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IDA17

UPDATED IDA17 FINANCING FRAMEWORK AND KEY FINANCIAL VARIABLES

International Development Association
IDA Resource Mobilization Department (CFPIR)

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ABBREVIATIONS AND ACRONYMS

Fiscal year (FY) = July 1 to June 30

AfDF	African Development Fund
CAS	Country Assistance Strategy
CRW	Crisis Response Window
GAC	Governance and Anti-corruption
CPIA	Country Policy and Institutional Assessment
CPR	Country Performance Rating
FY	Fiscal Year
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
SDR	Special Drawing Right
WBG	World Bank Group
WDR	World Development Report

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EXECUTIVE SUMMARY

i. **At the second IDA17 meeting held in Managua in July 2013, IDA Deputies reviewed five potential scenarios for supporting the financing needs of IDA countries during the IDA17 replenishment period**.[1] In preparing these scenarios, Management took into account the need for IDA countries to secure the achieved development gains and address emerging opportunities and challenges, IDA's critical role in achieving the World Bank Group (WBG) goals of ending extreme poverty and promoting shared prosperity, as well as the financing constraints for many contributing partners. The scenarios provided a broad range of options with incrementally higher levels that would allow for more progress to be made on critical development priorities in IDA countries. They also illustrated the associated trade-offs among the different funding priorities under each scenario. At the meeting, IDA Deputies provided guidance on the priorities and principles for the preparation of three new scenarios to be discussed at the third IDA17 meeting, with a financing volume ranging from scenarios 2 to 4 presented in Managua (i.e., US$47.1 billion to US$52.5 billion). This paper presents revised financing scenarios for the IDA17 replenishment and provides Participants with information on key financial variables that impact final pledges to IDA17.

ii. **Based on the guidance provided by Deputies, Management has developed three new "ask" scenarios.** The components of each scenario have been recalibrated as follows: (i) the IDA17 allocation framework and the level of core financing have been revised to reflect the call for ensuring a scaling up of support for fragile and conflict-affected states (FCSs) in all scenarios while protecting that for non-FCSs (as detailed in paragraph 5); (ii) the regional program levels have been revised to reflect rising demand and the support for scaling up expressed at the Managua meeting; (iii) the Crisis Response Window (CRW) size has been set at about 2 percent of core IDA and regional program financing under all scenarios; (iv) the level for exceptional arrears clearance support was kept at the levels presented in Managua in all scenarios; and (v) transitional support has been included in all scenarios at levels below the IDA16 baseline and with increases depending on the replenishment size.

iii. **Within this range, Management presents a preferred "ask" scenario of SDR33.5 billion (US$50.5 billion), which represents a 2 percent nominal increase over IDA16**. This scenario would enable IDA to maximize development impact in IDA17 and step up its efforts in support of the WBG goals, with particular focus on FCSs. Under this scenario, IDA's core funding to non-FCSs and FCSs would reach SDR22.6 billion and SDR5.3 billion, respectively (equivalent to a 4 percent and 23 percent nominal increase over IDA16). The amounts envisaged for non-core funding would be as follows: (i) SDR2.0 billion for the regional program envelope (a 10 percent nominal increase over IDA16); (ii) SDR0.6 billion for the CRW, representing about 2 percent of core IDA and regional program financing; (iii) SDR0.8 billion for exceptional support for arrears clearance; and (iv) SDR2.2 billion of transitional support for India (equivalent to two-thirds of the 11 percent share of the resources that India would receive under this scenario if it did not graduate).

[1] "The Demand for IDA17 Resources and the Strategy for their Effective Use," June 2013.

iv. **Management also presents a lower and higher case "ask" scenarios**. The lower scenario assumes a replenishment level of SDR31.2 billion (a 5 percent decline in nominal terms relative to IDA16). This scenario involves a 17 nominal percent increase in core IDA financing for FCSs coupled with a modest increase in the regional program envelope, while core financing for non-FCSs remains flat and IDA's transitional support to India is half of that under the preferred scenario. The higher scenario assumes a replenishment level of SDR34.8 billion (a nominal increase of 6 percent relative to IDA16). The scenario provides space for enhancing the support to FCSs while providing a small increase in support to non-FCSs in real terms. In addition, this scenario envisages a scaling up of the regional project envelope to address the significant and rising demand among IDA countries.

v. **The financing scenarios corresponding to the "ask" scenarios are also presented for discussion.** The financing scenarios for IDA17 reflect how the ask scenarios can be financed and incorporate the latest assessment of the costs of debt relief, the IDA17 reference exchange rate and any other updates since the Managua meeting. For IDA17, partners would provide basic grant contributions (the variable component), as well as additional grant contributions to cover the compensatory items (the fixed component agreed under previous replenishments). The compensatory items include IDA's cost of debt relief, composed of contributions to finance MDRI costs of IDA and HIPC-related contributions, and the financing for arrears clearance operations and compensation for principal forgone on grants. Under the preferred scenario, partner grant contributions would remain broadly unchanged (in SDR terms) over the original framework agreed for IDA16 and internal resources would decline by 18.5 percent (or SDR2.2 billion). The balancing element in the IDA17 financing framework is the concessional partner loans, which would account for 11 percent (or SDR3.5 billion) of the target replenishment size together with the additional internal resources that they would help release.

vi. **Several elements of the IDA17 financing framework have been adjusted to reflect the final reference exchange rate for the IDA17 replenishment (US$/SDR 1.50718) and updated costs**. These adjustments include updates to partners' cost of compensation for debt relief under the Heavily Indebted Poor Country (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI), reducing total partner resources by SDR31 million. This amount is offset by a corresponding change in total internal resources.

vii. **At the Managua meeting, Deputies supported Management's proposal to invoke the acceleration clause for nine IDA graduates with eligible outstanding IDA credits**. Management has consulted with these countries and will distribute a paper to the IDA Board in October 2013 to seek approval to exercise the repayment acceleration for these countries. The IDA17 scenarios include an estimate of SDR590 million as potential additional financing. This estimate assumes that all eligible countries choose the "interest option", whereby borrowers would pay an interest rate on eligible credits that result in the same net present value as the doubling of the principal repayments ("principal option").

viii. **Management recommends that partners' basic grant contributions in IDA17 be encashed over the customary nine-year standard schedule, as has been the case in prior IDA replenishments**. As in prior replenishments, partners could instead choose to accelerate the encashment of their IDA17 contributions to less than nine years. This would generate either contribution credits that increase the funds available for commitment, or encashment discounts that reduce the cost to the respective partners. The discount rate proposed for accelerated partner encashments in IDA17 is 2.0 percent per annum. Individual partners could also opt to use an eleven-year schedule, provided that the present value of their encashments is equivalent to that under the standard 9-year schedule. For contributions for HIPC debt relief financing, arrears clearance and forgone principal from grants, partner financing would be paid in three equal annual installments. Partner contributions to cover MDRI costs during the IDA17 disbursement period (FY15-25) would be provided and accounted for in line with the established procedures under the MDRI replenishment.

ix. **At the Managua meeting, many partners welcomed the proposal to introduce concessional loans as a mechanism to provide additional resources to IDA countries**. At the meeting and through follow-up consultations, several partners provided feedback on some elements of the proposed loan. Based on that feedback, Management considers that a new approach can be used to calculate the discount rate. Under this approach, the discount rate is calculated as the weighted average of the interest rate plus the service charge for transitional support and the interest rate plus the service charge for blend countries. The weight would reflect the expected amount for transitional support and financing for blend countries in IDA17. Based on informal feedback from partners considering the concessional loan option, it is estimated that the applicable discount rate under the new approach would be 2.65 percent. In order to firm up the discount rate, IDA will need to receive information from partners about their intention to use concessional loans. Specifically, partners are encouraged to provide information on the size of their concessional loan contribution and the terms envisaged, or at least the range of the loan volume, by the end of October. IDA would then confirm the discount rate in early November. Similarly, Management would be able to confirm that the existing framework that IDA uses to hedge the currency risk of its grant contributions and its single currency credits can be used to manage the currency risk of the concessional partner loans.

x. **Guidance is sought from IDA Deputies on the following questions:**

Financing Scenarios:

- Do Deputies agree to the preferred financing scenario of SDR33.5 billion (US$50.5 billion) that would enable IDA to maximize development impact and support the achievement of the WBG goals in IDA 17?

Encashment Profile and Discount Rate:

- Do Deputies agree to adopt the nine-year encashment profile for IDA17 shown in Table 3?
- Do Deputies agree to set the discount rate for accelerated encashment of donor contributions in IDA17 at 2.0 percent p.a.?

Concessional Loans:

- What are Deputies' views on the revisions presented in this paper for implementing concessional loans in IDA17, including on the discount rate, currency and other terms of the loans and the related implementation framework?

I. INTRODUCTION

1. **At the second IDA17 meeting held in Managua in July 2013, Participants reviewed five potential scenarios for the financing framework for IDA17[2] and provided guidance on the priorities and principles for the preparation of the scenarios to be discussed at the third IDA17 meeting**. They expressed strong support for scaling up IDA's core support for fragile and conflict-affected states while protecting that for non-FCSs. On IDA non-core financing, Participants expressed support for scaling up financing of regional programs. They also supported the continuation of the Crisis Response Window, the provision of transitional support to India and setting aside resources to support the clearance of arrears under IDA's systematic approach to arrears clearance. Participants noted that an ambitious agenda for IDA17 would require a strong replenishment. For the third IDA17 meeting, Participants requested Management to prepare three new financing scenarios, reflecting the principles and priorities discussed, with the overall volume in the range of scenarios 2 to 4 presented at the Managua meeting (i.e. US$47.1 billion to US$52.5 billion).

2. **This paper responds to the Participants' request**. The paper updates the financing scenarios and the financing framework for the IDA17 replenishment and provides information on key financial variables that impact final pledges to IDA17. The paper is organized as follows. Section II reviews the demand for IDA resources and presents three revised financing scenarios. Section III provides the updated IDA17 financing framework. Section IV provides information on burden sharing, encashment schedules, and the applicable discount rate for accelerated donor encashment in IDA17. Section V reviews the structural gap in basic contributions to IDA and the financing gaps of partners' financing of MDRI, HIPC, arrears clearance and compensation of IDA's grant financing. Finally, Section VI sets out issues for discussion.

3. **Exchange rate**. At the first IDA17 meeting in Paris, Deputies agreed to use the daily average foreign exchange rates over the 6-month period from March 1 to August 31, 2013 for purposes of converting national currency contributions to IDA17 into SDR equivalent amounts. The final IDA17 reference rates for this period are detailed in Annex 5. For this paper, US$ equivalents are based on the 6-month average period of March 1 to August 31, 2013 of US$/SDR 1.50718.

II. DEMAND FOR IDA RESOURCES

4. **The IDA17 replenishment comes at a time of unprecedented opportunities and challenges**. The IDA17 period will cover the target date for the achievement of the MDGs and the launch of the post-2015 development agenda. It is a time of unique opportunity for IDA countries to secure the gains achieved, seize emerging opportunities and confront new challenges towards transformative results for the poorest. Against this backdrop, the new World Bank Group (WBG) strategy sets out ambitious goals to reduce extreme poverty to 3 percent by 2030 and to promote shared prosperity in a sustainable manner. IDA is the main instrument for pursuing the WBG goals in the world's poorest countries – which are home to roughly one billion people living on less than US$1.25 per day (about 80 percent of the world's poor).

[2] "The Demand for IDA17 Resources and the Strategy for their Effective Use," June 2013.

