MIGA and would be reviewed at the IDA18 Mid-Term Review. The proposed financial structure has the advantage of further leveraging IDA’s equity and enabling IFC and MIGA to meet their economic sustainability objectives, while investing their capital in low-income IDA countries and FCS.

### Box 10. Leveraging IDA to Enable Private Sector Financing, IFC and MIGA Support for Development

The WBG has supported key development projects to overcome reluctance from private financiers and ensure required private financing. IDA’s strategic financial support to well-structured projects, usually with IFC or MIGA support, has leveraged private capital that previously was unwilling to commit.

IDA’s long-term involvement, presence on the ground, and ability to influence sector dialogue has enabled private sector, IFC and MIGA to develop and support infrastructure projects in riskier environments, knowing that IDA would help de-risk these investments through long-term sector dialogue and financing instruments, such as the IDA guarantee. In more risky environments, such as Myanmar, Sierra Leone, and Afghanistan, projects would not be prepared without IDA’s involvement in the sector. In other cases, such as Cote d’Ivoire and Ghana, IDA’s support was to underpin the most crucial investment in the sector. In both these cases, IDA enabled upstream gas sector operations to bring much needed cleaner fuel to the power sector, ensuring that long-term gas supply is maintained. Both these operations included IFC and/or MIGA financial instruments, but without IDA’s involvement in the sector dialogue and with its guarantee instrument, these projects would not be possible. More importantly, downstream power plants that were financed/expected to be financed without IDA involvement - but with only IFC and MIGA support - would not have materialized.

WBG collaboration in private sector operations has worked best when each WBG institution deployed its advisory and investment instruments in an efficient and complementary manner. In joint projects, IFC and/or MIGA expect IDA to leverage the strength of the IDA’s country/sector dialogue and influence through the deployment of IDA Credits and Guarantees. The IDA guarantee instrument has been particularly effective in transactions where it can bridge a credibility gap during a transition phase until a country (in the case of a DPO) and/or a sector or a parastatal (in the case of an IPF) has established a track record of good performance.

### IDA Scale-Up Facility

At the IDA17 MTR, IDA Deputies endorsed the creation of a short-term facility financed through a change in IDA’s liquidity framework to address urgent financing needs of IDA clients.29 In line with guidance and endorsement from IDA Deputies, in March 2016 IDA sought and received approval from the Board of Executive Directors to establish a US$3.9 billion SUF for the remainder of the IDA17 period. The Facility aims at providing non-concessional financing for high quality projects with strong development impact (e.g., interventions that help clients remove critical constraints to development and that are economically, financially, and environmentally sustainable). While the SUF was originally envisioned as a one-off measure, initial strong client demand for Facility resources indicates that there is significant unmet demand for non-concessional resources to finance a wide range of projects – both infrastructure and non-infrastructure – across a broad spectrum of clients.

---

81. In view of very strong client demand for non-concessional resources, IDA proposes to extend use of the SUF arrangements to IDA18 using IDA leveraged resources. Many IDA clients are eager for and can absorb additional IDA financing – even if at non-concessional terms – to meet their increasingly ambitious development agendas, particularly to help finance critical infrastructure needs. Non-concessional IDA brings critical knowledge, predictability, and attractive costs when compared to market-based debt financing. The demand for the SUF in the final half of IDA17 significantly exceeded the available funds. And as Figure 6 shows, the Regions expressed demand for nearly US$90 billion, including a portion in non-concessional financial support. In this context, IDA would make available to eligible IDA countries a limited amount of resources on non-concessional terms (similar to those from IBRD). A project financed under the Facility would need to meet pre-established debt- and absorptive capacity-related eligibility criteria, be consistent with the country strategy and work program in place and advance WBG goals and IDA18 priorities. Financing could include investment project financing – for both infrastructure and non-infrastructure projects – as well as DPOs, program for results financing (PforR), and guarantees. As emphasized under implementation arrangements surrounding the IDA17 SUF, the IDA18 Facility would reflect due consideration of individual countries’ debt situation, while ensuring consistency with IDA’s Non-Concessional Borrowing Policy and the IMF Debt Limits Policy (Annex 7).

Arrears Clearance and Re-engaging Countries

82. The current arrears clearance set aside of about SDR800 million will continue to be required for exceptional arrears clearance support in IDA18, and is expected to be rolled-over from IDA17. This set aside is in place so that when circumstances allow, these resources will enable IDA to help countries clear arrears and fully re-engage with the World Bank. Three countries with protracted arrears to the WB are potentially eligible for exceptional IDA support for arrears clearance during IDA18 (Somalia, Sudan, and Zimbabwe). Their arrears at the end of IDA17 are projected to be US$2.4 billion equivalent (SDR1.7 billion). Eritrea and Syria (see paragraph 34) also have small and more recent arrears to IDA, but these countries are not eligible for exceptional arrears clearance support.

83. Progress in all three countries warrants retaining the arrears clearance set aside, which is smaller than the size of the growing arrears for Somalia and Sudan alone:

- Somalia’s more developmental stance has enabled IDA and partners to support the State in performing civil functions, while Somali capabilities are being built to tackle pressing problems, such as extreme poverty, natural resource depletion, and forced displacement. Somalia’s first IMF Staff Monitored Program (SMP) was approved on April 7, 2016. The programmatic reform approach is embodied in Multi-Partner Fund (MPF) projects. World Bank activities under the MPF form critical components of the SMP, while also boosting partners’ confidence.

---

30 This amount excludes demand from countries at high-risk of debt distress.
31 The breakdown of these arrear projections at end-FY17 are as follows: Somalia SDR225 million IDA, Sudan SDR634 million IDA; Zimbabwe SDR188 million IDA and SDR649 million IBRD.
32 Syria and Eritrea’s arrears to IDA and IBRD, together amount to US$61 million at end March 2016. However, these arrears are not taken into account in the estimates of needs for the arrears clearance set aside, as they are not eligible for exceptional arrears clearance assistance as provided in the “Further Elaboration of a Systematic Approach to Arrears Clearance,” June, 2007, IDA15.
In Sudan, the ‘zero option’ agreement between Sudan and South Sudan in 2012 led Sudan to temporarily retain all external debt of the former Sudan with a goal to receive HIPC debt relief within 2 years of the agreement. The deadline has been extended once after the original one passed in 2014; the current deadline will expire in October 2016. Sudan implemented an Interim Poverty Reduction Strategy (I-PRSP) over the period 2012 to 2015. The preparation of its full national PRSP has started, and will build on the 2015 National Baseline Household Survey (NBHS) and the 2012-2015 I-PRSP Status Report released in May 2016. The Status Report finds that, despite economic contraction following South Sudan’s secession, Khartoum managed to increase pro-poor spending, albeit from very low levels. There is currently no active SMP with the IMF, but discussions are ongoing on how to resume a program in the future.

Zimbabwe completed its second SMP with the IMF in December 2015, has undertaken reforms in areas of public expenditure management, financial sector and investment climate under the World Bank-administered Zimbabwe Reconstruction Fund Multi-Donor Trust Fund, and has significantly accelerated efforts to find a solution to the arrears to the International Financial Institutions.

Adding to the set aside is not proposed at this time, given uncertainty in the timing of these countries’ re-engagement and uncertainty about whether Zimbabwe will pursue a Heavily Indebted Poor Countries (HIPC) or a non-HIPC route to reengagement. As has been past practice, any funds allocated for arrears clearance during IDA18 that exceed actual costs, would be carried over into IDA19. This reflects the fact that these arrears clearance funds are handled outside the PBA envelope. If the set-aside funding will be less than the required amount, the amount of the shortfall will be included in the arrears clearance request in the IDA19 Replenishment. In the event of re-engagement, the three countries would be assessed for potential eligibility under the Turnaround Facility, and could receive exceptional IDA allocations during the IDA18 period. In addition, Eritrea, Somalia, Sudan, and Zimbabwe are also potentially eligible for pre-arrears clearance grants to finance priority needs as part of their reengagement process. These pre-arrears clearance grants are not part of the arrears clearance set aside, but rather would be another call on Core IDA.

B. FINANCING SCENARIOS

Against the backdrop of heightened ambitions and significant risks – and with the opportunity to leverage IDA’s balance sheet – Management seeks IDA Deputies’ guidance on potential IDA18 financing scenarios responding to the strong IDA demand described above. Global growth prospects have weakened, with headwinds particularly pronounced for low income commodity exporters. Downside risks are many, including the impacts from climate change, fragility and conflict, and the worst refugee crisis since World War II. A strong IDA18 replenishment is therefore critical to support IDA countries’ efforts to maintain growth momentum achieved over the past 15 years, with particular attention to FCS, and adjust their course to meet ambitious SDGs. It would

33 Sudan, Somalia, and Zimbabwe are all potentially eligible for exceptional assistance for arrears clearance. These three countries are all assumed to re-engage in IDA18, however Zimbabwe may not avail itself of the exceptional arrears clearance support as the government is making progress towards a non-HIPC reengagement process. However, given the uncertainty, resources may be required for Zimbabwe if it decides to follow a HIPC route. The more recent nature of Eritrea’s and Syria’s outstanding arrears mean that it would not qualify for exceptional arrears clearance assistance based on the criteria set out in “Further Elaboration of a Systematic Approach to Arrears Clearance”, June, 2007, IDA15.

34 All US$ figures in this section were converted from SDR at an exchange rate of US$1 = SDR1.4.
also provide predictable development financing to build and reinforce sound institutions that are resilient to increasingly frequent and costly shocks. It would also support regional integration, advance private sector participation in IDA clients, especially in FCS, and provide funding to aid in timely crisis response.

86. **In order to leverage additional resources efficiently in IDA18, the sustainability framework for market debt requires safeguarding against substitution risk** (i.e., the risk that partner grant contributions are reduced as debt funding is increased). As outlined in the companion Financing Framework Paper, the least ambitious financing scenario presented therein and below would represent a lower bound where targeted partner grant contributions (excluding compensation for MDRI) represent only 80 percent of their IDA17 level in US$ terms. This represents approximately a 10 percent decline in national currency terms and as such, would not follow the principle of additionality required to match the agreed ambitions of the 2030 agenda. Moreover, further reductions in partner grant contributions could risk being perceived as a negative signal by IDA’s stakeholders, including borrowing countries and the capital markets and, thus, may compromise IDA credit rating and long-term financial sustainability. Targeted partner grant contributions in the higher volume scenarios are necessitated by requirements for IDA’s financial capacity and capital adequacy. As IDA continues to provide highly concessional financing to its clients, partner grant contributions will thus continue to remain an essential source of concessional funding for IDA.

87. **This section presents scenarios with different combinations of overall replenishment volumes and distribution between concessional and non-concessional resources.** All scenarios assume a larger financing envelope relative to IDA17. As a result, financing across different country groupings are larger than in IDA17 and country allocations differ across scenarios due to three factors: (i) replenishment volume, (ii) global policy choices (e.g., distribution between concessional and non-concessional, distribution between Core and non-Core windows, or setting up of new instruments/windows); and (iii) country policy choices (e.g., PBA formula, exceptional regimes). Different combinations of these factors entail trade-offs which are outlined in the scenarios discussion.

88. **Concessional and non-concessional resources are divided into Core and non-Core components.** Concessional Core IDA resources will continue to be allocated based on country performance: about 92 percent of the resources across the different scenarios are allocated using the PBA formula, while the remaining 8 percent of the resources are allocated using exceptional regimes (the Turn-Around regime and the proposed Risk-Mitigation regime). As detailed in the FCS paper, both exceptional regimes aim at preserving a performance-orientation principle while addressing the special circumstances of eligible countries. The non-Core concessional envelope encompasses the CRW, the Regional Program – which is proposed to include a sub-window for refugees – and the Arrears Clearance set aside. Non-concessional financing consists of a Transitional Support window (which would provide core-like financing for current and recent graduates) and SUF, both of which have been tested successfully in IDA17. PSW is a set aside to support innovative ways of collaboration with the IFC and MIGA focusing on the private sector.

---

35 For a definition of core and non-core components see paragraph 55.
36 The exception is Low Scenario. The smaller size of concessional core IDA means that the share of PBA is 94 percent, and the Turnaround regime accounts for 6 percent. There is no risk Mitigation regime envisaged in this Scenario.
37 See special theme paper “Fragility, Conflict and Violence”.
89. Under the Management-proposed scenario (henceforth referred to as Base Scenario), the replenishment volume amounts to US$75 billion – of which US$52.3 billion correspond to concessional Core IDA (Table 1).\textsuperscript{38} Volumes under other scenarios range from US$65 billion under the Low Scenario to US$80 billion (High 1 and High 2 scenarios). Moving from the lowest to the highest scenario (High 2), concessional resources increase from US$54.9 to US$66.5 billion. This compares to US$45 billion in IDA17. The grant element of the overall envelope also varies across scenarios reflecting different partner contributions.\textsuperscript{39} Under the Base Scenario – which assumes flat partner contributions in national currency terms relative to IDA17 – the grant element of the replenishment reaches 49 percent.\textsuperscript{40} The Low Scenario assumes smaller partner contributions and maintains the same grant element as the Base Scenario by sharply reducing the level of concessional IDA (both Core and non-Core). With respect to High 1 and High 2, the level of partner contributions assumed under the Base Scenario cannot sustain both a larger replenishment volume and the same policy choices over the long term as in the Base Scenario (at the global and country levels). The High 1 Scenario addresses IDA’s long term financial sustainability concerns by reducing the overall grant element of the replenishment to 44 percent. This is achieved mainly through lower levels of concessional Core IDA resources (US$50.9 billion) compared to other scenarios and a partial implementation of the package of changes to the PBA formula proposed by Management. Under this scenario the grant discount is not eliminated (Table 1). The High 2 Scenario addresses the sustainability concerns by assuming a higher partner effort.

\textsuperscript{38} Table 1 provides the proposals in US$ terms; Annex 1 provides the proposals in SDR.

\textsuperscript{39} See IDA18 Financing framework for details on the level of partner support under each of the scenarios.

\textsuperscript{40} This compares to 48 percent for IDA17.
Table 1. Summary of IDA18 Financing Scenarios  
(in US$ billion)

<table>
<thead>
<tr>
<th>in US$ billion</th>
<th>IDA17(^1)</th>
<th>Low</th>
<th>Base</th>
<th>High 1</th>
<th>High 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Concessional</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I. Core IDA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FCS/FCV(^2)</td>
<td>39.1</td>
<td>45.3</td>
<td>52.3</td>
<td>50.9</td>
<td>55.4</td>
</tr>
<tr>
<td>o/w Risk Mitigation</td>
<td>0.0</td>
<td>0.0</td>
<td>0.6</td>
<td>0.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Syria(^3)</td>
<td>31.9</td>
<td>33.6</td>
<td>37.9</td>
<td>37.3</td>
<td>40.4</td>
</tr>
<tr>
<td>o/w IDA18 Graduates(^4)</td>
<td>4.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>II. Non-core IDA</td>
<td>5.9</td>
<td>9.6</td>
<td>11.1</td>
<td>11.1</td>
<td>11.1</td>
</tr>
<tr>
<td>CRW(^5)</td>
<td>1.7</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Regional Program</td>
<td>3.081</td>
<td>5.5</td>
<td>7.0</td>
<td>7.0</td>
<td>7.0</td>
</tr>
<tr>
<td>o/w Refugees(^6)</td>
<td>0.2</td>
<td>1.5</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Arrears Clearance</td>
<td>1.128</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>2. Non-concessional</td>
<td>7.1</td>
<td>7.6</td>
<td>9.0</td>
<td>15.5</td>
<td>11.0</td>
</tr>
<tr>
<td>Transitional Support(^7)</td>
<td>3.2</td>
<td>6.6</td>
<td>8.0</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Scale Up Facility(^8)</td>
<td>3.9</td>
<td>1.0</td>
<td>1.0</td>
<td>7.5</td>
<td>3.0</td>
</tr>
<tr>
<td>3. Private Sector Window</td>
<td>0.0</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Total</td>
<td>52.1</td>
<td>65.0</td>
<td>75.0</td>
<td>80.0</td>
<td>80.0</td>
</tr>
<tr>
<td>Total (in SDR billion)</td>
<td>37.2</td>
<td>46.5</td>
<td>53.5</td>
<td>57.1</td>
<td>57.1</td>
</tr>
</tbody>
</table>

**Total resources to FCS**  
Grant element: concessional IDA  
52%  57%  58%  57%  58%  
Grant element: overall replenishment  
48%  49%  49%  44%  48%

\(^1\)Reflects the commitment authority as of May 31, 2015, being the latest update available prior to the release of the FY16 allocations (SDR33.7 billion) plus US$5 billion resulting from changes to IDA’s liquidity policy in FY16. The change in the liquidity policy channeled resources in the following way: i. CRW replenishment US$0.9 billion, ii. Refugee support for Lebanon and Jordan US$0.2 billion, and iii. Scale Up Facility US$3.9 billion (see Board paper “Enhancing IDA’s Financial Support in IDA17”, February 27, 2016, IDA/R2016-0019/1).

\(^2\)FCS as per FY16 FCS list. In IDA18, the figures include the IDA’s overall support to countries eligible under the proposed risk mitigation regime (Guinea, Nepal, Niger, and Tajikistan). This regime did not exist in IDA17 (see special theme paper “Fragility, Conflict and Violence”).

\(^3\)Assumed to be granted access to IDA support under Base, High 1, and High 2 scenarios. Indicative figure to be reassessed if and when eligibility discussions occur. Also see footnote 7 in the text.

\(^4\)Bolivia, Sri Lanka and Vietnam.

\(^5\)Replenished amount in FY16 compared to US$0.8 billion in IDA17 Deputies’ Report.

\(^6\)In IDA17, refers to support for refugees in Jordan and Lebanon.

\(^7\)In IDA17, represents transitional support to India.

\(^8\)As approved by the Executive Board of Directors in IDA17.
90. **Volumes across most windows in non-Core concessional IDA are assumed to remain constant.** For the Base, High 1, and High 2 scenarios, the volume and composition of non-Core concessional financing is assumed to be the same (Figure 9). These scenarios propose an increase in the highly demanded CRW from the replenished US$1.7 billion in IDA17 to US$3 billion in IDA18. A much stronger Regional program is also proposed totaling US$7.0 billion – including US$2 billion aimed at the refugees’ sub-window – compared to the US$2.9 billion in IDA17. The oversubscribed Regional program is constraining operations, and is expected to be fully utilized by early FY17. In contrast to the Base, High 1, and High 2 scenarios, the Low Scenario is not able to support the same amount of concessional non-Core resources. This results in a smaller allocation for refugees by US$0.5 billion and a smaller overall Regional Program by US$1.5 billion. The carry-over of funds for arrears clearance from IDA17 is equivalent in all scenarios.

![Figure 9. Summary of Non-Core Concessional IDA Allocations](image)

91. **On the non-concessional side, the proposed support ranges between US$7.6 and US$15.5 billion.** In the Base, High 1, and High 2 scenarios, transitional support totals US$8 billion and assumes a more ambitious package of support for recent and current graduates, including India. The SUF features prominently in the High 1 Scenarios with an assumed amount of US$7.5 billion, which would allow for more price differentiation in gap and blend countries, and additional non-concessional support for IDA-only countries at low and moderate risk of debt distress.

92. **As opposed to all other IDA windows, the PSW is proposed to exclusively deal with private sector risk.** The instruments under this window may comprise guarantees with or without government indemnity and usage of IDA’s resources for various innovative instruments. The size of this window is assumed to remain flat at US$2.5 billion across all scenarios.

---

41 The original CRW amount was US$0.8 billion.
42 See Annex 4 for details.
**Base Scenario**

93. In line with partner guidance, the Base Scenario doubles concessional Core support for FCS/FCV. Relative to IDA17, all country groups experience increases in concessional Core support. Compared to the “status quo” scenario, concessional Core FCS/FCV allocations in IDA17 would increase by US$7.6 billion, from US$6.8 to US$ 14.4 billion (Figure 10). This represents a doubling in concessional Core FCS/FCV allocations relative to IDA17. The total level of IDA support (Core, non-Core, concessional and non-concessional) to FCS/FCV in IDA18 is estimated at roughly US$21 billion, again almost double the support in IDA17 (Table 1). Non-FCS countries also see a substantial rise in resources of 43 percent.

94. The increase in financing for FCS/FCV reflects the combined impact of a larger replenishment and adjustments to the framework for allocating concessional Core resources. As detailed in the FCS paper, changes to the framework for allocating concessional Core resources include adjustments to the PBA formula and the setting up of a Risk Mitigation regime. No changes are proposed to the Turn-around regime. The impact of different factors in concessional Core IDA financing for FCS/FCV is detailed below (Figure 10):

- **Volume effect.** The larger replenishment volume increases Core concessional IDA for FCS/FCV by US$2.3 billion. This amount represents the difference between the allocations for FCS/FCV obtained by simulating the same replenishment volume in IDA17 as in IDA18, but applying the IDA17 allocation framework to the IDA18 concessional Core envelope.

- **Proposed changes to the PBA formula.** These result in an increase of FCS/FCV allocations on the order of US$2 billion. The proposed changes include the reduction of the CPR exponent from 4 to 3, an increase in the minimum base allocation, and the elimination of the MDRI netting out and grant discount. These changes aim at rebalancing allocations toward poverty orientation, while keeping performance as one of the main pillars of the framework for allocating Core concessional resources. The largest effect can be attributed to the change in the CPR exponent, which amounts to US$0.8 billion. The same amount is the combined outcome of eliminating the MDRI netting out and the grant discount. The larger base allocation directs an additional US$0.5 billion to FCS/FCV. The elimination of both the MDRI netting out and the 20 percent grant discount would also simplify the PBA system.

- **Exceptional allocations regimes.** Setting up the FCV risk mitigation regime and continued utilization of the Turn-Around regime would add US$3.2 billion to FCS/FCV allocations.

---

43 The “status quo” scenario is a scenario in which country allocations in IDA18 are based on a core IDA envelope similar to that of IDA17 and the IDA17 allocation modalities.

