IDA18 Mid-Term Review

Scale-up Facility (SUF)

October 19, 2018

ACRONYMS AND ABBREVIATIONS

Fiscal year (FY) = July 1 to June 30

ABCDQ	Actions on Bunching, Commitments, Disbursements, and Quality
AFF	Agriculture, Fishing and Forestry
AOB	Absence of Objection
CCSA	Cross-Cutting Solution Area
CPIA	Country Policy and Institutional Assessment
CPF	Country Partnership Framework
CRRH	Caisse Régionale de Refinancement Hypothécaire
DeMPA	Debt Management Performance Assessment
DFi	Development Finance Vice Presidency
DFIRM	Development Finance IDA Resource Mobilization
DLP	Debt Limits Policy
DPF	Development Policy Financing
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EDU	Education
E&M	Energy and Mining
FCS	Fragile and Conflict-Affected State
FIN	Finance
GNI	Gross National Income
GP	Global Practice
HSS	Health and Social Services
I&T	Industry and Trade
IBRD	International Bank for Reconstruction and Development
I&C	Information & Communications
IDA	International Development Association
IMF	International Monetary Fund
IPF	Investment Project Financing
LIC-DSF	Low-Income Country Debt Sustainability Framework
MAC DSA	Market Access Country Debt Sustainability Assessment
MDB	Multilateral Development Bank
MDRI	Multilateral Debt Relief Initiative
MENA	Middle East and North Africa
MFM	Macroeconomics and Fiscal Management Global Practice
MTR	Mid-Term Review Meeting
NCBP	Non-Concessional Borrowing Policy
OPCS	Operations and Policy Services
PBA	Performance-Based Allocation
PCN	Project Concept Note
PDO	Project Development Objectives
SCD	Systematic Country Diagnostic
SCL	Single Currency Lending
SDR	Special Drawing Rights
SUF	Scale-up Facility
TRA	Transportation
TRE	Treasury
WAEMU	West African Economic and Monetary Union
WSF	Water, Sanitation and Flood Protection
WBG	World Bank Group

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EXECUTIVE SUMMARY

i. **The US$6.2 billion IDA18 Scale-up Facility (SUF) builds on the experience of the IDA17 SUF and responds to the strong demand from client countries.** Established at the Mid-Term Review of IDA17, SUF provides clients with flexibility beyond the core concessional envelopes for projects with a transformational impact. SUF offers non-concessional resources, for the purpose of financing high quality country-specific and/or regional operations with potential for strong returns on investment, development impact and growth dividends. The main modifications in IDA18 SUF are centered on allocation modalities, prioritization criteria and pricing.

ii. **US$2.3 billion was committed in FY18, driven by strong demand from the Africa region, where projects are facilitating a range of transformational outcomes.** Nine of the 11 SUF-financed operations in FY18 were in Africa, more than utilizing its FY18 allocation. Demand from South Asia was also strong. Demand for SUF was weaker in East Asia and the Pacific (EAP) and Europe and Central Asia (ECA), primarily driven by client sensitivity to price, particularly early in the IDA18 cycle when countries received their allocations of core concessional financing. Projects across the regions are facilitating transformations in access to energy, transportation and water and sanitation services.

iii. **Given worsening debt trends across IDA clients, the SUF's principles and practices to protect clients' debt sustainability remain paramount. Countries at low-risk of debt distress are prioritized for SUF financing, using the Low-income Country Debt Sustainability Analysis (LIC-DSA).** The share of SUF resources dedicated to countries at low or moderate risk of debt distress exceeds their respective share of core IDA resources. However, operational challenges call for continued Management attention, particularly for countries at moderate risk of debt distress. Those at moderate risk of debt distress are strongly encouraged to integrate SUF – where it makes operational sense – to ensure the overall package is concessional. The recently updated IMF-World Bank Low-Income Country Debt Sustainability Framework (DSF) will also facilitate even greater focus within the SUF on protecting debt sustainability, particularly for countries at moderate risk of debt distress.

iv. **Going forward, there may be further opportunities to enhance the SUF's agility and targeting.** Following internal consultations, changes were made to enhance the efficiency of the window's procedures including: the introduction of a checklist to clarify guidelines; and aligning the SUF corporate review cycles with existing operational cycles. Strong corporate review and due diligence will continue to ensure that the SUF's objectives and priorities are achieved as intended. Looking ahead to IDA19, it will be important to clarify the circumstances under which SUF might extend limited financing to creditworthy regional organizations for specific projects that can help crowd in resources and promote regional integration. Finally, over time, it will be important to monitor Blends' enhanced access to IBRD under the IBRD Capital Package.

Box 1. IDA17 Scale-up Facility and IDA18 Scale-up Facility: Key Changes

Key changes from IDA17 SUF to IDA18 SUF centered on SUF allocation modalities and prioritization criteria.

Category		IDA17 SUF	IDA18 SUF
Volume		• US$3.8bn committed in late FY16 and FY17	• US$6.2 billion available across three years of IDA18
Eligibility and Pricing	Recipients	• IDA-eligible client countries	• Same
	Debt Distress Risk	• IDA-eligible client countries at low- or moderate-risk of debt distress	• Same
	Operation type	• IPF, including guarantees, DPF and P4R	• IPF, including guarantees, DPF, including Cat DDO and P4R
	Pricing	• Similar to IBRD.	• IBRD Pricing[1]
Allocations	Regional	• Indicative SUF envelope equivalent to regional share of PBA, with prior expectation that resources will be re-allocated across regions due to superior strength of pipeline in subset of regions	• Indicative SUF envelope equivalent to regional share of PBA, with prior expectation that resources will be utilized within each region
	Country	• Access capped as a percentage of a country's core IDA allocation, with greater flexibility for small countries given their relatively small core IDA allocation	• Same
		• No explicit focus on IDA-only versus blend country access	• Resources to be appropriately balanced between IDA-only and blend countries
Project prioritization	Main criteria	• Debt sustainability, capacity and ability to advance WBG twin goals and IDA17 priorities through potentially transformational projects	• Same
	Soft filters	• No explicit focus on subset of IDA17 priorities	• Attention to explicit subset of IDA18 priorities, including ability of operations to crowd in resources, support resilience building, deliver benefits beyond or across borders, and/or drive economic transformation. Added focus on promoting integration within a regional grouping by supporting modern economic infrastructure in line with low carbon development

[1] Under IDA18 SUF, key features include option to fully fix rate at time of disbursement (rather than at commitment), six average repayment buckets, maximum final maturity of 35 years, including grace period, and customizable amortization profiles. No SDR option, but some loan conversion options.

I. INTRODUCTION

1. **At the IDA17 Mid-Term Review (MTR), IDA Deputies endorsed the creation of a US$3.9 billion non-concessional financing facility.** The Scale-up Facility (SUF) was established to provide IDA clients with flexibility, beyond the core concessional envelopes, for projects with a transformational impact. The establishment of the SUF helped to address immediate financing pressures without a need for additional donor contributions. Through the IDA17 SUF, US$3.9 billion of non-concessional resources (on terms similar to the International Bank for Reconstruction and Development (IBRD)) were made available to eligible countries. These funds were in addition to regular concessional resources received through the performance-based allocation (PBA).

2. **Recognizing the strong demand for the SUF in IDA17, Deputies endorsed a US$6.2 billion SUF to provide financing on IBRD lending terms for high quality, transformational operations with strong development impact during IDA18.** The IDA18 SUF would continue to prioritize projects with potential for strong returns on investment, development impact and growth dividends. The IDA18 SUF provides financing for country-specific and/or regional operations. As in IDA17, the SUF resources are in addition to the regular concessional resources that countries will receive in IDA18.

3. **Adjustments in the IDA18 SUF and its implementation build upon experience gained with the IDA17 SUF.** The IDA17 SUF Retrospective[2] provides details on implementation of the IDA17 SUF. Key changes centered on IDA18 SUF eligibility criteria, allocation modalities, prioritization criteria and pricing and they are summarized in Box 1.[3] Also, IDA18 called for financing from the SUF to be appropriately balanced between IDA-only and IDA-IBRD Blend countries.