Deliberate action will be required to sustain economic growth and make it more inclusive while addressing gender inequality, climate change and fragility. These ambitious goals also demand making the best use of scarce resources in the face of complex challenges and constrained aid budgets. They highlight IDA's critical role IDA in supporting concerted and accelerated action and call for an ambitious IDA17 replenishment agenda and supporting financing to maximize development impact toward meeting the WBG goals in IDA countries.

5. **Based on the guidance received from IDA Deputies at the Managua meeting, Management has developed three new "ask" scenarios** (see Table 1 for the amounts in SDR and Annex 1 for the amounts in US$). The financing volumes of the three scenarios correspond to the scenarios 2 to 4 presented in Managua (ranging from SDR31.2 billion to SDR34.8 billion, or about US$47.1 billion to US$52.5 billion). As detailed in the sub-sections below, the components in the financing scenarios have been recalibrated to reflect the principles and priorities discussed at the Managua meeting. In particular:

- *the IDA17 allocation framework and the level of core IDA financing* have been revised to reflect the call for ensuring a scaling up of core IDA financing for FCSs in all scenarios while protecting that for non-FCSs – at least in nominal terms relative to the IDA16 baseline.[3] Core financing to FCSs increases further with each scenario reflecting increases in the notional maximum per-capita allocation under the new turn-around regime (of 50, 60, and 70 percent, respectively) and the alignment of support to Post-Conflict (PC) and Re-Engaging (RE) countries to those levels; while all three scenarios assume an adjustment to the Country Performance Rating (CPR) exponent in the PBA formula (from 5 to 4), and a base allocation of SDR 4 million per year;
- *the regional program* funding levels have been revised to reflect rising demand and the support for scaling up expressed at the Managua meeting;
- *the Crisis Response Window* size has been set at 2 percent of core IDA and regional program financing under all scenarios;
- *transitional support* has been included in all scenarios at levels below the IDA16 baseline and with increases depending on the replenishment size.

6. **IDA16 baseline.** The IDA16 baseline in Table 1 presents the financing framework originally agreed for IDA16 with a breakdown to facilitate comparability with the new IDA17 scenarios. Most notably, the IDA16 baseline: (i) reflects the latest breakdown between FCSs and non-FCSs (based on the FY14 list of FCSs); and (ii) presents under separate items the final IDA16 allocation to India and that to the remaining countries graduating at the end of IDA16 (i.e., Angola, Armenia, Bosnia-Herzegovina and Georgia). In addition, the IDA16 baseline column also provides figures reflecting the re-allocation agreed at the first IDA17 replenishment meeting of SDR315 million from the IDA16 CRW to the IDA Regional Program.

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3 The revised figures of core IDA financing to FCSs and non-FCSs reflect a combination of: (i) revisions to the resource allocation framework (the primary vehicle for scaling up core support to FCSs); and (ii) increased levels of total core IDA funding (the primary vehicle for protecting core support to non-FCSs). See Annex 2 for a detailed discussion of the resource allocation parameters underpinning the different scenarios.

Table 1: Preferred and Alternative IDA17 "Ask" Scenarios
(SDR million unless otherwise specified)

	IDA16 baseline 1/	Scenarios		
		Lower	Preferred	Higher
I. Core IDA funding (excluding graduating countries)	26,051	26,829	27,917	29,103
Non-FCSs	21,746	21,779	22,605	23,514
FCSs 2/	4,305	5,050	5,312	5,589
II. Regional Program	1,500	1,933	1,997	2,061
IDA16 regional program actual 3/	1,815			
III. Crisis Response Window 4/	1,006	575	598	623
IDA16 CRW actual 5/	691			
IV. Arrears Clearance	383	806	806	806
V. Transitional Support 6/	3,316	1,105	2,210	2,210
VI. Other Graduating Countries	543	0	0	0
Total	**32,799**	**31,249**	**33,529**	**34,803**
Memorandum items				
Change of the replenishment size from IDA16 7/		-5%	2%	6%
Change in core IDA funding		3%	7%	12%
Change in non-FCS allocation		0%	4%	8%
Change in FCS allocation		17%	23%	30%
Change in IDA regional program 8/		7%	10%	14%
Share of CRW in total replenishment	3%	2%	2%	2%
Share of transitional support in the IDA16 level		33%	67%	67%

1/ The IDA16 baseline has been updated to reflect FY14 data (FY13 data was the basis for the baseline presented at the Managua meeting). In particular, the updated core IDA funding figures reflect: (i) the FY14 list of FCSs (with the addition of Madagascar, Malawi and Mali and the removal of Angola and Guinea); and (ii) updated allocation parameters for FY14.
2/ Includes SDR329 million of CRW support to Haiti.
3/ Includes SDR315 million reallocated from the CRW, as approved at the first IDA17 replenishment meeting.
4/ Excludes SDR329 million of CRW support to Haiti.
5/ As per note 4 but also excludes SDR315 million reallocated to the regional program, as approved at the first IDA17 meeting.
6/ The IDA16 baseline reflects the final IDA16 allocation to India.
7/ In nominal terms. For reference, the inflation rate for the corresponding IDA16 period is 6.6 percent.
8/ Relative to the actual IDA16 regional program.

A. Building Blocks of the IDA17 Preferred Replenishment Scenario

7. **This section presents the IDA17 preferred scenario.** The discussion is structured around the two building blocks for IDA financing during the IDA17 period. Specifically: (i) core IDA financing (i.e., financing supporting IDA's core program in client countries); and (ii) non-core IDA financing (i.e., financing for support under the IDA regional program, the CRW, the systematic approach to arrears clearance and transitional support to India). Both core and non-core financing support IDA countries' efforts to end extreme poverty and promote shared prosperity, with the core financing supporting the broader IDA country group and non-core financing supporting specific needs.

Core IDA Financing

8. **Core financing is the basis for IDA's financial support for the implementation of the Bank's Country Partnership Frameworks**. IDA core financing supports national development priorities, as per IDA's country-based development model. Increasing core IDA funding would allow stepping up efforts during IDA17 for ending extreme poverty and boosting shared prosperity in all IDA countries (FCSs and non-FCSs) at a time of unprecedented opportunities and complex challenges.[4] A strong level of core financing is thus essential for IDA to maximize its development impact through continued support in core areas of engagement (e.g., infrastructure, agriculture, human development, private sector development and governance) where significant gaps remain, as well as deepening IDA's engagement in the key thematic areas for IDA17 (i.e., inclusive growth, gender, climate change and FCSs).

9. **The preferred scenario would allow IDA's core financing to stay broadly flat in real terms relative to IDA16**. Under this scenario, IDA's core funding to non-FCSs would reach SDR22.6 billion, equivalent to a 4 percent nominal increase over IDA16. Core funding to FCSs would reach SDR5.3 billion, equivalent to a 23 percent increase in nominal terms relative to IDA16. This scenario, therefore, reflects a level of core funding consistent with the need for sustaining growth momentum in the broad IDA clientele while tackling the critical challenges to which IDA countries are confronted, with a particular focus on stepping up support for FCSs.

Non-Core IDA Funding

10. **The preferred replenishment scenario also includes resources that would allow IDA to respond to key specific needs of its clients during the IDA17 period**. These include: (i) IDA's regional program, (ii) the CRW; (iii) the exceptional support under IDA's systematic approach to arrears clearance; and (iv) IDA's transitional support to India. Below are detailed each of these components.

11. **IDA's regional program.** Under the preferred scenario, the regional program envelope would amount to SDR2.0 billion, a 10 percent nominal increase over the IDA16 actual level of SDR1.8 billion (4 percent in real terms). This increase would allow IDA to address the strong and rising demand for regional projects, including from many FCSs.[5] The increase would also address the IDA clients' request to scale up the program in recognition that: (i) the program has helped beneficiaries tackle challenges and harness opportunities that can only be addressed through coordination and cooperation at the regional level;[6] and (ii) the potential for further leveraging partnerships and financing from public and private sources – thus for maximizing the development impact of IDA-funded operations. The scaling up would also respond to requests from clients for IDA to play a leading role in the preparation and implementation of regional

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[4] Addressing the development challenges for IDA-eligible FCSs and non-FCSs is at the core of the WBG strategy. 32 out of the 35 countries currently classified as FCSs are IDA-eligible. These countries are home to a growing share of the world's extreme poor. The development challenge represented by these countries is compounded by the fact that the destruction and delayed development due to fragility and conflict have broader regional and global implications. In addition, many non-FCSs have poverty rates above the IDA average while many others face considerable vulnerability and new challenges, such as climate change and rising inequality.

[5] During IDA16, the demand for funding from the IDA regional program greatly exceeded the funding available.

[6] The benefits include more efficient infrastructure, service provision, enhanced economic opportunities, and reduced vulnerability.

transformational projects given its unique offering of scale financing, state-of-the-art global knowledge and extensive partnerships.[7]

12. **Crisis Response Window.** The preferred scenario envisages a CRW envelope of SDR0.6 billion. At the Managua meeting, most Participants felt that the continuation of CRW was necessary to complement IDA's support for long-term development in its clients. Drawing on the IDA16 experience, many Participants voiced support for lowering the level of CRW financing from the 4 percent level agreed for IDA16. Accordingly, the three new scenarios in this paper envisage a CRW envelope equal to about 2 percent of the sum of core IDA and regional program financing. Utilization of CRW financing in IDA17 would follow the same eligibility criteria and implementation arrangements established in IDA16.[8] The implementation of the CRW and the potential for reallocating unused CRW resources would be reviewed at the time of the IDA17 Mid-Term Review.

13. **Exceptional support for arrears clearance.** IDA's exceptional support under the systematic approach to arrears clearance in the three scenarios amounts to SDR0.8 billion.[9] Three countries (Sudan, Somalia and Zimbabwe) with loans and credits to IBRD and/or IDA in protracted arrears could become eligible for exceptional IDA support for arrears clearance during the IDA17 period.[10,11] The total arrears to IDA and IBRD from these countries amounted to SDR1.3 billion at end-August 2013 and are projected to reach SDR1.4 billion at end-June 2014. Upon reaching eligibility, the actual amount of IDA's exceptional arrears clearance support to these countries will depend on several factors, including the timing of re-engagement and their capacity to mobilize resources with which to finance the clearance of their arrears. The amount set aside for exceptional arrears clearance support in the new scenarios reflects the uncertainty in the timing of these countries' re-engagement and assumptions regarding their capacity to finance their arrears clearance.[12] Management would provide an update on the use of resources for arrears clearance operations at the IDA17 Mid-Term Review and indicate plans for the reallocation of any unused resources during the last year of the IDA17 period. If the funds needed to support arrears clearance operations during the IDA17 period are greater than the available envelope, the amount of the shortfall will be included in the arrears clearance request in the IDA18 replenishment.

14. **Transitional support to India.** The preferred scenario envisages SDR2.2 billion of transitional support to India – equivalent to two-thirds of the 11 percent share of resources that India would receive under this scenario if it did not graduate. At the Managua meeting, Participants acknowledged the need for IDA to provide transitional support in IDA17 to India, home to one third – 400 million – of the world's poor people. In particular, it was noted that

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7 IDA 2013. Strengthening Support for Regional Projects. Background Note.

8 See Annex 3 of the IDA16 Deputies' Report.

9 This amount is offset by an expected SDR400 million in unused IDA16 funds for arrears clearance that would be carried forward from IDA16.

10 See IDA, 2007. "Further Elaboration of a Systematic Approach to Arrears Clearance," June.

11 In addition to arrears clearance support, upon re-engagement the three countries could become eligible for exceptional IDA support under the exceptional turn-around regime during IDA17 and could also be eligible for pre-arrears clearance grants.