44 The doubling compares IDA’s support to FCS/FCV in IDA18 (which includes IDA’s total concessional Core support to Guinea, Nepal, Niger, and Tajikistan) to IDA17 (which does not include IDA’s total concessional Core support for these countries since the risk mitigation regime did not exist in IDA17). The increase would be around 75 percent if concessional core allocations to these four countries were also included in IDA17.

45 Excludes Guinea, Nepal, Niger, and Tajikistan in IDA17. For explanations regarding the terms IDA-only non-gap, gap and blend countries see Annex 8.

46 The latter would provide increased support to four countries (Guinea, Nepal, Niger, and Tajikistan) to help them address fragility risks. The increased support would amount up to 1/3 of their PBA-based allocation.

47 As detailed in the IDA18 financing framework paper, the increased volume is possible due to the bought down non-concessional resources.
Expected additional exceptional allocations under the Turn-Around regime account for an US$2.6 billion increase to FCS/FCV. This could include Syria,\(^{48}\) if conditions permit and an agreement reached on access to IDA financing during IDA18.

**Figure 10. Core Concessional Allocations to FCS/FCV in IDA17 and IDA18 and Contributing Factors to IDA18 Allocation\(^{1/}\)**

(US$ billion)

<table>
<thead>
<tr>
<th>Total increase:</th>
<th>7.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributing factors:</td>
<td></td>
</tr>
<tr>
<td>i) Possible &quot;Turn-around&quot; cases(^{6/})</td>
<td>2.6</td>
</tr>
<tr>
<td>ii) Increased financing volume</td>
<td>2.3</td>
</tr>
<tr>
<td>iii) Changes to PBA formula</td>
<td>2.0</td>
</tr>
<tr>
<td>- Increase poverty orientation</td>
<td>0.8</td>
</tr>
<tr>
<td>- Increase minimum base allocation</td>
<td>0.5</td>
</tr>
<tr>
<td>- Eliminate MDRI netting out</td>
<td>0.2</td>
</tr>
<tr>
<td>- Eliminate grant discount</td>
<td>0.6</td>
</tr>
<tr>
<td>iv) Risk mitigation</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Notes:
1/ For changes to the PBA formula, the table presents their “marginal” (i.e., increased FCS financing once preceding modifications have been implemented). The assumed sequence of implementation was: (i) poverty orientation increase; (ii) minimum base allocation increase; (iii) MDRI netting out elimination; and (iv) grant discount elimination. For an analysis of the stand-alone impact of the change, see Annex 5.

2/ Reflects the Base Scenario in the Ask Paper.

3/ Refers to concessional Core allocations to countries in the FY16 FCS list. It is assumed, for simulation purpose, that countries currently eligible under the TAR (Guinea-Bissau, until FY17 and Madagascar, until FY18) will re-apply for exceptional allocation and will be granted eligibility for the entirety of IDA18 at the same level of support granted in IDA17.

4/ Refers to pure PBA-based allocations to the 4 non-FCS eligible for risk-mitigation support. Allocations to these countries are not included in IDA17 as risk mitigation considerations were not reflected in core concessional allocations during IDA17. In IDA17 PBA allocations to the 4 non-FCS countries would have amounted to US$1.1 billion.

5/ Includes the top up for the pure PBA-based allocation for the 4 non-FCS eligible for risk-mitigation support.

6/ Includes US$1 billion of support for Syria assumed under the Base scenario in the Ask Paper. Syria is currently classified as an IBRD country and is not eligible for IDA resources. Indicative figure to be reassessed if and when eligibility discussions occur. Syria could be found to be eligible for concessional IDA financing under IDA18. Such determination would require, under existing Bank policy, an assessment which shows that relative poverty determined by GNI per capita in Syria is below the operational cut off (currently $1,215 for FY16, and it is estimated that Syria’s GNI per capita is now below this level) and a lack of creditworthiness for IBRD lending. Implementation of a strategy for assistance to Syria would be undertaken when conditions permit and there are systems and institutions in place in Syria to meet IDA’s policy and legal requirements. The amount assumes that TAR allocations include an annual minimum base allocation of SDR15 million.

95. **The Base Scenario also promotes better targeting of concessionality.**\(^{49}\) Scarce IDA concessionality (i.e., grants plus the grant element of IDA credits) would be re-directed to FCS/FCV and the poorest non-FCS IDA clients. Relative to IDA17, the grant component of IDA’s support to FCS/FCV increases by 82 percent, while the increase for IDA-only non-gap countries totals 50 percent

---

\(^{48}\) See paragraph 34 and footnote 7.

\(^{49}\) Concessionality corresponds to the grant element of a credit. The grant element is the difference between the nominal value of a loan and its present value expressed as a percentage of the nominal value of the loan. The grant component is the product of the grant element and the nominal value of the loans allocated to a country.
(Figure 11.A). As a result, the share of the grant component in concessional Core IDA financing moves in opposite direction when compared with FCS/FCV and gap/blends. In particular, the share of the grant component in FCS/FCV increases close to 20 percent; while that going to gaps/blends drops by a similar magnitude (Figure 11.B).

Figure 11. Base Scenario – Change in Concessional Core IDA Support Relative to IDA17

Figure 11.A. Nominal Support by Country

Figure 11.B. Change in Distribution of Grant Component by Country Group

Note: For comparability purpose, country groupings in the chart reflect the expected IDA18 country classifications. Increases in the charts are therefore not comparable to figure 4, since the IDA17 figures for FCS/FCV in these charts include concessional Core financing for the four beneficiaries of risk-mitigation support.

96. **Small island states’ allocations triple in IDA18.** Governed mainly by the enhanced annual minimum base allocation, resources for small-island states triple in IDA18 across all scenarios to about US$1.8 billion from US$0.6 billion in IDA17. The increase in the concessional Core allocations will enable small states to leverage more resources from the Regional Program.

97. **Concessional non-Core allocations also increase substantially under the Base Scenario compared to IDA17.** The CRW is assumed at US$3 billion, or US$1.3 billion more than the replenished amount in IDA17, and the proposed scaling up of the Regional Program is on the order of US$4.1 billion for a total of US$7 billion, including a US$2 billion sub-window aimed at refugees.

**Low Scenario**

98. **Under the Low Scenario, concessional Core IDA increases by 16 percent relative to IDA17, less than half the increase compared to the Base Scenario.** The smaller concessional Core envelope translates into a drop in resources to FCS/FCV by close to US$3 billion, compared to the Base Scenario. The smaller Core envelope would mean that support to Syria and for risk mitigation would not be feasible. In addition, Core concessional support for non-FCS would be US$4.3 billion smaller. More than half that reduction would affect IDA-only non-gap countries.

99. **Concessional non-Core IDA is also much less ambitious for the Regional Program and Refugees sub-window in the Low Scenario.** Relative to the Base Scenario, the financing envelope for

---

50 Defined by the World Bank as countries with a population of 1.5 million or less.
projects under the Regional Program and the refugee sub-window would together decline by almost one third or US$1.5 billion. Specifically, the Regional Program and Refugees sub-window would be downsized to 80 and 75 percent of the volumes in the Base Scenario, respectively.

100. **All in all, the Low Scenario provides US$8.5 billion less in concessional resources compared to the Base Scenario.** The smaller financing envelope is felt mostly in FCS/FCV and other poor IDA-only non-gap countries, and the markedly smaller refugee sub-window. This reflects the fact that this scenario cannot uphold some changes to exceptional regimes and cannot provide the same level of concessional Core IDA as the Base Scenario.

**High Scenarios: High 1 and High 2**

101. **Two High Scenarios are proposed: High 1 with the same partner contributions as in the Base Scenario, and High 2 with higher partner contributions.** Both scenarios imply larger total resources going to FCS/FCV clients as compared to IDA17, due to the overall volume effect. However, High 1 supports a smaller concessional envelope compared to the Base and High 2 scenarios. Beside the corresponding smaller resource allocations to FCS/FCV, High 1 exhibits a Scale Up Facility more than twice the size of the facility in High 2. This consequently also results in the smallest grant element in terms of the overall replenishment of 44 percent.

**Table 2. Summary of Proposed Changes to the Allocation Principles of Concessional Core IDA**

<table>
<thead>
<tr>
<th>I. Changes to the PBA formula</th>
<th>Low</th>
<th>Base</th>
<th>High-1</th>
<th>High-2</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPR exponent reduction</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Increase in minimum base allocation</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Elimination of MDRI netting out</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Elimination of grant discount</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>II. Risk mitigation</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>III. Turnaround regime -- Syria</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

C. **IMPLEMENTATION ISSUES**

102. **A significant scale up in IDA has important implementation implications for IDA which must be acknowledged and proactively managed.**

- First, it is important to recognize that WBG engagement in FCS is a long-term agenda with several challenges and constraints yet to be overcome. Investments in FCS are on average riskier than investments in other IDA countries. Given that much of IDA’s engagement in FCS is likely to be in the form of slower disbursing Investment Project Financing, which can take up

---

to a decade to disburse fully, disbursements ratios can be expected to be weaken initially (Box 11). Commitments and disbursements could also lag due to lower absorptive capacity, crises, or other emerging circumstances. This could in turn lead to delayed, uneven or weaker results. In addition, there may be possible implications for portfolio performance for FCS.

- Second, the potentially significant scale up for IDA18 across all of its clients will require substantial management attention, budgetary and staffing requirements on preparation, supervision and monitoring to ensure IDA is doing all it can to deliver for its clients and help build their absorptive capacity. Management acknowledges these challenges and recognizes the need for very strong and substantial project preparation and implementation support to its clients. In addition, Management is developing plans to monitor IDA18 allocations more frequently, proactively, and flexibly so as to ensure that resources are being used effectively.

- Third, due to the expected scale up of resources, continued due diligence and monitoring of debt sustainability will need to remain paramount.

- Finally, while IDA’s exposure to private credit risk is allowed by its Articles of Agreement as proposed under the Private Sector Window, all parties must acknowledge the risks from these investments, which IDA and its shareholders have not yet faced. For instance, private sector or currency exposure risks to IDA’s balance sheet could result in losses which would negatively impact IDA’s commitment authority. Further discussion and related mitigation measures are provided in the separate Private Sector Development Paper.

-- Box 11. Natural Lag Between Commitments and Disbursements --

IDA commitments and disbursements follow the same long-term trend, with rising annual commitment levels of IDA translating into rising disbursement levels over time.

Annual disbursement levels will usually lag the annual commitment levels by a number of years because it can take up to a decade for newly approved credits and grants to disburse fully, reflecting in particular the extended implementation period for some investment projects involving complex procurement, engineering or institutional development requirements.

As a result, whenever there is a significant scale-up of commitments as is anticipated for IDA18, a lag can be expected before disbursements catch up.

---

52 Country-by-country simulations using the Debt Sustainability Framework (DSF) were conducted to examine the impact of the projected disbursements from IDA18 and beyond on IDA clients' public external debt sustainability. The simulations suggest that, in the absence of shocks, under each of the scenarios projected concessional and non-concessional IDA financing would have in aggregate a modest impact on debt burden indicators (see Annex 7 for more detailed discussion of debt sustainability issues).
V. ISSUES FOR DISCUSSION

103. The challenging global context and the international community’s call for a step change in Financing for Development call for a fundamental paradigm shift in IDA18. The ambitions are high. The challenges are real. Without significant innovation and solid partnership, the SDGs set for the year 2030 could look more and more unachievable. This paper presents the very strong demand for IDA resources, along with IDA’s proposals to ensure that such resources bring solutions to our clients’ most challenging development problems, which increasingly spillover to the rest of the world. IDA is innovating to do all in its power to support our clients. Partners’ support for the most ambitious IDA Replenishment ever will be an investment in a world of greater growth, opportunity and resilience.

104. The views of Participants are sought on the following questions:

a. Do Participants agree that the financing scenarios present a suitable range within which to discuss the needs of IDA countries during the IDA18 period?

b. What are Participants’ views on the level of support for Core IDA programs and the provision of financing for other identified activities, namely, the significant scale up support for FCV, proposed transitional support for current and recent graduates, the funding of the CRW, the proposed enhancements to the IDA Regional Program, including the proposed sub-window to support refugee situations, and resources set aside for arrears clearance?

c. Do Participants consider the proposals are an appropriate balance between Core IDA and set-asides?

d. What are Participants’ views on the proposed balance to provide concessional and non-concessional resources?
Annex 1: IDA18 Possible Financing Scenarios

(SDR billion)

<table>
<thead>
<tr>
<th>in SDR billion</th>
<th>IDA17&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Low</th>
<th>Base</th>
<th>High 1</th>
<th>High 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Concessional</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I. Core IDA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FCS/FCV</td>
<td>5.1</td>
<td>8.4</td>
<td>10.3</td>
<td>9.7</td>
<td>10.7</td>
</tr>
<tr>
<td>o/w Risk Mitigation</td>
<td>0.0</td>
<td>0.0</td>
<td>0.5</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Syria&lt;sup&gt;3&lt;/sup&gt;</td>
<td>0.0</td>
<td>0.0</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Non-FCS</td>
<td>22.8</td>
<td>24.0</td>
<td>27.1</td>
<td>26.7</td>
<td>28.8</td>
</tr>
<tr>
<td>o/w IDA18 Graduates&lt;sup&gt;4&lt;/sup&gt;</td>
<td>3.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>II. Non-core IDA</td>
<td>4.2</td>
<td>6.9</td>
<td>7.9</td>
<td>7.9</td>
<td>7.9</td>
</tr>
<tr>
<td>CRW&lt;sup&gt;5&lt;/sup&gt;</td>
<td>1.2</td>
<td>2.1</td>
<td>2.1</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Regional Program</td>
<td>2.2</td>
<td>3.9</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>o/w Refugees&lt;sup&gt;6&lt;/sup&gt;</td>
<td>0.1</td>
<td>1.1</td>
<td>1.4</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Arrears Clearance</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>2. Non-concessional</td>
<td>5.1</td>
<td>5.4</td>
<td>6.5</td>
<td>11.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Transitional Support&lt;sup&gt;7&lt;/sup&gt;</td>
<td>2.3</td>
<td>4.7</td>
<td>5.7</td>
<td>5.7</td>
<td>5.7</td>
</tr>
<tr>
<td>Scale Up Facility&lt;sup&gt;8&lt;/sup&gt;</td>
<td>2.8</td>
<td>0.7</td>
<td>0.7</td>
<td>5.4</td>
<td>2.1</td>
</tr>
<tr>
<td>3. Private Sector Window</td>
<td>0.0</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Total</td>
<td>37.2</td>
<td>46.5</td>
<td>53.5</td>
<td>57.1</td>
<td>57.1</td>
</tr>
<tr>
<td>Total (in US$ billion)</td>
<td>52.1</td>
<td>65.0</td>
<td>75.0</td>
<td>80.0</td>
<td>80.0</td>
</tr>
<tr>
<td>Total resources to FCS</td>
<td>7.9</td>
<td>12.3</td>
<td>14.9</td>
<td>15.4</td>
<td>15.6</td>
</tr>
<tr>
<td>Grant element: concessional IDA</td>
<td>52%</td>
<td>57%</td>
<td>58%</td>
<td>57%</td>
<td>58%</td>
</tr>
<tr>
<td>Grant element: overall replenishment</td>
<td>48%</td>
<td>49%</td>
<td>49%</td>
<td>44%</td>
<td>48%</td>
</tr>
</tbody>
</table>

<sup>1</sup>Reflects the commitment authority as of May 31, 2015, being the latest update available prior to the release of the FY16 allocations (SDR33.7 billion) plus US$5 billion resulting from changes to IDA's liquidity policy in FY16. The change in the liquidity policy channeled resources in the following way: i. CRW replenishment US$0.9 billion, ii. Refugee support for Lebanon and Jordan US$0.2 billion, and iii. Scale Up Facility US$3.9 billion (see Board paper "Enhancing IDA’s Financial Support in IDA17", February 27, 2016, IDA/R2016-0019/1).

<sup>2</sup>FCS as per FY16 FCS list. In IDA18, the figures include the IDA's overall support to countries eligible under the proposed risk mitigation regime (Guinea, Nepal, Niger, and Tajikistan). This regime did not exist in IDA17 (see special theme paper “Fragility, Conflict and Violence”).

<sup>3</sup>Assumed to be granted access to IDA support under Base, High 1, and High 2 scenarios. Indicative figure to be reassessed if and when eligibility discussions occur. Also see footnote 7 in the text.

<sup>4</sup>Bolivia, Sri Lanka and Vietnam.

<sup>5</sup>Replenished amount in FY16 compared to US$0.8 billion in IDA17 Deputies’ Report.

<sup>6</sup>In IDA17, refers to support for refugees in Jordan and Lebanon.

<sup>7</sup>In IDA17, represents transitional support to India.

<sup>8</sup>As approved by the Executive Board of Directors in IDA17.
Annex 2: Regional Strategies for the Effective Use of IDA18 Resources

1. **WBG assistance to individual countries is driven by** the Systematic Country Diagnostic – which identifies the critical constraints and opportunities for reducing poverty and boosting shared prosperity – which then informs the Country Partnership Framework – which begins with the member country’s own vision of its development goals, and is shaped by the WBG’s comparative advantage. The World Bank’s Operational Regions similarly develop overall strategies for their engagement with their regions. Below are the summaries of these regional strategies which cover the IDA18 period.

**SUB-SAHARAN AFRICA**

**Macroeconomic Developments**

2. **Context and Progress.** Africa faces stiff headwinds, after a decade of solid economic growth averaging 5 percent per year, which was based on sound macroeconomic management and booming prices for extractives. The end of the commodity super-cycle has been compounded by: slowing of global growth; a slowdown in demand from many key trading partners; increasing debt service from the dollar’s recent appreciation; and long term trends, such as high population growth. Growth in Sub-Saharan Africa decelerated to an estimated 3.2 percent in 2015 from 4.8 percent in 2014.

3. **External positions weakened across the region.** Recent commodity price falls represent a deterioration in the region’s terms of trade in 2016 by about 17 percent, with commodity exporters, especially oil exporters, seeing large terms-of-trade losses. The current account deficit widened sharply for oil exporters, and also for a number of other countries, in part because of stronger import growth on the back of large public investment projects. Capital flows to the region eased led by a decline in cross-border bank lending. In many cases, the deterioration in the current account deficit led to falling reserves and substantial currency depreciations. With commodity prices expected to remain low, average growth in the region is projected to remain at 3.2 percent in 2016. Nonetheless, risks to the outlook remain tilted to the downside.

4. **About half of the countries globally in situations of fragility, conflict or violence (FCV) are in the Africa Region.** These countries are often characterized by high levels of poverty and remain central to achievement of the WBG goals in Africa. The intertwining of challenges of fragility and youth is particularly pronounced in fragile countries where the demographic transition many countries have been experiencing has been slow to take hold. Violent extremism and the increase in the number of externally displaced people are a related and increasingly prominent feature of Africa’s development agenda. This partly reflects the impact of these issues in other parts of the world, but is also a recognition that many African countries have been struggling with these issues for many years. The emergence of more aggressive tactics by violent extremists has clarified the risks that such extremism represents. Its impact on fragile states is increasingly well documented, with most of them struggling to achieve any sustained progress on the MDGs. These levels of violence are particularly difficult for low capacity states to control, and are linked with international criminality which has taken advantage of these environments which facilitate their operations.

5. **SSA also faces other significant challenges,** including increased frequency and intensity of natural disasters, which have become the norm and require a long-term plan, especially as many –
floods, droughts, cyclones – are linked to climate change. The impacts from the exceptionally strong 2015-16 El Niño are but one example. Also, harnessing Africa’s demographic dividend will be essential for the continent to reach its full potential. With the right policies and investments, Africa can create youth cohorts that are healthier, more educated, more skilled, and more productive. And while there was much good news across Africa regarding progress towards the MDGs, an estimated 700 million still lived in extreme poverty in 2015. Poverty has also become more concentrated in Sub-Saharan Africa. Its depth and breadth in Africa (with about 347 million people, or 35 percent of the population, living on less than US$1.90 a day in 2015) remain an overriding challenge. Moreover, the MDGs were less successful in tackling non-income deprivations. Looking forward, three challenges stand out: the depth of remaining poverty in Africa, unevenness in shared prosperity, and persistent disparities in non-income dimensions of development.

6. **IDA16 and IDA17 experience reconfirms strong African demand for IDA resources**, with country-level commitments significantly front-loaded under both Replenishments. In FY15, the first year of IDA17, we delivered over US$10 billion in new commitments. Given that strong first year, commitments will be lower in FY16 (estimated to reach US$8.5 billion) and FY17, as the region will run out of available IDA17 funds, even allowing for commitment of the IDA17 SUF. The strong demand from African countries for SUF resources is further evidence of the African interest in and capacity to absorb IDA resources. Under IDA16 and IDA17, in times of high growth rates, Africa was able to use IDA resources to accelerate growth and support poverty reduction. In the less favorable environment likely for IDA18, IDA resources will be even more important to enable governments to cushion the impact on the poorest, while also tackling the challenge of transforming their economies.

7. **Strategy**: The World Bank’s strategy remains as outlined in *Africa’s Future and the World Bank’s Support to It* (March 2011). It focuses on competitiveness and employment, and vulnerability and resilience, both with a strong foundation of governance and public sector capacity. A weaker global economy has made African countries ever more dependent for growth on their own capacity to compete externally and to generate jobs internally; the impacts of the weaker global economy, coupled with the spill-over of violence and externally displaced people have made resilience a continuing essential feature. Sustaining this agenda, in the current environment, will depend more than ever on countries’ own efforts and their abilities to mobilize resources to support those efforts. As noted below, this framework is closely aligned with the five IDA18 special themes.