4. **The IDA18 SUF was designed to prioritize resources for countries at low risk of debt-distress, given a deterioration of debt-sustainability trends across IDA countries.** As was the case under the IDA17 SUF, only IDA-eligible countries at low or moderate risk of debt distress are eligible to utilize IDA18 SUF financing.[4] Increasing debt levels in IDA countries has made it all the more important for non-concessional SUF resources to be provided only in appropriate contexts and for projects which can trigger particularly strong development impact.

5. **IDA18 also saw the introduction of 'soft prioritization filters' to support the effective allocation of non-concessional resources.** Soft prioritization filters focused on an operation's ability to: crowd in resources; support resilience building; deliver cross-border benefits, including through infrastructure in line with low carbon development and in support of countries' nationally determined contributions; and/or drive economic transformation, Priority is also given to promoting regional integration by supporting modern economic infrastructure in line with low carbon development.

6. **This paper responds to the commitment made during the IDA18 replenishment that Management would report on IDA18 SUF implementation experience at the IDA18 MTR.** The analysis in this report is limited by the short track record of the SUF. Thus, while it can present information on process and on commitments made to date, more time will be needed to examine impact and draw conclusions about outcomes.

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2 IDA17 Scale-up Facility (SUF) Retrospective, IDA/SECM2018/0001, January 4, 2018.

3 IDA18 introduced the option to fully fix rates at the time of disbursement, rather than at commitment. Six average repayment buckets were introduced, where three had been available in IDA17. The maximum final maturity was also increased from 30 to 35 years, including a grace period and customizable amortization profiles. The SDR option was eliminated but some loan conversion options were introduced.

4 See paragraph 18 regarding timing challenge related to emerging debt risks.

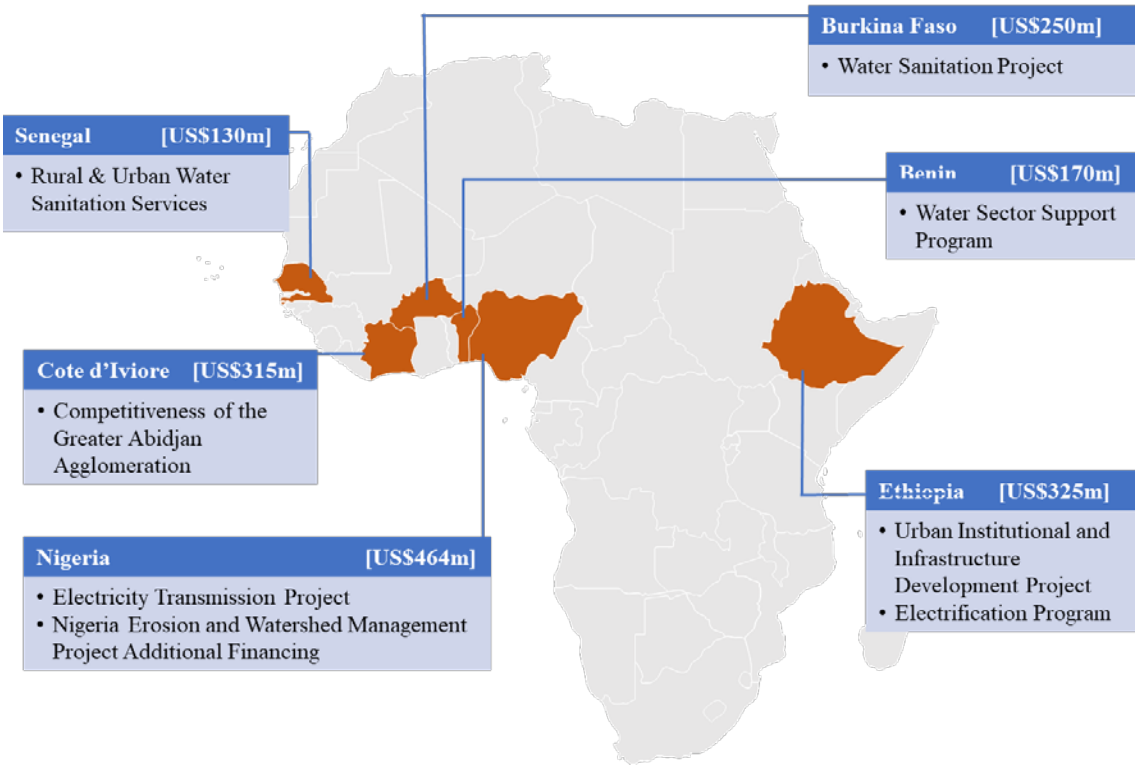
7. **Structure of the paper.** The remainder of this paper is structured as follows: Section II presents the facts and findings of the IDA18 SUF along key country and sectoral dimensions and reviews operational aspects of the Facility, including eligibility and allocation criteria, prioritization criteria, and review. Section III presents lessons learned during implementation of the IDA18 SUF and outlines possible future adjustments which could enhance the SUF's impact in IDA countries.

II. FACTS AND FINDINGS

A. IDA18 SUF COMMITMENTS

8. **In FY18, SUF financed 11 operations, across three regions, nine countries and one regional institution,[5] with total commitments amounting to US$2.3 billion, to support projects with potentially transformational impact.** Within this overall picture, the Africa region fielded the strongest demand, with nine operations totaling US$1.8 billion, which represented 132 percent of its FY18 allocation (Figure 1).[6] South Asia utilized 94 percent of its FY18 allocation with an operation in Bangladesh. Latin America and the Caribbean utilized 88 percent of its FY18 allocation with an operation in Nicaragua.

Figure 1. Strong Demand across Africa Has Seen SUF-finance Projects in Energy, Transportation and Water and Sanitation



9. **Demand for SUF was weaker in East Asia and the Pacific (EAP) and Europe and Central Asia (ECA), primarily because of client sensitivity to price of non-concessional financing.** Neither region accessed the SUF in FY18. In the case of EAP, this was likely due to the increased volume of IDA18

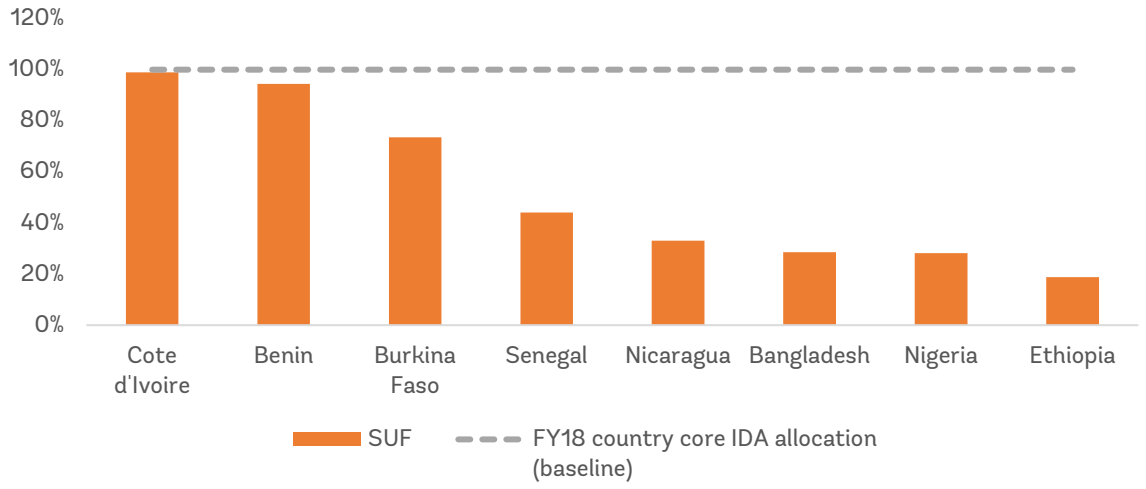
[5] For this operation Executive Directors approved a policy waiver, since IDA SUF eligibility criteria refer to IDA member countries with low or moderate risk of debt distress and do not envisage regional institutions. See paragraph 22 and Box 2.

[6] Frontloading of SUF resources is allowed for operational flexibility across fiscal years.

concessional resources – particularly for small states – and numerous IDA clients in the region being more price sensitive. In ECA, SUF utilization was planned for an operation originally envisioned in FY18 but is now expected to be delivered in FY19.