12 Both Sudan and Zimbabwe are assumed to re-engage in FY15 and Somalia in FY16. The breakdown of estimated arrears as at end-June 2014 is as follows: SDR517 million for Sudan, SDR707 million for Zimbabwe (SDR564 million to IBRD and SDR143 million to IDA) and SDR187 million for Somalia.

India meets all three criteria for transitional support: (a) GNI per capita below the historical threshold at the time of graduation; (b) a significant poverty agenda, as measured by poverty levels and other social indicators; and (c) a significant prospective reduction in available financing from the WBG after graduation from IDA.[13] IDA transitional support to India during IDA17 would avoid a sudden and drastic reduction in the Bank's overall financing. Furthermore, the hard lending terms of such support would also help enhance IDA's financing sustainability.[14]

B. Trade-offs

15. **There are trade-offs to be considered for the IDA17 replenishment**. These trade-offs are illustrated through the lower and higher scenarios. These two scenarios present different levels for the IDA17 implementation priorities relative to the preferred scenario. Annex 2 discusses the trade-offs that would emerge between FCSs and non-FCSs from applying different parameters for the allocation framework for IDA17.

16. **The lower scenario.** This scenario assumes a replenishment level of SDR31.2 billion which would mean a 5 percent decline in nominal terms relative to IDA16 (12 percent in real terms). Under this scenario, a meaningful increase in core IDA financing for FCSs (17 percent in nominal terms, 6 percentage points lower than under the preferred scenario) coupled with a modest increase in the regional program envelope (7 percent in nominal terms) would not allow for increasing IDA's core financing for non-FCSs or other special needs items. In particular, IDA's transitional support to India would be cut by half relative to the preferred scenario. This scenario could pose challenges for IDA to play its role in helping achieve the WBG goals in the poorest countries.

17. **The higher scenario.** This scenario assumes a nominal increase of 6 percent (broadly flat in real terms) of the replenishment size relative to IDA16. The scenario provides further space for enhancing the support to FCSs while providing a small increase in support to non-FCSs in real terms. In addition, under this scenario regional project support is scaled up by SDR246 million to address the significant and rising demand among IDA countries, including in financing global public goods in areas critical to development (e.g., energy, climate change, food insecurity, regional trade integration). This scenario would provide a stronger level of support for IDA to help achieve the twin WBG goals in the poorest countries.

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13 See: "Follow-up on IDA's Graduation Policy and Proposals for Transitional Support for Graduating Countries," March 2013 and "The Demand for IDA17 Resources and the Strategy for their Effective Use," June 2013.

14 The financing for transitional support would be provided on terms that are harder than those for IDA hard term lending but below the fixed rate equivalent of an IBRD loan. The applicable fixed rate would be set on a quarterly basis at 100 basis points below the fixed rate equivalent of an IBRD loan, and would be applied to all transitional support credits approved within that quarter. In addition to a fixed interest charge, transition support credits would also carry IDA' standard service charge (0.75 percent) and a variable commitment charge (set between 0-0.5 percent) on an annual basis.

III. UPDATED IDA17 FINANCING FRAMEWORK

18. **The financing scenarios corresponding to the "ask" scenarios are presented in Table 2 and Annex 3.** The financing scenarios reflect how the ask scenarios can be financed and incorporate the latest assessment of the costs of debt relief, the IDA17 reference exchange rate and any other updates since the Managua meeting. Under the preferred scenario presented in Table 2, total partner grant contributions (including MDRI) would decrease by 1.2 percent (or SDR0.2 billion) over IDA16, and internal resources would decline by 18.5 percent (or SDR2.2 billion). The balancing element in the IDA17 financing framework is the concessional partner loans, which would account for 11 percent (or SDR3.5 billion) of the target replenishment size together with the additional internal resources that they would help release.

19. **Partner grant contributions.** Under the preferred financing scenario, partners would be asked to contribute SDR17.8 billion in grants (excluding the MDRI) to IDA17 representing an increase of 1.5 percent (in SDR terms) over the framework agreed for IDA16. This would include basic grant contributions of SDR15.6 billion (representing a 0.1% decrease from IDA16) and the following compensatory items: HIPC compensation of SDR1.6 billion, arrears clearance financing of SDR0.4 billion, and compensation for grant principal forgone of SDR0.3 billion. Under the lower scenario, new grant contributions would decrease to SDR17.4 billion, while under the higher scenario they would increase to SDR18.2 billion (see Annex 3, Table A). Under the preferred scenario including the MDRI, total grant contributions requested would be SDR20.8 billion or a 1.2 percent decrease (in SDR terms) over the original framework agreed for IDA16.

20. **Updated costs of debt relief.** Estimates for IDA's forgone reflows due to the provision of debt relief under the HIPC Initiative and the MDRI have been updated as of June 30, 2013.[15] The resulting revised partner financing requirements for this debt relief have been reflected in the financing scenarios in Table 2 below and Annex 3. The compensation requirements for the HIPC Initiative and MDRI during IDA17 have decreased by SDR31 million compared to the prior estimate included in the IDA17 financing framework scenarios provided for the July 2013 IDA17 replenishment meeting in Managua.[16] The decrease of SDR31 million resulted from a decrease in HIPC costs of SDR22 million and a decrease in MDRI costs of SDR9 million. These changes are driven primarily by (1) the revision of projected decision and completion point dates for a number of HIPC countries; and (2) the update of the IDA17 reference exchange rate. These updated costs will form the basis for partners' financing pledges for IDA17.

21. **Updated costs of grant compensation.** Partners committed to replace forgone principal reflows due to making of grants, under the basic principle that grants provided should not reduce IDA's future capacity to support poverty reduction and development. The revised estimate for the needs for grant compensation is SDR284 million, an increase of SDR4 million from the amount reported at the Managua meeting due to the inclusion of the financing gap for these costs.

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15 Upcoming Board paper titled "Update on Debt Relief Costs and Partner Financing as of June 30, 2013", IDA Resource Mobilization Department, Washington, D.C., September 2013.

16 "IDA17 Financing Framework", IDA Resource Mobilization Department, Washington, D.C., June 2013.

Table 2: Preferred and Alternative IDA17 "Financing" Scenarios

(SDR million unless otherwise specified)

Source of Funds	IDA16 Agreed [a/]	IDA17 Preferred	% change
I. TOTAL PARTNER RESOURCES	**21,073**	**20,825**	***-1.2%***
Basic grant contributions	15,574	15,552	*-0.1%*
Supplemental contributions	230		
Compensation for HIPC (FY15-17)	1,320	1,563	
Financing of arrears clearance operations	381	424	
Compensation for grant principal forgone	56	284	
Total Partner New Contributions	**17,561**	**17,824**	***+1.5%***
Compensation for MDRI (FY23-25)	**3,512**	**3,001**	
II. TOTAL INTERNAL RESOURCES	**11,725**	**9,551**	***-18.5%***
Internal reflows	6,575	5,881	
Contractual acceleration of credit repayments	1,217	590	
Voluntary prepayments [b/]	592	179	
Frontloading use of reflows from hardening terms	1,314	809	
Internal Resources of IDA	**9,698**	**7,459**	***-23.1%***
IBRD transfers	1,310	1,383	
IFC transfers	717	709	
Total Transfers [c/]	**2,027**	**2,092**	***+3.2%***
FINANCING FRAMEWORK (without loans and carry forwards)	**32,799**	**30,376**	***-7.4%***
Concessional Partner Loans (net of grant element)		1,871	
Concessional partner loans (gross) [d/]			2,634
Internal Reflows - increase due to loans		900	
Carry Forward of Unused IDA16 Arrears Clearance Funding		382	
TOTAL FINANCING FRAMEWORK	**32,799**	**33,529**	***+2.2%***
Debt limit (25/5, 1%)		*6,108*	16.7%
Financing gap in MDRI compensation FY23-25		*278*	

Notes:

a/ Original IDA16 financing framework as agreed in the IDA16 Deputies Report.

b/ For IDA17, this represents the actual amount prepaid by Azerbaijan.

c/ The figures for IBRD and IFC transfers in IDA16 and assumed in IDA17 include investment income generated by a 3-year encashment schedule.

d/ It is assumed that: (i) a discount rate to calculate the grant element of concessional loans is 2.65%; and (ii) the loans would have a 25-year maturity with a 5-year grace period and a 0% coupon.

22. **Contractual acceleration of IDA credit repayments.** Since the second IDA17 replenishment meeting in Managua, IDA management has undertaken follow-up consultations with the nine affected countries that have outstanding IDA credits eligible for exercise of the repayment acceleration clause. These countries are now evaluating the principal and interest options and are in the process of informing IDA Management of their choice of option. Management will distribute a paper to IDA's Executive Directors in October 2013 to seek approval for the exercise of the repayment acceleration clause on these eligible credits. For this paper, Management is presenting a conservative estimate of the resources generated from the contractual acceleration of credit repayments for IDA17 in the amount of SDR590 million,[17] SDR17 million higher than what was presented in the Managua paper. The increase is due to the changes in: (i) the basis of calculation to reflect the latest disbursed and outstanding credit balances as of June 30, 2013; and (ii) the US$/SDR exchange rate. This figure is based on all eligible countries choosing the "interest option" whereby borrowers would pay an interest rate on eligible credits that would result in the same net present value as the doubling of the principal repayments ("principal option").

23. **Voluntary prepayments.** The updated financing framework includes SDR179 million in voluntary prepayments representing Azerbaijan's decision to voluntarily prepay its outstanding IDA credits, over and above its contractually accelerated repayments. Management is in consultation with several IDA graduates to encourage them to consider voluntary prepayments to IDA. The arrangement will allow IDA to redirect the scarce funding to current IDA recipients, while the prepaying IDA graduates would benefit from receiving a discount on their prepayments.

24. **Contributions from the World Bank Group.** In the preferred scenario it is assumed that annual transfers to IDA from the IBRD would amount to US$2.1 billion (SDR1.4 billion), including investment income projected at about US$134 million based on transfers over a three year period. This is US$35 million (SDR23 million) higher than what was presented in Managua. The difference is due to a discount rate (namely the discount rate used for partners' accelerated encashments) that is slightly higher than the one used for the estimates for the Managua meeting. For the IFC, as in the Managua paper, the financing framework currently assumes that IFC net income transfers would amount to US$1.1 billion (SDR0.7 billion), including investment income projected at about US$69 million based on transfers over a three year period. Such transfers are approved annually by the IBRD's Board of Governors and the IFC's Board of Directors based upon evaluations of the institutions' annual results and financial capacities.[18]

25. **Front-loading the use of reflows from hardening of terms.** The lending terms for the IDA-only countries remain as per the proposal presented in the Managua paper, having a 38-year maturity with a 6-year grace period and adopting a straight-line amortization of principal (6/38 SLA) under the preferred scenario. The front-loaded amount in the financing framework decreased by SDR15 million compared to the Managua paper because of the changes in: (i) allocation assumptions regarding the distribution between FCSs and non-FCSs; and (ii) debt

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[17] The amount includes additional credit reflows under the principal option from Azerbaijan, for which the Board has already approved the exercise effective January 1, 2013.

[18] IFC's Board of Governors notes with approval the designation of retained earnings by IFC's Board of Directors.

sustainability risk of each IDA recipient, which determines IDA lending terms. The IDA-only lending terms for the lower scenario (7/39/SLA) and for the higher scenario (5/37 SLA) reflect the proposal in the Managua paper. As indicated in the Managua paper, the proposed change is unlikely to have a material impact on the debt sustainability risk rating of IDA-only countries, even after simulating for similar lending terms changes in other MDBs, and will not affect the grant funding IDA provides to the countries with higher debt sustainability risk (i.e. "red" and "yellow" light countries).