8. **Current global conditions present a challenge, but also an opportunity for economic transformation.** The most recent period of growth in Africa was largely driven by high levels of investment in infrastructure and extractives and construction, but with limited growth in overall productivity or in formal employment. Not nearly enough productive jobs have been created, whether in the formal or informal sectors, to absorb the millions of young people entering the labor force each year. The urgency of structural transformation is therefore compelling, especially in an environment of concern about the possible attractions of violent extremism. However, there are also reasons for optimism. In many countries, notably Nigeria, South Africa, and Kenya, we see the growth of a competitive, indigenous private sector. As that private sector expands and matures, there will be increasing scope for intra-African trade to drive the region’s growth, thus de-coupling the region from the vagaries of the commodity cycle. The resulting transformation can then create a virtuous circle: greater value-addition leads to skills built, increased opportunity and employment, and wealth created, which in turn permits ongoing economic transformation.
9. The infrastructure gap remains a major agenda for Africa. Energy access in particular remains a major challenge. Small and medium sized enterprises (SMEs) are important drivers of growth but some 10 million SMEs still are not connected to the electric grid. Only one-third of households are connected and in many countries, power systems are small and poorly maintained. Thus, many energy users on and off the grid rely on fossil energy sources for lightning or heating, which are both more expensive and contribute to climate change. Yet Africa is blessed with huge untapped potential for renewable energy – hydro, solar, and geothermal – that can improve electricity access while addressing climate change challenges. WBG is committed to delivering 1 GW of solar energy of grid-connected solar energy projects across Africa, and to provide 5 million off-grid consumers with modern energy services by 2023. Given the complexity of the agenda for both public and private sectors, leveraging all the different parts of the WBG – including IFC advisory and investment services and MIGA insurance – will be critical. In addition, countries in Africa must focus on improving the governance of the energy sector. In particular, they need to address the poor performance – and long-term financial sustainability – of national utility companies. Improving governance will have important benefits in terms of access and pricing for consumers.

10. Physical connections also remain a significant infrastructure challenge, with WBG looking at support to both national and Regional operations for road and rail. However, increasingly the focus will be on the full logistics package, recognizing that the inefficiencies, and procedural obstacles, in transport systems across the continent are often a key challenge for improving international competitiveness. This agenda is hugely expensive but innovative financing that maximizes the potential of non-concessional IDA resources, and gearing with IDA guarantees, can nevertheless make a substantial contribution.

11. Agriculture provides a major livelihood for almost two thirds of Africa’s population, making it the key to shared prosperity. Agriculture in Africa is ready for its own Green Revolution. Markets are buoyant, particularly regional markets, where urbanization and rising incomes are creating a “trillion dollar opportunity” for African agriculture by 2030. To make transformation a reality, the World Bank will support country efforts to increase productivity and diversification (e.g., Agricultural Productivity and Food Security Project in Burkina Faso); access regional and international markets; address the threat of climate change; and encourage policy reforms to address land tenure, subsidies and access to finance.

12. Climate drivers are involved in most of the shocks that keep or push African households into poverty, and will make poverty reduction ever more challenging in the future. Warming of 1.5°C–1.75°C above preindustrial levels is virtually unavoidable and will cause loss of cropland, reduced crop production, increased undernourishment, and increased risk of drought. Even if warming is contained below 2°C, Africa faces considerable uncertainty regarding changes in local weather patterns and hydrological cycles. Designing for this uncertainty creates formidable challenges for development planning for water management projects, and for climate-sensitive infrastructure.

13. Current funding for climate adaptation in Africa is inadequate, at about US$3 billion a year, compared to estimates from WBG and UNEP that US$5–US$10 billion a year is needed today to adapt to 2°C warming, US$20–US$50 billion to do so around midcentury, and close to US$100 billion if warming increases by 4°C. At COP21 the WBG launched the Africa Climate Business Plan as a vehicle to reduce this funding gap. The plan builds on the WBG’s existing extensive engagements and
partnerships, and leverage all parts for the WBG as much as possible. It has three clusters: strengthening the resilience of the continent’s assets (natural, physical, human and social); powering resilience by scaling up low-carbon energy sources in Africa; and enabling resilience by providing data, information, and tools to promote climate-resilient development; strengthen the region’s hydro-meteorological systems; and, build the capacity to plan and design climate-resilient investments. WBG estimates that implementing the Africa Climate Business Plan will require about US$16.1 billion in the period 2016–2020. IDA cannot deliver these resources alone, but it will have a crucial role in contributing to them, through scaled up country allocations. COP22 will provide an important way marker, to reassess progress on this agenda, including for the blue economy.

14. Among other things, Africa’s Gender Action Plan focuses on policy and country dialogue. This has ensured that there is substantial gender analysis included in SCDs. Africa Region’s Gender Innovation Lab (GIL) helps build and share knowledge effectively. Since its inception in 2013, the GIL has designed over 50 impact evaluations related to land, agriculture, entrepreneurship, and youth employment. A conservative estimate suggests that every dollar GIL has spent on research has directly influenced 46 project dollars. For Lesotho, the GIL team recently identified female migration as a critical area for analysis; it subsequently produced a study that will inform the upcoming CPF.

15. One of IDA’s most innovative operations is the Sahel Women Empowerment and Demographic Dividend Regional Project (SWEDD), GIL researchers worked closely with the project team using evidence from GIL’s impact evaluation of programs in Liberia and Uganda, along with evidence from other programs for adolescent girls. The results included highlighting particularly successful strategies in adolescent girls programming: the provision of safe spaces and life skills training. So far, five of the six SWEDD countries have included these strategies in their activities. African Region will continue to look for ways to replicate and further develop such approaches. Promoting Economic Empowerment of Adolescent Girls and Young Women in Rwanda; and the Women’s Entrepreneurship Development Project in Ethiopia were similarly innovative. A strong IDA18 Replenishment IDA18 will provide the opportunity to take forward and deepen analytic and operational work.

16. Enhanced IDA18 support for FCV countries under IDA18 could have significant impact. It could build on three initiatives to address FCV issues in the Great Lakes; the Horn; and the Sahel. Analysis of drivers of fragility and conflict have translated into results on the ground in various ways. They have enabled WBG teams to identify critical drivers of fragility in areas such as climate change, gender inequalities, demographic growth, and weak governance and failing institutions. Good examples are offered by the CPFs for Mali (FY15-19) and Chad (FY15-20). They integrated fragility assessments already reflected in their SCDs, enabling the CPFs to articulate a clear framework for country programs addressing vulnerabilities from the point of view of fragility. These strategic documents are crucial to defining how we engage with FCV countries. An example of the result is the (US$107 m) Great Lakes Emergency Sexual and Gender Based Violence (SGBV) and Women’s Health Project, which has a focus on offering integrated services to SGBV survivors, as well as expanding access to much-needed maternal and reproductive health. In some cases, we expect such assessments to identify opportunities for countries that are embarked on a turnaround, and merit support under IDA’s turnaround regime, as they move towards a more virtuous growth path, so that like Côte d’Ivoire they can embark on a more sustainable future. In other cases, these documents can help highlight forgotten countries (such as CAR), for whom the WBG can act as an advocate and convener of the international community. And
such considered analysis can also help WBG better understand the risks of engagement, so allowing more considered discussion of what the WBG’s future risk appetite should be in particular cases.

17. **A particular challenge in many FCV situations is the large population of refugees** (around 3 million in all) which are additional to the internally displaced populations some countries are also managing. These refugees fled from a variety of causes, many of which are long standing, dating back at least 60 years, while other refugee movements are much more recent, reflecting the upsurge of political violent extremism that has affected several African countries, as well as other regions of the world. Dadaab refugee camp in Kenya remains the third largest city in the country, having opened in late 1991. Beyond the direct burden of providing basic services to these refugees, the refugee-hosting communities are typically in more peripheral areas of the country, and therefore tend to be poorer and more vulnerable. They also often have lower agricultural potential and greater environmental degradation. In addition, their remoteness and poor infrastructure means that basic social services delivery is weak and economic opportunities are limited. As the causes of displacement persist so do the refugees, and the pattern is further complicated by reverse movements, with for example Ethiopian refugees in South Sudan, but also South Sudanese refugees in Ethiopia.

18. **WBG’s approach to engaging with refugee situations will continue to be based on helping host governments understand and manage the implications of such populations for their country as a whole and for its development trajectory.** The WBG has engaged in a holistic way, seen in the Ethiopia Productive Safety Nets Program, which has been tasked with addressing food insecurity regardless of its origin. Examples of efforts in IDA18 include:

- A Great Lakes Region Displaced Persons and Border Communities Series of Projects is being developed in three phases for DRC, Zambia, and Tanzania and a regional organization. The objective of the project is to improve self-reliance and social cohesion for the forcibly displaced and host communities in the Region. Project beneficiaries would primarily be vulnerable persons affected by displacement, including displaced persons (refugees, IDPs, returnees) and host communities. Many displaced people live in female-headed households and women have been disproportionately affected by the violence, the project will target assistance to women.

- In DRC, a US$50 million IDA operation approved in late 2015 will support IDPs, returnees and host communities. It is integrated into a broader project to support stabilization thru short-term employment, sustainable livelihoods and conflict-sensitive community-driven development.

- Tanzania has recently given citizenship to 200,000 long term former refugees from Burundi; securing their local integration is the focus of the US$27 million Credit under preparation as part of the GLR Displaced Persons and Border Communities regional operation.

- The US$175 million Development Response to Displacement Impacts Project in the Horn of Africa under preparation aims to improve access to basic social services, expand economic opportunities, and enhance environmental management for communities hosting refugees in target areas of Djibouti, Ethiopia and Uganda. The project will embed the essential features of ensuring citizen participation and engagement in identifying and prioritizing developmental needs, including socio-economic infrastructure and livelihood opportunities to improve self-reliance of refugee hosting communities; improving social cohesion between refugees and refugee hosting communities; increasing citizen voice and role in development decision making; and eliciting greater demand for social accountability.
• ASA to assess the macro, micro, and social impact of the presence of refugees on host communities. While there have been a variety of descriptive studies about the interactions between refugees, the aid community, and hosts in the vicinity of camps, these have not yet been able to provide estimates of the net benefits to locals of the presence of refugees and aid.

19. Governance bottlenecks – lack of transparency and accountability; political corruption, and elite capture; low trust or legitimacy; and limited implementation capacity – have become starker with the end of the commodity supercycle. Clearing away these bottlenecks depends on building effective and accountable institutions, however, recognizing the variation in governance progress across our clients; not all bottlenecks are always critical for growth in all countries. An approach focused on transplanting institutional forms from high-income to developing countries has often failed. There is increasing focus on identifying what reforms work and under what circumstances for maximum effect. This is a work in progress that WDR 2017 will look at in detail. This agenda also requires a multi-sectoral approach integrating skills both across governance and beyond. Some examples of countries where IDA has made progress on this more integrated approach include Kenya, Nigeria, and Tanzania.

20. Looking forward, the Region expects to build on this more nuanced approach including support for: continued budget discipline, not least to ensure the protection of core social sector expenditures; WBG fiduciary responsibilities whilst building country systems, including implementation of procurement reform, and building of FM country systems; countries building effective and accountable institutions, including those for revenue mobilization including tax systems and collection efficiency; cross-cutting priorities, including governance of the productive sectors, citizen engagement and open government, and capacity building, including a strong commitment to minimizing the role of non-sustainable project support arrangements.

21. WBG has been increasingly concerned that government decision making is not adequately evidence based. This has generally been because of a lack of evidence that is objective and reliable. Data deficiencies not only obscure the overall picture, but also limit the scope to understand how particular segments of a society are progressing, whether by geographical or social stratification. In this regard the WBG has committed itself to ensuring that household surveys are scheduled, and financed, every three years, for every country in sub-Saharan Africa, in order to provide the consistent and comparable data that has been lacking.

22. The case for Regional Integration (RI) remains strong, due to the small size of most domestic markets, filling the gaps in connective infrastructure, and responding to the global public goods and ‘bads’ which cut across national borders. The Africa 2063 vision document, recently adopted by AU Heads of State, recognizes that a more integrated continent is key to meeting rising aspirations. While the transport and energy sectors constitute the bulk of lending, health and agriculture sectors have seen recent increases. The RI program has also taken on challenges of fragility and conflict. These have required supporting collective actions on the part of countries and regional institutions in tackling complex areas of forced displacement, livelihoods of vulnerable pastoral communities during a time of intense pressure on natural resources, and exploiting hydro power generation potential in shared waters.

23. Demand for resources under IDA’s Regional Program has skyrocketed and is chronically constrained by available resources. Commitments under the Program grew from around US$300
million in FY04 to an estimated US$9 billion at the end of FY16. This growth also reflects the increased political support for integration among African leaders. At the time of IDA17 Mid Term Review, the RI pipeline was oversubscribed two times over the available regional IDA.

24. **The region’s new RI strategy is under development and includes several elements:** combining support for physical infrastructure with support for addressing the policy and ‘softer’ issues; greater use of the ‘power of agglomeration’ (a group of countries coming together to align their investment climate policies in order to improve the attractiveness of these larger markets to potential private investors); greater use of a variety of instruments; making limited regional IDA resources go further through leveraged instruments with private financing; identifying ways to strengthen the poverty impacts of regional projects; and use of ‘regional SCD’ approaches to identify binding regional constraints and opportunities for transformational regional projects.

25. **Africa’s demand for increased IDA resources is compelling.** Meeting the challenge of the SDGs requires sustained and accelerated growth across Africa. And the agenda on climate change set out at COP21 has further elaborated the challenges African countries face in securing sustainable futures. But the downturn in the global economy, the end of the commodity supercycle, and the associated decline in inward FDI to Africa, have exposed the vulnerabilities in many countries, especially the resource rich. This is playing out partly in increased borrowing by many African countries, which has in turn raised the specter of a return to high and unsustainable levels of debt for poor countries. Adding to these challenges, many African countries face an increasing burden in hosting populations of the externally displaced. For all these reasons the international community needs to scale up concessional support to all our clients in Africa, so as to ensure they can transform their economies. These arguments apply particularly strongly for countries in situations of fragility, conflict and violence, many of whom are beginning to demonstrate, or have the potential for, a turnaround, but one that will crucially depend on scaled up partner support. And it is important that support for those countries not be at the expense of well performing countries. Meeting their collective needs for finance depends crucially on a scaled up IDA18 Replenishment.

**SOUTH ASIA**

26. **Context and Progress:** While South Asia has been making tremendous progress in development and showed strong resilience at the time of economic downturn, there is a vast unaddressed domestic agenda. This includes both economic and social weaknesses such as high fiscal deficits, high debt-to-GDP ratios, barriers to female labor force participation, child marriages, weak regional cooperation, and governance weaknesses. SAR scores low on vital dimensions of environmental and health sustainability, and faces increased frequency of natural disasters that disproportionately impact the poor. The region is one of the most vulnerable in the world to the impacts of climate change, such as floods and drought, extreme heat, sea level rise and catastrophic cyclones. South Asia lags significantly behind most of other regions in the world in terms of access to infrastructure services which inhibits economic growth and regional integration. Fragility, conflict and violence have led to major displacements of people in the region. Finally, corruption and governance weaknesses are among the key impediments to growth and poverty reduction in South Asia.

27. **With strong and continued support from the WBG, SAR has made progress in economic growth, social development and regional integration.** SAR infrastructure portfolio is one of the
largest in the World Bank at nearly US$35 billion and is growing further with 34 more operations in the pipeline for FY17 to add US$7.7 billion for infrastructure development across the region. Progress in infrastructure includes rural development, agricultural infrastructure and irrigation, natural resource management, urban development, energy, transport, water and sanitation, disaster risk management, and infrastructure to address climate change. The new Regional Gender Action Plan (RGAP) of FY16-20 places a high priority on closing gender gaps and improving outcomes. The WBG is also expanding its support for regional cooperation with an operational program that is growing in three key engagement areas of Trade and Transport, Regional Electricity Market, and People to People Linkages.

28. **Strategy:** The SAR strategy directly corresponds to all five IDA18 special themes and includes enhanced support for private sector development and regional integration; greater social and financial inclusion; strengthening governance and security; and fragility, climate change and gender/social imbalances.

29. **Jobs and economic transformation:** SAR’s strategy focuses on strengthening support to job creation directly and indirectly through generation of growth, competitiveness, improving the business environment, improving the relevance and quality of education, removing infrastructure bottlenecks to private sector development and job creation, and improving female labor force participation. It proposes to scale up lending in several areas:

- Supporting policy programs that generate growth (e.g., Nepal financial sector DPC);
- Investing in operations that influence job creation directly through support to private sector development, infrastructure development and energy sector (e.g., the Afghanistan Trans Hindukush Road Connectivity project and the Nepal Livestock Sector Modernization project);
- Building skills for higher skilled jobs by supporting creation of foundation skills and general knowledge, combining training with job counseling, providing credit support for students, incentivizing training and job matching for disadvantaged groups (especially women) using CCT and utilizing vouchers, tax incentives and grants for firms (e.g., the Sri Lanka Accelerating Higher Education project proposed for IDA SUF); and
- Expanding support to improvement of business environment to help enhance competitiveness, e.g., the Entrepreneurship and Jobs project in Maldives.

30. **Gender equality:** The new RGAP plans to significantly scale up lending for the types of operations which directly expand economic opportunities for women on issues such as safe transport and mobility, social protection, financial inclusion, skill building, and livelihoods. This prioritizes improving female labor force participation rates; creating more and higher-skill jobs for women in growth sectors; and making finance, trade and private enterprise more inclusive of women. The plan places a high priority on closing the gender gap and improving outcomes in human capital development, economic empowerment; and voice and agency. The lending pipeline includes operations that benefit women directly (e.g., the Adolescent Girls initiative in Nepal and Afghanistan); and indirectly (e.g., rural development and tourism as seen in the Punjab Tourism project in Pakistan). Lending programs will also scale up effort against gender-based violence and development of the ready-made garments sector as a way to improve female labor force participation and enhance safe occupational standards and practices.
31. **Governance and institution building:** The SAR strategy proposes to finance projects that address key governance-related challenges and to strengthen governance dimensions of project supervision. Using IDA resources, SAR intends to scale up lending in the following priority areas:

- **Strengthening Domestic Revenue Mobilization:** SAR plans to continue implementing a comprehensive DRM program in Pakistan, expand the current VAT program in Bangladesh, and expand engagement in Sri Lanka;

- **Enhancing public accountability through ICT, citizen feedback and grievance mechanisms** has a strong leveraging and incentivizing effect on government effectiveness and service delivery. SAR plans to replicate successful initiatives developed in South Asia (e.g., Afghanistan third party monitoring, or India rural sanitation program monitoring using the ‘Outcome tracker’ application) to other countries in the region through IDA financing;

- **Expanding the coverage and use of SMART IDs cards** to expand people’s access to services, which could be significant in terms of more inclusive and transparent provision of services (e.g., through the forthcoming Bangladesh Identity Management project);

- **Strengthening governance dimensions of project implementation and supervision in terms of fiduciary, integrity, and institutional issues affecting implementation.**

32. **Fragility, conflict and violence:** Scaling up lending operations that address root causes of fragility is essential for stability and economic development of the region. In the past, IDA has supported the return of internally displaced people in the frontier areas of Pakistan through the FATA\textsuperscript{53} Temporarily Displaced Persons Emergency Recovery project, and rehabilitation of homes damaged by the Nepal earthquake through the Housing Reconstruction Project. Going forward, IDA plans to scale up its work to address fragility, conflict and violence through the following (Box 3):

- **Supporting job creation and service delivery in FCSs** by working at the community level (e.g., scaling up support to the National Solidarity Program in Afghanistan using IDA as the core assistance leveraging the Afghanistan Reconstruction Trust Fund (ARTF), introducing new operations such as Entrepreneurship and Jobs in Maldives) and by improving people’s access to economic opportunities (e.g., Trans Hindukush Road Connectivity project in Afghanistan or Bangladesh Regional Connectivity project);

- **Providing support for internally displaced people** by providing a path for returning home with attention to basic services and livelihoods (e.g., scale up operations in countries not officially classified as FCS that tackle fragility manifestations directly as done in Pakistan through the FATA project; continue and expand partnership with the UN agencies assisting the internally displaced people and improving local livelihoods);

- **Tackling gender issues** as an essential element of working in fragile situations (e.g., leadership role of women in Community Development Councils in the National Solidarity Program of Afghanistan or scaling up Bangladesh programs that help bring and keep girls in general education, as students and teachers, to facilitate their access to higher education);

\textsuperscript{53} The Federally Administered Tribal Areas – a semi-autonomous tribal region in northwestern Pakistan.
• Enhancing support to regional integration through projects that help give people economic connectivity and stake in a less violent future (e.g., CASA-1000 power transmission project, development of the Kunar River Basin between Pakistan and Afghanistan, and support for highway and customs interconnectivity between Pakistan and Afghanistan);

• Continuing focus on basic fiscal and macroeconomic issues in support of strengthening governments’ ability to function.

33. **Climate change:** SAR has the highest proportion of lending which produces climate co-benefits (29 percent in FY2011-2015). WBG’s goal is to increase the volume of lending with climate co-benefits by 1/3 over FY17-19. In FY2011-2015, US$11.5 billion was committed by SAR for 61 projects that have climate change adaptation and mitigation co-benefits. Of these, 40 percent targeted adaptation co-benefits (mostly in water, agriculture, environment and DRM) and 60 percent mitigation co-benefits (mostly in energy and transport). The Region has developed a Climate Action Business Plan aimed at making IBRD and IDA programs more climate-smart, and scaling up support for programs that produce climate co-benefits. The Plan envisages additional lending with climate co-benefits adding up to US$15 billion in FY17-19. In Bangladesh, Water and Surr practices account for more than 70 percent of co-benefits in adaptation. In Pakistan, Energy and Water are the key sectors with balanced adaptation and mitigation benefits. While India is an IDA graduate, it intends to scale up its climate borrowing to US$1.8-3bln per annum and energy sector dominates the pipeline with mitigation co-benefits exceeding 70 percent. Additionally, the business plan defines ways for the WBG to provide program preparation and knowledge support to SAR countries to access additional sources of climate finance. Finally, SAR is using the momentum generated by low oil prices to scale up support to reforms in energy policies and reduction in energy subsidies. The most significant initiatives in this regards are being taken by Bangladesh and Pakistan and reflected in the DPO programs.

34. **Infrastructure:** The WBG actively supports the development of infrastructure to support economic growth and regional integration in the region. South Asia lags significantly behind most of other regions in the world in terms of access to infrastructure services. Energy and water shortages exist in nearly every country in the region. Inadequate transport infrastructure contributes to SAR being the least economically integrated region preventing the regional market from reaching its full potential. Lastly, the region is also one of the most vulnerable in the world to the impacts of climate change which require infrastructure development.