10. **Nigeria was the largest recipient of SUF resources, at US$464 million in FY18.** Bangladesh was the second largest recipient of SUF financing, accessing US$451 million, and Côte d'Ivoire was the third largest recipient, with US$315 million. As a share of countries' FY18 core IDA allocations (Figure 2), Côte d'Ivoire's SUF financing was the largest, followed by Benin and Burkina Faso. As a relatively small country, Benin provides an example of how SUF financing can significantly expand and accelerate potential development impact. The SUF financing for the **Benin Rural Water Supply Universal Access Program** effectively doubled Benin's FY18 core concessional IDA allocation, significantly accelerating the country's priority objective of universal access to water supply by 2021. The project aims to provide more than 1.6 million people access to improved water sources, leading to improved living conditions, health, school attendance, productivity, and income, particularly for women and girls.

Figure 2. Country Breakdown of SUF Financing in FY18
(% of FY18 core IDA allocations)

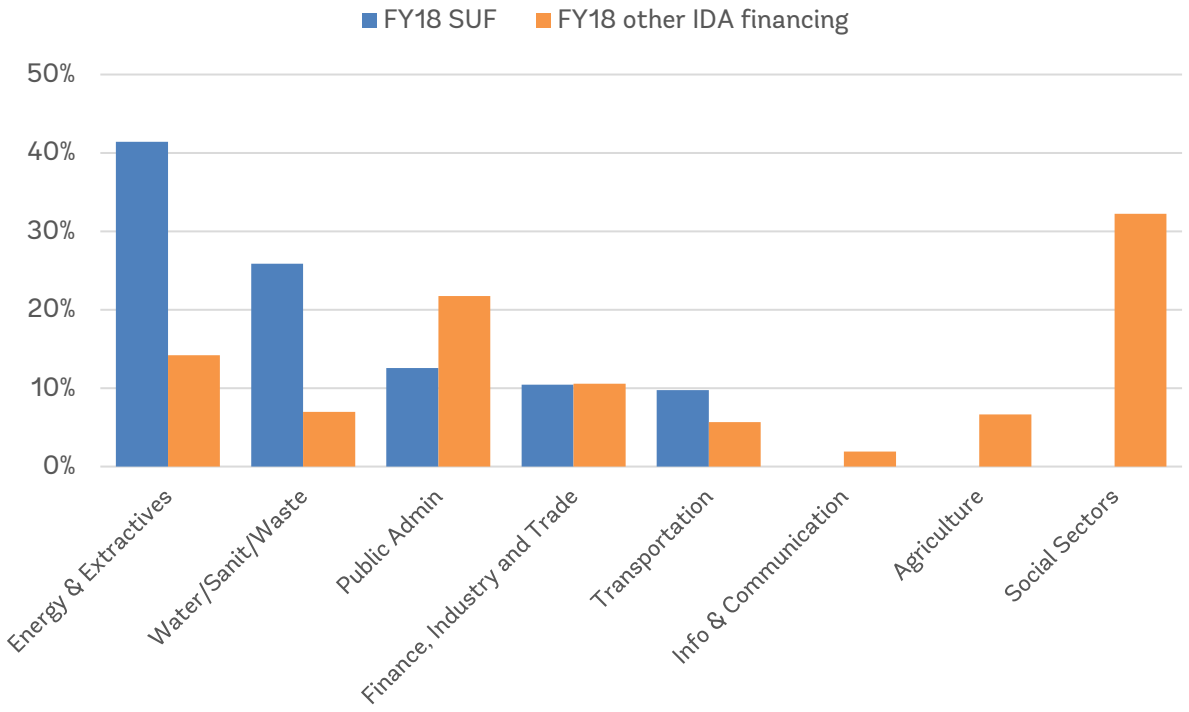


11. **Reflecting the WBG's focus on Maximizing Finance for Development (MFD), SUF financing has supported projects that generate revenue and have the potential to crowd in private investment, while reducing the concessionality required for viability.** For example, in Côte d'Ivoire, SUF provided US$315 million in financing for the complex multi-year **Greater Abidjan Port-city Integration Project** designed to support the improvement of urban management, logistics efficiency, port accessibility and urban mobility in Greater Abidjan. In this project, SUF financing was guided by an MFD approach as the project team explored options for blended finance to enable private sector participation. The team identified three future project components that are relevant for crowding in private financing; for example, US$10 million in SUF resources were allocated to investments to improve access infrastructure for lagoon boat shuttle services, and it is anticipated that this could be scaled up through blending in private financing.

12. **While SUF financing has supported a range of sectors, large-scale infrastructure programming – particularly electrification, sanitation and access to water – comprised more than half of FY18 SUF financing.** The Energy and Extractive sector benefited from US$940 million, or 38 percent, of SUF resources in FY18 and the Water sector received US$551 million in funding or 19 percent

of FY18's SUF resources. This early IDA18 experience is consistent with that of IDA17, where SUF financing had a similar bias toward infrastructure, while regular IDA resources are more targeted toward interventions in the social and other sectors (Figure 3).

Figure 3. FY18 SUF and PBA Commitments, by Major Sector (%)



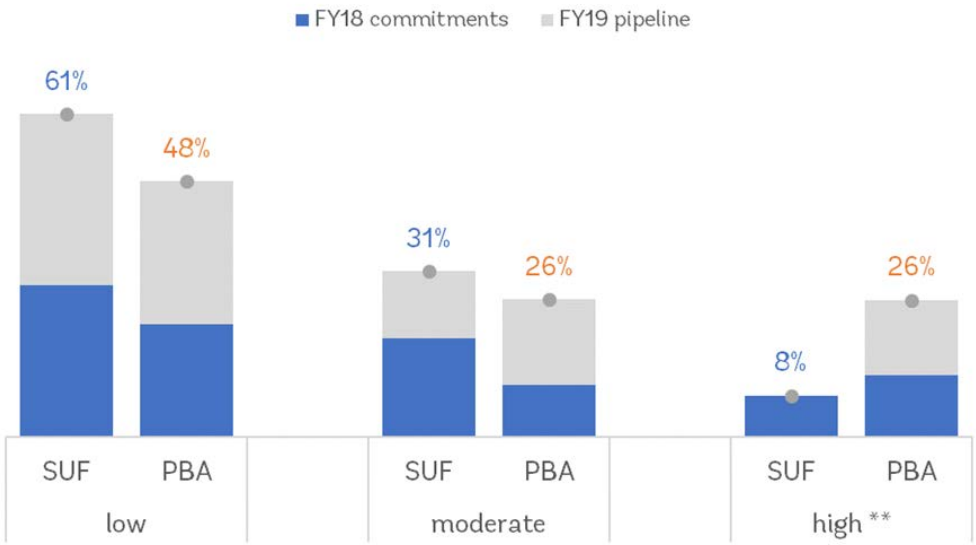
13. **The vast majority of SUF financing (67 percent) was channeled through Investment Project Financing (IPFs) in FY18, with the remaining 33 percent provided through the Program for Results (PforR).** SUF financing can be utilized for PforRs, IPFs, and Development Policy Operations (DPOs). However, in FY18, no DPOs were put forward for SUF financing. IPFs received US$1,525 million in FY18 SUF financing, and PforRs received US$745 million.

Following Established Criteria

14. **IDA countries at low risk of debt distress have been prioritized to receive SUF financing.** As shown below in Figure 4, the share of SUF resources dedicated to countries at low or moderate risk of debt distress exceeds their respective share of core IDA resources. The Low-income Country Debt Sustainability Analysis (LIC-DSA) is used as the primary determinant of SUF eligibility for IDA18 eligible countries. [7] For those countries not subject to the LIC-DSA, Management continues work to refine the framework to assess eligibility for SUF (see paragraph 34).

[7] As of June 2018, five IDA clients Kosovo, Mongolia, Nigeria, Pakistan and St. Lucia, are not covered by the LIC-DSA based on the eligibility criteria established by the IMF.