26. **Concessional partner loan contributions.** The concessional partner loan is a key component in the IDA17 financing framework. In the preferred scenario, concessional loan contributions amount to SDR2.6 billion, assuming the grant element for the loans is 29 percent.[19] This is about SDR0.4 billion more than what was presented in the Managua paper, mainly due to using a higher discount rate on concessional loans. Recent consultations with partners considering concessional loans indicate that this amount is realistic, though individual partners' decisions still need to be firmed up. The loan amounts assumed in the other scenarios range from SDR0.8 billion to SDR3.6 billion (see Annex 3). It should be noted that a limited amount of concessional loans will permit the release of between SDR0.6 and SDR0.9 billion of additional internal resources. This is due to the fact that IDA16's resources were front-loaded, restricting core liquidity in the initial years of IDA17. The additional liquidity provided by the 3 year drawdown schedule of the proposed concessional loan alleviates this liquidity constraint in the initial years and permits greater commitment of IDA's internal resources. More details on the concessional partner loans are presented in Section V.

IV. KEY FINANCIAL VARIABLES FOR IDA17

27. **Burden shares and standard encashment schedule.** For IDA17, partners would provide basic contributions (the variable component), as well as additional contributions to cover the compensatory items (the fixed component agreed under previous replenishments). The compensatory items include IDA's cost of debt relief, composed of contributions to finance MDRI costs of IDA and HIPC-related contributions, and the financing for arrears clearance operations and compensation for principal forgone on grants. The encashment schedule for basic contributions would be based on expected annual disbursement of IDA17 commitments and the encashment schedule for the other initiatives would be based on the annual volume of debt relief and forgone reflows incurred by IDA. Partners have, over time, chosen to use slightly different burden shares as the agreed basis for the financing of various replenishment components. When deciding on their basic IDA contributions, partners have, according to a long standing tradition, taken the basic burden shares of the preceding replenishment. In addition, partners who are considering using the concessional partner loan option should also take into consideration the grant element of the loan when they determine their basic burden shares. As discussed in the Managua meeting, partners are also asked to consider scaling up their MDRI and HIPC burden shares in order to reduce the financing gap of the debt relief components.

28. MDRI contributions. For MDRI financing, partner contributions would continue to be encashed consistent with the annual payment schedule attached to partners' Instruments of

[19] The grant element of 29 percent results from using a discount rate of 2.65 percent against the loans with a 25-year maturity, a 5 year grace period, and a coupon rate of 0 percent (see Section V).

Commitments for the separate MDRI replenishment. These Instruments of Commitments and related annual payment schedules will need to be updated by partners in conjunction with the IDA17 replenishment.[20] As per the current practice, partner contributions for the MDRI will continue to be encashed separately from IDA17 contributions.

29. HIPC contributions. Under the current partner compensation arrangement for the HIPC Initiative, financing contributions to cover IDA's HIPC-related costs are encashed in equal annual amounts. For IDA17, the same procedure would apply. Therefore, HIPC contributions would be encashed in three equal installments over the 3-year commitment period of IDA17 (i.e., fiscal year 2015 through 2017).

30. Financing of arrears clearance. With respect to arrears clearance financing, the actual timing of specific arrears clearance operations over the IDA17 commitment period is uncertain and would depend on individual country circumstances. In view of the strong economic linkage between arrears clearance and the provision of debt relief under the HIPC Initiative and in order to maintain the predictability for partners' encashment profile, contributions to finance arrears clearance operations would continue to be encashed in equal annual amounts over the 3-year commitment period of IDA17 similar to the profile used in IDA16.

31. Compensation for grant principal foregone. In IDA14, partners committed to replace forgone principal reflows of grants provided by IDA, on a pay-as-you-go basis. Similar to the pay-as-you-go basis for HIPC contributions, partners are asked to provide compensation for the forgone reflows that IDA would have received during the three year replenishment period (i.e., IDA17 – fiscal years 2015 through 2017). As noted above, under the HIPC contributions and financing of arrear clearance, contributions would be encashed in three equal installments over the 3-year commitment period of IDA17. IDA would apply this same process for compensation for forgone principal relating to grants.

32. Basic partner contributions. In the past replenishments, basic partner contributions were encashed by IDA in line with the expected time profile of disbursements that result from credits and grants approved during the commitment periods. This practice ensures that partner contributions are drawn down by IDA on an "as-needed" basis. To determine the expected disbursement profile of credits and grants to be approved during IDA17, Management made the following assumptions:

- Partner contributions are expected to be committed by IDA evenly over the 3-year IDA17 commitment period;
- Commitments for development policy operations are assumed to account for about 19 percent of total IDA17 commitments; and
- Disbursements on investment projects and on development policy operations would follow the historical disbursement pattern observed over the past 10 years.

[20] Upcoming Board paper titled "Update on Debt Relief Costs and Partner Financing as of June 30, 2013", IDA Resource Mobilization Department, Washington, D.C., September 2013.

33. The resulting disbursement profile for IDA17 is very similar to the disbursement profile for IDA16. As a result, the IDA17 disbursement profile extends over a total of 11 years. This profile incorporates the share of regional investment projects, which often involve a longer implementation period given their complex institutional arrangements.

34. <u>Composite Encashment Profile for IDA17</u>. Adding the 3-year encashment profiles for HIPC contributions, arrear clearance contributions and compensations for forgone principal from grants to the latest profile for basic partner contributions results in a weighted encashment profile for IDA17 that extends over a total 11 years, as shown in Table 3. However, during IDA16 partners agreed to maintain the established 9-year encashment profile that has been used since IDA13. For IDA17, there are benefits of retaining the established 9-year encashment period. Partners are familiar with the 9-year period and have adapted their internal procedures and payment systems to this timing of encashments which was used during the past IDA replenishments.

Table 3: Estimated Encashment Schedule for IDA17 and Comparison with IDA16
(Percent of Total Contributions)

	11-year profile					9-year profile					
Fiscal Year	**IDA17 Basic**	**HIPC**	**Arrears Clearance**	**Forgone Principal from Grants**	**Weighted Current Profile**	**IDA17 Basic**	**HIPC**	**Arrears Clearance**	**Forgone Principal from Grants**	**Weighted Current Profile**	**IDA16 Weighted Profile**
2015	2.5	33.3	33.3	33.3	6.4	2.8	33.3	33.3	33.3	6.7	6.0
2016	7.5	33.3	33.3	33.3	10.8	8.5	33.3	33.3	33.3	11.7	12.3
2017	11.5	33.4	33.4	33.4	14.3	13.0	33.4	33.4	33.4	15.6	17.8
2018	12.5				10.9	14.1				12.3	16.2
2019	12.0				10.5	13.6				11.9	14.4
2020	12.0				10.5	13.6				11.9	11.7
2021	11.5				10.0	13.0				11.3	9.0
2022	10.5				9.2	11.9				10.4	7.2
2023	8.5				7.4	9.5				8.2	5.4
2024	6.5				5.7						
2025	5.0				4.3						
Total	100.0	100.0	100.0	100.0		100.0	100.0	100.0	100.0		
Discount rate					2.0%					2.0%	
NPV equivalent					89.92					90.80	
% of face value											
Credit										0.98%	

35. Moreover, the 9-year encashment schedule would provide IDA with a small amount of additional liquidity that would generate additional investment income until the time of disbursement. This income could be used to reduce the structural gap in partner contributions.[21] Assuming a volume of IDA17 total partner contributions (net of the structural gap) of SDR 17.8 billion, the additional investment income that could be generated using the 9-year standard encashment schedule would be 0.98 percentage points or about SDR175 million. Partners will receive subscription votes for the additional resources generated from the 9-year encashment schedule.

[21] The structural gap in IDA16 basic partner contribution is 24.45 percent. See "IDA17 Financing Framework", IDA Resource Mobilization Department, Washington, D.C., June 2013.

36. In view of these benefits, Management recommends that partners adopt the 9-year weighted profile shown in Table 3 as the standard encashment schedule for IDA17. Individual partners could nevertheless opt to use an 11-year schedule, provided that the present value of their encashments is equivalent to that under the standard 9-year schedule.

37. **Accelerated Encashment Schedules**. In past replenishments, partners have been given the option, under the terms of the replenishment resolution, of providing their contributions in cash "up-front", provided that the present value of the accelerated encashment schedule is at least equal to that of the standard schedule (i.e., 9-year schedule). In IDA12 and IDA13, the additional resources provided through acceleration of partner encashments were used to reduce the structural gap. Starting from IDA14, many partners used the additional resources from accelerated encashment as a *credit* item, either to increase their own basic burden share, to cover a share of costs under the MDRI replenishments, or to lower the overall structural gap in the replenishment. In each case, partners received additional subscription votes on account of the additional resources provided to IDA from accelerated encashment. Other partners that used accelerated encashment chose to benefit from a *discount* on the amounts encashed.

38. Such contribution credits or encashment discounts would also be available in IDA17. Table 4 shows the proposed 9-year standard encashment profile for IDA17 and for illustrative purposes provides three options for accelerated partner encashment (for 3, 4 and 6 year encashment periods). For example, under the 3-year schedule a partner would receive a contribution credit of 5.87 percent if the entire contribution is encashed over three years, without a discount. The credit could be used to increase the partner's basic burden share in IDA17. Alternatively, the partner could benefit from an encashment discount of 5.54 percent on the actual amounts paid to IDA over three years. As per current practice, partners providing additional resources through accelerated encashment would receive additional IDA subscription votes.

Table 4: Standard and Accelerated Encashment Schedules for IDA17
(Percent of Total Contributions)

	Standard 9-year	Accelerated Schedules		
Fiscal Year	**Encashment Schedule**	**Over 3 years**	**Over 4 years**	**Over 6 years**
2015	6.7	33.3	25.0	9.6
2016	11.7	33.3	25.0	16.7
2017	15.6	33.4	25.0	22.3
2018	12.3		25.0	17.5
2019	11.9			17.0
2020	11.9			16.9
2021	11.3			
2022	10.4			
2023	8.2			
Total	100.0	100.0	100.0	100.0
Discount rate	2.0%	2.0%	2.0%	2.0%
NPV equavalent	90.80	96.13	95.19	93.05
% of face value				
Credit		5.87%	4.84%	2.48%
Discount		5.54%	4.62%	2.42%

39. **Discount rate for accelerated partner encashments.** The amounts receivable by IDA under the standard encashment schedule and an accelerated schedule should be identical in present value terms. This ensures that all partners will contribute to IDA17 at their agreed level. The financial equivalency is achieved if the projected investment return to be generated by IDA on accelerated partner balances is applied as the discount rate for the present value calculation. As in past replenishments, for reasons of simplicity and transparency, it is recommended to use a single, SDR-based discount rate that would apply for partner contributions in all currencies. In IDA16, the discount rate for accelerated partner encashment was 2.5 percent per annum. This rate reflected the expected SDR-based investment return of IDA's portfolio of liquid assets over the 9-year encashment horizon of IDA16, based on forward interest rates observed in capital markets at the time. Since setting the discount rate for IDA16, interest rates have been decreasing across the four SDR-constituents currencies. At present, the SDR based investment return of IDA's liquid assets is estimated at 2.0 percent per annum over the suggested 9-year standard encashment period for IDA17. It is therefore proposed to set the discount rate for accelerated partner encashments in IDA17 at 2.0 percent.