35. **The WBG is active in many aspects of infrastructure:** rural development, agricultural infrastructure and irrigation, natural resource management, urban development, energy, transport, water and sanitation, disaster risk management, and infrastructure to address climate change. SAR infrastructure portfolio is one of the largest in the World Bank at nearly US$35 billion and is growing further with 34 more operations in the pipeline for FY17 to add US$7.7 billion for infrastructure development across the region. Forthcoming infrastructure needs in IDA countries include providing investments to increase electricity generation capacity in Pakistan; development and maintenance of domestic generation and transmission network in Afghanistan; expansion of hydropower and renewable energy in Nepal; and expansion of the use of renewable energy, including renewable energy investments in Bangladesh.

36. **In response to growing client demand, the WBG is expanding its support for regional cooperation in South Asia with a goal of increasing the portfolio from 6 to 20 regional projects**
by FY18. The operational program is growing in Trade and Transport, Regional Electricity Market, and People to People Linkages. IDA currently has an active portfolio of six regional projects in South Asia including: a South Asian electricity grid and trading system; strengthening trade facilitation, infrastructure and policy/regulatory/institutional arrangements to move South Asia towards ASEAN levels of intra-regional trade and investment; and improving cooperation in the management of shared rivers, disaster risks and the impact of climate change.

37. **SAR’s regional integration program is being scaled up significantly with five more operations under preparation for delivery in FY16-17, and another nine under consideration for FY17-18.** Examples include digital connectivity projects stretching into Central Asia, the Gateway to Central Asia Peshawar-Torkham Expressway as part of a broader transport connectivity program linking Pakistan to Afghanistan and Central Asia, the Nepal-India Regional Trade and Transport Project and the cross-border transmission lines India-Bangladesh and India-Pakistan.

38. **Active collaboration and coordination across the WBG is essential to ensure strategic alignment and leverage impact.** WBG collaboration is more advanced in Pakistan, Afghanistan and Nepal, and is expanding across the entire Region. Examples include:

- Strong collaboration in fragile environments (e.g., the ARTF Incentive Program, IFC support to investment climate and WBG Doing Business Initiative in Afghanistan. MIGA has supported private sector projects in the telecom and agribusiness sectors for e.g., the Independent Power Producer (IPP) in Mazar-i-Sharif with IFC investment and IDA guarantee).

- Collaboration in India around Government priorities. The WBG-led India Clean Ganga program assists the Government in the design of institutional and legal frameworks and includes potential IFC PPP advisory services for waste water treatment plants. The WBG has been engaging with businesses in India to support climate action through the Carbon Pricing Leadership Coalition. IFC is engaging key Indian private sector clients to join.

- The Transformational Energy Initiative in Pakistan aims to mobilize over US$10 billion to support the sector in a mix of public and private investments to address current supply gaps and future needs. WBG teams are working together and have a Joint Implementation Plan (JIP) with the World Bank supporting policy reforms as well as investment operations in generation and transmission, IFC supporting new investments with MIGA gross exposure of US$231 million in support of hydropower projects in the region.

- In Bangladesh, the WBG is increasingly collaborating through joint operations and coordinating sequenced or parallel interventions (see also Bangladesh country page).

- In Sri Lanka, the focus is on business environment and investment policy themes. Going forward, the WBG intends to scale up in infrastructure, including PPPs, in the agriculture sector with a joint WB-IFC project on modernization of agri-businesses, risk insurance mechanisms and other aspects of the sector with MIGA standing ready to provide support where possible.

**EAST ASIA AND THE PACIFIC**

39. **Context and Progress:** East Asia and Pacific (EAP) is a large and dynamic region, comprising a diverse range of clients from upper and lower middle income countries to low income countries,
including small Pacific Island Countries (PICs). IDA-eligible countries in the region include Cambodia, Lao PDR, Mongolia, Myanmar, Papa New Guinea (PNG), Timor Leste, Vietnam, and eight PICs, with seven countries currently classified as fragile (Myanmar, Timor Leste, and five PICs). Vietnam, IDA’s second largest borrower, is expected to graduate at the end of the IDA17 cycle. Thanks to rapid and sustained economic growth over the past two decades, EAP has made spectacular progress in reducing extreme poverty, estimated at 4.2 percent in 2015, under the US$1.90/day poverty line (2011 PPP prices). Even with this remarkable progress, some 90 million people still live in extreme poverty and another quarter billion are vulnerable to falling back into extreme poverty, as a result of climate change, natural disasters, disease or economic shocks. For example, in Vietnam, a third of the population are poor or near poor, with most of the extreme poor concentrated in remote areas and among ethnic minorities. While the extreme poverty rate for IDA countries in EAP is estimated at 5.6 percent on average, it varies across countries and remains high in PNG, Timor Leste, and Solomon Islands (around 40 percent), Lao PDR (around 30 percent) and Myanmar. Maternal and child mortality as well as stunting are also high in Cambodia, Lao PDR, Myanmar, PNG, and Timor Leste. Although Cambodia, Mongolia, and Vietnam, have seen a rapid increase in income of the bottom 40 percent, progress has been modest in Lao PDR where income inequality has increased.

40. **EAP’s strong growth performance reflects in part its high degree of integration with global and regional markets, including through the ASEAN trade partnership.** Growth in developing EAP is projected to moderate to 6.4 percent in 2016 and 6.3 percent in 2017, with most IDA countries continuing to post robust growth, while commodity exporters like Mongolia, Timor Leste, and PNG will see weaker growth. The region’s future will be shaped by key megatrends. While EAP’s GDP growth is moderating, primarily reflecting slower growth in China, its share in global GDP will continue to rise (from 18 percent to 30-35 percent by 2030). The region is aging faster than any other region and several MICs will see a decline in the working age population. A growing middle class will increase demand and change the composition for goods and services. Rapid urbanization, with 460 million people moving to cities by 2030, will create increased pressures on service delivery, including of energy. The region is the world’s largest consumer of coal and contributor to GHG emissions (mostly China), while it is also highly vulnerable to natural disasters and climate change (including rising sea levels) across the Pacific and Southeast Asia. A more inclusive and sustainable growth path will be essential to preserve development gains and make further progress toward ending extreme poverty and sharing prosperity in the region.

41. **Strategy:** The WB strategy in EAP focuses on five pillars which are aligned with the IDA18 special themes: inclusion and empowerment, jobs and private sector development, governance and institutions, urbanization and infrastructure, and disaster risk management and climate change. The cross-cutting themes of gender and fragility are also central to the World Bank’s work in EAP. Selectivity is determined at the country-level guided by county strategies, including CPFs.

42. **Gender:** Gender equality is part of the Inclusion and Empowerment pillar and has been mainstreamed in WBG-supported programs in IDA and non-IDA countries. Building on progress to date and in line with the new WBG Gender Strategy, the region expects to deepen the integration of gender in IDA-supported programs in IDA18. A joint WBG gender strategy is being implemented in the Pacific. For example, IDA and IFC are working together in PNG to increase female participation

54 Source: EAP team for Statistical Development (EAPSD) using EAPPOV database, March 2016. Aggregate estimates exclude Myanmar due to lack of an agreed international PPP estimate and hence underestimate the total number of poor.
in the labor force and to tackle gender based violence, through initiatives such as the Business Coalition for Women. An EAP Gender Innovation Lab is being set up (with support from Australia) with the aim of filling knowledge gaps on effective policies to address the underlying causes of gender inequality, particularly on economic opportunity. An updated Regional Gender Action Plan will be finalized in FY17.

43. **IDA will continue to scale up its engagement in FCV situations.** In Myanmar, IDA will continue effort to consolidate the peace process following the signing of a National Peace Agreement and strengthen state institutions to deliver basic services. IDA is also supporting programs in PICs currently classified as fragile states\(^{55}\) by supporting education and skills programs for the urban youth (in PNG, Solomon Islands, and Timor-Leste) and protection of vulnerable communities and coastlines (Kiribati, Tuvalu). A fragility assessment is underway to help systematically identify drivers of fragility and inform a Regional Partnership Framework (RPF) for the PIC-9.

44. **As a major contributor of GHG emissions and a region highly vulnerable to climate change and natural disasters, climate change is a key priority in WBG supported programs.** While the focus in IDA countries is to build resilience through adaptation measures, notably in the Mekong Delta and the Pacific, there is growing client demand for tapping mitigation opportunities, particularly in the context of the NDCs under COP21 (e.g., greater focus on energy efficiency and renewable energy in Vietnam). In line with IDA17 commitments, IDA projects are being screened for climate change risks, and is being mainstreamed in SCD and associated CPFs. In Mongolia, IDA is working with other partners on reducing air pollution in poor (peri-urban) areas in the capital city Ulaanbaatar and on renewable energy projects including wind and solar.

45. **This agenda is also important in all IDA clients.** In Vietnam, for example, efforts will focus on strengthening public administration, transparency and accountability, including through increased citizen voice and participation (including ethnic minorities, women, and marginalized groups) in policy making and implementation, as well as improved access to information. In Mongolia, IDA will continue to partner with civil society to increase their role in budget oversight and monitoring of mining policy and revenue management.

46. **Labor force participation is high in EAP relative to other regions, however productivity growth and quality jobs remains a challenge.** IDA efforts are focused on increasing agricultural productivity and on facilitating the transition to more productive sectors, including by improving the business climate and investing in economic infrastructure. Closing the significant infrastructure gap, particularly in energy, roads, and sanitation, are important priorities for several IDA countries, including Myanmar, Cambodia, and the PICs. IDA is also supporting employment generation in the Pacific, e.g. PNG’s Urban Youth Employment Project and Solomon Islands’ Rapid Employment project.

47. **Demand for IDA regional programs will continue to scale-up support in the Pacific, potentially for the maritime and tourism sectors, and to build on the success of regional operations in DRM, aviation, fisheries and ICT.** There could also be opportunities for regional programs across IDA countries in Southeast Asia, in areas such as transport, energy, water, trade, or

\(^{55}\) FSM, Marshall Islands, Solomon Islands, Timor-Leste, Tuvalu, and Kiribati, Nauru, which suffers from similar conditions as other small PICs, will only be assessed once it joins IBRD.
global public goods in the environment or health/nutrition sectors. An important issue to consider is Vietnam’s ability to benefit from Regional IDA after graduation.

48. **There has been good progress in expanding collaboration and leveraging across IDA/IBRD, IFC and MIGA, notably in the areas of financial inclusion, sustainable infrastructure, agri-business, and private and public partnerships (PPPs).** The WBG has been collaborating closely in the preparation of SCDs (e.g., Myanmar, Pacific 8, Lao PDR, and Vietnam) and country strategies, and well as flagship reports such as Vietnam 2035. There are currently two Joint Implementation Plans (JIPs) including the Vietnam agri-business which supports farmers in adopting sustainable agricultural practices and enhances supply chain performance of coffee and rice; and the Myanmar Energy project which supports increased access to electricity from 30 percent in 2014 to 50 percent by 2020. In Mongolia, IFC and MIGA are providing US$2.2 billion to the Oyu Tolgoi (OT) copper and gold mine, including MIGA’s largest ever guarantee of US$ 1 billion – while IDA supports adherence to high standards for environmental and social safeguards in the mining sector and the management of mining revenues. In addition, the IFC and World Bank are working closely on two potentially transformative PPPs in the Pacific: the Solomon Islands Tina River Hydropower Development Project and the Tibar Bay Project in Timor-Leste.

49. **Client demand for the range of WBG services is strong and growing, including from IDA-eligible countries.** Notable examples include: in Cambodia, IDA has resumed new financing after a five-year pause, as outlined in the Country Engagement Note recently presented to the Board. In Myanmar, IDA is recalibrating its program to reflect the priorities of the newly elected government which took office in April 2016. To the extent that IDA18 provides enhanced support to FCS, IDA’s program in Myanmar could be significantly expanded. In Vietnam, transitional support to ensure a smooth transition to IBRD-only status will be critical given fiscal pressures, high vulnerability to the effects of climate change on its agricultural sector and limited access to IBRD.

50. **IDA will remain critical to helping address the unique challenges faced by the PICs, linked to their small size, remoteness, environmental fragility and vulnerability to natural disasters and climate change.** In particular, IDA’s Regional Program and CRW have proved invaluable in enabling tailored and scaled up support to PICs. In addition to supporting country priorities, IDA will continue applying a regional lens to deliver solutions, including through regional operations, the SCD for the eight PICs and associated Regional Partnership Framework (RPF) as well as the upcoming flagship report *Pacific Possible*.

EUROPE AND CENTRAL ASIA

51. **Context and Progress:** ECA is a diverse region with countries of different endowments, histories, legacies, and experiences. IDA serves five IDA clients, Uzbekistan (Blend), Kyrgyz Republic, Tajikistan, Moldova, and Kosovo. There is strong demand for IDA resources, including non-concessional, from the region’s recent graduates, mainly in the South Caucasus.

52. **Overall, ECA clients did well in improving living standards in years leading up to the 2008 financial crisis.** But it is slow to recover, with those gains at risk and a number of headwinds threatening the prosperity agenda of IDA clients. The end of the commodity super-cycle, as well as ongoing geo-political tensions, have had an adverse impact. There is an ongoing contraction in the
Russian economy of negative 3.8 percent in 2015 and negative 0.8 percent in 2016, slow growth in the Eurozone, and a first time fiscal deficit in Kazakhstan. These result in spill-over effects on neighboring IDA clients through, for instance, the decreasing remittances from (mainly) Russia with negative effects on the vulnerable populations.

53. **Strategy:** The prioritization of ECA programs is done through a bottom-up approach in individual SCDs and translated into our CPFs. A number of our IDA clients are either in the process of the initial SCDs formulation or will do so early in the IDA18 period. This will help focus and guide prioritization with the IDA special themes as guiding priority areas. Kosovo finalized its SCD recently, with the agenda focused on productivity gains, exports and job creation, particularly for youth and women. The ECA-wide strategy is similarly built around strategic engagement areas that very much align with the IDA18 special themes:

54. **Climate resilience:** Natural resource vulnerability is a critical long term challenges in ECA, as is evidenced in the water stress faced by our Central Asian IDA clients. It is expected that climate change will compound legacy issues, including inefficient infrastructure, unsustainable land and water management, environmental pollution and degradation. In Central Asia, climate impacts on water availability negatively impact the agriculture and energy sectors. In Kosovo, the water extremes cause more prevalent droughts in summer and floods in winter/spring. Energy intensity of many countries is extremely high. Uzbekistan is highly vulnerable to climate change, and the WB is focusing on three main areas: support to agriculture to increase resilience by diversification to less water-intensive crops; screening all infrastructure investments for climate resilience; and promoting collection of better data on climate change and water flows. Regional cooperation over climate change also gained a new momentum. The recently approved regional IDA project “Climate Adaptation and Mitigation Program for Aral Sea Basin” is financing a set of national and regional activities, structured knowledge for climate-smart decision making, capacity and coordination at national and regional levels around climate action; and investments in key vulnerable sectors, that can be easily replicated to scale-up resilience.

55. **Gender:** ECA prepared a Regional Gender Action Plans in FY13. Availability and accessibility and data collection, for example, has improved through the launch of the ECA Gender Data and Statistics database (ECAGEN) and the inclusion of a module on asset ownership and use in the Life in Transition Survey III covering 31 ECA countries, and the production of Gender-at-a-Glance country data briefs for all ECA countries. The RGAP helped strengthen the knowledge base on gender in previously un-examined issues such as aging and care, missing girls in the South Caucasus, gender dimensions of Roma inclusion, inclusion of sexual minorities, among others; and pushing the knowledge frontier on gender issues through innovative analysis and impact evaluations of pilot interventions. Nevertheless, the region continues to face gender equality challenges. For instance, there is a decline and stagnation of female labor force participation. The burden of care responsibilities can have serious negative repercussions on women’s economic outcomes, leading to increased vulnerability and exacerbating gender-based inequalities. The region has begun preparation of a new RGAP to be aligned with the new WBG Gender Strategy.

56. **Fragility, conflict and violence:** ECA is increasing focus on vulnerable groups like ethnic minorities (such as Roma), youth, refugees, gender challenges, and older workers. There are multiple sources of insecurity, active as well as frozen conflicts, ranging from post conflict regional tensions and extremist movements in Central Asia, ongoing stability challenges in Ukraine, to the long-standing
territorial sensitivities and/or border closures, with high number of IDPs. Turkey is hosting 2.7m Syrian refugees, 7 percent of Central Asia’s working age population work in Russia – and some are returning which make the education, skills, and jobs agendas very pertinent in many of our client engagements.

57. **Jobs and economic transformation:** With unemployment consistently high, the jobs and skills agenda is a very important engagement area in ECA. We are linking the work on youth unemployment with the Education and Skills agenda and social policy. We are supporting clients to better profile characteristics of job seekers and those out of the labor market altogether as well as their barriers to employment. Financial sectors in all our IDA clients face serious challenges with high NPLs – the highest of any region the average for ECA is around 12 percent (16 percent for Kosovo) compared to 2 percent in LAC and EAP: Credit growth is constrained and capital markets are undeveloped among our poorest clients.

58. **Governance and institution building:** Building up governance, institutions, and the rule of law are top priority areas and prerequisites in achieving many of the developmental goals of our clients. As such, we are incorporating governance in SCDs and have institutionalized the use of Governance Checklists and Filters in Tajikistan and Moldova. In a number of IDA countries, we are supporting clients to improve citizen centric service delivery and the development and improvement of One-Stop Shops and strengthening regulatory governance for delivery of citizen and business services. Work on parliamentary strengthening in Tajikistan is ongoing, as well as statistical capacity building in Tajikistan, and the Kyrgyz Republic. There will be a greater focus on the foundational governance causes of instability (in Moldova; mainly corruption and state capture).

59. **Priority infrastructure needs, particularly in terms of energy and renewables:** Building connectivity within ECA and with the rest of the world is critical for our IDA clients. ECA’s competitiveness relative to other emerging countries around the world, is low. For all of our IDA clients, improving access and quality of basic services are among the most pressing development challenges, notably in terms of energy, water supply, and sanitation services. Improving transport and broadband infrastructure as well as trade facilitation are also essential to connectivity and promote regional integration (particularly in Central Asia). Developing potential for renewable energy, particularly hydropower, is at the core of World Bank dialogue with its IDA clients in Central Asia. For example, the WBG is working on the rehabilitation of the largest hydro power plant in Tajikistan, utilizing IDA17 funding, with anticipated funding from the SUF and IDA18. Similarly, energy security and plans to supply sustainable energy to South Asian markets under the CASA-1000 project represent key infrastructure opportunities for Tajikistan and the Kyrgyz Republic. The region is also working on energy efficiency, which remains a priority for national and regional governments at the utility service, building and household level to reduce energy consumption and losses across the energy supply chain. The World Bank has active energy efficiency projects and programs in close to 20 ECA countries. Notable IDA engagements include district heating efficiency and upgrade programs in Moldova, the Kyrgyz Republic, Uzbekistan and energy efficiency in schools and hospitals in Kosovo. In Moldova, these activities have resulted in saving of 27.3 TWh/year of energy use and 1200 tons of CO2 savings from retrofitting.

60. **Challenges and opportunities related to regional integration:** Regional cooperation across Central Asia has gained a new momentum. Building upon its convening power, the WBG helped develop knowledge products and cooperative solutions aimed at sharing the benefits of regional
initiatives at both country and regional levels. IDA resources have played a critical role in this. The Kyrgyz Republic, Tajikistan, and Uzbekistan participate in several regional programs on energy and water security, road transport, electricity transmission and trade, and fiber optic network. The Kyrgyz Republic has also expressed interest in joining the regional IDA supported program on climate adaptation and mitigation. Tajikistan, for example, has connectivity to the region as well as the world, as a pillar of its CPF.

61. **WBG expanded collaboration with a strong IDA IFC partnership has led to a rising number of knowledge, advisory, and financial services and joint operations offered to clients.** Both IDA and IFC support key investment climate and PPP reforms, and participate in joint projects in agribusiness and the financial sector, which will be deepened during IDA18. The WBG is implementing a pilot program in support of increasing the efficiency and output of the Kyrgyz dairy sector, and to realize its export potential. If successful, this joint program would produce significant demonstration effects in other agribusiness supply chains. In Moldova, the WBG is currently carrying out an Investment Climate (IC) Reform project aimed at helping the government further streamline business inspections, implement a one-stop shop for construction permits, reform the insolvency framework, and improve the regulatory framework for agribusiness. There are further opportunities to deepen collaboration in the energy sector with a focus on management of power utilities in Tajikistan and the Kyrgyz Republic.

**LATIN AMERICA AND THE CARIBBEAN**

62. **Context and Progress:** The global economic deceleration has hit the Latin America and Caribbean Region (LCR) hard. As a result, LCR countries are facing an economic deceleration that threatens to roll back the hard-won social gains from the past decade. The poorest countries within LAC and those most vulnerable to shocks – Haiti, Central America, Caribbean, and Bolivia – have limited resources to counter this slowdown. Reviving growth will require concerted action in the all areas where LCR is relatively underperforming due to long-standing structural weaknesses. Protecting the poor and the vulnerable is also critical, particularly from the impact of climate change and natural disasters. Reviving growth and protecting gains in poverty reduction underpins a very strong demand for IDA resources from the IDA LCR countries.

63. **Many of the IDA countries in LCR are vulnerable to economic shocks and natural disasters.** The region was hit by the worst El Nino in 30 years that led to droughts in Central America and the Caribbean, and extreme drought in Haiti. Bolivia is potentially one of the most affected countries in the Andean region to the impacts of climate change, with particular vulnerability to floods and landslides during heavy rains. OECS countries are among the most exposed countries in the world to natural hazards in terms of GDP and population at risk. Haiti’s fragility and urban management, for instance is exacerbated by climate shocks (leading to floods and hurricanes) and epidemics. Honduras is trapped in a vicious cycle stemming from high crime and low growth. It should be noted that violence-related displacement and migration – with spillovers at a broader regional level – are a feature of Central America’s Northern Triangle (El Salvador, Honduras and Guatemala). In fact, a large number of people escaping crime and violence in Central America migrate (often illegally) to Mexico and the United States.
64. **Strategy:** The WBG has identified the following priority areas for strategic engagement in the region: (i) setting the stage for 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 themes of particular relevance for the region: (i) sustainability and resilience (both environmental and social); and (ii) transparency and accountability. These priority areas and cross-cutting themes are very closely aligned with the priorities and special themes for the IDA18 Replenishment.