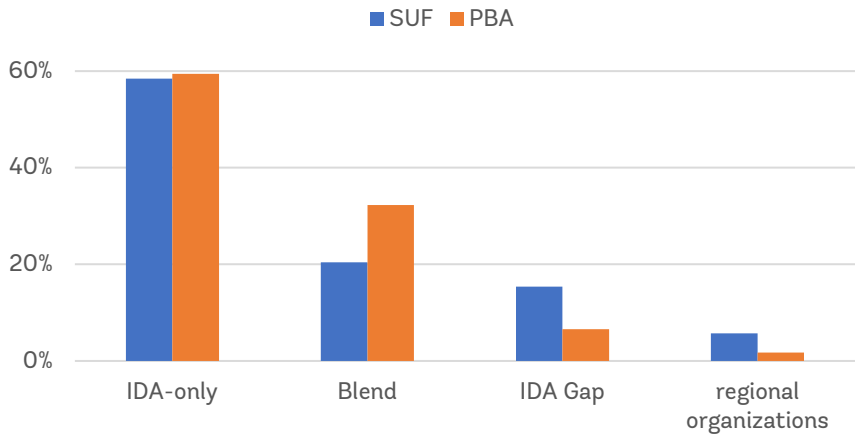
Figure 4. Share of IDA18 SUF, by Risk of Debt Distress, Compared to Share of Core IDA



** Ethiopia shifted into high risk of debt distress at late stage of project cycle - see paragraph 18.

15. **Consistent with guidance to prioritize countries at higher capacity, SUF resources have been allocated to countries with the capacity to absorb resources well.** Capacity is assessed by considering both a country's Country Policy and Institutional Assessment (CPIA) score and its Portfolio Performance Rating (PPR). All countries – including the one FCS country – receiving SUF financing in FY18 had CPIA scores well above the IDA average. The PPR can also provide a proxy for country capacity – particularly useful in FCV contexts. The PPR for the one FCS country (*Côte d'Ivoire*) which received SUF financing in FY18 was also higher than the average rating.

Figure 5. Breakdown of SUF Resources in FY18 by Client-type



16. **Also, in line with expectations that SUF be balanced between IDA-only and Blend countries over IDA18, IDA-only and Gap countries received 74 percent of SUF commitments in FY18.** Fifty eight percent of FY18 SUF resources (US$1,327 million) went to IDA-only countries, with IDA Gap countries receiving another 15 percent (Figure 5). US$464 million in resources were used to support Blend countries, which constituted 20 percent of FY18 SUF resources.[8] Managing a broad balance between Blends and IDA-only countries had some operational implications in early IDA18, particularly in regions with fewer IDA eligible countries. As noted above,

[8] The remaining six percent went to a regional organization.

early in the IDA18 cycle, many price-sensitive IDA-only countries were more intent on utilizing their larger concessional envelopes than tapping the SUF. This balance between client types will continue to be carefully monitored to ensure appropriate balance over the entire IDA18 cycle (see paragraph 36).

Protecting Debt Sustainability

17. **Since SUF resources are provided on non-concessional terms, the IDA18 SUF is managed intentionally and prudently to prioritize debt sustainability in IDA clients.** Only countries rated at low or moderate risk of debt distress under the LIC-DSA are eligible to utilize SUF financing. Emerging debt risks can present a timing challenge, as occurred in the case of Ethiopia, which formally shifted from moderate to high risk of debt distress very late in the project cycle in the second half of FY18. Two operations for SUF financing in Ethiopia proceeded to the Board on an exceptional basis on the basis that (i) in one instance, the shift occurred after negotiations had already occurred and, in the other, the negotiations had been authorized and were soon to commence, and (ii) the two credits already planned to integrate sufficient IDA core concessional resources to meet the 35 percent grant element concessionally threshold under IDA's Non-Concessional Borrowing Policy (NCBP).

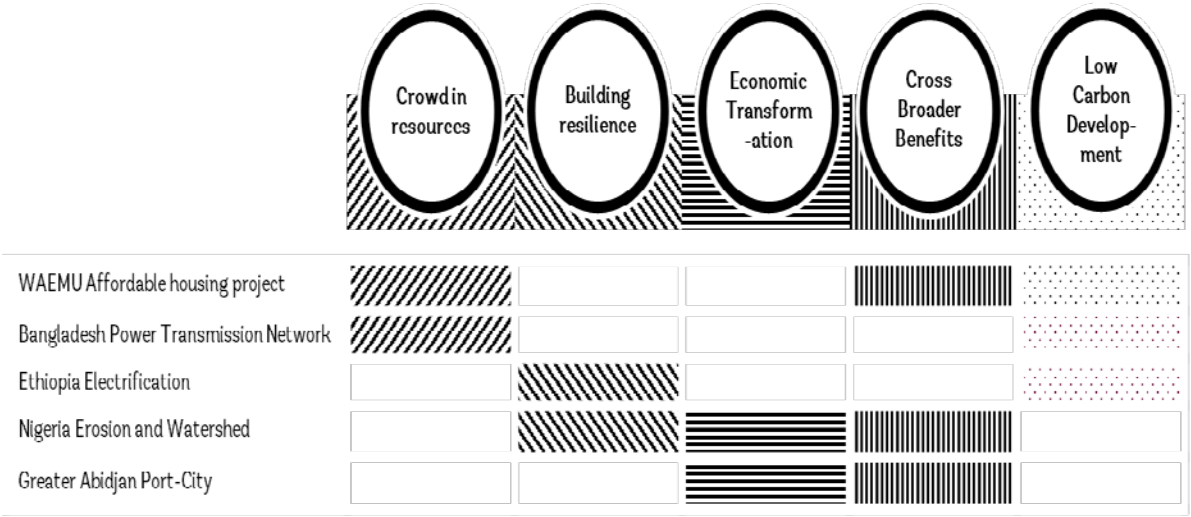
18. **To ensure SUF is provided only in appropriate contexts, SUF financing is provided in a manner consistent with IDA's NCBP and the IMF's Debt Limit Policy (DLP**) – each of which considers financing to be concessional should it entail a grant element of 35 percent or more. In FY18, Benin, Burkina Faso and Ethiopia each integrated their SUF financing with concessional core financing in proportions that resulted in the grant element of project financing for SUF operations near or exceeding the 35 percent concessionality threshold.

19. **With IDA's new access to markets under IDA18's new hybrid financial model, the Negative Pledge Clause now applies to all IDA countries accessing non-concessional financing through the SUF.** The Negative Pledge Clause (NPC) has long been a feature of IBRD financing. As in IBRD, it serves to protect IDA against the commitment of government resources that enables other foreign creditors to have repayment preference ahead of IDA. Since the start of FY18, the clause applied to IDA/IBRD Blend countries accessing non-concessional resources via the IDA18 SUF or transitional support. As of the start of FY19, the clause now similarly applies to IDA-only countries receiving SUF financing. Over FY18, through various fora, IDA has worked proactively to engage teams preparing projects endorsed for FY19 SUF financing to explain the implications of the NPC for countries' debt portfolio.

Prioritizing Based on Soft Filters

20. **In addition to the criteria for debt sustainability and country capacity, the IDA18 SUF employed several "soft prioritization filters" to help prioritize the operations proposed for the facility.** Low carbon development is promoted in several projects including the **Ethiopia Electrification Program**, which seeks to double access of households to grid and off-grid energy, including solar and wind. **The Nigeria Erosion project** advances economic transformation, provides opportunities for private financing, while providing 100 percent climate co-benefits. Several operations aim to crowd in resources, including the **Ethiopia Urban Institutional and Infrastructure Development Program,** designed to prepare cities to raise their own funding. Several water and sanitation projects support resilience building, as does the **Nicaragua Rural and Urban Access Improvement Project** which aims to improve access to markets and services through improved rural and urban roads. Some SUF-financed projects could have significant cross border benefits, including the **West African Economic and Monetary Union Affordable Housing Finance Project** (Box 2). See Figure 6 for examples how some SUF projects advance multiple filters.

Figure 6. SUF-financed Projects Advancing Multiple Soft Filters



Box 2. Facilitating Innovation and Improving Housing Affordability in West Africa: the West African Economic and Monetary Union Housing Project

In the eight francophone countries that make up the West African Economic and Monetary Union (WAEMU), housing is scarce, demand is skyrocketing, and costs are high. In the next two decades, it is expected that WAEMU's population will double, and that population density will increase in urban areas. This stands to aggravate the large housing deficit, which primarily affects lower-income groups. Approximately 800,000 new housing units are needed each year to address the shortage. However, WAEMU banks only issue about 15,000 new mortgages each year. In response to these challenges, the WBG and its partners are seeking to improve the affordability of housing, including for underserved populations, by expanding access to long-term housing finance.

