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IDA Allocations to Blend Countries

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1. The 'blend' category is used to classify countries that are eligible for IDA resources on the basis of per capita income but also have limited creditworthiness to borrow from IBRD. Generally, given the access to both sources of funds, blend countries are expected to limit IDA funding to social sector projects (and use IBRD resources for projects in the 'harder' sectors). Moreover, as their creditworthiness increases, such countries should be able to take on more IBRD financing, which in turn allows their access to IDA financing to be gradually reduced. Over time, this results in a gradual hardening of the blend ratio, preparing the country for the eventual graduation from IDA.

2. IDA constrains its resource allocations to blend countries in recognition of their access to market-based funds including from IBRD. As a consequence, IDA has been able to support lending to IDA-only countries (i.e., those that are not creditworthy for borrowing from the IBRD) to a greater extent with its limited resources. However, when alternative resources to blends become temporarily unavailable – making the countries for some time 'notional' blends – these caps have tended to be eased, depending on both the level of country needs, and IDA's overall objective of distributing its resources broadly to the poorest counties. During IDA12 four large blends have been subjected to caps – India, Indonesia, Nigeria, and Pakistan. The rest of this note documents these lending constraints, and the extent to which they have been eased when necessary in the context of resource needs.

India

3. India is a blend country with access to IBRD financing. Its blend ratio is targeted to harden with the share of IDA funding dropping from 52% during FY98-00 to an estimated 30% during FY02-04 (the current CAS period). The IDA12 cap was set at SDR1.9 billion. However, in the aftermath of the Gujarat earthquake, IDA lending during IDA12 is now estimated at SDR 2.3 billion, including about SDR 400 million in special emergency funding. The IDA13 lending projections provided to Deputies set India's allocation at SDR 2.0 billion in line with the current CAS. Clearly, given India's performance and population, its allocation would be significantly higher if it were unconstrained.

Indonesia

4. During the past decade Indonesia graduated to IBRD-only borrower, but just before the start of IDA12 it slipped back to blend status. IDA lending for the IDA12 period is estimated at SDR 325 million, broadly consistent with the cap of SDR 300 million. At the IDA12 mid-term review Deputies concluded that this cap could be raised significantly in the event that the country's performance with respect to governance and poverty reduction were to improve considerably. The IDA13 projection caps the base case lending scenario at SDR 315 million but notes that the high case lending scenario, conditioned on adoption and sustained implementation of action programs in key reform areas, could result in significantly higher IDA lending during IDA13.

Nigeria

5. The IDA12 agreement foresaw no IDA lending to Nigeria unless performance improved. With the election of a new government, policy reform was in fact initiated, and Nigeria has gradually re-engaged with the Bank, with limited lending from IDA but none from IBRD. A CAS update of May 2000 indicated a notional IDA allocation for IDA12 of up to SDR 700 million. The latest estimate for the period is somewhat below that figure (SDR 640 million), with two-thirds of this expected to be realized in FY02. The IDA13 lending projections assumed lending to Nigeria of SDR 750 million. As set out in the Interim Strategy Update that was discussed in the Board in June, this lending figure could be somewhat higher depending on progress in key reform areas.

Pakistan

6. Like Nigeria, Pakistan has had no access to IBRD lending during IDA12. During FY00 it also had no IDA lending. With the reforms put in place by the new government IDA lending was resumed in FY01, and is picking up further in FY02. Apart from gradually improving country performance, two special factors have been at play: (i) a special drought emergency credit of SDR 100 million; and (ii) further additional funding in view of the severe fall out of the September 11th events on Pakistan. Total lending for the period is estimated at this time at over SDR 800 million. The CAS progress report discussed by the Bank Board in June 2001 had raised the amount of IDA12 lending to Pakistan to SDR 700 million from the original IDA12 cap of SDR 500 million. The IDA13 lending projections for Pakistan assume a cap of SDR 700 million. And as noted to Deputies, during IDA13 Pakistan may require also additional funding in the aftermath of September 11th.

Conclusion

7. Caps on lending to blends continue to be an important element in the management of IDA's constrained resources. Nonetheless, caps need to be applied carefully and flexibly to take into account country needs, especially when finance from other sources is unavailable or severely constrained. During IDA12, flexibility was exercised in cases where natural disasters, or other crises required IDA to increase its lending. Such flexibility will continue to be required during IDA13.