65. **Strengthening infrastructure services is one of the WBG’s strategic engagement areas with the region.** Infrastructure deficiencies severely restrict mobility and job opportunities, and overall network connectivity, while raising transport costs, reducing productivity, and diminishing competitiveness of the region. For instance, both Honduras and Nicaragua have large core infrastructure needs, especially transportation and energy, as lack of infrastructure inhibits their economic growth by reducing gains from trade and increasing prices for traded goods. More than 50 percent of roads in Honduras and Nicaragua are in poor condition due to limited public resources and setbacks road maintenance capacity. In addition, a quarter of the rural population in these countries lacks access to electricity. Honduras has received support from IFC and MIGA in the roads and energy sectors, while IDA resources have focused primarily on critical policy reforms and social protection interventions. In Nicaragua, the ongoing IDA support to the roads sector has been very successful and IDA is expected to continue improving road sections, providing access for local populations to markets and services, and increasing the reliability of the road network through the use of Adoquines Community Modules, a model fostering community ownership of rural roads. IDA is also expected to support the development of Nicaragua’s geothermal energy, to increase the share of renewables in the energy matrix, and provide coverage to underserved populations. In Bolivia, an IDA/IBRD blend country, IDA financing has been channeled primarily to programs in the basic and social services and rural development, for instance, to support increased access to energy in remote communities, youth employment programs, and investments in social and productive infrastructure in the poorest rural areas. Conversely, IBRD resources are intended to finance large infrastructure projects, for instance in the roads sector. In Guyana, IDA resources are being directed to activities aimed at enhancing the resilience of selected infrastructure and building disaster risk management (DRM) capacities. An important example is the rehabilitation of critical infrastructure to reduce the risk of flooding in the low-lying areas of the East Demerara.

66. **Regional integration is a major feature of IDA’s engagement in LCR.** The region has a high (and increasing) level of active trade connections, with a sharp increase in the number of intraregional preferential trade agreements (PTAs) in recent years. However, intra-regional trade volumes have remained stagnant over the last 40 years, which is explained by deficient infrastructure and logistics, geographic distance and economic size. In Central America, including in Honduras and Nicaragua, IDA has focused on trade-related reforms to reduce time and cost to export and import, and facilitate intra-regional as well as extra-regional trade. In addition, IDA supports, where possible, the achievement of greater benefits from the OECS economic integration by fostering economies of scale, risk sharing, cross-country spillovers, coordination and harmonization of public services, and better representation of the region in international fora. Given growing demand for knowledge in these areas, one of the LCR Regional Flagship Report for FY17 will be on regional economic integration.

67. **Given the vulnerability to natural disasters, the Climate Change special theme is particularly relevant for LCR countries.** OECS countries are among the most exposed countries in
the world to natural hazards in terms of GDP and population at risk. Our engagement will respond to the need for better disaster prevention and risk management. Haiti’s prioritizes early identification of and response to natural disasters and epidemics, and strengthened urban planning for improved resiliency in Cap Haitien. In Nicaragua, emphasis will be placed on addressing climate change through developing early warning systems and enhancing resilience of water resource management. Enhancing resilience of infrastructure and building DRM capacities is a key aspect of the WB engagement in Guyana, particularly to withstand vulnerability to floods.

68. LCR recently approved a new Regional Gender Action Plan (FY16-19), covering all countries in the region based on country-level entry points for gender equality, embedding gender in operations, and improving regional gender knowledge and data generation. The Honduras Rural Competitiveness Project will address some of the critical limitations faced by women participating in community activities. The upcoming CPF for Nicaragua aims to build on past success, for instance, by including women in the community-run adoquines paving tasks (road paving).

69. The Fragility, Conflict and Violence special theme is also an important LCR engagement area. IDA’s approach to fragility in Haiti is to selectively and pragmatically engage through its investment operations to reduce vulnerability and to support the building of the social contract. In addition, the program aims to progressively move away from implementing entities toward implementation with Ministries. In Honduras, IDA will continue to support the design of municipal violence prevention plans and interventions that are evidence-informed, while investing in integrated approaches that address the multiple risk factors contributing to specific types of violence, particularly intra-family and gender-based, school-based, and community-based violence.

70. Given the region’s growth slowdown and the ensuing pressures on the private sector Jobs and Economic Transformation is another key area of engagement for LCR. In Guyana, emphasis will be placed on private sector development and measures to strengthen the financial sector infrastructure, including: the payment system; and the legal, regulatory, and institutional environment for banking, insurance, credit cooperatives, AML/CFT, and consumer protection in financial services. For the OECS countries, the focus will be on employment generation (led by private sector) as well as improving competitiveness (including establishing a more favorable investment climate, strengthening linkages between tourism and agriculture, and promoting greater access to finance) and contributing to more predictable and lower energy prices to enhance competitiveness and inclusion. In Honduras, LCR financing will be more focused on critical policy reforms and social protection innovations as well as trade-related reforms to reduce the time and cost related to exporting and importing. For Nicaragua, in addition to infrastructure financing (specifically transportation and energy), focus will be on trade-related reforms to reduce the time and cost related to exports and imports.

71. Governance and Institution Building, particularly in the area of transparency and accountability, is one of IDA’s strategic engagement areas with the region and a key part of the individual country programs. Engagement examples include a particular focus on institutional strengthening to ensure efficient management of the Community Cash Transfer program in Honduras, as well as new grievance redress mechanisms and the creation of an online platform to simplify business regulatory procedures. In Nicaragua’s upcoming CPF (FY17), a focus is on strengthening of the Nicaraguan National Statistics Agency through the design and implementation of a digital Multi-Purpose Cartography for the country – a valuable input for the 2017 National Census of Population and
For Guyana, strengthening the financial infrastructure and the business regulatory environment to promote private sector growth and access to finance are key IDA priorities, while for the OECS countries emphasis will be placed on modernizing the public sector (including by improving budget management and transparency, strengthening statistical capacity and capacity to manage PPPs).

MIDDLE EAST AND NORTH AFRICA

72. **Context and Progress:** The violence in the Middle East and North Africa (MNA) region is destroying lives, reversing development gains, and betraying the Arab Spring’s promise of greater economic and social inclusion. The conflict and violence in MNA is creating enormous spillover effects on the entire region and countries around the world. Advancing the conditions for peace and stability are global public goods and the world is looking to organizations like the World Bank – originally created to address the consequences of conflict – for their experience, expertise, and financial support. IDA has a central role to play by mobilizing a global coalition using its convening power, its operational and analytical experience, and its established fiduciary capability to catalyze and help manage the large volumes of concessional financing required.

73. **The steep decline in oil prices and rise of terrorist groups is increasing uncertainty in the region and causing the intent, focus and delivery of development support in MNA to be recast.** Even countries whose oil revenues once afforded a measure of stability are being forced to confront what are emerging as shared challenges of chronic youth unemployment and faltering public service quality. Amidst this uncertainty, radicalized terrorist groups have taken hold, attracting recruits from within the region and beyond, destabilizing governments and spreading violence worldwide. In addition to their devastating immediate impact, terrorist attacks have dramatically affected the finances of economies relying on international visitors, sharply reducing growth and job creation and requiring the diversion of development resources to address security challenges.

74. **Strategy:** The new Regional Strategy for MNA aims at using development to advance peace and stability, the essential preconditions for ending poverty and boosting shared prosperity in a sustainable manner. The WBG strategy for MNA is organized around four pillars, two of which address the causes of conflict and violence: renewing the social contract in the region via political and socioeconomic structures that are inclusive, and meaningful; as well as supporting regional cooperation and interdependence in the least integrated region in the world. The remaining pillars address the consequences of violence: building resilience to the shock of massive displacements; and preparing for recovery and reconstruction. To do this effectively, the WBG’s role, rationale for intervention, and joint WBG approach is being adjusted with a focus on the priorities of private sector led growth including job creation, service delivery, and citizen engagement.

75. **IDA support to MNA is currently concentrated in two countries (Yemen and Djibouti), while Syria is eligible for IDA, as its estimated GNI per capita is now below the current IDA operational cut-off.** IDA can play a leading role in the economic and social recovery and reconstruction of Yemen and Syria. IDA has also provided support in Jordan and Lebanon, to provide much needed development support to refugees and the internally displaced in MNA countries and beyond. The Crisis Response Window and the Regional Program of IDA18 could potentially play a significant role in operationalizing a global response to forced displacement, in partnership with others, and as a complement to humanitarian efforts. IDA18 aims to focus on the following areas: (i) adapt to
the evolving situation on the ground (responding to the increase in the refugee population); (ii) deepen the WBG’s engagement in existing sectors (e.g., in health, urban poverty reduction, and social safety nets); (iii) build on past successful interventions and support for climate change activities (green energy); and (iv) focus on policy and institutional reforms.

76. **In Yemen, there is reported massive displacement, with 2.5 million IDPs (over 400,000 children).** The impact on transport is devastating, especially the inter-urban roads, airports and ports. There has been unprecedented destruction of housing. The energy sector experienced damage levels of more than 50 percent in all cities except Aden. More than 30 percent of schools are destroyed or damaged in Sana’a, Aden and Taiz. At least 20 percent of health facilities are destroyed or partially damaged across all cities and they suffer from a huge shortage of basic services. In Sana’a and Taiz 49 percent and 73 percent, respectively, of water and sewerage facilities have been destroyed or partially damaged. The World Bank is conducting a dynamic needs assessment (DNA) of selected cities that will inform the possible program of multi-donor recovery and reconstruction assistance.

77. **Djibouti’s Country Partnership Strategy is intended to strengthen the WBG’s response to renewing the social contract in Djibouti** where the combination of high poverty, inequality, and unemployment, together with the influx of refugees escaping regional conflicts, exacerbates Djibouti’s vulnerability and negatively affects human development. Both IFC and MIGA are active in Djibouti. The Governance for Private Sector Development Project (FY14) was jointly funded by IFC and IDA. MIGA has supported one project - the Doraleh Container Terminal Port.

78. **In Syria, IDA could play a critical platform role for development assistance in the country’s recovery and reconstruction.** Over 250,000 Syrians have been killed since the onset of the conflict; as of February 2016 about 4.7 million have fled to Syria’s neighboring countries and almost 900,000 refugees had declared political asylum in the EU through Dec. 2015, and 7.6 million are IDPs. There are more than 2.1 million homes that have been destroyed; a quarter of the schools are not operational; one-fifth of primary health care facilities are not functioning; and half of the hospitals have been destroyed. Life expectancy has declined by 20 years within a period of only four years. More than four million women and children are in need of nutritional assistance; diseases that had long disappeared in Syria (such as polio, measles, and typhoid) have re-appeared. Current estimates suggest that the infrastructure reconstruction needs are in the range of US$150-200 billion.

79. **The region benefits from regional operations that can leverage their small IDA allocations – with Djibouti participating in the Horn of Africa operation to address the 30,000 refugees that have fled to Djibouti from conflict in Yemen.** The IDA Horn of Africa operation spans two regions and brings together Djibouti, Ethiopia and Uganda in a coordinated response to the forced displacement crisis. Through this project, US$2 million of Djibouti’s national IDA allocation is leveraging US$18 million in regional resources. The regional project is expected to generate quick results in Djibouti. However, given the strain on resources and capacity, more support will be needed to address the needs of refugees and host communities in the country.

80. **Results of IDA Engagement.** The World Bank has had a long and successful engagement in a number of sectors. Given the low country capacity, the World Bank has used additional financing operations in well-performing sectors. IDA will continue to work selectively in sectors which have
yielded results in the past but where more engagement is needed. Selected results in these sectors are summarized below:

- **Social Safety Nets**: IDA is supporting Djibouti to build an effective social safety net system. The project, funded by a grant from the Japan Social Development Fund and scaled up with funds from the IDA Crisis Response Window, has reached over 10,261 women and children who participated in the nutrition program and provided about 483,375 person-days of short-term employment opportunities.

- **Rural Development**: The ongoing Djibouti Rural Community Development and Water Mobilization Project contributed to: (i) water mobilization capacity of 103,000 cubic meters for 1,601 households and 10,260 heads of livestock; (ii) a 28 percent increase of grazing biomass; (iii) the selection of 32 income generating activities; (iv) 3,121 training days (1,189 for women); and (v) 97,045 person-days of temporary work.

- **Urban Poverty**: The Djibouti Urban Poverty Reduction Projects I and II increased basic economic and social infrastructure through the construction of four roads and associated drains, resulting in an increase of 48 percent of households within 50 meters of surfaced roads. The infrastructure construction also contributed to the creation of over 50,000 person-days short-term jobs.
Annex 3: Selected Country Briefs

BANGLADESH

1. **Country Context.** Bangladesh has made progress on the human development front over the last four decades – particularly in health outcomes, elementary education, and family planning and gender equality. Based on the US$1.25 poverty measure, the number of the poor in Bangladesh fell by 12 million from 2000 to 2010, from around 77 million to 65 million. Looking ahead, the creation of more and better jobs for the 2 million new entrants into the labor market each year represents a central challenge. Low level of investments in infrastructure is a major impediment to higher growth rates and job creation. Public policy will need to focus on ensuring conditions are in place for private sector-led job creation and growth and to remove the constraints to job creation.

2. **The Government’s 7th Five Year Plan (2016-2020) aims to attain an average real GDP growth rate of 7.4 percent per year and to significantly reduce poverty within the next five years.** It places emphasis on attracting higher domestic and foreign investment and raising the productivity of capital and labor. It identifies a variety of growth drivers such as improving the investment climate, increasing investments in infrastructure and manufacturing, addressing the skills challenge that industries are facing, leverage information and communications technology, enhancing the efficiency of the financial sector, and maintaining macroeconomic stability. The Five Year Plan also promotes gender equality in education and employment, strengthening social protection schemes, increasing access to improved public healthcare, and achieving universal primary and secondary education.

3. **IDA’s strategy for support.** IDA is the largest multilateral development financier in Bangladesh, accounting for 37 percent of the US$5.2 billion in total aid commitments in FY15. The FY16-20 CPF presented to Board in April 2016 includes the following priority areas: (i) foundational priorities – i.e., those which are prerequisites for faster job creation and growth; and (ii) transformational priorities which represent key public policy areas which could have a transformative impact on the pace of progress towards poverty reduction. These include: energy; inland connectivity; regional and global integration; urbanization; and delta management. Climate-related challenges are critical, especially in Bangladesh, and represents one of the five transformational priorities, though its share of the portfolio remains small. In addition, the CPF treats governance as a cross-cutting priority with upstream and down-stream interventions. At the national level, lending and TA will be used to support policies and systems to improve transparency and efficiency in service delivery. At the portfolio level, capacity building activities and stronger fiduciary oversight measures are embedded in operations.

4. **Overall demand for concessional financing is substantial in Bangladesh.** The country is currently IDA’s largest client country. It accounts for approximately 9 percent of IDA17 resources (of approximately US$3.8 billion equivalent) and has demonstrated strong absorptive capacity in recent years. It has fully utilized its IDA16 envelope and is poised to do the same with the IDA17. Discussions are underway on options for financing new investment operations with cost-recovery elements using SUF. Four specific projects have been proposed: Energy Dispatch; Agriculture and Livestock Insurance; Investment Promotion and Financing Facility; and Support for High Potential Sectors.
5. The WB, IFC and MIGA are increasingly collaborating through joint operations and coordinating sequenced or parallel interventions in sectors and thematic areas where each institution’s program objectives are complementary or interdependent. The WBG has extensive collaboration and coordination in energy, transport, investment climate, and competitiveness. For e.g., in the energy sector, the IFC is financing a number of private Independent Power Producers adding much needed power generation capacity while IDA has been financing the upgrade and expansion of state-owned power generation. In transmission, both IFC and the IDA are supporting the expansion of the state transmission monopoly where WB’s focus has been on rural electrification. In transport, IDA is financing waterway improvements for inland water transport which could be complemented by possible IFC financing and/or MIGA guarantees of river ports and terminals. In investment climate, the Trade and Competitiveness GP, will further modernize and reform the legal and regulatory framework that governs private sector. In competitiveness, the WB has a lending operations on economic zones which is being implemented in close collaboration with the IFC.

ETHIOPIA

6. **Country Context and Progress:** Unlike most fast growing economies, Ethiopia’s growth has not been at the expense of increasing income inequality. This is the result of deliberate policy which emphasized growth accompanied by developing and implementing the largest and most effective safety net system in Sub-Saharan Africa, and improving basic services such as education for the poor provide everybody the ability to benefit from growth. These achievements are supported by a decentralized system of governance which supports information and resource and accountability flows between different levels of the government and between service providers and citizens. Ethiopia has used its intergovernmental fiscal transfer system to prioritize lagging regions and sub-regions. Despite the success, key challenges in the future include addressing both vertical and horizontal, equity as well improving job prospects for its increasing youth population. Government policies (as enunciated in their second Growth and Transformation plan or GTP-2) prioritize these goals which would in themselves support the WBG’s twin goals.

7. **Ethiopia has prioritized climate change in its development strategy and has designed projects which work to achieve this goal.** In additional to direct environmental improvement projects, Ethiopia is using its large productive safety net program to mitigate the effects of climate change by supporting labor intensive public works which improve management of watersheds and increase reforestation. It is focusing on clean energy development.

8. **As a relatively stable country in a conflict affected region, Ethiopia hosts close to a million refugees from Sudan, Eritrea, Somalia and South Sudan.** The recent civil war in South Sudan led to a few hundred thousand refugees moving to Ethiopia. Many refugees are not registered and the current refugee numbers could be well over a million. The Government understand the need to service refugees and mitigate impact on the host population and is currently working with the World Bank on a hundred million dollar IDA (for Ethiopia alone) operation to address these issues.

9. **IDA’s strategy for support.** The WBG is embarking on a CPF due to the Board in January 2017. The SCD has identified eight binding constraints which will likely be addressed in the CPF: Low human development (education and health); unsafe water use in rural areas; poor market access for farmers; limited credit for private investment; uncompetitive private sector; weak urban planning and
land management; limited safety nets in urban areas. Many of these constraints have been tacked during IDA17, and we will continue supporting the GoE to strengthen the livelihoods for the bottom 40 percent and fostering and more inclusive structural change during IDA18.

10. **A large number of multilateral and bilateral are active in Ethiopia with external aid averaging more than US$3.8 billion per year.** IDA is Ethiopia’s largest provider of ODA and has taken the lead in developing a number of multi–partner programs including for example Protection of Basic Services program, and Pastoral Community Development Project. These and other programs allow for large-scale leveraging of IDA support and help reduce transaction costs, better align support with the country’s decentralized model, and enhance the predictability of external assistance. IDA has invested over US$2 billion since 1991 to support Ethiopia’s Road Sector Development Program and contributed significantly to increasing the size and quality of Ethiopia’s road network, working with partners.

11. **The combined strengths and comparative advantages of IDA, IFC and MIGA would certainly offer Ethiopia to have better access to a comprehensive package of support required for an effective implementation of GTP2.** The expansion of the range of IDA guarantee instruments and leveraging private resources hold promise. IDA’s support for the Competitiveness and Jobs Creation has strengthened the enabling environment for Industrial Parks Development, including developing successfully the regulatory framework and institutions. This will be a critical area moving forward as more progress will be needed. IDA’s support to WEDP and SME Finance helps strengthen the foundations for building financial systems and expanding access to finance to women entrepreneurs and SMEs, which have high employment generation and value addition potential. The Government is keen to further invest in the development of industrial parks to create more job opportunities and further diversify the economy. In addition, a systematic approach to PPPs is being developed and more private participation in economic activities is being considered. There is considerable interest from the Government to access IDA leveraged resources, but access to these resources needs to be informed by IDA’s review of the country’s non-concessional borrowing limit.

**HAITI**

12. **Country context and progress.** Haiti’s key challenges are to reduce high rates of poverty (60 percent) and inequality (Gini 0.6), while improving service delivery and spurring jobs and growth. In the wake of the 2010 earthquake, the Government of Haiti articulated its vision of a modern competitive and inclusive economy in a 2012 Strategic Development Plan. This Plan focused on job creation, basic service provision, regional development, social inclusion, sustainable growth, and a decentralization of the State. Though comprehensive, the Plan lacked effective strategies to achieve these objectives as well as the prioritization required to transform them into action. Government and partners have been working at the sectoral level to set objectives, develop and implement strategies, with mixed levels of coherence and results.

13. **The SCD for Haiti identifies key challenges,** including political instability, poverty and inequality, very low levels of service delivery (extremely low access to water, sanitation and electricity) reforms to enable private sector growth, weather shocks and epidemics (in addition to annual hurricanes and floods, an unprecedented drought and the challenges of combatting both Cholera and Zika), and governance and transparency.
14. In May 2011, IDA Management allocated SDR329 million (approximately US$508 million) in CRW resources to Haiti to support recovery and reconstruction after the 2010 massive earthquake. This enabled a strong portfolio of sizeable operations to respond to reconstruction needs and service delivery (Education, DRM, Electricity, Cholera) while continuing to support institutional development and policy improvements (Education, Electricity, Health) in partnership with a number of key trust funds. As this program winds down there will be a contraction in the overall size of IDA support to Haiti. In recent years, Haiti has demonstrated that it can absorb a level of financing of the order of threefold the current IDA allocation. This would help smooth Haiti’s transition out of its emergency reconstruction phase.

15. **IDA’s strategy for support.** Under the FY16-19 CPF, IDA support is moving away from emergency support toward tackling some of the key institutional and policy issues in sectors critical to longer term sustainable development. Trust fund and World Bank Administrative resources are also provided for critical data development and ASA in a variety of sectors, with support focused on four priority areas:

- **Inclusive Growth** through increasing agricultural productivity, increasing energy access (including through the development of renewable energy), improving access to finance and financial inclusion, and supporting Haiti’s competitiveness and private sector-driven growth. A key objective is to support the emergence of new economic actors so as to increase competition, begin to address market concentration, and create opportunities for a broader set of economic agents in the country. ASA has been carried out on competition, ICT, and Energy Sector to complement these large investments under IDA17.

