

IDA

INTERNATIONAL
DEVELOPMENT
ASSOCIATION



IDA: Governance and Operations

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World Bank



International Development Association (IDA)

A Fund for the World's Poorest Countries

Layout of Presentation

I. Introduction to the World Bank Group and IDA

II. IDA's governance arrangements

III. How IDA is funded

IV. How IDA resources are allocated

V. IDA Operations



Introduction to the World Bank Group and IDA

- | The World Bank Group (WBG) assists in development by providing:
 - **Financing** – The WBG offers a wide range of financing instruments and financial products to developing countries. These include loans, credits, grants, guarantees, project financing, and financial risk management.
 - **Knowledge** – The WBG provides countries with a range of Analytic and Advisory Activity (AAA) products to support their development needs and to build capacity.
 - **Partnerships** – The WBG strives to build and sustain a global network of partnerships. These partnerships are committed to addressing development issues that help focus and leverage resources to maximize the development community's effectiveness.



IDA is a member of the World Bank Group

The World Bank Group

International Bank
for Reconstruction
and Development (IBRD)



- | Supports middle-income countries
- | Provides loans at AAA terms plus cost spread
- | Funded through bonds, backed by shareholder capital

International
Development
Association (IDA)



- | Supports the world's poorest countries
- | Provides soft-loans and grants plus debt relief
- | Replenished every 3 years by donors, reflows and IBRD and IFC transfers

International
Finance
Corporation (IFC)



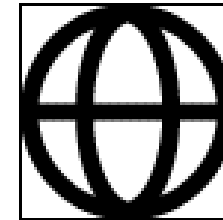
- | Supports the private sector in developing countries
- | Provides loans and equity investments
- | Funded through bonds, backed by shareholder capital

Multilateral
Investment
Guarantee Agency



- | Supports investors in developing countries
- | Provides political risk insurance
- | Backed by shareholder capital

International Center
for the Settlement of
Investment Disputes



- | Offers mediation and arbitration services for investors in developing countries



What is IDA?

- | The International Development Association – IDA – was established in 1960 as the concessional financing arm of the World Bank
 - IDA’s Articles of Agreement had 15 initial signatory countries and initial funding of \$917 million
 - IDA currently has 170 member countries, of which 79 are eligible for IDA resources, and 52 are donors
 - The Articles of Agreement are registered with the Secretariat of the United Nations
 - IDA’s purposes are to promote economic development, increase productivity, and raise standards of living in the less-developed areas of the world
 - IDA pursues these purposes through the provision of long-term funding concessional loans (or “credits”) and grants for high priority development projects



What is IDA: Key principles

- | To provide flexible, un-earmarked resources that are programmed in line with country priorities
- | To provide a platform to countries that helps coordinate their bilateral and multilateral resources
- | To support country efforts to build capacity and develop essential systems and institutions
- | To promote country capacity to address global priorities within national development programs
- | To leverage aid across multiple sectors
- | To provide safeguards and accountability mechanisms that promote good governance
- | To generate and share knowledge on development best practices and results across the globe



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IDA's Governance Arrangements

- | IDA's owners are developed and developing countries.
- | These 170 member countries govern IDA through the Board of Governors and the Board of Executive Directors.
- | Each member is represented on IDA's highest governing body – the Board of Governors, which meets twice a year.
- | Members are also represented on IDA's Board of Executive Directors – a resident board, responsible for the conduct of the general operations of IDA.
- | The decisions of the Executive Directors are normally made by consensus.
- | IDA's voting rights system has evolved to recognize contributions from donors and also to preserve the voice of its developing country members.



IDA's Governance Arrangements cont'd

- | IDA replenishes its resources every 3 years – we are currently at the start of the 16th three-year IDA replenishment period (which ends on June 30th, 2014)
- | The Governors of developed and developing donor countries appoint high-level representatives to negotiate the terms and volume of a replenishment – the IDA Deputies.
- | The 52 IDA Deputies are joined by 10 Borrower Representatives for discussions on how additional resources will be allocated and spent
- | The resulting “IDA Replenishment Report” is approved by the Executive Directors and the Board of Governors
- | IDA follows a “country-based model” whereby IDA recipients program their IDA resources in line with their national priorities



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How IDA is funded

- | IDA was set up as a revolving fund
 - The founding countries recognized that the poorest countries could not borrow resources for their development at market interest rates
 - All of IDA's assistance thus has a "grant element"
 - Most credits have a 60% grant element (meaning that only 40 cents per dollar needs to be repaid in NPV terms)
 - IDA grants have a 100% grant element
 - IDA has a strong 'solidarity' element in that countries that have graduated from IDA are providing repayments ("reflows") and some have also become donors