V. CONCESSIONAL PARTNER LOANS

40. **Under the concessional loan option, a contributing partner country providing a loan to IDA with concessional terms would receive burden sharing recognition and allocation of voting rights based on the 'grant element' of the loan**. Loan funding would not be earmarked for any purpose and would be used as part of IDA's overall pool of funding – including 'core' grant contributions from partners, IDA's internal resources (predominantly from credit reflows resulting from recipients repayments on outstanding credits), and any transfers from IDA's sister institutions (IBRD and IFC). IDA would establish a prudential debt limit setting the maximum volume of debt that could be sustainably incorporated into its financing framework to ensure that IDA would meet its debt servicing obligations without disrupting operations or needing to use grant contributions from partners (i.e., ensuring that debt would be fully repaid through reflows from the additional lending made possible with the debt).

41. **At the Managua meeting, many partners welcomed the proposal to introduce concessional loans as a mechanism to provide additional resources to IDA countries**. At the meeting and through follow-up consultations, several partners provided feedback on some elements of the proposed loan. The following sections focus on two items that Management proposes to revise based on the feedback received: the discount rate and the currency of denomination.

A. Discount Rate

42. **As discussed during the Managua meeting, the discount rate needs** to: (i) reflect the benefit that IDA and IDA recipient countries would receive from the additional funding provided by concessional loans; (ii) take into account the market rates to adequately reflect the components of any concessional loan, namely the non-concessional loan and the grant component; and (iii) balance the incentives for providing grant funding versus concessional loan funding. The Managua paper[22] suggested that the SDR discount rate used to calculate the grant

[22] "IDA17 Financing Framework", IDA Resource Mobilization Department, Washington, D.C., June 2013.

element of the concessional loan be set between 1.4 – 2.0 percent. At the upper end (2 percent in SDRs), the rate was calculated by taking the rate on IDA's blend-term credits (1.25 percent) and adding the service charge (0.75 percent). At the lower end (1.40 percent), the rate was calculated by using the weighted average rate of IDA's interest earning portfolio (namely, blends and transitional support).

43. **Based on discussions at the Managua meeting and follow-up consultations, Management considers that a new approach can be used to calculate the discount rate** instead of using the weighted average rate of the total interest earning portfolio. Under this approach, the discount rate is calculated as the weighted average of the interest rate plus the service charge for transitional support and the interest rate plus the service charge for blend countries. The weight would reflect the expected amount for transitional support and financing for blend countries in IDA17.[23]

44. **Based on informal feedback from partners considering the concessional loan option indicating a concessional loan size of between SDR2.2 billion (US$3.3 billion) and SDR4.4 billion (US$6.6 billion) and assuming a transitional support size of SDR2.2 billion (US$3.3 billion), it is estimated that the applicable discount rate under this new approach would be 2.65 percent**, which is in line with the current yield on US Treasuries with the same duration. The impact of the discount rate on the calculation of the grant element is shown in Annex 4. In order to firm up the discount rate, IDA will need to receive information from partners about their intention to use concessional loans. Specifically, partners are encouraged to provide information on the size of their concessional loan contribution and the terms envisaged, or at least the range of the loan volume, by the end of October. IDA would then confirm the discount rate in early November.

B. Currency

45. Since IDA operates in SDRs, denominating the concessional loans in SDRs would mitigate the currency risk considerations for IDA by matching the borrowing currency to IDA's functional currency. Furthermore, IDA could accept loans in one of the SDR basket currencies (currently EUR, GBP, JPY and US$) because it could use the existing IDA framework to hedge the currency risk of its grant contributions and its single currency credits. IDA could also consider other currencies for concessional loans provided that there is a cost effective way to hedge the related currency risk. In order to be able to gauge whether the currency risk of the loans can be managed under the existing framework, partners who are considering providing concessional loans are encouraged to communicate the currency, in addition to the volume and terms, of their concessional loan to Management by the end of October.

C. Updated Terms of the Concessional Loan

46. **The borrowing terms of a concessional loan will be a critical factor in determining its impact on IDA's financing framework and long-term financial sustainability**. In order

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[23] If the concessional loan volume exceeds the transitional support amount, then for the portion of the loans that exceeds the transitional support, the interest rates for blends will be used to calculate the weighted average discount rate. Thus, the discount rate for a loan volume exceeding the transitional support amount would reflect the interest rate of both the transitional support interest rate and the blends interest rate.

for debt funding to be sustainably incorporated into IDA's financing framework, the borrowing terms should have concessional features so that IDA can continue to provide concessional financial assistance to its recipients "on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans" as mandated in its Articles of Agreement.[24] The following summarizes the key features to consider for a concessional loan to IDA, in addition to the revision of the discount rate and currency discussed above:

- **Maturity**: Maturities would be either 25 or 40 years to match the terms of IDA's credits.
- **Grace period**: The grace period would be 5 or 10 years to allow principal reflows from credits issued in IDA17 to be used for debt servicing.
- **Principal repayment**: A straight-line amortizing repayment schedule would be applied to minimize the debt servicing costs to IDA while providing for close matching to IDA's regular and blend lending terms.
- **Coupon/Interest**: IDA concessional loans would require an SDR equivalent coupon rate of between 0 percent and 1 percent.[25] A coupon rate on the concessional loan below the interest rate of IDA's blend term credit (1.25 percent) would ensure that IDA can pass on the borrowing cost to recipients without using any grant funding (such as partner grant contribution) to cover debt serving cost and, at the same time, ensure the concessional nature of IDA's financial assistance.

D. Implementation Framework of the Concessional Loan

47. **The proposed framework aims to ensure additionality and a common understanding of the guidelines for implementing the concessional loan**. The Paris meeting paper provided guidance for the setting of a *minimum* level of grant and concessional loan contributions to ensure a common framework acceptable to all participants. It suggested that partners would aim to provide at least 80 percent of their IDA16 basic burden share in the form of a core grant contribution, and target at least their IDA16 basic burden share on a grant equivalent basis. This approach encourages partners to use the concessional loan as an additional scale-up to their grant contributions, with no maximum target for the concessional loan size.

48. **Based on feedback received, in Management's view using the IDA16 replenishment and the basic contribution amount in SDR or IDA16 currency of pledge would provide greater planning certainty for partners evaluating the loan option**, while using the most recent decisions of partners as a point of reference. This suggested baseline would not provide a binding obligation on partners, and the level of contribution would continue to be discretionary. However, in the unlikely event that loan offers would exceed the maximum prudential debt limit of IDA, concessional loan offers would be accepted first from those that had maintained or increased their contribution relative to the suggested baseline.

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24 See IDA's Articles of Agreement, Article I.

25 As described in the "IDA17 Financing Framework" paper (June 2013), the concessional loan may also be packaged as a non-concessional loan with a coupon equalization grant resulting in an equivalent concessional loan.

49. **IDA will set a prudential debt limit as a percentage of total grant funding mobilized for a replenishment** based on: (1) the overall concessionality of IDA as a result of the projected mix of lending terms on which IDA provides financial assistance to its clients (in particular, the proportion of lending on blend terms and transitional support); and (2) the terms on which IDA would borrow.[26] Consequently, the debt limit is scenario-specific and the debt limit for each scenario is illustrated in Annex 3.

50. **Based on initial feedback from partners at the Managua meeting and in subsequent consultations, it appears that the overall debt limit will not be triggered**. However, it is advisable to consider an allocation methodology in the event that partners would provide loan offers in excess of the prudential debt limit. This would involve accepting first concessional loan offers from partners who maintain or increase their contribution relative to the suggested baseline. Partners are encouraged to maintain ongoing communication with Management on their intentions regarding their use of the concessional loan option in order to facilitate its implementation.

VI. ISSUES FOR DISCUSSION

51. Guidance is sought from IDA Deputies on the following questions:

Financing Scenarios:

- Do Deputies agree to the preferred financing scenario of SDR33.5 billion (US$50.5 billion) that would enable IDA to maximize development impact and support the achievement of the WBG goals in IDA17?

Encashment Profile and Discount Rate:

- Do Deputies agree to adopt the nine-year encashment profile for IDA17 shown in Table 3?
- Do Deputies agree to set the discount rate for accelerated encashment of donor contributions in IDA17 at 2.0 percent p.a.?

Concessional Loans:

- What are Deputies' views on the revisions presented in this paper for implementing concessional loans in IDA17, including on the discount rate, currency and other terms of the loans and the related implementation framework?

[26] The debt limits would take into account estimates for possible non-accruals on the underlying loan portfolio of IDA, possible timing differences between receiving reflows from recipients and making payments on debt obligations, and the possibility of assumptions used in modeling the debt limits being different from the actual parameters (for example, the actual mix of lending terms based on commitments, or the speed of disbursements). In addition, IDA would establish cumulative debt limits to ensure that IDA's aggregate debt levels would remain within prudential limits when assessed at a total balance sheet level taking into consideration the use of debt over successive replenishments.

ANNEXES

Annex 1: Updated IDA17 Replenishment Scenarios

(US$ million)

	IDA16 baseline 1/ 2/	Scenarios 3/		
		Lower	Preferred	Higher
I. Core IDA funding (excluding graduating countries)	39,138	40,437	42,076	43,863
Non-FCSs	32,670	32,825	34,070	35,440
FCSs 4/	6,468	7,612	8,006	8,423
II. Regional Program	2,253	2,913	3,010	3,106
IDA16 regional program actual 5/	2,727			
III. Crisis Response Window 6/	1,511	867	902	939
IDA16 CRW actual 7/	1,038			
IV. Arrears Clearance	575	1,215	1,215	1,215
V. Transitional Support 8/	4,981	1,666	3,331	3,331
VI. Other Graduating Countries	815	0	0	0
Total	**49,274**	**47,098**	**50,534**	**52,455**

1/ The IDA16 baseline has been updated to reflect FY14 data (FY13 data was the basis for the baseline presented at the Managua meeting). In particular, the updated core IDA funding figures reflect: (i) the FY14 list of FCSs (with the addition of Madagascar, Malawi and Mali and the removal of Angola and Guinea); and (ii) updated allocation parameters for FY14.
2/ US$ figures calculated using the IDA16 exchange rate (1.50233 US$/SDR).
3/ US$ figures calculated using the average exchange rate for the period March 1 to August 31, 2013 (1.50718 US$/SDR).
4/ Includes SDR329 million of CRW support to Haiti.
5/ Includes SDR315 million reallocated from the CRW, as approved at the first IDA17 replenishment meeting.
6/ Excludes SDR329 million of CRW support to Haiti.
7/ As per note 6 but also excludes SDR315 million reallocated to the regional program, as approved at the first IDA17 meeting.
8/ The IDA16 baseline reflects the final IDA16 allocation to India.

Annex 2: Framework for Allocating Core IDA Financing during IDA17

1. **This annex presents the framework for allocating core IDA financing proposed by Management for implementation in IDA17.** The annex is divided in three sections. The first one summarizes the Management proposal and presents the parameters that would guide its implementation under the three scenarios in this paper. The second section presents the results of implementing the Management proposal in terms of the distribution of core IDA financing among different country groupings. Finally, section 3 illustrates the trade-off that would emerge by implementing the proposal.

Proposed Framework for Allocating Core IDA Financing during IDA17

2. **Implementing the Management proposal would align IDA's resource allocation framework with evolving client needs and with the World Bank Group goals**. The proposed framework aims to enhance IDA's financial engagement in the broader group of Fragile and Conflict-affected States and by improving the targeting of IDA's exceptional support.[27] Implementing the proposal would result in an allocation system that: (i) preserves a strong performance orientation; (ii) builds on IDA's implementation experience, including the need for striking a balance between rules and judgment; and (iii) reflects the new understanding on fragility and conflict.