- **Human Capital Development** through investing in basic service delivery in education and health, closing geographical and income gaps in service delivery, and combatting cholera, through combined health and water interventions, and by continuing policy work on social protection. Service delivery is critical to rebuilding the social contract.

- **Improve Resilience** by helping to better understand risk, and by improving preparedness and response to natural disasters (US$60 million in existing IDA investments complemented by US$5 million to support Hydrometerological capacity financed by PPCR). It also aims to strengthen resilience to climate change, which is expected to increase the impacts of extreme weather events in a country where over 96 percent of the population, and the poor in particular, are at risk for two or more natural disasters. Under IDA17, new financing is planned to improve resilience and strengthen urban planning in and around Haiti’s second largest city, Cap Haitien, which is prone to severe flooding yearly with substantial damages and, often, loss of life for its most vulnerable. By pairing concrete interventions (in drainage and urban infrastructure in this case) with institutional strengthening (municipal planning and management), IDA interventions aim to both obtain visible results and build greater sustainability and local capacity.

- **Governance improvements**, focusing on interventions to strengthen the effectiveness of the State, include strengthening public financial management and government capacity to produce key data, manage sectors, and set evidence based policy priorities. Fiscal sustainability is also

---

56 Emergency Infrastructure and Institutional recovery (US$95 million), Reconstruction (US$95 million – IDA + HRF TFs), Education (US$50 million); Health (US$90M IDA +HRITF TFs), Agriculture (US$50 million IDA +GASFP TF); Energy (US$90 million), DRM (US$68 million IDA + PPRC TFs), and Private Sector Development (US$65 million).
a priority in the context of rapidly declining external financing by strengthening fiscal reporting and accountability and increasing the capacity to finance basic service delivery. Continued support is provided to PFM through existing operations.

16. **Data and knowledge development remain critical for the Haiti program to build effective dialogue and interventions.** The upcoming Urbanization Review which will take stock of trends, risks and opportunities related to Haiti’s rapid urbanization, is expected to provide material for a broad public debate about key policy issues. The IDA program will also contribute to reducing fragility and conflict by supporting broader citizens engagement within its program by engaging more actively with stakeholders and more broadly with the public at large through dissemination and dialogue. These efforts are rooted in data development and dissemination on a variety of key subjects (e.g. SCD, PER, Disaster Risk), in support of evidence-based policy development and transparency, in an effort to help build trust between citizens and the state.

17. **Results.** Haiti currently absorbs an important volume of IDA with a strong disbursement track record, despite volatile conditions post-earthquake. Since the 2010 earthquake, IDA effectively achieved results in an extremely fragile and challenging environment. IDA has contributed to increased access to primary education with over 400,000 tuition waivers and school feeding for 81,000 children per day, while supporting policy development and building Government capacity to improve quality in education. Other partners and Government have recognized the effectiveness of tuition waiver mechanisms developed by the WB and adopted these. IDA and Trust Fund financing managed by the WB has allowed over 200,000 people to benefit from upgraded neighborhoods in areas badly damaged by the earthquake, including improved roads and drainage, better street lighting, and reinforced ravines, and over 40,000 people benefitted from housing reconstruction, repair and rental subsidies making it possible for them to move camps. IDA has also provided cholera treatment and prevention education for over 3 million people, water treatment products and/or soap to nearly 600,000 people, and 200 cholera treatment units and oral rehydration posts with personnel and/or supplies, and trained over 6,000 health and hygiene agents and medical personnel.

**NIGER**

18. **Country context and progress.** While the poverty headcount in Niger has been declining and the medium-term economic outlook appears favorable, Niger faces multiple downside risks. First, the imbalance between population growth and agricultural growth has contributed to increased land pressure and the expansion of crops to marginal land. Floods are projected to increase in frequency, with negative impacts on agriculture, diseases (malaria) and rural poverty. Food insecurity and malnutrition are added concerns for Niger. Second, access to electricity (less than 10 percent) is one of the lowest in the region, with large disparities between urban and rural areas. Third, Niger, among Sahelian countries, has one of the highest total fertility rate and dependency ratios in the world. Early and frequent childbirth combined with poor health and nutrition outcomes prevent human capital accumulation.

19. **Compounding the above, Niger is at the center of the refugee and migrant transit route and is heavily affected in terms of economic impact and humanitarian pressure.** The flood of refugees in Niger due to the Boko Haram insurgency in Nigeria has been of such a magnitude that the Government has declared a state of emergency. Rebel incursions in Niger alone have displaced about
50,000 people and this is likely to change overtime given the adverse climate impact on agriculture in the rural communities. The UNHCR estimated in January 2016 that the humanitarian needs for the refugees could exceed US$51 million this year alone.

20. The IMF Board completed its sixth and seventh reviews of Niger under its ECF and extended the program until December, 2016. The major risks identified included the persistence of armed hostilities, further decline in oil and uranium prices, and droughts or floods that could compound food security and social instability.

21. IDA’s strategy for support. IDA’s current country strategy – which ends in June, 2016 – focuses support on programs aimed at accelerating economic growth and reducing volatility, in combination with reforms to ensure that growth is inclusive. The portfolio is concentrated in health, education and other services, followed by water, sanitation, and flood protection, and infrastructure. IDA has begun preparation of an SCD with a view towards presenting a new CPF to the Board in FY17.

22. In December 2015, the first of a programmatic series of three development policy operations was approved, for US$80 million. The series supports the Government’s efforts in improving public investment management, with particular attention on investments in energy and irrigation. The World Bank is supporting Niger’s efforts to increase generation, expand access, and support financial sustainability, including through technical support to the energy regulator.

23. IDA is preparing a Climate-Smart Agriculture Support Project to address key constraints that Niger is facing in the agriculture sector. The project will focus on activities that will increase the number of farmers using irrigation, increase the use of techniques to minimize climate risks and enhance food security, protect watersheds from erosion and secure irrigation potential, and improve market access.

24. IDA has continued to engage on health, demographics and women’s empowerment issues through the Niger Population and Health Support Project, to increase utilization of reproductive, maternal, newborn, child health and nutrition services in targeted areas of Niger; the Sahel Women’s Empowerment and Demographics Dividend Project will increase regional capacity and improve women and adolescent girls’ empowerment and their access to quality reproductive and maternal health products. Remaining challenges include low capacity on reproductive health and nutrition, sensitivity on population issues and the required strong coordination between projects and agencies. Finally, IDA works in close partnership with the IMF and others including the UN. Currently, the World Bank is preparing a UNHCR-WB proposal to finance a Lake Chad Forced Displacement Assessment.

FEDERAL REPUBLIC OF NIGERIA

25. Country context and progress. Nigeria’s economy has been hit hard by slowdown and rebalancing of the Chinese economy, lower commodity prices, and tightening financial conditions and risk aversion of international investors. These shocks compounded an already challenging development environment. Poverty remains high due to a lack of job opportunities, low-productivity agriculture, and a highly informal and low-wage economy. About two thirds of the Nigerian poor reside in the Northern part of the country. The large scale destruction in the North East Nigeria and the current macroeconomic challenges will likely be reflected in stagnating poverty rates in the near term.
26. **Terrorism, armed conflict and general crime are major influences on the security situation.** Boko Haram insurgency in the North East has led to the loss of more than 20,000 lives, the displacement of over 1.8 million people, and has negatively affected the livelihoods of over 6 million people. Nigeria now has the third largest internally displaced population in the world, only after Syria and Columbia. At the root of these security challenges are high levels of poverty, joblessness, a growing demographic of frustrated youth, as well as natural resources degradation and climate stressors.

27. **In response to the multiple cumulative effects of corruption, security, declining oil revenues, social, and climate stressors,** the government prioritizes: (1) tackling corruption, (2) improving security in the North East and addressing the human, social and economic losses resulting from the Boko Haram insurgency; (3) improving climate resilience and addressing underdevelopment in Northern Nigeria; (4) diverting the country from its dependence on oil for fiscal revenues and foreign-exchange earnings; (5) boosting living standards across the country through job creation and improved social services delivery, and (6) improved efficiency and effectiveness of public finance at all levels of government.

28. **IDA’s strategy to support.** The IDA program aims to support the Government in laying the foundation for socially and regionally inclusive economic growth. It is organized around three strategic clusters: diversifying the economy and job creation by addressing two key constraints - power and access to finance – and targeting agriculture as a key driver of the economy; developing more effective systems for social delivery (social protection programs, education, health, and water services delivery) to help address inequities in income and opportunities; and strengthening governance and public sector management.

29. **IDA also has a critical role to play in helping Nigeria accelerate non-oil growth.** Through the joint WB/IFC Agribusiness Implementation Plan for Nigeria, IDA will emphasize accelerated inclusive value chain development through agribusiness investment and promotion of agri-SMEs for value addition and jobs. It will reinforce its focus on building a resilient agricultural innovation and knowledge system for improved agriculture productivity, and enhancing the resilience to climate variability and change. The IDA program will be expanded to help craft a regional response to the water/climate/conflict challenges of the Lake Chad. IDA is reinforcing its emphasis on macro and fiscal sustainability, focusing on domestic resource mobilization, expenditure controls and rationalization, energy subsidies, petroleum sector reforms, and social protection. The focus is also on supporting states in adjustment path towards greater fiscal sustainability, resilience, and improved service delivery. IDA support will also help develop more effective mechanisms for social service delivery (social protection programs, education, health, and water services delivery). Social services delivery in Nigeria is largely poorly targeted, with limited coverage, and is not evaluated periodically.

30. **IDA has a critical contribution to make in North Nigeria.** This consists of (i) supporting the Government in meeting its dual objectives of containing the impact of the conflict in the Northeast, and (ii) connecting the population of Northern Nigeria to prosperity. In the Northeast, IDA’s involvement is compelling given its comparative advantage in implementing emergency transition, stabilization and recovery interventions in support of government programs. Such IDA intervention is more important since no other major partner is currently planning to invest significantly in the Northeast.
IDA works in close partnership with other partners within the framework of the Country Assistance Framework (CAF). CAF facilitates discussion and cooperation among partners and stakeholders, and provides flexibility in responding to Nigeria’s evolving social, economic, and political context. Partners have agreed to amplify the development impact of their assistance by creating greater synergy and complementarity between their respective strategies. As the largest ODA partner in Nigeria, IDA has been successful in mobilizing additional development financing. Its support for PFM projects at state level mobilized over US$150million from European Union, creating an engagement platform on PFM issues in 21 states. Over US$100 million were mobilized from African Development Bank and the French Development Agency in support of improved water services delivery in selected states, and US$120million for rehabilitation and construction of rural roads. IDA is currently exploring opportunities for mobilizing European Union and DFID resources for the support to the North East. The Government continues to have strong demand for regular IDA support, and it could have substantial demand for IDA leveraged resources, although the Government will have a keen interest in how it is priced.

SOMALIA

Country Context and Progress. 2012 saw the emergence of a new Federal Government in Somalia, the first non-transitional government since the collapse of the Siad Barre regime in 1991. Simultaneous progress by the African Union peacekeeping forces to rid strategic urban areas of Al Shabab, including the capital Mogadishu, enabled increased space for peace and statebuilding and encouraged a new international effort to support the country. Since then, new Federal Member States have emerged in southern Somalia through bottom up processes of reconciliation and political dialogue.

The key constraints to development include the security situation (now focused in southern parts of the country), the weakness of Somali institutions and the lack of access to long-term sustainable financing due to its debt overhang from the pre-1991 regime. Fragility in Somalia has spilled over into the wider region. Its geo-strategic location between the Middle East and Africa and its long and porous borders (including maritime) have meant the country’s insecurity has spilled over in the form of piracy, insecurity, terrorism and refugees.

The government’s top priority is the management of a potentially complex parliamentary and presidential electoral process, building on the progress made in and since the political transition of 2016. In addition, and reflecting solid progress on economic governance in the last 4 years, the IMF has (April 7, 2016) approved a Staff Monitored Program due to become effective in May 2016 and run through April 2017. This SMP can help the authorities establish a track record of sound economic governance in the context of a HIPC debt relief process with the objective of re-accessing IDA and other sources of concessional financing. The government is now drafting a National Development Plan.

IDA’s strategy for support. IDA re-engagement in the Somali transition was formalized with an ISN for FY14-16. Given the country’s non-accrual status, the ISN envisaged the establishment of a Multi-Partner Fund for Somalia with funding of about US$150-250 million. The approach is to use the ISN period and MPF funding to lock in a track record to support full normalization of financial relations with IDA in IDA18, while laying the foundations for poverty reduction.
36. **The ISN prioritizes strengthening core economic governance and expanding economic opportunities.** As of April 2016, the MPF has mobilized US$185 million, of which it has invested US$84 million, mostly in the first priority. The Bank is taking the lead in supporting government economic governance reform efforts through linked interventions on PFM, recurrent cost financing and capacity injection. The World Bank is also developing a roadmap for renewable energy investments given viable opportunities in solar and wind and very high electricity costs currently (over $1/kwh).

37. **Supporting durable solutions for the displaced remains challenging, especially in the absence of access to IDA.** Somali displacement is one of the world’s most protracted cases and lies at the heart of the WBG twin goals to reduce extreme poverty and promote shared prosperity. Those displaced - both internally (1.1 million) and regionally (one million) - have been excluded from basic services, security and economic opportunity for more than two decades. A solution for displacement is linked to broader state and peacebuilding, but also to natural resource management. Deforestation for charcoal production is both cause and symptom of displacement, and underlines the need for sustainable energy sources and water management.

38. **The WBG is now preparing an SCD,** which intends to deepen the analytical understanding of Somalia’s binding constraints, including with new poverty data at the household level. Depending on progress made this year, the new CPF could aim to plan for a potential IDA contribution within IDA18, including through a pre-arrears clearance grant, building on the existing MPF-funded program.

39. **The World Bank’s current engagement is anchored in the government-chaired Somalia Development and Reconstruction Facility (SDRF) which convenes domestic stakeholders, key partners and multilaterals.** Risks and results are jointly assessed and managed, and a Monitoring Agent, based in Mogadishu, carries out fiduciary checks on an ongoing basis for the World Bank program. The World Bank and the UN maintain very close relations and the World Bank has established sound working relations with many partners (including the UK, in whose Embassy the World Bank is accommodated in Mogadishu).

40. **IDA’s joint approach with partners has strong potential to provide positive signals and incentives to the state-building process.** Somalia has various external exposures, some of which may amplify domestic stresses and others which help absorb stresses. In the 1980s, the access of the state to military aid drove the state in a predatory direction vis-à-vis its citizens. Now, through the developmental orientation of IDA and partners, the state is being supported in the performance of civil functions while overall Somali capabilities are being built to tackle pressing problems such as extreme poverty, natural resource depletion, and forced displacement. A Somalia re-engagement would therefore be an important strategic win for IDA18. The themes of IDA18 are consistent with the realities on the ground in Somalia. Ideally, IDA 18 would expand to consider additional flexibilities in its financing parameters, particularly in relation to Turnaround cases, regional spillover and pre-arrears clearance grant financing.

---

57 The MPF has a rolling multi-year financing strategy with a three year horizon. Annual contributions are assessed with the donor group, including EU, UK, Norway, Sweden, Finland, Italy, Denmark and Switzerland. New contributions are envisaged from the US. Donor funding in future years is indicatively targeting $50-100m p.a.
SYRIAN ARAB REPUBLIC

41. **Country Context and Progress:** The conflict in Syria has become a humanitarian disaster. According to the UNHCR, over 250,000 people have been killed since the onset of the conflict, while millions of others have been pushed into unemployment and poverty. As of February 2016, UNHCR reports that about 4.7 million have fled to Syria’s immediate neighbors - Iraq, Jordan, Lebanon, and Turkey and almost 900 thousand refugees had declared political asylum in the EU through December 2015. At the same time, The United National Office for the Coordination of Humanitarian Affairs reports that there are 7.6 million internally displaced people within Syria. The Syrian Center for Policy Research (SCPR) estimates that over 60 percent of the labor force (about 3.5 million) is now unemployed. SCPR also estimates the overall poverty rate at 83 percent in 2014 (compared to 12.4 percent in 2007). Many Syrians, including children, have had to find jobs in the informal sector to offset the loss of income.

42. **It is estimated that two-thirds of Syrians are living in extreme poverty, unable to meet basic food and non-food needs.** The main reasons for poverty are loss of property and jobs; loss of access to public services, including health, electricity and clean water; and rising food prices. Poverty rates are highest in governorates that have been most affected by the conflict and were historically the poorest in the country. According to the UN, some 2.1 million homes have been destroyed and one-fourth of schools are not operational. Life expectancy has declined by 20 years within a span of four years (to 56 years in 2014 from 76 years in 2010). Health clinics have been closed; health services severely curtailed; about one-fifth of the primary health care facilities are not functioning and another fifth are functioning at limited levels; and half of the hospitals have been destroyed. The ratio of doctors to population has declined to 1:4,040 in 2014 from 1:661 in 2010. The collapse of the domestic pharmaceuticals industry has resulted in a scarcity of medicine, thereby precluding access to treatment for treatable and chronic diseases, especially among the poor. Vaccination rates for children have fallen to 50–70 percent from 99–100 percent before the crisis. Diseases that had long disappeared in Syria (e.g., polio, measles, and typhoid) have reappeared creating a serious health threat that extends beyond the country’s borders.

43. **In addition to the estimated US$150-US$200 billion costs of rebuilding damaged physical infrastructure, Syria will have to grapple with deep-rooted socio-economic challenges.** Considerable resources will need to go to rebuilding the lives of internally displaced people and encouraging the return and reintegration of refugees. The conflict has also exacerbated existing, and created new, divisions and tensions between various sectarian communities across the country that will need to be addressed in a meaningful way to promote social and political cohesion.

---

58 See para 34 and footnote 7.
59 The numbers are likely higher than those reported by UNHCR, as many Syrians with financial means are not registered with UNHCR and also might have moved to other countries in the region.
61 Syria Center for Policy Research, March 2015.
Annex 4: Transitional Support

1. **Following up on the IDA18 first replenishment meeting discussion, this Annex presents a proposal for transitional support to IDA graduates.** At the IDA18 first replenishment meeting, Participants expressed a willingness to consider how IDA could provide smoothing mechanisms to help countries in their transition from more concessional to less concessional support from the WBG. This would build on the experience of transitional support to India, but would provide a more systematic framework for all transitioning countries. This Annex sets out a proposal for how such a transitional support mechanism could be developed including eligibility criteria and provide details on the proposed size, duration and financing terms.

2. **Proposed IDA transitional support to address the drop of WB resources is critical for the global community to make progress towards the SDGs, given the importance of continued progress in poverty alleviation in these transitioning countries.** In addition, continued access to financing and knowledge will be critical to sustain and deepen gains in poverty reduction and shared prosperity. These resources bring with them the WB’s technical expertise and knowledge to help countries build sound policies and successfully undertake much needed structural reforms.

3. **The rationale for proposing transitional support is based on three key elements:** (i) constrained access to WB resources in an environment of heightened ambitions; (ii) increasingly complex challenges and risks; and (iii) the fact that such support can now be provided through leveraged IDA resources, without diverting scarce concessional resources away from the poorest borrowers.

*Constrained access to WB Resources in the face of an ambitious global agenda*

4. **As noted in the Graduation paper, in the absence of transition support, IDA net transfers to the current graduates of Bolivia, Sri Lanka and Vietnam will fall significantly and rapidly upon graduation.** Average net transfers during FY15-FY17 is expected to be US$76 million for Bolivia; US$45 million for Sri Lanka and US$851 million for Vietnam. Without any IDA transitional support, net transfers from IDA to these countries are projected to turn negative as soon as they graduate from IDA in FY18. In addition to losing access to new IDA concessional resources upon graduation, the current graduates are also subject to accelerated repayment of outstanding IDA credits (see para below for a more detailed discussion on the acceleration clause).

5. **Recent graduates of Angola, Armenia, Bosnia and Herzegovina, Georgia and India have been receiving negative net transfers from IDA as early as FY12.** During the IDA17 replenishment discussions, transitional support was being considered for all of the graduating countries. After close consultations undertaken between IDA and IBRD teams on the options for assisting these countries, IBRD was able to augment support in IDA17 to prevent a significant reduction in overall WB support at the time of graduation. Armenia, Bosnia and Herzegovina, and Georgia continue to rely on multilateral resources, including IBRD, for continued support given their limited access to financial markets and current vulnerabilities. In the case of Angola, while the country has recently been able to attract significant financing from other sources, its heavy reliance on oil has made it vulnerable to the

---

current downturn in commodity prices. India, with significant poverty levels, was provided transitional support from IDA primarily based on the limitations that IBRD’s Single Borrower Limit put on its access to IBRD. Net WB flows to these countries can be seen in the chart below.

6. The current and recent graduates are also constrained in their access to IBRD resources and in light of the pressure on IBRD’s capital, it may not be possible to provide significant amounts of additional exposure headroom given current equity. IBRD has been facing an increase in demand for financing from clients, reflecting an ambitious development agenda.

7. In the face of limited resources, the international community confronts a large and urgent task to implement and fulfill the promise of a compelling and ambitious agenda agreed in 2015 – the Sustainable Development Goals (SDGs), the Addis Ababa Action Agenda (AAAA), and the Paris and Sendai agreements. The financing needs from new commitments under these global agreements are vast and require concerted action, and equal ambition, on multiple fronts.

*Increasingly Complex Challenges and Global Economic Headwinds*

8. The current and recent graduates are facing long-term global trends such as demographic and growth transitions, urbanization, climate change, rising inequity, aging populations and globalization, with limited capacity and resources to respond. These challenges have the potential to significantly slow – and possibly even reverse – progress on poverty reduction. For example, in Vietnam, which has a rapid urbanization rate, the urbanization process and ensuring livable cities that can also compete regionally and globally will be integral for future economic development strategy.