21. **In addition to the various criteria above, SUF sought to innovate and collaborate across the WBG to support client demands and needs**. For example, as part of a WBG effort, SUF financing played a key role in facilitating an innovative regional IDA project designed to improve the affordability of housing, including for underserved populations in West Africa (Box 2).[9] From a financing perspective, the project represented an important innovation as it complements the instruments of the IDA Regional Program and supports financing for regional integration efforts (see IDA Regional Program MTR Review Paper). Reflecting IDA and IFC's collaboration in the housing sector in the West African Economic and Monetary

[9] The WAEMU project required a Board policy waiver for SUF lending to BOAD – a credit worthy regional organization - without sovereign guarantee. The waiver highlighted the low risks associated with lending to BOAD, specifically its strong financial position, stable investment rating (Baa1/BBB) and the strength of members' support.

Union (WAEMU) region, an IDA grant provided technical assistance to the WAEMU Commission, while IFC has invested in equity in Caisse Régionale de Refinancement Hypothécaire (CRRH), a mortgage refinancing company sponsored by the West African Development Bank to help the institution strengthen its capital base and governance, and be able to scale up its operations. A follow-on IFC investment in CRRH was supported by the IDA18 IFC-MIGA Private Sector Window to support the extension of maturity of bond issuances.

22. **Partnerships are critical to helping clients prepare, finance and implement projects financed by SUF.** This is particularly true in complex infrastructure projects. For instance, in Nigeria – which has the second largest electricity access deficit of any country after India – the **Nigeria Electricity Transmission Project** aims at increasing the transfer capacity or Nigeria's transmission network. The project's design, financing and technical assistance was done in consultation with development partners, including the African Development Bank, French Development Agency, UK Department for International Development, European Union, German Agency for International Cooperation, Japan International Cooperation Agency (JICA), and US Agency for International Development. For instance, the **Bangladesh Enhancement and Strengthening of Power Transmission Network in East Region Project** is designed to increase transmission capacity and reliability of the electricity network and strengthen the Power Grid Company. For this ambitious project, the Asian Development Bank will provide capacity building to support regulation of the sector, while the Government is mobilizing financing for transmission lines from the Asian Development Bank, JICA, German *Kreditanstalt fur Wiederaufbau*, Korea Economic Cooperation Development Fund, Islamic Development Bank and the Governments of China and India.

B. CURRENT IMPLEMENTATION AND OPERATIONAL ARRANGEMENTS

23. **SUF implementation builds upon IDA's country-driven model to ensure a keen focus on high impact development and debt sustainability, with a review process increasingly embedded in the Bank's existing operational procedures and due diligence.** The implementation arrangements for the IDA18 SUF remain largely the same as in IDA17: (i) determination of notional FY regional allocations; (ii) regional prioritization of projects; and (iii) endorsement of a prioritized project list through a corporate vetting process. In addition, as part of the Bank's IDA18 implementation outreach efforts, DFI proactively communicated to Bank staff the objectives and modalities of the SUF through several venues, including the enhanced internal IDA18 website, the new IDA@Work operational newsletter for staff, as well as SUF-specific information sessions and brown bag lunches.

24. **Regional allocations for the SUF are built upon the PBA system to ensure consistency with IDA's performance and poverty orientation.** To ensure equity in the allocation of resources available under the Facility in FY18, notional regional allocations were set equal to each region's share of core IDA for countries eligible to utilize SUF resources (Table 1).

Table 1. IDA18 SUF Indicative Regional Allocations (US$ billion)

Region	FY18	FY19
AFR	1.35	1.26
EAP	0.13	0.14
ECA	0.07	0.10
LCR	0.04	0.04
MNA	-	-
SAR	0.48	0.53
Total	2.07	2.07

25. **To prioritize projects for SUF financing, Management sought proposals from each Region for projects viewed as potentially transformational and aligned with objectives of the SUF.** Regions then put forward their prioritized proposals based on SUF criteria: debt sustainability, country capacity, potentially high impact, and the extent the project advanced one or more of the soft filters discussed above.[10] The regions then submitted their proposed list of operations for corporate vetting, along with supporting information regarding each program's development objectives and alignment with SUF criteria.

26. **Demand for FY18 SUF financing well exceeded the notionally available SUF resources, confirming the stable demand from IDA clients for additional IDA resources, even if at non-concessional terms.** The initial proposals from the Regions for FY18 SUF financing – all for projects in eligible countries – exceeded US$3 billion, as compared to the notional US$2.07 billion allocated to FY18. This is particularly interesting when considering that such demand was expressed even after countries had just received significantly larger IDA18 indicative allocations of concessional core resources under the PBA.

27. **A corporate review process was then held to prioritize and endorse projects at the Bank-wide level.** Regional lists were aggregated, so that the assessment of SUF eligibility and prioritization criteria, as well as the review of the merit of individual operations, could be done *across* regions, beyond that already done *within* regions.[11] Given the importance of ensuring a robust launch to early IDA18 SUF implementation, the Bank's CEO then reviewed and approved the recommendations for FY18 SUF financing resulting from this corporate review process.

28. **To keep the Board informed, updated lists of projects endorsed for IDA18 SUF financing were shared with the Board as part of OPCS' Quarterly Operational Board Update.** These updated project lists reflected updates to the corporate review process described above, which would similarly reflect the shifts in operational planning throughout the year. Active pipeline management is exercised to ensure that SUF resources are utilized effectively. As a final step before submission to the Board, operational teams were asked to seek a final corporate endorsement of the Board package to confirm continued eligibility and alignment with SUF objectives.

III. LESSONS LEARNED/DISCUSSION POINTS

A. SOLID DEMAND FOR NON-CONCESSIONAL RESOURCES

29. **IDA18 SUF usage to date and pending pipeline confirm solid demand for non-concessional resources.** As of June 2018, SUF financing has been endorsed for more than US$4.1 billion (more than two-thirds of IDA18 SUF resources), without yet seeking nominations for the final half of the IDA18 cycle. Demand is particularly strong from African countries, where external financing volumes in many places remain insufficient to satisfy the demand for high priority development initiatives. Demand is also strong for SUF financing in South Asia, where development needs similarly exceed available funding. Understandably, demand for SUF is comparatively weaker in regions with numerous small states which have received significant increases in core IDA allocations, which they can access at more conessional

[10] FY18 Implementation Guidelines were concurrently circulated to staff through several means to assist teams in prioritizing projects.

[11] As in IDA17, DFI, OPCS and the Bank's Macro and Debt Analytics group also reviewed proposed SUF financing volumes for each country to (i) confirm consistency with the IMF's Debt Limit Policy and the Bank's NCBP and (ii) ensure that access to the Facility was reasonably equitable, i.e., did not exceed each country's FY18 allocation of core IDA. The allocation of FY18 resources was limited in several instances to ensure that SUF resources were not excessively concentrated in a few countries.

terms. It is expected that any untapped SUF resources from one region late in IDA18 could be well utilized by countries in another region.

30. **Projects in FY19 SUF pipeline are well-aligned with SUF principles, ensuring financing for high impact projects in countries where non-concessional financing is appropriate.** First, more than two-thirds of the FY19 pipeline projects (both by number and by financing) are in countries at low risk of debt distress. Second, the pipeline reflects strong demand for infrastructure financing, with the vast majority of projects related to energy sector (including low carbon development) and transportation. Moreover, as in FY18, the projects in the pipeline advance many of the SUF soft filters, particularly crowding in additional resources and promoting low carbon development. This solid demand confirms the value of such financing being available to IDA clients above and beyond their core concessional allocations. Finally, if other IDA18 non-concessional windows – Transition or the IFC-MIGA Private Sector Window(PSW) – have unutilized resources available later in IDA18, such financing could potentially be redeployed to the SUF, but only to the extent that the financing could be well used and aligned with SUF principles (See IDA18 MTR Chapeau paper [12]).