3. **IDA17 allocation framework**. The proposal involves four revisions relative to the IDA16 allocation framework, all of which received broad support during the replenishment discussions:

(i) **Creating an exceptional allocation regime for countries facing "turn-around" situations**. Starting in IDA17, this regime would cover all future cases warranting the provision of exceptional IDA support. The implementation arrangements for this exceptional regime are in a separate background note.[28]

(ii) **Increasing the poverty-orientation of the regular Performance-Based Allocation system** by changing the Country Performance Rating exponent in the PBA formula from 5 to 4.

(iii) **Ensuring a meaningful engagement at the country level** by increasing the annual minimum base allocation from SDR3 million to SDR 4 million.

(iv) **Ensuring a smooth transition for countries under the current exceptional Post-Conflict and Re-Engaging regimes**. To that effect: (i) the phasing out period for these countries would be extended on a case-by-case basis for the duration of

[27] The term FCS in this document refers to a country that: (i) has a harmonized average Country Policy and Institutional Assessment (CPIA) rating of 3.2 or less (or no CPIA); or (ii) has or has had a UN and/or regional peace-keeping or peace-building mission during the past three years. Out of the 35 countries currently considered as FCSs, 32 are IDA-eligible.

[28] See "Implementation Arrangements for Allocating IDA Resources to Countries Facing Turn-around Situations," September 2013.

IDA17; and (ii) the support to these countries would be aligned with that under the exceptional turn-around regime.[29]

4. **Parameters guiding the implementation of the Management proposal**. At the Managua meeting, IDA Deputies expressed strong support for scaling up financing for FCSs, while most also emphasized the need to protect resources for non-FCSs at least in nominal terms relative to IDA16. Table 1 below presents the parameters underlying the implementation of the Management proposal under the three financing scenarios presented in this paper. It should be noted that the four revisions to the allocation framework are included in the three financing scenarios. The level of the notional per-capita allocation under the exceptional turn-around regime, however, differs from one scenario to the other to reflect the guidance from IDA Deputies and the level of ambition that can be supported in the respective replenishment scenarios.[30]

Table 1. IDA17 Allocation Framework: Underlying Parameters and Assumptions

	Scenarios		
	Lower	**Preferred**	**Higher**
Elements of the Proposed Framework 1/			
(i) Exceptional Turn-Around Regime			
Notional Maximum Per-Capita Allocations 2/	**50%**	**60%**	**70%**
(ii) Regular PBA System			
Country Performance Rating Exponent	**4**	**4**	**4**
(iii) Ensuring a meaningful country engagement			
Minimum annual base allocation	**SRD 4m**	**SRD 4m**	**SRD 4m**
(iv) Interim Measures			
Case-by-case phasing out extension 3/	**Yes**	**Yes**	**Yes**
Alignment of Support with "Turn-around" Regime 4/	**Yes**	**Yes**	**Yes**
Memorandum items			
Replenishment level (SDR billion)	31.2	33.5	34.8
Core funding level (SDR billion)	26.8	27.9	29.1

1/ Figures in gray cells indicate the parameters guiding the implementation of the proposed IDA17 allocation framework.
2/ Increase in the notional maximum per-capita allocations relative to those agreed in IDA 14 for the exceptional PC regime.
3/ The case-by-case extension would be based on the criteria and decision rule agreed in the context of IDA16.
4/ The alignment will keep a linear phasing out profile for these countries to reach their regular PBA allocation by the end of IDA17.

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29 The IDA16 criteria for the case-by-case extension of the phasing out periods are: (i) a limited economic status and financing options, measured by GNI per-capita lower than the IDA operational cutoff or lack of access to IBRD financing; (ii) the presence of clear factors slowing down the transition, most notably a resurgence or continuation of conflict in parts of the country, measured by the presence of UN Security Council mandates for peace-keeping forces (with the exclusion of border monitoring missions); and (iii) a PPR, averaged over the last three years, of at least 3.0. The decision rule is that the phase out period is extended if the country meets (i) and at least one among (ii) or (iii). The application of these criteria would entail the extension of the phasing out period through IDA17 for: Afghanistan, Burundi, Central African Republic, the Democratic Republic of Congo, Haiti and Togo. Côte d'Ivoire and Liberia have their original phasing out period ending in FY17.

30 Box 1 provides context for the notional maximum per-capita allocations under the three scenarios.

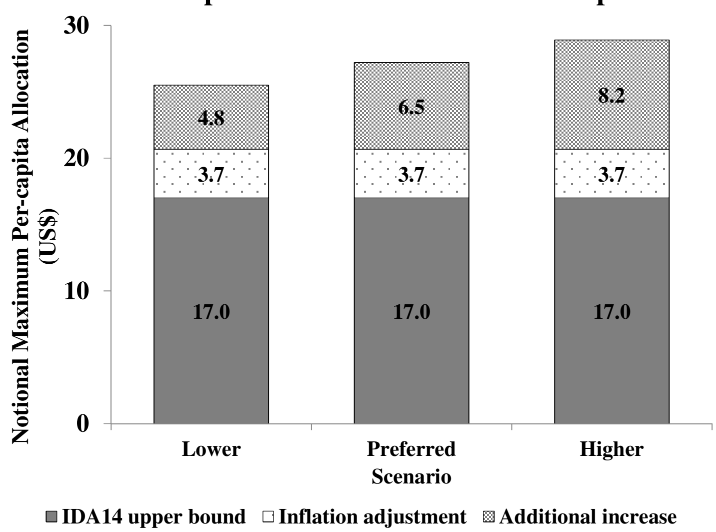
Box 1. Notional Maximum Per-capita Allocations under the Exceptional Turn-around Regime

IDA's exceptional PC regime was formally introduced in IDA13. Since IDA14, allocations to PC and RE countries have been determined based on a mapping of Post-Conflict Performance Indicators (PCPI) scores vs. notional maximum per-capita allocations. This mapping had an upper bound of US$17 per year which was applicable to eligible countries with the highest PCPI scores.

The exceptional turn-around regime builds on the strengths of the exceptional PC and RE regimes. Such strengths include: (i) flexibility to respond swiftly to changes in country circumstances – including to changes in country performance; and (ii) resilience to fluctuations in donor support.[1] These strengths reflect in part the introduction of the IDA14 mapping and the exceptional turn-around regime will use a similar tool to guide allocation decisions.

The financing scenarios envisage that the mapping of notional maximum per-capita allocations for the exceptional turn-around regime be increased. As illustrated in the chart below, the updated levels will reflect the adjustment for inflation of the IDA14 levels for PC countries plus an additional increase (which varies by scenario) to translate the focus on FCSs. For example, under the preferred scenario, the upper bound for the notional per-capita allocations would amount to US$27.2 per year, an increase of US$10.2 dollars relative to the IDA14 upper bound. Of this increase, about one-third (US$3.7) would represent the adjustment for inflation. The remaining two-thirds (US$6.5) would represent an additional increase on top of the inflation adjusted levels.

Chart 1. Notional Maximum Per-capita Allocations under the Exceptional Turn-around Regime



[1] For details see Box 3 of the document "IDA's Support to Fragile and Conflict-affected States," March 2013.

Allocation of Core IDA Financing[31]

5. **Simulations performed for this paper indicate that implementing the proposed framework would scale up support to FCSs while protecting resources to non-FCSs**. As shown in Table 2, the level of core IDA financing would increase relative to IDA16 in all scenarios, while that for non-FCSs would increase only under the Preferred and Higher scenarios. The details of the level of core IDA financing to FCSs and non-FCSs under the different scenarios are as follows:

- **Preferred scenario**. Under this scenario, the overall core financing grows by 7 percent in nominal terms relative to IDA16, equivalent to a real increase of less than 1 percent. Core financing for FCSs during IDA17 would reach SDR5.3 billion (a 23 percent nominal increase relative to IDA16 – 17 percent in real terms). Most of this increase will be channeled as targeted exceptional support (through the proposed exceptional turn-around regime or as part of the measures to smooth the transition out of the current exceptional PC and RE regimes). Albeit having a smaller impact, the proposed modifications to the regular PBA system would allow for increasing IDA's financial engagement in the broader FCS group (i.e., not only in those countries under exceptional regimes). Core financing for non-FCSs would reach SDR22.6 billion, a 4 percent nominal increase relative to IDA16 (3 percent decrease in real terms).
- **Lower scenario**. This scenario shows a 3 percent nominal increase of the core envelope relative to IDA16 (4 percent reduction in real terms). Core financing to FCSs and non-FCSs under this scenario would reach SDR5.1 billion and SDR21.8 billion, respectively. While – relative to IDA16 – this represents a significant increase in core financing to FCSs (17 percent and 11 percent in nominal and real terms, respectively), core financing to non-FCSs experiences no discernible increase in nominal terms and a 6 percent reduction in real terms.
- **Higher scenario**. The overall core envelope under this scenario grows by 12 percent in nominal terms relative to IDA16 (a 5 percent increase in real terms). Under this scenario, core financing to FCSs and non-FCSs would reach SDR5.6 billion and SDR23.5 billion respectively. The increased envelope size would result in: (i) core financing to both FCSs and non-FCSs increasing in nominal and in real terms relative to IDA16 (the nominal and real increases would be 30 and 23 percent for FCSs, respectively, and 8 and 2 percent for non-FCS, respectively); and (ii) lower trade-offs associated with the revisions to the allocation framework (as detailed in the next section).

6. **There are also important characteristics that are common to the three scenarios**. First, FCSs and non-FCSs would receive about 20 and 80 percent, respectively, of the total IDA17 core financing. For FCSs, this is an increase of about 50 percent in the share of core financing they would have received should the allocation framework have remained unchanged.

[31] The allocation figures presented in this annex are illustrative only. They are based on the data underpinning the FY14 IDA allocation exercise. The final allocation figures for the IDA17 period will be determined on a yearly basis reflecting the actual replenishment size, the allocation framework agreed as part of the IDA17 replenishment discussion and the latest country data available at the time of the yearly allocation exercise. IDA16 baseline figures reflect the same definition used in Table 1 of the main text and Annex 1. In particular, core IDA figures exclude the graduating countries and reflect FY14 data.

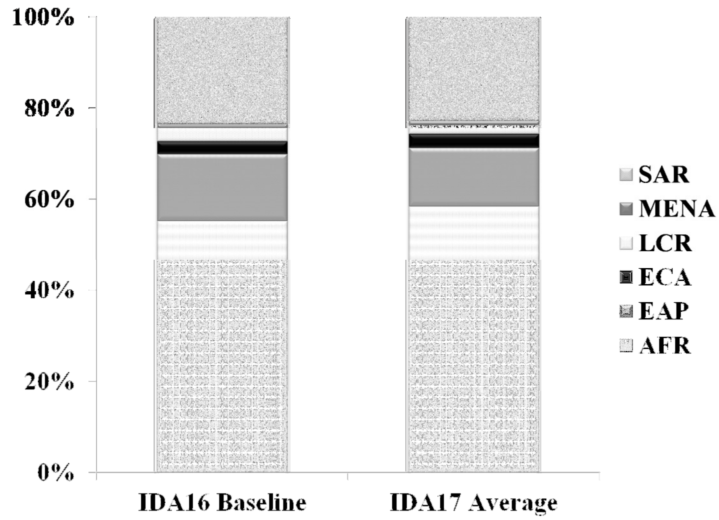
For non-FCS, the corresponding change is a decrease of 7 percent. Second, per-capita core financing for non-FCSs would be about 60 percent higher than that for FCSs. This is indicative of non-FCSs' stronger performance relative to FCSs and the strong performance orientation embedded in the allocation framework. This compares to 85 percent under the IDA16 baseline. Finally, the regional distribution of IDA17 core financing under all three scenarios would remain relatively stable and close to the shares for the IDA16 baseline. IDA17 core financing to the Africa Region would be about 58 percent of the total (3 percentage points higher than for the IDA16 baseline). The share of IDA17 core financing to the South Asia, East Asia and Pacific, and Latin America and the Caribbean regions would be about 23, 13 and 2 percent, respectively (a slight reduction – 2, 1 and 1 percentage points, respectively – relative to the IDA16 baseline). The share for the Europe and Central Asia and the Middle East and North Africa regions would be about 3 percent and 1 percent of core funding during IDA17, levels similar to those under the IDA16 baseline (See Chart 1).