9. Emerging market economies (EMEs) are facing increased external headwinds, including a worse outlook for advanced economies and lower commodity prices, as well as weak global trade and capital flows. According to the most recent analysis by the World Bank’s Development Prospects Group, amid persistent headwinds and continued malaise throughout the world economy, downside risks to the outlook have also increased. A sharper-than-expected deceleration in major emerging markets, rising geopolitical risks, and eroding confidence in policy effectiveness could set back EME growth and engender financial market turbulence. Slowing activity in major advanced economies could have large negative spillover effects across EMEs while the impact of financial market stress could be acute among EMEs with elevated private sector leverage. The materialization of some of these risks could slow the convergence of EME income per capita relative to advanced-economy levels, with adverse consequences for poverty alleviation. A large debt overhang is also increasing vulnerability to rising borrowing costs and exchange rate depreciations. In emerging markets, fragile liquidity conditions could contribute to a greater sensitivity to economic news, and amplify volatility in periods of market stress. Graduation from IDA is a recognition that a country can now access a broader range of market-based financing. While some of the graduates are able to raise financing from international and domestic financial markets, due to increased headwinds, they are at significantly higher and rising rates (see the graph below).

---

64 The World Bank, June 2016, “Global Economic Prospects.”
Figure 12. The Emerging Markets Bond Index (EMBI) - Current and Recent Graduates (bps)

* EMBI as of May 23 2016, adjusted from Treasury rate basis to LIBOR basis.
** For 10-12 year maturity, comparable with EMBI average maturity.
Source: Bloomberg and staff estimates.

Availabilty of Leveraged Finance While Keeping IDA for the Poorest

10. **IDA has responded to the international community’s call to mobilize significant financial resources through innovative approaches.** Through IDA’s strong equity, IDA is able to raise debt-financed resources on non-concessional terms. The availability of these resources makes it possible to provide transitional support to graduates that otherwise are constrained by IBRD, without diverting scarce concessional resources from the poorest countries. This is in line with tailoring the resources to country needs and capacity.

11. **Based on the rationale described above, it is proposed that Bolivia, Sri Lanka and Vietnam be considered for IDA transitional support on non-concessional terms during the IDA18, IDA19 and IDA20 Replenishment periods.** It is proposed that Angola, Armenia, Bosnia and Herzegovina and Georgia similarly be considered for transitional support during the IDA18-IDA20 Replenishment period. In the case of India, which earlier benefitted from transitional IDA support during IDA17, it is proposed that the country be considered for transitional support during two remaining replenishments (IDA18 and IDA19).

12. **For current graduates Bolivia, Sri Lanka and Vietnam, it is recommended that the volume of transitional support financing in IDA18 be set at an amount equal to their IDA17 allocation, two-thirds of the allocation in IDA19 and one third of the allocation in IDA20.** Recent graduates of Angola, Armenia, Bosnia and Herzegovina and Georgia are proposed to receive similar transitional treatment, given that they did not receive transitional support in IDA17. Their proposed transitional
support volumes would be based on the allocation that the country received in IDA16. Given that India, the remaining recent graduate, received IDA transitional support in IDA17, it would receive the second and third phases of transitional support (i.e., it would receive two-thirds of its IDA16 allocation in IDA18, and one third in IDA19). Using these proposed amounts as a reference in the simulation scenarios, transitional support for the current and recent graduates would contribute to US$8.0 billion in non-concessional lending volumes during the IDA18 period; US$4.7 billion during the IDA19 period; and US$1.6 billion during the IDA20 period.

13. **The transitional support could help address the significant reduction in financing that these countries face while keeping Core IDA for the poorest.** In addition, these countries’ access to additional external financing sources will be important to sustain and consolidate gains in poverty reduction and shared prosperity and to address evolving development challenges. These resources will involve the additional benefits of technical expertise and knowledge specialists to help countries build sound policies and successfully undertake much needed structural reforms.

14. **The expected use of IDA leveraged funds would build upon the successful use of IDA in the current cycles in line with the current strategies.** In the case of Vietnam, resources would be used to support development programs, and projects relating to sustainable development; infrastructure, including renewable energy; economy and finance, including governance and private sector development and human development. In the case of Bolivia, the funds will be utilized for water, sanitation and climate change. In the case of Sri Lanka, a mix of IPFs for infrastructure and other sectors and DPOs to support competitiveness, fiscal and government reforms. In the case of recent graduates, IDA leveraged resources will finance the poverty agenda as specified in the WBG country strategy for each country. In addition, specific operations anticipated for leveraged IDA will have significant synergies with other donors’ interventions.

15. **The transitional support would be provided on terms that are similar to those of IBRD lending.** Graphs below present an illustration of leveraged IDA support to these countries and their impact on WB net flows.

16. **IDA proposes no change in the implementation of the contractual acceleration of IDA credits for Bolivia, Sri Lanka, and Vietnam in IDA18.** IDA reviewed potential adjustments of the acceleration clause, for example, the postponement of contractual acceleration by one replenishment, and concluded that the adjustment would have a relatively small impact in NPV terms on the finances of the affected countries as well as on IDA. It would reduce the average annual debt service for Bolivia by US$5 million, for Sri Lanka by US$15 million, and for Vietnam by US$116 million over the IDA18 period. Furthermore, the acceleration clause has been applied consistently across all existing graduates where the clause was applicable since IDA16. Significant flexibility that has been offered to the past graduates to tailor the debt service to the country’s circumstances will also be offered to the current graduates in the implementation of the acceleration of IDA credits. IDA will work with graduating countries and, provide them with options to accelerate after due consideration of the developments in their economy, including assessing the impact of the accelerated repayments of IDA credits on their debt sustainability.

---

65 Albania, Angola, Armenia, Azerbaijan, Bosnia and Herzegovina, China, Egypt, Equatorial Guinea, Georgia, India, Indonesia, Iraq, Macedonia FYR, St. Kitts and Nevis, and the Philippines.
Figure 13. The WB Lending Scenarios -Current and Recent Graduates
(in US$ million)

Bolivia

Sri Lanka

---

Lending scenarios include projections for IBRD financing; other scenarios pertaining to IBRD financing, including scenarios in which IBRD commitments for these countries are lower or higher, are possible, depending on various factors at both the individual country level as well as the portfolio level, such as demand for overall IBRD financing and IBRD’s available headroom.
Vietnam

Angola
Armenia

Bosnia and Herzegovina
Annex 5: Regional IDA Program

1. **The Regional IDA Program** aims to promote development through a regional approach by providing topping-up funds to finance regional investments and activities in eligible regional IDA projects. Given the high demand compared to the available funds, individual projects should be prioritized based on how closely they adhere to the regional project criteria, including whether they are expected to have an additional impact on growth and poverty reduction in the region that could only be achieved within a regional framework. IDA financing for qualified regional projects is typically funded one-third from the national allocation and two-thirds from the regional IDA envelope. This co-financing ratio, however, depends on project design and resource availability.

2. **Eligibility criteria:** Regional IDA projects are IDA operations:
   - That involve **three or more countries**, all of which need to participate for the project’s objectives to be achievable (at least one of which is an IDA country). The required minimum number of countries is reduced from three to **two if at least one fragile country participates** in the regional project;
   - Whose **benefits spill over country boundaries** (e.g., generate positive externalities or mitigate negative ones across countries);
   - Where there is **clear evidence of country or regional ownership** (e.g., by ECOWAS or SADC) which demonstrates commitment of the majority of participating countries; and
   - That provides a platform for a high level of **policy harmonization** between countries and is part of a well-developed and broadly-supported **regional strategy**.

3. **All four criteria above have to be met.** In addition, two additional criteria are applied in prioritizing projects for regional IDA financing. First, regional IDA should avoid funding primarily national investments. The specific investments proposed for regional IDA financing should demonstrate clear externalities across countries. Second, given the high demand for regional IDA, the funding should be considered only after other options have been ruled out. Funding for regional projects should target areas of IDA’s comparative advantage in relation to other potential partners, including bilateral and other multilateral partners. Regional projects should also avoid tying up IDA commitment authority when specific investments have not yet been identified or appraised and are not likely to begin disbursements in the fiscal year of commitment.

4. **Additional flexibility was introduced during IDA17 to allow exceptional support for regional projects with significant transformational impact at the regional level:** This additional flexibility will continue during IDA18. The previous criteria constrained the ability of IDA to finance regional projects when projects do not qualify for financing from the IDA regional program because their physical implementation is only in one country, even though they are expected to have a regional impact, and when the financing needs of qualifying projects exceed the resources available from the country’s IDA allocation and/or the IDA regional program. To obviate to these limitations, introduced in IDA17, and proposed to be continued in IDA18:

67 National investment components can still be included in a regional project to maximize the development impact but need to be financed fully by the national IDA PBA allocation.
Enable on a case-by-case basis, and subject to approval by IDA’s Executive Directors, the ability to finance, with resources from the IDA regional program, projects that require financial participation of only one IDA country, where it can be clearly demonstrated that the project would have a transformational impact on the region, and that three or more countries (two, if one is a Fragile and Conflict-affected State, FCS) would receive substantial benefits from the project.\(^{68}\)

On a case-by-case basis, IDA’s Executive Directors could cap the national contribution to 20 percent of its indicative replenishment volume, when transformational projects are large relative to the size of the country’s Core allocation.

5. **IDA Regional Grant Pilot:** This pilot program that provides IDA grants to eligible regional institutions is proposed to be continued in IDA18. Up to 10 percent of the regional IDA envelope for each region can be provided as grants for the purpose of preparing or implementing regional operations and building the entities’ capacity. In addition to meeting the criteria for IDA regional projects, the recipient regional institutions have to fulfill six eligibility criteria detailed in Box 12.

<table>
<thead>
<tr>
<th>Box 12. Eligibility Criteria for Access to IDA Grants by Regional Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Recipient is a bona fide regional organization that has the legal status and fiduciary capacity to receive grant funding and the legal authority to carry out the activities financed.</td>
</tr>
<tr>
<td>2. Recipient does not meet eligibility requirements to take on an IDA credit.</td>
</tr>
<tr>
<td>3. The costs and benefits of the activity to be financed with an IDA grant are not easily allocated to national programs.</td>
</tr>
<tr>
<td>4. The activities to be financed with an IDA grant are related to regional infrastructure development, institutional cooperation for economic integration, and coordinated interventions to provide regional public goods.</td>
</tr>
<tr>
<td>5. Grant co-financing for the activity is not readily available from other development partners</td>
</tr>
<tr>
<td>6. The regional entity is associated with an IDA-funded regional operation or otherwise supports the strategic objectives of IDA on regional integration.</td>
</tr>
</tbody>
</table>

**Proposed Adjustments to the Regional IDA Program**

6. **The Regional IDA Program is proposed to have** three adjustments: (i) establishing a sub-window to support the development needs of refugees; (ii) adjusting the flexibility built into the regional program to ensure that it continues to address the needs of countries with small allocations; and (iii) harmonization of the terms for the regional IDA leverage with those of concessional Core IDA financing.

7. **First, consistent with the WBG approach to forced displacement presented at the 2016 Spring Meetings, IDA proposes to help those countries hosting large numbers of refugees.** The Regional Program is a natural vehicle to support the medium and long-term development needs (income generation, human development and service delivery) of both refugees and their host communities. Refugees pose a regional development challenge. Since 2009, IDA has financed operations to address forced displacement in Africa, South Asia and Central Asia. By the end of IDA17, more than US$1

\(^{68}\) An illustrative list of projects with significant transformational impact at the regional level is reported in Table 2 of the IDA background note “Strengthening Support for Regional Projects.”
billion of IDA resources are expected to fund operations in support of displaced people in IDA-eligible countries. A sub-window under the Regional IDA Program will provide tailored financing that helps to tackle the complex needs stemming from the influx of refugees and spillovers on host community in a context of competing development needs for host countries. IDA proposes to introduce a sub-window for this purpose under the Regional IDA Program (see the Fragility, Conflict, and Violence Special Theme Paper), which sets out the rational for the sub-window, as well as the proposed governance structure, and addresses other implementations issues. It sets out the financing issues as follows:

- **Terms of financing:** For high risk of debt distress countries, top up funding from the sub-window will be provided on grant terms only. For moderate and high risk of debt distress countries, top up funding will be provided 50 percent in grants and 50 percent in applicable credit terms of the beneficiary country.\(^{70}\) and

- **Requirements for national IDA contributions:** Regardless of the risk of debt distress, national contributions would be half those required under the IDA Regional Program.

8. **Second, regional integration is particularly important for small states to overcome constraints of a small domestic economy.** Under the IDA Regional Program, countries with small allocations benefitted from the 20 percent cap, which limits their national IDA contributions towards regional projects. Established in IDA15, this exception enabled countries with small allocations to participate in regional IDA programs with their larger neighbors. Not only did small states benefit from this exception, but countries with larger populations and small allocations due to weak performance did too. Given the proposed increase in the minimum base allocation, and to maintain the rationale for the original exception, it is proposed that the threshold for triggering the 20 percent cap will now be based on the definition of small states – i.e., countries with a population of 1.5 million or less.\(^{71}\) Some of the countries that benefitted from the 20 percent cap in the past include Comoros, Micronesia and Vanuatu. For example, Comoros, with an annual allocation of SDR4.2 million in FY15, was able to participate in the Southwest Indian Ocean Fisheries program (SWiOFish) by contributing US$1.2 million from the national IDA envelope, which leveraged an additional US$8.3 million from the regional IDA envelope. The total IDA financing for SWiOFish\(^{72}\) was US$91 million and also included Mozambique and Tanzania, as well as the Indian Ocean Commission.

9. **Third, for IDA18, it is proposed that the Regional Program financing terms be fully harmonized with those of concessional Core financing.** Grant-eligibility under the Regional Program is currently limited to IDA-only non-gap countries at high risk of debt distress. For these countries, resources leveraged under the Regional Program are provided in grant terms. Regional Program financing to other IDA countries, including IDA-only non-gap countries at moderate risk of debt distress,\(^{73}\) is provided on applicable IDA credit terms. Under the proposal, the grant/credit distribution

---

\(^{69}\) This includes IDA16 and IDA17.

\(^{70}\) Where projects will only benefit refugees and not host communities (e.g. economic integration of refugees in local labor market), on a case by case basis, top up funding for moderate and low risk of debt distress countries could be considered in 100 percent grant terms.

\(^{71}\) This change would *largely* result in the same countries being covered.

\(^{72}\) SWiOFish2 is under preparation.

\(^{73}\) Concessional Core financing to these countries is provided as a mix of grants and credits (half each, under the assumption of elimination of the 20 percent grant discount in the PBA formula).
of Regional Program financing would match that of concessional Core Financing for all beneficiary countries. In particular, eligibility for grant support under the Regional Program would be expanded to IDA-only non-gap countries at moderate risk of debt distress. Similar to concessional Core financing, Regional Program financing for these countries would be provided as a mix of grants and credits. The proposal would help address debt sustainability concerns for moderate risk of debt distress countries in the context of increased volumes of the Regional Program (as under the IDA18 scenarios) and the continued application of the current Regional Program grant-eligibility rule.
### Regional IDA Projects Approved during IDA17

<table>
<thead>
<tr>
<th>Project #</th>
<th>Project Name</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFR</td>
<td>P132821 Central Africa Backbone SOP 5 (DRC)</td>
<td>92.1</td>
</tr>
<tr>
<td></td>
<td>P126661 SAPP Program for Accelerating Transformational Energy Projects</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>P150006 Horn of Africa Regional Pastoral Livelihoods Resilience Additional Financing – Ethiopia</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>P132123 Southwest Indian Ocean Fisheries Project</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>P146515 Kariba Dam Emergency Rehabilitation Project</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>P150080 Sahel Women’s Empowerment and Demographics Dividend Project (SWEDD)</td>
<td>170.2</td>
</tr>
<tr>
<td></td>
<td>P146830 West Africa Power Pool – OMVG Transmission Project</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>P126773 West Africa Fisheries Program SOP 1C</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>P130871 Regional Communications Infrastructure Program (RCIP) Phase V</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>P147674 Sahel Regional Pastoral Livelihoods and Resilience Project</td>
<td>248</td>
</tr>
<tr>
<td></td>
<td>P148853 South Sudan – East Africa Trade and Transport Facilitation Program Phase II</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>P145556 Southern Africa Trade and Transport Facilitation Program (SATTFF) SOP 2</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>P153466 Lake Victoria Environmental Management Program AF</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>P154549 SWEDD – AF Burkina</td>
<td>34.8</td>
</tr>
<tr>
<td></td>
<td>P149526 Sahel Malaria and Neglected Tropical Diseases</td>
<td>121</td>
</tr>
<tr>
<td></td>
<td>P153665 East Africa PH and Lab Strengthening Project</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>P153111 Africa Centers of Excellence Add. Fin</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>P151083 Great Lakes Region Trade Facilitation</td>
<td>79</td>
</tr>
<tr>
<td></td>
<td>P153702 Regional Program to Harmonize and Modernize Living Condition Surveys</td>
<td>40.5</td>
</tr>
<tr>
<td></td>
<td>P153836 DRC High Priority Roads Reopening and Maintenance project</td>
<td>125</td>
</tr>
<tr>
<td></td>
<td>P157303 DRC – Eastern Recovery Project</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>P152822 Ethiopia and Uganda - Development Response to Displacement Impacts Project in the Horn of Africa</td>
<td>155</td>
</tr>
<tr>
<td></td>
<td>P152821 Zambia - Development Response to Displacement Impacts Project in the Horn of Africa</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>P155658 Southern Africa TB and Health Systems Support Project</td>
<td>122</td>
</tr>
<tr>
<td><strong>AFR Total</strong></td>
<td></td>
<td><strong>2,493.6</strong></td>
</tr>
<tr>
<td>EAP</td>
<td>P148238 Pacific ICT Regulatory Development Project</td>
<td>4.5</td>
</tr>
<tr>
<td></td>
<td>P130592 Pacific Regional Connectivity Program – FSM</td>
<td>47.5</td>
</tr>
<tr>
<td></td>
<td>P151754, P151760, P151777, P151780 Pacific Regional Fisheries Program (FSM, RMI, Solomon Islands, Tuvalu, FFA – regional grant)</td>
<td>32.5</td>
</tr>
<tr>
<td></td>
<td>P154149 Vanuatu Regional Aviation</td>
<td>59.8</td>
</tr>
<tr>
<td></td>
<td>P128904 Samoa Regional ICT Connectivity</td>
<td>16.2</td>
</tr>
<tr>
<td></td>
<td>P154839 Pacific Resilience Program (PREP)</td>
<td>32.6</td>
</tr>
<tr>
<td></td>
<td>P153381 Pacific aviation – Kiribati Additional Financing</td>
<td>7.1</td>
</tr>
<tr>
<td></td>
<td>P156018 Pacific aviation – Tonga Additional Financing</td>
<td>7.3</td>
</tr>
<tr>
<td></td>
<td>157779 Pacific Aviation – Tuvalu Additional Financing</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>EAP Total</strong></td>
<td></td>
<td><strong>210.4</strong></td>
</tr>
<tr>
<td>ECA</td>
<td>P145634 Central Asia Road Links – Tajikistan</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>P151363 Climate Adaptation and Mitigation Program for Aral Sea Basin</td>
<td>38</td>
</tr>
<tr>
<td><strong>ECA Total</strong></td>
<td></td>
<td><strong>83</strong></td>
</tr>
<tr>
<td>LAC</td>
<td>P148970 Hispaniola (Haiti) Regional Sustainable Rural and Small Towns Water and Sanitation Project</td>
<td>50</td>
</tr>
<tr>
<td><strong>LAC Total</strong></td>
<td></td>
<td><strong>50</strong></td>
</tr>
<tr>
<td>MENA</td>
<td>P152822 Djibouti - Development Response to Displacement Impacts Project in the Horn of Africa</td>
<td>20</td>
</tr>
<tr>
<td><strong>MENA Total</strong></td>
<td></td>
<td><strong>20</strong></td>
</tr>
</tbody>
</table>

Total commitments for regional IDA projects as of May 31, 2016 = **2,857**
Annex 6: Modifications to the PBA for IDA18

IDA18 allocation framework

1. The table below summarizes how resources from each of the components of the IDA18 replenishment will be allocated at the country level. Text in italics show the changes/new features for which endorsement is sought from partners (including, where relevant on the terms of financing). Unless otherwise indicated, specifics in the table reflect the Base Scenario. Where relevant, details for other scenarios are provided in footnotes.

<table>
<thead>
<tr>
<th>Concessional</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Core IDA</td>
</tr>
<tr>
<td>Core IDA would provide unearmarked support for IDA’s core program in IDA-eligible countries. During IDA18 concessional Core IDA allocations would be determined under: (i) the regular PBA system; and/or (ii) an exceptional allocation regime.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Allocation Policies</th>
<th>Financing Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Regular PBA system</td>
<td>• Grant allocation framework:</td>
</tr>
<tr>
<td>• Proposed adjustments are:⁷⁴</td>
<td>o No changes.</td>
</tr>
<tr>
<td>➢ Reduction of the Country Performance Rating exponent from 4 to 3.</td>
<td>• Terms of credit financing. Proposed adjustments are:</td>
</tr>
<tr>
<td>➢ Elimination of MDRI netting out.</td>
<td>o No changes on regular credit terms for non-small states or blend terms.⁷⁵</td>
</tr>
<tr>
<td>➢ Elimination of 20 percent grant discount.</td>
<td>o IDA17 lending terms for small-island states (40 years maturity with 10 years grace period) would be continued in IDA18 and they would be extended to non-island small states (Bhutan, Djibouti, Guyana and Timor Leste).</td>
</tr>
<tr>
<td>➢ Increase of yearly minimum base allocation from SDR4 million to SDR15 million.</td>
<td>o No financing in “hard terms” given the elimination of the 20 percent grant discount.⁷⁶</td>
</tr>
</tbody>
</table>

---

⁷⁴ All four adjustments are also included in the Low and High 2 Scenarios. The High 1 Scenario does not include the elimination of the 20 percent grant discount.

⁷⁵ Small states are defined as countries with a population of 1.5 million or less.