31. **The current SUF framework envisions eligibility only for member countries, necessitating Board waivers for potential SUF access by regional institutions without a sovereign guarantee.** For projects like West Africa Affordable Housing Finance, some regional institutions can play a role in advancing several of the SUF's soft prioritization filters, including crowding in resources and promoting regional integration through creating regional markets. Going forward, it may be useful to consider providing limited SUF financing to creditworthy regional organizations for specific projects that advance SUF priorities. (See the Regional Program paper for further discussion).

B. PROTECTING DEBT SUSTAINABILITY

32. **While protecting debt sustainability remains a top priority in implementing the SUF, operational challenges call for continued Management attention, particularly for countries at moderate risk of debt distress.** One such challenge is that operational planning and negotiations occur on an ongoing basis, while changes in a country's risk rating may occur very late in the operational cycle, as happened in the case of Ethiopia. For current operational purposes, SUF considers the risk of debt distress to be "locked" as of when the negotiations with client is authorized, although this is monitored closely when there are delays in negotiations. Also, to ensure that SUF financing is not exacerbating negative debt risk trends, the viability of proposed operations in countries subject to the NCBP and/or DLP is assessed on an ex ante basis by the NCBP Committee. Further, countries at moderate risk of debt distress are strongly encouraged to integrate SUF – whenever it makes operational sense – with sufficient concessional financing to ensure the overall package is concessional. Finally, reflecting the shift of more IDA countries into high risk of debt distress, the result is a smaller pool of countries eligible for SUF financing, along with the need for continued vigilance in assessing issues around the concentration of SUF financing.

33. **The recently updated IMF-World Bank Low-Income Country Debt Sustainability Framework (DSF) includes several important features which will facilitate even greater focus within the SUF on protecting debt sustainability.** In particular, the updated LIC-DSF envisions greater differentiation of countries rated at moderate risk of debt distress, to include a sub-category signaling substantial risk or limited space to absorb shock. As a result, while the SUF will continue to encourage countries at moderate risk of debt distress to adequately integrate SUF financing with concessional

[12] See the IDA18 MTR paper on, "IDA18 Mid-Term Review Implementation and Results Progress Report: Towards 2030: Investing in Growth, Resilience and Opportunity. Delivering on innovation and transformation, and managing IDA resources for greatest impact."

resources, it is envisioned that any country found to be in this elevated risk category[13] would be required to do so in order to receive financing from the SUF. Additionally, future work will explore measures to increase transparency on debt and promote timeliness and availability of information.

34. **Going forward, Management will refine approaches to assess debt sustainability risks for countries not subject to the LIC-DSA.** For instance, when considering SUF access for more credit-worthy IDA-IBRD Blend countries, the risk-based approach in Market Access Country Debt Sustainability Assessment (MAC DSAs) can be used with a view to ensure SUF's priority on debt sustainability. For the five countries not covered by the LIC-DSA, corporate units in Management will coordinate closely to consider potential SUF financing using existing market assessments and other available tools. This approach may develop further once revised debt sustainability methodologies are fully operationalized.

C. STRENGTHENING THE CORPORATE REVIEW PROCESS

35. **In implementing the SUF, Management continues to recognize that there is no single policy prescription to spur transformational change.** As the Independent Evaluation Group (IEG) has concluded, transformational projects vary in form, size, and the development challenges they address and are difficult to identify on an ex-ante basis.[14] Furthermore, transformational projects are not necessarily defined or limited by the source of financing, whether it be the projects financed by IDA core concessional resources or the SUF or any of the other IDA18 windows. That said, projects which are revenue-generating or where the return on investment is in the near-term are more likely to be better suited for the SUF's more expensive financing.

36. **While the SUF corporate review process confirms alignment with the window's priorities, there can be tensions between stewardship and ensuring that resources are delivered where they are most needed in a timely manner:**

- Given that transformational projects can vary greatly in one context to another, it is difficult to assert that corporate comparisons across the regions in this regard provide much value added.
- Managing an appropriate balance between Blends and IDA-only countries over the scope of IDA18 can lead to unintended operational results. For example, promising projects in Blend countries in certain regions may be deferred or declined until there is a stronger demand from IDA-only countries – many of which rightly avoid non-concessional financing early in an IDA cycle. Going forward, it will be important to monitor Blends' enhanced access to IBRD under the IBRD Capital Package.
- In addition to the Blend balance, the corporate vetting process ensures that other SUF requirements are met: country eligibility and capacity, single country caps, avoiding substitution for IBRD financing, etc. To help balance these requirements, a checklist has been introduced. Should the SUF become a more established feature within the IDA architecture in the future, a review process similar to IDA's Regional Program could offer a model to consider projects in a more holistic sense, while balancing corporate due diligence with operational efficiency[15] (Figure 7).

37. **Consistent with the Bank's corporate priority to enhance agility, SUF implementation continues to search for opportunities to achieve its objectives in a more agile manner.** As part of a

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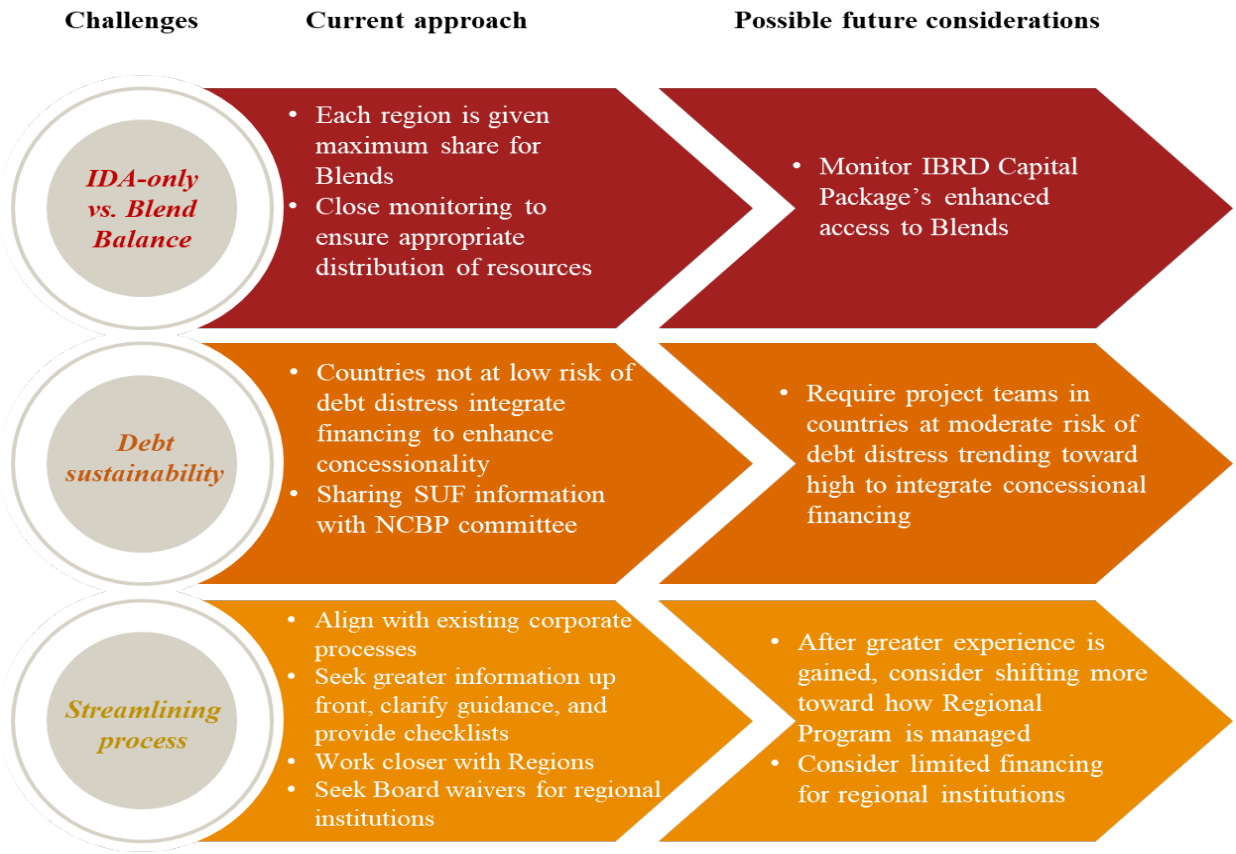
[13] Updated classifications of IDA clients under the LIC-DSF will be rolled out over FY19, as DSAs are conducted and submitted to the Boards of the IMF and World Bank.