Table 2. Allocation of Core IDA Funding Per Scenario
(SDR billion unless otherwise indicated)

	Lower Scenario	**Preferred Scenario**	**Higher Scenario**
Total Core IDA (I + II)	**26.8**	**27.9**	**29.1**
I. Non-FCS	21.8	22.6	23.5
II. FCS	5.1	5.3	5.6
Under regular PBA	1.9	1.9	2.0
Under current exceptional regimes	2.5	2.7	2.8
Under turn-around regime 1/	0.7	0.7	0.8
Memorandum Items			
FCSs			
Nominal change relative to IDA16 2/	17%	23%	30%
Real change relative to IDA16 2/	11%	17%	23%
Share of core IDA financing	19%	19%	19%
Per-capita allocation (SDR) 3/	12.1	12.7	13.3
Non-FCSs			
Nominal change relative to IDA16 2/	0%	4%	8%
Real change relative to IDA16 2/	-6%	-3%	2%
Share of core IDA financing	81%	81%	81%
Per-capita allocation (SDR) 3/	19.5	20.3	21.1
Per-capita allocation to small states (SDR)	34.7	35.3	36.0

1/ Subject to meeting eligibility requirements. Includes: (i) Somalia, Sudan and Zimbabwe (currently inactive); and (ii) other countries facing a turn-around situation. The estimates for exceptional turm-around support should be considered as highly preliminary (in particular given the uncertainty on which countries would actually qualify, the timing of qualification and the parameters that will guide the provision of exceptional support). The estimates for countries in the category (ii) reflect only the increased allocation relative to country allocations under the regular PBA system.
2/ The figures reflect the changes relative to the IDA16 figures in US$. Discrepancies with table 1 in the main text are due to exchange rates.
3/ Due to uncertainty, per-capita estimates do not reflect assumed support under the exceptional turn-around regime to countries other than Somalia, Sudan and Zimbabwe.

Chart 1. Regional Distribution of Core IDA Financing



Trade offs

7. **This section illustrates the trade-offs that would emerge by implementing the proposed revision to the allocation framework**. The trade-offs are presented in terms of the impact of the revision on (i) the level of core financing to FCSs and non-FCSs; and (ii) the overall performance orientation of the revised allocation framework.

8. **Impact of revision on core financing to FCSs and non-FCSs under the revised scenarios**.[32] To facilitate the discussion, the analysis below isolates the impact of the different core financing volumes underpinning the scenarios.

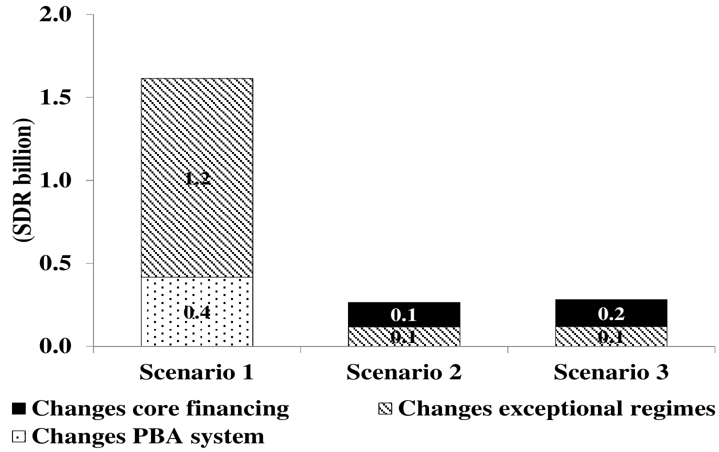
- **FCSs** (see Chart 2)

  The bulk of the increase in core financing for FCSs is driven by the proposed revisions to the allocation framework and the scaling-up of some of them. The revisions to the regular PBA system (i.e., change in CPR exponent and increase of minimum base allocation) would increase core financing to FCSs by about SDR0.4 billion. The revisions to the channels for exceptional support (creation of the exceptional turn-around regime and measures ensuring a smooth transition out of exceptional PC and RE regimes) would increase core financing to FCSs by SDR1.2 billion under the lower scenario. The scaling up of these measures envisaged under the preferred and the higher scenarios would lead to a marginal increase of SDR0.1 billion in each case.

  Reflecting country performance, increases in size of the core envelope translate into smaller increases in core financing for FCSs. The marginal impact of the assumed increase in the total core envelope between the lower and preferred scenarios is a SDR0.1 billion increase in core financing to FCSs. The marginal impact would be SDR0.2 billion when moving from the preferred to the higher scenario.

[32] Consistent with the Paris paper, this section reflects the changes relative to the lower scenario and assuming no changes to the IDA16 allocation framework.

Chart 2. Core Financing to FCSs
Marginal Impact of the Revision to the Allocation Framework

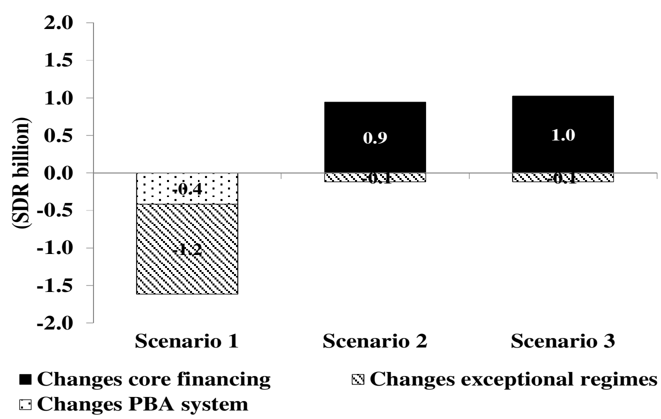


- **Non-FCSs** (see Chart 3)

  The size of the core financing envelope is what drives the evolution of core financing to non-FCSs. While the preferred and higher scenarios envisage nominal increases in core financing to non-FCSs relative to the IDA16 baseline, it is only under the higher scenario that the impact of the core financing size fully offsets that of the proposed revisions to the allocation framework.

  The trade-offs at the country level may in some cases be sharper than for the non-FCSs as a group. For a number of countries, the impact of the proposed revisions to the allocation framework would not be netted out by that of increases in the core envelope. In aggregate terms, core financing to these countries would nevertheless be higher under all three scenarios than under IDA16 (with median increases of 0, 4 and 8 percent under the lower, preferred and higher scenarios, respectively). Among the five most affected non-FCSs, only two would receive less core financing under the preferred scenario than under IDA16 (with decreases of 1 and 5 percent). None of these five non-FCSs would receive less core financing under the higher scenario than under IDA16.

Chart 3. Core Financing to non-FCSs
Marginal Impact of the Revision to the Allocation Framework



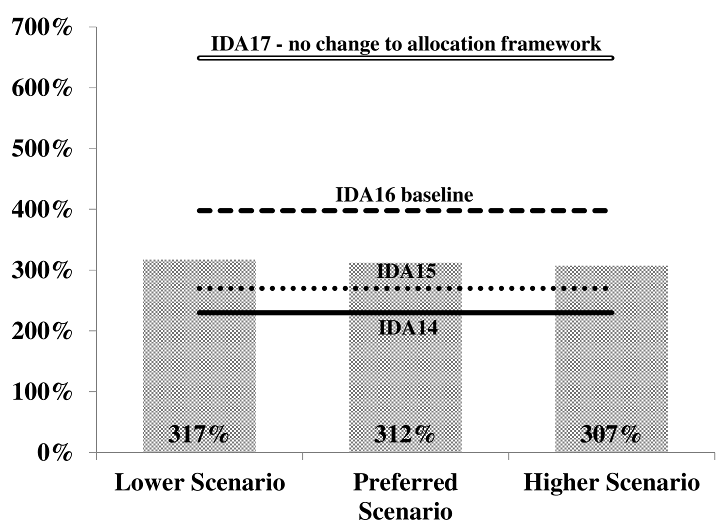
9. **Overall performance orientation of the allocation framework**. Under all the scenarios, country performance will continue to be the key driver of allocation decisions: the system will continue to channel significantly more resources to better performers (as measured by the CPR). Chart 4 below presents the estimated per-capita allocations by performance quintile for the three scenarios. Three points should be highlighted:

- First, strong performers (i.e., countries in the top performance quintile) would receive per-capita core financing more than three times that for weak performers (i.e., countries in the lowest performance quintile) under all scenarios. In fact, per-capita core financing to strong performers as a percentage of that to weak performers would be above the values for IDA14 and IDA15. In addition, the ratio under all the scenarios would only be 20 percent below that for the IDA16 baseline.

- Second, countries in the top performance quintile would receive core financing within the levels of the IDA16 baseline. Per-capita core financing for these countries under the lower, preferred and higher scenarios would reach SDR9, SDR10 and SDR10 per year, respectively. This compares to SDR10 per year for the IDA16 baseline.

- Third, absent adjustments to the allocation framework, per-capita core financing to top performers as a share of that to lower performers would reach levels close to 650 percent during IDA17. This reflects the combined effect of an average increase in core financing for top performers of 14 percent and a reduction in that to lower performers by about 30 percent (relative to the IDA16 baseline).