⁷⁶ Consistent with footnote 1, financing in “hard terms” would not be eliminated under High 1 Scenario.
### Allocation Policies | Financing Policies
---|---
**Exceptional regimes**
- **Turn-around**
  - No changes.
- **Risk mitigation**
  - Exceptional support to Guinea, Nepal, Niger and Tajikistan during IDA18 of up to 1/3 of the country’s PBA-based allocation.\(^77\)
  - Terms would be the same as concessional Core IDA financing.

**Non-Core IDA**
Non-Core IDA financing would provide specific-purpose financing depending on implementation arrangements specific to each window. During IDA18 there will be three non-Core windows, as detailed below.

### Regional Program

| Allocation Policies | Financing Policies |
---|---|
- **Regional program**
  - For small states, national contributions to regional projects would be capped at 20 percent of their annual allocation.\(^78\)
  - Funding from the regional program would have the same terms as concessional Core IDA assistance for a particular country.\(^79\)
- **Sub-window for refugees**
  - Notional regional allocations based on number of refugees in IDA-eligible countries in a region at the beginning of IDA18 (with a minimum country eligibility threshold of 25,000 refugees, based on most recent UNHCR estimates).\(^80\)
  - Top up funding from the sub-window would be provided as follows:
    - In grant terms for host countries at high risk of debt distress.
    - 50 percent in grants and 50 percent in applicable credit terms for

---

\(^77\) Contrary to the Turn-around regime, exceptional support under this regime would be additional (not substitute for) the beneficiary’s allocation under the regular PBA system. Implementation of the risk mitigation regime is not contemplated under the Low Scenario.

\(^78\) This change shifts the application of the cap from countries with small allocations (SDR13 million per year in IDA17) to countries with small population.

\(^79\) This change will harmonize the terms of concessional core and regional financing. During IDA17, the terms for IDA-only non-gap countries at moderate risk of debt distress were not harmonized. For details see paragraph 76.

\(^80\) Latest available figures are per UNHCR as at June 2015.
Countries at moderate or low risk of debt distress.

<table>
<thead>
<tr>
<th>Allocation Policies</th>
<th>Financing Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>o Sub-window for refugees (continued)</td>
<td>o At the country level, financing:</td>
</tr>
<tr>
<td></td>
<td>☑ Would be capped at US$400 million.</td>
</tr>
<tr>
<td></td>
<td>☑ National IDA contribution would be half those for the Regional Program.</td>
</tr>
<tr>
<td></td>
<td>o The governance structure would mirror that for assessing case-by-case exceptions for regional transformational projects. This includes a 2-step process of early consultation with and subsequent approval by Executive Directors.</td>
</tr>
</tbody>
</table>

- Crisis Response window
  - No changes.

- Arrears clearance
  - No changes.

### Non-Concessional

<table>
<thead>
<tr>
<th>Allocation Policies</th>
<th>Financing Policies</th>
</tr>
</thead>
</table>
| • Transitional Support
  - To be provided as follows:
    - IDA16 graduates excluding India (Angola, Armenia, Bosnia and Georgia) would receive 100 percent of their IDA16 allocation in IDA18, 2/3 in IDA19, and 1/3 in IDA20. |
  - IDA17 graduates (Bolivia, Sri Lanka and Vietnam) would receive 100 percent of their IDA17 allocation in IDA18, 2/3 in IDA19 and 1/3 in IDA20. |
  - No changes. |
  - No changes. |
India would receive transitional support financing as follows: in IDA18 support would be equal to the IDA17 transitional support, in IDA19 it would be half that amount.82

<table>
<thead>
<tr>
<th>Allocation Policies</th>
<th>Financing Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scale up facility</strong></td>
<td>Resources allocated using the implementation arrangements agreed for the IDA17 Scale-up facility.</td>
</tr>
</tbody>
</table>

### IFC/MIGA Private Sector Window

<table>
<thead>
<tr>
<th>Allocation Policies</th>
<th>Financing Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In IDA18, an IFC/MIGA private sector window would be established to further unlock synergies between IDA, IFC and MIGA and step-up efforts to develop the private sector, especially in FCS countries.</strong></td>
<td>Financing terms to be determined.</td>
</tr>
</tbody>
</table>

### Other considerations

<table>
<thead>
<tr>
<th>Allocation Policies</th>
<th>Financing Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country eligibility</strong></td>
<td>Graduations, Bolivia, Sri Lanka, and Vietnam.</td>
</tr>
<tr>
<td><strong>Syria.</strong> Assumed to be granted access to IDA support under the Base, High 1 and High 2 Scenarios.83</td>
<td></td>
</tr>
</tbody>
</table>

---

82 Under the Low Scenario, support would be provided only in IDA18 for an amount equal to 1/2 of the IDA17 transitional support. Assumptions under the High 1 and High 2 Scenarios are the same as for the Base Scenario.

83 See paragraph 34, footnote 7 and paragraph 98.
| Recommitments | Current (IDA17) and recent (IDA16) graduates will be eligible to recommit cancelled IDA resources. | Recommitments will be made at the non-concessional terms prevailing at the date of recommitment. |
Allocation of resources across scenarios

2. **Without additional effort from partners** – as assumed under scenario **High 2** – the **Base Scenario** provides for the largest increase in the concessional Core IDA envelope (34 percent – Figure 14). The growth under the **Low Scenario**, is less than half (16 percent). Under the **High 1 Scenario**, which reduces the overall grant element of the replenishment due to financial sustainability concerns, the growth in concessional Core IDA is 30 percent. Scenario **High 2**, which assumes higher partner effort, allows for an increase of 42 percent.

![Figure 14. Growth in Concessional Core IDA Relative to IDA17](image)

3. **The boost in concessional Core resources under the Base Scenario would most benefit IDA-only non-gap countries** (Figure 15). On a per capita basis, allocations these countries would increase from US$27 in IDA17 to US$36 in IDA18, equivalent to approximately a 32 percent increase. This is almost twice the increase under the **Low Scenario**, where per capita allocations to IDA-only non-gap countries reach US$20. Under **Scenario High 2**, these countries would see a rise in their per capita allocations to US$38, or an increase of 45 percent relative to IDA17. Under all scenarios, per capita allocations to gap and blend countries are about 25 percent lower than those for IDA-only non-gap countries.

![Figure 15. Per-capita Support across Scenarios and Country Groups](image)

---

84 Unless otherwise indicated, figures in this annex refer to concessional Core IDA allocations.
4. IDA support to FCS/FCV would experience a significant increase (Figure 16). Without adjusting for the countries proposed to benefit from the Risk Mitigation regime (Guinea, Nepal, Niger and Tajikistan), support to FCS/FCV in IDA18 under the Base Scenario doubles relative to that in IDA17. This compares to roughly a 60 percent increase in the Low scenario (left chart). Adjusting the IDA17 figures by including the above mentioned countries, allocations grow almost 80 percent and 45 percent under the Base and Low Scenarios, respectively. In volume terms (right chart), without the adjustment for countries proposed for risk mitigation support, resources are US$7.2 billion higher under the Base Scenario compared to US$4.6 billion higher in the Low Scenario. With the adjustment, the increases in allocations to FCS/FCV are somewhat lower, at US$6.2 billion and US$3.6 billion under the Base and Low scenarios, respectively.

Figure 16. FCS/FCV Allocations (FCV Adjusted and Unadjusted with Respect to IDA17)

5. As a group, small island states would experience a large increase in allocations. Driven by the boost in the annual minimum base allocation, the increase for this group of countries is larger than 200 percent under all scenarios.

6. From a regional perspective, redistributions broadly reflect the impact of country graduations (Figure 17). Under the Base Scenario, Vietnam’s graduation results in a significant decline in East Asia’s share of Core concessional IDA (8 percentage points) to roughly 7 percent in the total. To a lesser extent, Sri Lanka’s graduation contributes to a reduction in South Asia’s share of Core concessional IDA by 2 percentage points to 20 percent. Under the Base Scenario, resources thus freed are redistributed largely to Africa and the Middle East and North Africa. The gains in Africa are due to its status as host to most of the FCS/FCV, while gains in MNA are premised on the proposed support to Syria. In IDA18, Africa’s share rises to 63 percent of the total Core concessional resources from 57 percent in IDA17.

Figure 17. Shifts in a Region’s Share of Core Concessional Resources (in percentage points)
7. Beside volume gains, the new leveraged IDA framework allows for a better targeting of concessionality and delivering resources where they are needed most (Figure 18). Reflecting the performance orientation of the allocation framework and the terms of IDA financing, non-FCSs IDA-only non-gap countries benefit from the largest overall per-capita grant support in IDA financing (US$26). The overall per-capita grant support for FCS/FCV is slightly lower (US$22), yet FCS/FCV would be the largest beneficiaries of pure grants in per-capita terms (US$16, equivalent to three quarters of the overall per-capita grant support). Gap and Blend countries would benefit from much smaller per-capita grant support and – as per the grant allocation framework – they would not receive pure grants.

Figure 18. Credit and Grants under Base Scenario by Country Group
(per capita terms)

Impact of reducing the CPR exponent

8. The regular PBA system remains the primary channel for allocating concessional Core IDA resources at the country level. The Core concessional IDA country allocation is determined either under the regular PBA system or under one of the exceptional regimes (the Turn-around and the proposed Risk Mitigation regimes). The formula for allocating resources under the PBA system balances country performance (as measured by the Country Performance Rating – CPR) and country needs (as measured by population and GNI per capita). Revisions to the formula take place in the context of replenishment discussions. The PBA formula used during IDA17 is as follows:

\[ \text{PBA allocation} = f(\text{CPR}^4, \text{Population}, \text{GNIpc}^{0.125}) \]  
\[ \text{CPR} = (0.24\text{CPIA}_{A-C} + 0.68\text{CPIA}_D + 0.08\text{PPR}) \]

9. Increasing the poverty orientation in the PBA system allows for better targeting of scarce concessional resources to the poorest countries, which benefits FCS. The high concentration of FCSs at the lower end of the income scale means that any increase in the poverty orientation of the IDA

---

85 Overall per-capita grant support refers to the per-capita grant component (i.e., pure grants plus the grant element of credits times the volume of credits).
allocation framework would direct more resources to most FCSs. However, a major benefit of a larger IDA18 replenishment compared to IDA17 is that all IDA countries experience larger allocations relative to IDA17 irrespective of their performance. Thus, while there are shifts in the distribution of resources, these are not occurring at the expense of country allocations for some other country groups.

10. **To enhance the poverty-orientation of the PBA formula, Management proposes to reduce the CPR exponent in the allocation formula from 4 to 3** (Figure 19). All other things equal, the reduction in the CPR exponent would provide close to an additional US$0.8 billion to FCS. As illustrated in Figure 19, the increase in volumes relative to IDA17 results in an increase in per-capita allocations across all clients (shift from blue to red dotted line). The proposed changes in the PBA formula (including the reduction of the CPR exponent) pivot the per-capita allocations in a way that all countries experience allocation increases but most of the increases go to the lowest quintiles (shift from red dotted line to full red line).

![Figure 19. IDA18 Performance Orientation.](image)

11. **While the change in the CPR exponent leads to a reduction in performance orientation, best performers would continue to benefit from larger per capita allocations** (Figure 20). This could be evidenced with the help of the ratio of per capita allocations to best performers to per capita allocations to worst performers. The ratio under the “no change” scenario (i.e., a scenario using IDA18 volumes but applying the IDA17 allocation framework) would reach 344 percent. Under the Base Scenario, which includes all the proposed changes to the PBA formula, this ratio would drop to 183 percent (see first panel of figure below). This compares to a ratio of 250 percent in IDA17. Despite the reduction, best performers would receive close to twice the per-capita allocations than the worst ones. In IDA18, per capita allocations to best performers would also be 30 percent higher than what they would have received if the Core concessional envelope remained at the IDA17 level.
12. **On average, reducing the CPR exponent from 4 to 3 would increase IDA allocations to the poorest countries and to those with higher poverty rates (Figure 21).** Among countries with income per capita lower than the FY16 IDA operational cutoff, two-thirds benefit from allocation increases. Eight of these are among the 10 poorest IDA countries (i.e., with the lowest GNI per-capita). At the country level, the actual impact of reducing the CPR exponent will reflect interactions across the different elements of the PBA formula. As a result, as discussed in detail in the context of IDA17, some poor countries with strong performance could experience a decrease in their allocations due to these measures alone. Nevertheless, these reductions would be compensated by the combination of increased volumes and the impact of the other proposed modifications to the allocation framework.

Source: Staff estimates

---

An alternative to increase the poverty orientation of the PBA formula would be to change the GNI per capita exponent. Analyses performed in the context of IDA17 showed that a reduction of the CPR exponent provides – on balance – the best option. See “Progress report on IDA support to fragile and conflict-affected countries,” (IDA, 2012). The analysis concluded that reducing the CPR exponent provides a better balance between increasing financial support to FCS, maintaining the performance orientation in the system, and reducing volatility and limiting the impact on the affected countries.
Annex 7: Debt Sustainability Analysis

1. The impact of IDA18–21 allocations on countries’ debt sustainability is examined using the joint WB-IMF Debt Sustainability Framework (DSF). The country-by-country simulations are based on very conservative assumptions (see paragraph 6) and focus on three debt burden indicators: (i) present value of external public and publicly guaranteed (PPG) debt-to-GDP; (ii) present value of external PPG debt-to-exports; and (iii) debt service-to-revenue. Four scenarios (Figure 22) are simulated for each indicator, with each scenario entailing the median trajectories of:

- a baseline which reflects original simulations from the country desks; and
- an alternative path which incorporates the impact of both concessional and non-concessional financing from IDA18 and beyond.

Figure 22. Overview of Simulation Scenarios

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Description</th>
<th>Baseline</th>
<th>Alternative</th>
</tr>
</thead>
<tbody>
<tr>
<td>No shock</td>
<td>Reflects macroeconomic projections from the country desks, barring shocks.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate shock (permanent)</td>
<td>Assumes an interest rate increase across debt instruments by 200 basis points. This mimics a hardening of financing terms across MDBs, which could take the form of higher fixed interest rates, shorter repayment periods, or a shift to variable rates.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP shock (permanent)</td>
<td>Assumes real GDP growth is lowered by a fraction of its standard deviation. This addresses potential over-optimism in GDP forecasts.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export shock (short-term)</td>
<td>Assumes export growth is set to its historical average minus one standard deviation in the second and third year of the projection period.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. The simulations suggest that, in the absence of shocks, projected IDA financing – both concessional and non-concessional – would have in aggregate a modest impact on debt burden indicators (Figure 23). Over the projection period, IDA disbursements result in flattening trajectories across all three debt burden indicators, compared to the slightly downward paths under the baseline. Furthermore, the trajectories remain well below the indicative thresholds.

---

87 The sample comprises 64 countries. 13 are excluded as they do not have DSAs or have outdated DSAs.
88 IDA financing for the PSW is not included as this is not expected to go onto the government’s balance sheet.
89 The formula is: \[ \text{Real GDP Growth}_{Y,t}^{\text{shock}} = \text{Real GDP Growth}_{Y,t}^{\text{no shock}} - \frac{\text{Standard Deviation}}{\sqrt{20}} \]
90 Thresholds are policy-dependent and vary depending on a member’s quality of policies and institutions, as measured by its Country Policy and Institutional Assessment (CPIA) score. Strong, Medium and Weak performers are defined as those with three-year moving average CPIA scores of greater than or equal to 3.75; greater than 3.25 but less than 3.75; and less than or equal to 3.25
3. **Under the shock scenarios, the alternative trajectories (i.e., after adding new IDA financing) of debt burden indicators do not deviate significantly from their baseline paths.** While most indicators remain well below their thresholds across the various shocks, there are three instances that merit attention (Figure 24). A hardening of financing terms places the PV of debt-to-GDP and PV of debt-to-exports ratios close to their thresholds in the outer years. In addition, a short-term export shock causes the PV of debt-to-exports indicator to approach the threshold, although it trends down thereafter. Such shocks are pertinent, given the possibility of hardening financing terms across MDBs as well as the commodities downswing and narrow export bases of many IDA countries. These results nonetheless have to be interpreted in the context of the conservative assumptions used in the simulation (see paragraph 6). Moreover, the alternative trajectories remain fairly close to their baseline paths through the projection period.

4. **Looking ahead, the uncertain macroeconomic outlook underscores the need for close monitoring to manage debt sustainability risks, particularly given the heterogeneity of country circumstances.** Those with a high reliance on commodities exports could face continued growth headwinds and pressure on the exchange rate, while higher-income IDA clients with access to capital markets could be vulnerable to renewed bouts of financial market volatility and retrenchments of capital flows. That said, it bears noting that debt vulnerabilities in low-income countries are generally lower than before the global financial crisis. The portion of countries at high risk of debt distress (or in distress) has fallen from 48 percent to 26 percent between 2007 and 2016 (Figure 25), reflecting improved macroeconomic performance, HIPC/MDRI debt relief and robust demand for commodities. All in, the foregoing reaffirms the need for heightened vigilance to navigate shifting market conditions and an uncertain global outlook, so as to preserve the gains in debt sustainability made over the past decade. Factors such as a steady inflow of remittances and using debt to finance productive investment that could reap future growth payoffs would further mitigate the downside risks of debt accumulation.

respectively. For Strong performers, the thresholds are: (i) 50 percent for present value of debt-to-GDP; (ii) 200 percent for present value of debt-to-exports; and (iii) 22 percent for debt service-to-revenue. For Medium performers, the thresholds are: (i) 40 percent for present value of debt-to-GDP; (ii) 150 percent for present value of debt-to-exports; and (iii) 20 percent for debt service-to-revenue. For Weak performers, the thresholds are (i) 30 percent for present value of debt-to-GDP; (ii) 100 percent for present value of debt-to-exports; and (iii) 18 percent for debt service-to-revenue.

91 The results in Figures 23 and 24 pertain to the Base Scenario of US$75 billion under Section IV.B.

Against this backdrop, the projected financing mix from IDA seeks to strike a balance between supporting development ambitions and not jeopardizing debt sustainability. Grants and concessional credits make up the bulk of the projected IDA18–21 envelope at 82 percent, with grants alone accounting for 25 percent. Non-concessional financing and allocations to the IFC/MIGA PSW comprise 18 percent, mostly in the form of transitional support for graduates. Moreover, the terms of IDA concessional and non-concessional financing (i.e., similar to what IBRD offers) are still highly favorable compared to the market (Figure 26). IDA therefore plays a role in mitigating against the counterfactual of countries seeking recourse to more expensive financing.

Further, the simulation results should be interpreted in the context of very conservative assumptions. First, it is assumed that new IDA financing is wholly additive and does not substitute for other borrowing, including existing country desks’ projections of IDA credits. Second, the additional financing is not assumed to reap a growth dividend in terms of real GDP, budget revenues or exports. Third, new IDA financing is assumed to be disbursed within five years, compared to the historical average of eight years. Fourth, the interest rate shock – which aims to mimic a hardening of financing

93 See footnote 91.
94 2016 risk ratings are as at 17th May. The data comprises 61 countries; with various factors accounting for the exclusions (e.g., some only started DSAs in the recent past, or do not have DSAs).
95 Graduation is assessed on a case-by-case basis but generally premised on two criteria: (i) income per capita being above the operational cut-off for at least three years; and (ii) creditworthiness. Debt sustainability is one of the considerations under the latter criterion. As such, countries with significant debt sustainability concerns are unlikely to graduate and, by extension, be eligible for non-concessional transitional support.
terms by MDBs, including a potential shift to variable interest rates – could be viewed as conservative in that: (i) the impact of the 200 basis points increase is an upfront and permanent one, while policy rate hikes by the US Federal Reserve are likely to take place at a cautious and measured pace; (ii) the shock entails a multiplicative effect through the automatic debt dynamics channel; and (iii) the shock applies to all public external debt, including concessional fixed rate credits.

Figure 26. Interest Spread over LIBOR for IDA Clients

![Graph showing interest spread over LIBOR for IDA clients](image)

Source: Bloomberg.

** For 10-12 year maturity, comparable with EMBI average maturity. Additionally, IBRD charges include a front-end fee of 25 bps and commitment fee of 25 bps.

** Equivalent spread over USD LIBOR for IDA charges (75 bps in SDR terms for IDA-only countries; 200 bps in SDR terms for Blend countries). If market rates increase, the interest spread for IDA charges would be lower – given the fixed rate on IDA credits.

---

96 Data as of May 12 2016, adjusted from Treasury to LIBOR basis for comparability. For other IDA countries, no EMBI available.
Annex 8: Countries Transitioning Through IDA

1. **Countries transition through IDA.** Based on relative poverty assessments and IBRD creditworthiness, countries can either be in IDA-only non-gap, IDA-only gap or blend status. IDA-only non-gap status means that a country has not reached a certain income threshold in per capita terms that would justify a shift to gap status. This income threshold is called the IDA operational cut-off. Countries in gap status lie between non-gap and blend status – they are wealthier in GNI per capita terms than IDA-only non-gap countries, but not yet IBRD creditworthy. More precisely, gap countries have been above the operational cut-off for more than two consecutive years. In the third year, these countries move to gap status. Shifting from gap to blend status requires a country to be declared IBRD creditworthy. Once a country is IBRD creditworthy, it receives resources from IDA and IBRD.

   ![Diagram showing transition from IDA-only non-gap to gap to blend to IBRD](image)

   - **IDA-only**
     - Relative poverty: below operational cut-off ($1,215)
   - **Gap**
     - Above operational cut-off for more than two consecutive years
   - **Blend**
     - Creditworthiness: declared creditworthy by IBRD
   - **IBRD**
     - Graduation from IDA

2. **Financing terms harden as countries move from IDA-only non-gap to blend status.** Once a country moves to gap status it stops being grant eligible. It also stops being subject to IDA’s Non-Concessional Borrowing Policy. The financing terms harden for gap countries from a 53 percent grant element to 33 percent grant element. Financing terms for gap and blend countries are the same. While in most cases the transitioning through IDA follows a sequence: IDA-only non-gap to gap to blend, this does not necessarily have to be the case. Countries can be declared IBRD creditworthy while they are still an IDA-only non-gap country. Under such circumstances a country jumps straight into blend status and is able to use financing from both IDA and IBRD.