[14] See "World Bank Group Support to Transformational Engagements: An IEG Category II Learning Product," December 2015.

[15] After years of Regional Program experience, there is no corporate vetting process beyond regular operational procedures and guidelines, through which DFI is actively involved to ensure close alignment with the Program's priorities and intentions.

consultative effort, several adjustments were made to ensure that the SUF's objectives could be advanced more efficiently. First, as we move past the early stages of IDA18 implementation, the frequency of the SUF corporate review cycles is being scaled back to align with existing operational planning cycles. Also, clearer guidance has been provided to the Regions. Strong corporate review and due diligence will continue to ensure that the SUF's objectives and priorities are achieved as intended.

Figure 7. SUF Implementation Challenges



Annex 1: IDA18 SUF-Financed Operations and Project Development Objectives

Country	Project Name	Board Document # and link	Sectors %
West Africa	Western Africa - WAEMU Affordable Housing Finance Project (IDA financing US$155m, of which US$130 SUF) (P161658)	IDA/R2017-0302/1 Link	Financial Sector – 91% Industry, Trade, and Services – 9%
Description:	The PDO is to expand access to long-term housing finance in the West African Economic and Monetary Union (WAEMU), including for underserved households. The WAEMU has experienced solid growth over the last five years, but challenges remain significant. 800,000 new housing units are needed every year to address the housing shortage, which is increasing under strong population and urbanization growth. WAEMU banks issue only around 15,000 new mortgage loans per year, which are mostly restricted to the wealthiest salaried households. Thus, commercial housing finance is not affordable for households with modest or irregular incomes. Expansion of access to more affordable housing finance under the project will be coupled with interventions in the urban and private sectors. Project's innovative features include i) a regional approach using regional institutions with financing from both the IDA non-concessional SUF and the regional grant window under the IDA regional program; ii) expanding access to housing finance for households in the informal sector; and iii) the crowding-in of private finance through the West African Regional Mortgage Refinancing Company (under a base case scenario, one dollar of IDA is expected to leverage US$5 of private finance). SUF will build the ecosystem to enable housing finance for underserved households and may open opportunities for IFC's investments. Stimulating demand will lead to higher investment into affordable housing, which has a strong multiplier effect across the economy given the number of linked sectors. IDA funding could enable the additional 50,000 mortgage loans over five years. The expansion of housing finance during the 5-year project window will help provide shelter to over 200,000 people. Applying a conservative job multiplier of five would result in the creation of about 250,000 new jobs by end of 2022. There are also many social benefits associated with improved housing and home-ownership, such as healthier living, and providing assets to escape poverty.		
Nigeria	Electricity Transmission Project (P146330) (IDA financing US$486m, of which US$364m SUF)	IDA/R2018-0014/1 Link	Energy and Extractives – 100%
Description:	The PDO is to increase the transfer capacity of the transmission network in Nigeria. Nigeria has the second largest electricity access deficit of any country after India. The national electrification rate is about 55 percent and only 39 percent in rural areas. Nigeria faces huge economic costs from not having a universal and reliable supply of electricity. By removing transmission constraints, the project will contribute to making more power available for the commercial and industrial sectors, thus contributing to economic growth and job creation. The project will contribute to restoring sector financial viability, making more and reliable power available for sale to customers, increasing revenue and collections, and serving as a cost-effective model for private sector investment and ownership in future network expansion thus reducing the requirement for public funding of transmission infrastructure. The proposed project is anchored in the World Bank Group's strategy to support power sector development in Nigeria.		
Ethiopia	Ethiopia Electrification Program (ELEAP) (P160395) (IDA	IDA/R2018-0021/1 Link	Energy and Extractives – 100%

	financing US$375m, of which US$125m SUF)		
Description:	The PDO is to increase access to electricity in Ethiopia and to enhance institutional capacity for planning and implementation of the Government's electrification program. Ethiopia aims to reach universal electricity access by 2025 in accordance with the National Electrification Program (NEP). The NEP takes a comprehensive approach to electrification through a balance of on-grid and off-grid service provisioning, as well as public and private sector-led interventions. The proposed ELEAP supports the NEP, by financing the first phase of grid intensification activities, building implementation capacity, and creating a blueprint for scaling up electrification. The proposed ELEAP is also designed to create the framework for crowding in resources from other development partners. It is well-aligned with the objectives of the IDA SUF to prioritize projects with potentially transformational impact, given the significant increase in access to electricity that will be supported under a programmatic framework by ELEAP. Increased access to electricity services for poor households, particularly in rural areas will create opportunities to study and work, contribute to raising the quality of life, improve safety at night and stimulating off-farm activity and economic interaction. Increased access to reliable electricity supply will not only lower costs and improve the profitability of business enterprises but is also key to enabling the setup of new private sector-led enterprises which stimulate GDP growth. In addition, the Program will contribute to the cross-cutting issues such as gender and climate change.		
Ethiopia	Urban Institutional and Infrastructure Development Program (UIIDP) (P163452) (IDA financing US$600m, of which US$200m SUF)	IDA/R2018-0027/1 Link	Sub-National Government – 100%
Description:	The PDO is to enhance the institutional performance of participating urban local governments (ULGs) to develop and sustain urban infrastructure, services, and local economic development. Ethiopia has a significant number of secondary cities that are spatially distributed across the country. The proposed Program will finance the government's UIIDP, which was established as a follow-on phase of the Urban Local Government Development Program (ULGDP), and targets 117 ULGs. This substantial scale-up to 117 cities, compared to 44 cities in total supported by ULGDP (starting 2008) and ULGDP II (beginning in 2014), will bring about greater impact in terms of population coverage and size of the Program. The UIIDP's fundamental objectives and funding directly target the strengthening of urban governance and management systems, participatory strategic and spatial planning, improved transparency and accountability enhanced citizen engagement in the decision-making of urban governments (including of women), private public dialogue, and directly financing urban infrastructure and services. Together, these improve the quality of lives for urban residents and promote economic development through increased access to services such as drainage, roads, sanitation and solid waste management, and create positive health and productivity externalities. The program also creates jobs and contributes to the CPF goals related to climate change, DRM, and environmental sustainability. In that respect, UIIDP is also well-aligned with the objectives of the IDA SUF to prioritize projects with potentially transformational impact, given how the Operation will crowd-in resources and facilitate local economic development, promote urban resilience and enhance gender equality, scaling up impact to reach more than 6.5 million people.		
Nicaragua	Rural and Urban Access Improvement Project: Additional Financing (P165467) (IDA financing US$35m, of which US35$m SUF)	IDA/R2018-0033/2 Link	Rural and Inter-Urban Roads – 100%
Description:	The PDOs are to: (a) improve safe and sustainable access to markets and services in targeted rural and urban areas of the Recipient; and (b) in the event of an Eligible Emergency, provide		