Chart 4. Per-capita Core Financing
Strong Performers vs. Weak Performers



Annex 3: Updated IDA17 Financing Framework

Table A. Preferred and Alternative IDA17 "Financing" Scenarios
(SDR million unless otherwise specified)

Source of Funds	IDA16 Agreed [a/]	Lower	% change	Preferred	% change	Higher	% change
I. TOTAL PARTNER RESOURCES	**21,073**	**20,394**	***-3.2%***	**20,825**	***-1.2%***	**21,162**	***+0.4%***
Basic grant contributions	15,574	15,121	***-2.9%***	15,552	***-0.1%***	15,889	***+2.0%***
Supplemental contributions	230						
Compensation for HIPC (FY15-17)	1,320	1,563		1,563		1,563	
Financing of arrears clearance operations	381	424		424		424	
Compensation for grant principal forgone	56	284		284		284	
Total Partner New Contributions	**17,561**	**17,393**	***-1.0%***	**17,824**	***+1.5%***	**18,161**	***+3.4%***
Compensation for MDRI (FY23-25)	**3,512**	**3,001**		**3,001**		**3,001**	
II. TOTAL INTERNAL RESOURCES	**11,725**	**9,326**	***-20.5%***	**9,551**	***-18.5%***	**9,795**	***-16.5%***
Internal reflows	6,575	5,881		5,881		5,881	
Contractual acceleration of credit repayments	1,217	590		590		590	
Voluntary prepayments [b/]	592	179		179		179	
Frontloading use of reflows from hardening terms	1,314	584		809		1,053	
Internal Resources of IDA	**9,698**	**7,234**	***-25.4%***	**7,459**	***-23.1%***	**7,703**	***-20.6%***
IBRD transfers	1,310	1,383		1,383		1,383	
IFC transfers	717	709		709		709	
Total Transfers [c/]	**2,027**	**2,092**	***+3.2%***	**2,092**	***+3.2%***	**2,092**	***+3.2%***
FINANCING FRAMEWORK (without loans and carry forwards)	**32,799**	**29,720**	***-9.4%***	**30,376**	***-7.4%***	**30,957**	***-5.6%***
Concessional Partner Loans (net of grant element)		574		1,871		2,565	
Concessional partner loans (gross) [d/]			808		2,634		3,610
Internal Reflows - increase due to loans		574		900		900	
Carry Forward of Unused IDA16 Arrears Clearance Funding		382		382		382	
TOTAL FINANCING FRAMEWORK	**32,799**	**31,249**	***-4.7%***	**33,529**	***+2.2%***	**34,803**	***+6.1%***
Debt limit (25/5, 1%)		*5,359*	15.1%	*6,108*	16.7%	*6,117*	16.6%
Financing gap in MDRI compensation FY23-25		*278*		*278*		*278*	

Notes:

a/ Original IDA16 financing framework as agreed in the IDA16 Deputies Report.
b/ For IDA17, this represents the actual amount prepaid by Azerbaijan.
c/ The figures for IBRD and IFC transfers in IDA16 and assumed in IDA17 include investment income generated by a 3-year encashment schedule.
d/ It is assumed that: (i) the discount rate to calculate the grant element of loans is 2.65 percent; and (ii) the loans would have a 25-year maturity with a 5-year grace period and a 0 percent coupon.

Table B. Total Target Volume of Partner Basic Contributions for IDA17 *

(SDR million)

	IDA17 Financing Framework		
	Lower	Preferred	Higher
<u>Basic partner contributions:</u>			
A. Actual amount of resource required (i.e. net of the IDA16 structural gap of 25.27%)	15,121	15,552	15,889
B. Scaled-up amount for the burden sharing purposes (i.e. gross of the IDA16 structural gap of 25.27%)	20,234	20,810	21,261

* The volume of partner financing required for IDA17 is expressed net of the structural gap that currently exists in partners' basic IDA burden shares (line A in the above table). This means that this is the amount of financing that needs to actually be paid by partners, so as to enable IDA to reach the level of partner contributions included in the scenario. In IDA16, the burden shares of partners' basic contributions summed to only 74.73 percent. For IDA17, if partners choose to apply the same basic burden shares as in IDA16, the target funding would need to be scaled up to account for this gap (line B in the table). For example, under the third scenario, if a partner's IDA16 basic burden share was 2 percent and the partner decides not to change it in IDA17, its basic contribution for IDA17 would be SDR 416.2 million (SDR 20,810 million*0.02).

Table C. Updated IDA17 Financing Framework
(US$ million unless otherwise specified)

Source of Funds	IDA16 Agreed [a]	Lower	% change	Preferred	% change	Higher	% change
USD/SDR reference exchange rate	1.50233	1.50718					
I. TOTAL PARTNER RESOURCES	**31,659**	**30,737**	***-2.9%***	**31,387**	***-0.9%***	**31,894**	***+0.7%***
Basic grant contributions	23,398	22,790	***-2.6%***	23,440	***+0.2%***	23,947	***+2.3%***
Supplemental contributions	345						
Compensation for HIPC (FY15-17)	1,983	2,356		2,356		2,356	
Financing of arrears clearance operations	572	640		640		640	
Compensation for grant principal forgone	85	429		429		429	
Total Partner New Contributions	**26,383**	**26,214**	***-0.6%***	**26,864**	***+1.8%***	**27,372**	***+3.7%***
Compensation for MDRI (FY23-25)	**5,277**	**4,523**		**4,523**		**4,523**	
II. TOTAL INTERNAL RESOURCES	**17,615**	**14,056**	***-20.2%***	**14,395**	***-18.3%***	**14,763**	***-16.2%***
Internal reflows	9,877	8,864		8,864		8,864	
Contractual acceleration of credit repayments	1,829	890		890		890	
Voluntary prepayments [b]	889	270		270		270	
Frontloading use of reflows from hardening terms	1,974	880		1,219		1,587	
Internal Resources of IDA	**14,570**	**10,903**	***-25.2%***	**11,242**	***-22.8%***	**11,610**	***-20.3%***
IBRD transfers	1,969	2,084		2,084		2,084	
IFC transfers	1,077	1,069		1,069		1,069	
Total Transfers [c]	**3,046**	**3,153**	***+3.5%***	**3,153**	***+3.5%***	**3,153**	***+3.5%***
FINANCING FRAMEWORK (without loans and carry forwards)	**49,274**	**44,793**	***-9.1%***	**45,782**	***-7.1%***	**46,658**	***-5.3%***
Concessional Partner Loans (net of grant element)		865		2,820		3,866	
Concessional partner loans (gross) [d]			1,218		3,970		5,442
Internal Reflows - increase due to loans		865		1,356		1,356	
Carry Forward of Unused IDA16 Arrears Clearance Funding		575		575		575	
TOTAL FINANCING FRAMEWORK	**49,274**	**47,098**	***-4.4%***	**50,534**	***+2.6%***	**52,455**	***+6.5%***
Debt limit (25/5, 1%)		*8,077*	15.1%	*9,205*	16.7%	*9,220*	16.6%
Financing gap in MDRI compensation FY23-25		*419*		*419*		*419*	

Notes:

a/ Original IDA16 financing framework as agreed in the IDA16 Deputies Report.

b/ For IDA17, this represents the actual amount prepaid by Azerbaijan.

c/ The figures for IBRD and IFC transfers in IDA16 and assumed in IDA17 include investment income generated by a 3-year encashment schedule.

d/ It is assumed that: (i) the discount rate to calculate the grant element of loans is 2.65 percent; and (ii) the loans would have a 25-year maturity with a 5-year grace period and a 0 percent coupon.

Annex 4: Concessional Partner Loans

Table A. Illustrative Grant Element of Concessional Loans Denominated in SDR with Various Borrowing Terms (adjusting only maturity and interest rates; as a percentage of total concessional loan)

			Interest rate on concessional loan		
Maturity 1/	WAM 2/	Discount rate	0.00%	0.50%	1.00%
5-25	16	2.65%	28.96%	23.43%	17.89%
10-40	26	2.65%	44.53%	36.02%	27.51%

Notes:

1/ Assumes a 5-year or 10-year grace period respectively, and that debt is drawn down over 3 years, and no commitment fee is charged on the undisbursed portion.

2/ Weighted average maturity assuming grace period and straight-line amortization of principal thereafter.

Table B. Summary of Single Currency Equivalents of Various SDR Rates*

For loan with 5-yr grace period and 25-yr maturity

Rate in SDR:	0.00%	0.50%	1.00%	2.65%
Equivalent rate in single currency:				
USD	0.61%	1.14%	1.67%	3.42%
JPY	-1.44%	-1.01%	-0.58%	0.83%
GBP	0.14%	0.65%	1.16%	2.83%
EUR	-0.35%	0.13%	0.62%	2.21%

For loan with 10-yr grace period and 40-yr maturity

Rate in SDR:	0.00%	0.50%	1.00%	2.65%
Equivalent rate in single currency:				
USD	0.54%	1.09%	1.63%	3.44%
JPY	-0.99%	-0.59%	-0.19%	1.13%
GBP	0.08%	0.59%	1.10%	2.78%
EUR	-0.32%	0.16%	0.63%	2.19%

* Because partners cannot be expected to pay a negative interest rate, a 0 percent floor would be applied for the highest negative interest rate per currency (e.g., -0.19 percent for the JPY under the 40-yr maturity option).

Annex 5: Effective Foreign Exchange Reference Rates for IDA17

1. At the first IDA17 meeting in Paris, Deputies agreed to use the daily average foreign exchange rates over the six-month period from March 1 to August 31, 2013 for purposes of converting national currency contributions to IDA17 into SDR equivalent amounts. Deputies also agreed that partner countries with domestic inflation rates exceeding 10 percent over the three-year period 2010-2012 would denominate their IDA17 contributions in SDR. Table 1 shows the average foreign exchange rates during the agreed reference period and identifies those partners with high domestic inflation rates that would denominate their IDA17 contributions in SDR or in any currency used for valuation of the SDR.

2. As per current practice, partners will pay their contributions in SDR, a currency used for the valuation of the SDR, or in another freely convertible currency that IDA may exchange as required for its operations. To maintain the value of partners' IDA17 contributions in SDR equivalent terms, IDA hedges the foreign currency exposures resulting from partner contributions not provided in SDR. To allow for an effective hedge, partners would need to specify the currency of denomination of their IDA17 contributions at the time of conclusion of the IDA17 discussions in December 2013. This provides IDA with the necessary certainty as to the currency of partners' encashments. As in past replenishments, IDA will hedge the foreign currency exposure following adoption of the replenishment resolution by IDA's Board of Governors, which is expected to occur during the third quarter of FY14.

Table 1. Effective Foreign Exchange Reference Rates for IDA17

Currency	Currency abbreviation	IDA17 average rate vs. SDR	IDA16 average rate vs. SDR
Australian Dollars	AUD	1.55744	1.68233
New Azerbaijanian Manat	AZN	1.1813	N/A
Barbados Dollars	BBD	2.99226	2.99980
Brazilian Real	BRL	3.21133	2.66054
Canadian Dollars	CAD	1.55161	1.55243
Swiss Francs	CHF	1.4179	1.60649
Chilean Pesos	CLP	739.89852	782.14145
Chinese Yuan	CNY	9.27739	10.21039
Czech Koruna	CZK	29.7183	29.61217
Danish Kroner	DKK	8.5853	8.72640
Euro	EUR	1.15142	1.17198
Pounds Sterling	GBP	0.98466	0.98810
Hungarian Forints	HUF	342.41512	326.54370
Indonesian Rupiah	IDR	14986.41929	N/A
Israeli New Sheqalim	ILS	5.46111	5.69265
Iceland Kronur	ISK	183.00628	186.56987
Japanese Yen	JPY	147.83326	133.66996
Korean Won	KRW	1686.57027	1763.61892
Kuwaiti Dinars	KWD	0.4295	0.43408
Kazakhstan Tenge	KZT	228.63306	N/A
Lithuanian Litas	LTL	3.97499	4.04613
Mexican Peso	MXN	18.99291	19.05130
Malaysian Ringgits	MYR	4.72012	4.80333
Norwegian Kroner	NOK	8.8586	9.30681
New Zealand Dollars	NZD	1.85758	2.11826
Peruvian Soles Nuevos	PEN	4.06176	4.24141
Philippine Pesos	PHP	63.66678	68.14094
Polish Zloty	PLN	4.84763	4.70255
Russian Ruble	RUB	48.13483	N/A
Special Drawing Rights [a/]	SDR	1	1.00000
Swedish Kronor	SEK	9.86511	11.14673
Singapore Dollars	SGD	1.89234	2.06341
Thai Baht	THB	45.6924	N/A
New Turkish Lira	TRY	2.82026	2.29495
United States Dollars	USD	1.50718	1.50233
South African Rand	ZAR	14.475	11.17298

a/ High inflation countries over the period 2010-2012 that would denominate their IDA17 contributions in Special Drawing Rights or in any currency used for valuation of the SDR: Argentina, Egypt, and Iran.