	an immediate and effective response to said Eligible Emergency. The Project provides resources for critically needed road links in both rural and urban parts of Nicaragua and contributes to the goals of both the National Human Development Plan and the National Transport Plan of Nicaragua, aimed at developing productive zones and improving the quality of life of the population living in the targeted areas. The proposed improvement of key urban access routes to Managua will facilitate the movement of people and goods, thus enabling access to jobs and markets in Managua and reducing transportation costs and travel time, as well as alleviating physical barriers to trade at both local and national levels. This in turn is expected to have positive effects on the cost of imports and exports, thus increasing Nicaragua's competitiveness and improving people's purchasing power. An AF to the PMARU is considered an effective way of expanding the impact of the Project. The proposed AF will support rehabilitation and improvement works of three additional rural road segments that are contiguous with segments currently financed under the Project. It will enable the addition of over 41 km of cobblestone construction activities, extending the impact of those segments already supported under Component 1 of the Project and increasing the total length of project-financed cobblestone roads by nearly 2.5 times. In total, the number of Project beneficiaries will increase to approximately 669,000 people, of whom 450,000 will be direct beneficiaries. The AF will continue to contribute to increasing road resilience to natural hazards in high-risk areas, where most of the rural poor are located.		
Bangladesh	Enhancement and Strengthening of Power Transmission Network in Eastern Region Project (P159974) (IDA financing US$450.64m, of which US$450.64m SUF)	IDA/R2018-0047/1 Link	Energy and Extractives – 100%
Description:	The PDOs are (i) to increase the transmission capacity and reliability of the electricity network in the eastern region, and (ii) strengthen the institutional capacity of the Power Grid Company of Bangladesh Limited (PGCB). The availability and reliability of power is a key constraint to job creation and poverty reduction, hampering the competitiveness of Bangladesh's economy. The proposed project will expand the network in the eastern region of the country, which is an important economic and industrial hub. The project is well aligned with the objectives of the IDA18 SUF. Network investments under the proposed project are expected to maximize leverage of public finance for further development by unlocking private sector growth and bringing a transformational economic impact in the eastern region. The Government is considering developing the Mirsharai area as a key private economic zone. The upgrade of substations at Mirsharai under the project will create basic capacity of more than 2,000 MW of power supply, which will enable the private sector to invest in productive facilities in the area. Moreover, additional upgrade of another three new substations under this project are expected to facilitate the integration of renewable energy of significant capacities into the grid. Technical designs for the investments will incorporate features that will enhance the climate resilience of the constructed transmission lines.		
Benin	Rural Water Supply Universal Access Program-for-Results Project (P164186) (IDA financing US$220m, of which US$170m SUF)	IDA/R2018-0102/1 Link	Water Supply – 100%
Description:	The PDO is to increase access to water supply service and to strengthen service delivery arrangements in selected rural areas. The proposed Program aims to deliver water services to the poorer rural populations of Benin with multiple impacts on improved living conditions, health, school attendance, productivity, and income, particularly for women and girls. Firstly, the Program will support investments in piped rural water supply systems to rapidly expand		

	access at a level not previously experienced in Benin. Secondly, the Program will strengthen service delivery arrangements through comprehensive reforms of the rural water supply sector. It constitutes a significant scale-up for the World Bank engagement in the Water Supply & Sanitation sector, which started with the technical assistance from the Water and Sanitation Program, followed by the Small Town Water Supply and Urban Septage Management Project under implementation. The Program will help mobilize investments from private operators and from water service users. Overall, the Program will contribute to fund a substantial portion of the Government of Benin's national program to deliver universal access to water services in rural areas, which is a key development objective for the country.		
Senegal	Rural Water Supply and Sanitation Project (P164262) (IDA financing US$130m, of which US$130m SUF)	Board Date – June 22, 2018 Link	Water, Sanitation and Waste Management – 100%
Description:	The PDO is to increase access to improved water and sanitation services in selected rural areas and strengthen capacity for water resources management. Senegal is a country with limited water resources needed to support key sectors of the economy including agriculture as well as industrial and domestic water supply. Development of the rural water supply and sanitation sub-sectors is still facing multiple challenges. The main outcome expected from the proposed project is access to improved water and sanitation services at an affordable cost for about 1,500,000 people. The project will also consolidate rural water and sanitation sector reforms by strengthening the performance of public and private entities to manage services. By helping to close the access gaps between urban and rural areas and between water and sanitation services, the proposed project fitted into the second pathway to poverty reduction and shared prosperity identified in the 2018 Systematic Country Diagnostic (SCD) of Senegal: to enhance equity and resilience. The proposed project is well aligned with the objectives of IDA18 SUF to prioritize projects with transformational and ambitious impact, given the very large number of targeted beneficiaries, and its potential to support Government of Senegal's poverty reduction plans, and to reduce water-borne diseases. Under the proposed project, the World Bank's continued support in rural water sector reform will help consolidate performance and address the remaining institutional challenges to the sustainable development of rural water services in the country.		
Nigeria	Erosion and Watershed Management Project (NEWMAP): Additional Financing (P164082) (IDA financing US$400m, of which US$100m SUF)	Board Date – June 27, 2018 Link	Agriculture, Fishing, and Forestry – 60% Water, Sanitation and Waste Management – 28% Public Administration – 6% Transportation – 6%
Description:	The PDO is to reduce vulnerability to soil erosion in targeted sub-watersheds. NEWMAP is making significant progress in tackling land degradation and major gully erosion in Nigeria and has succeeded where earlier initiatives had failed, by adopting innovative, integrated approaches based on community participation. For the first time in Nigeria, NEWMAP introduced a holistic watershed management approach linking poverty alleviation with maintaining sustainable ecosystems and better disaster risk management. Above all, the integrated approach has improved, and even saved in some cases, the lives of people at risk of living near existing gullies. The proposed AF for the Project seeks to scale up successful gully restoration and watershed management activities and add new activities that have emerged from implementation experience, global commitments, and country initiatives. The AF is in alignment with the objectives and priorities of the IDA18 SUF. These include: i) the scaling-up of a well-tested approach in gully rehabilitation with demonstrated results in 21 sites to additional sites; ii) the adoption of innovative, integrated and transformational approaches to watershed management that blend physical and vegetative technologies with the close involvement of communities; iii) the promotion of disaster risk management awareness		

	activities, given Nigeria's high vulnerability to climate change; iv) the promotion of low-carbon initiatives; v) the provision of opportunities for private sector financing in areas such as landscape bioremediation and solid waste management practices; and vi) the provision of 100% climate co-benefits.		
Côte d'Ivoire	Greater Abidjan Port - City Integration Project (P159697) (IDA financing US$315m, of which US$315m SUF)	Board Date – June 29, 2018 Link	Public Administration – 27% Transportation – 59% Industry, Trade, and Services – 14%
	The PDO is to support the improvement of urban management, logistics efficiency, port accessibility, and urban mobility in the Greater Abidjan Agglomeration (GAA), and to provide an immediate and effective response to an eligible crisis or emergency. The Abidjan Autonomous Port (PAA), a major industrial hub of the GAA and Côte d'Ivoire's largest port, is the country's major economic growth driver. The PAA contributes around 90 percent of Côte d'Ivoire's customs revenue, hosts 65 percent of the country's industrial activities, and constitutes the main economic pole of the country. SUF financing has been mobilized for the Project given its strong, transformative development impact on the social and economic conditions in the GAA, in terms of improving the efficiency of logistics services and the competitiveness of the PAA, as well as the harmonious future urban development of the city. Specifically: (a) reducing by 20% the average access time to the PAA and by 45% the travel time along the city main access road; (b) reducing the trucks informal parking in the port area; and (c) increasing the percentage of urban authorizations/construction permits compliance with the detailed urban plans. Through its various activities, the project aims to facilitate long-term, efficient port-city integration and is expected to contribute to its increased competitiveness, thus helping Côte d'Ivoire regain its critical and pivotal economic role in the sub-region.		
Burkina Faso	Water Supply and Sanitation Program (P164345) (IDA financing US$300m, of which US$250m SUF)	Board Date – June 26, 2018 Link	Water, Sanitation and Waste Management – 100%
Description:	The PDO is to improve access to water supply and sanitation services in targeted areas. The sustainability of water resources, as well as improved sanitation, are the significant concerns in Burkina Faso. Thus, SUF financing has been mobilized to address the above challenges, taking into account the Program's strong, transformative development impact in terms of rapidly accelerating access to basic water and sanitation services while laying the basis for increased private participation in service delivery. Specifically: (a) more than 1.1 million people will benefit from improved water supply and 1.3 million people from improved sanitation services; and, (b) improvements in the sustainability of service delivery, including on operation and maintenance of assets and cost-recovery, will provide the basis for mobilizing private sector financing. By improving National Office for Urban Water Supply and Sanitation's operational efficiency, establishing an effective asset management approach for rural water supply and sanitation, updating the financial modeling and revising the tariff structures in urban and rural areas, and delegating rural water supply and sanitation services to private operators, the Program will create the enabling environment to attract private capital on a nation-wide basis either for direct financing and operation of larger scale assets, such as water or sludge treatment facilities, or through the private, delegated operators who will have some rehabilitation and network extension responsibilities as is already occurring with peri-urban operators. By strengthening water resources information and monitoring, the Program will allow for evidence-based decision making and planning for allocation of water resources across sectors, contributing to mitigate the impacts of climate change.		