How IDA is funded (cont'd)

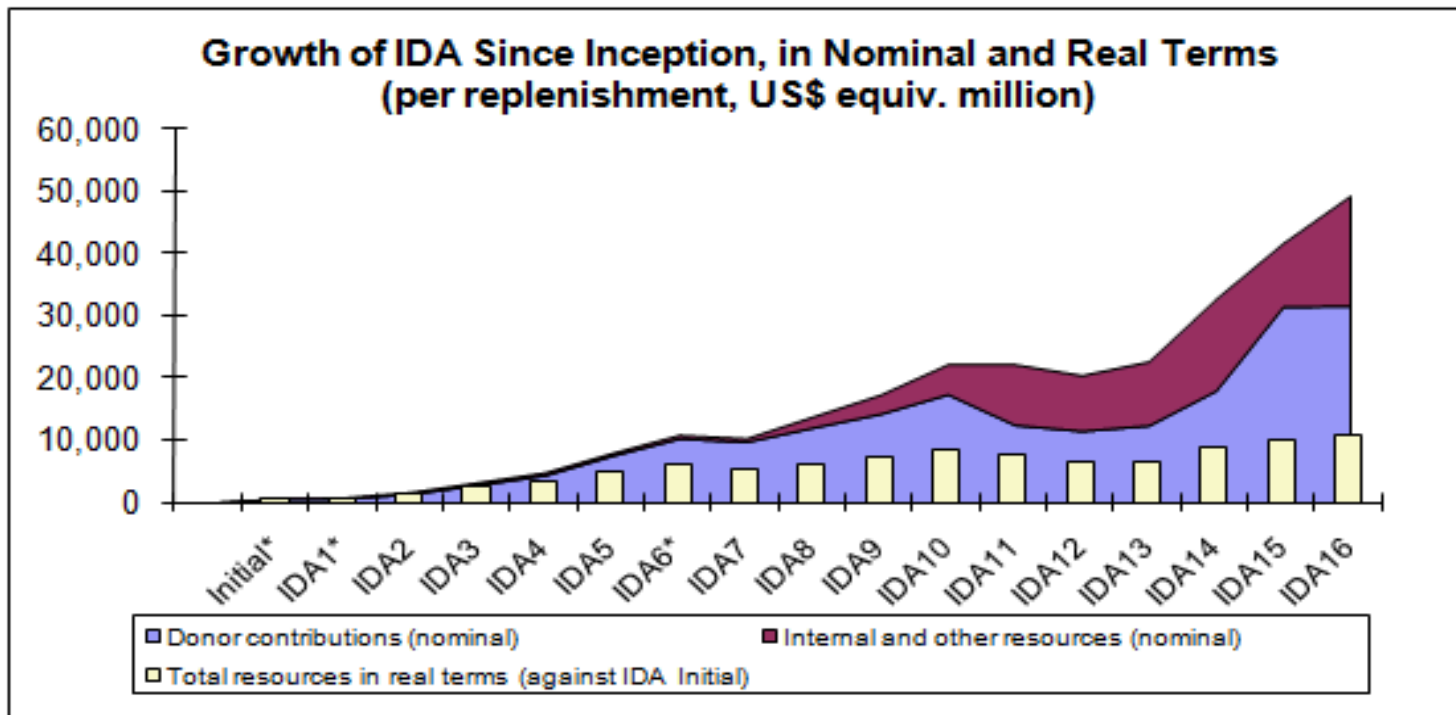
- | IDA needs periodic replenishment by donors since its capital base is being constantly eroded
 - | A regular IDA credit (40 years of maturity, including 10 years of grace, zero interest) involves a 60% grant element
- | Credit repayments (“reflows”) revolve and complement donor resources
 - | Credit repayments finance about $\frac{1}{4}$ of IDA’s disbursements
 - | Other members of the World Bank Group – the IBRD and IFC – also contribute a portion of their net income to IDA
- | Debt relief and grants have increased IDA’s dependence on future donor contributions
 - | Debt relief provided under HIPC and MDRI will reduce credit reflows by \$54 billion, lowering IDA’s assets by about $\frac{1}{3}$ rd
 - | Grant provided to countries at risk of debt distress (between 20-25 percent of total IDA commitments) further lowers future credit reflows



How IDA is funded (cont'd)

- | Since inception in 1960, IDA credits and grants have totaled \$234 billion (\$387 billion in 2010 prices)
- | Total resources of IDA have grown by 10% per year in nominal terms. In real terms, total IDA resources have been about flat since IDA6
- | IDA16 provides \$49.3 billion over the next 3 years

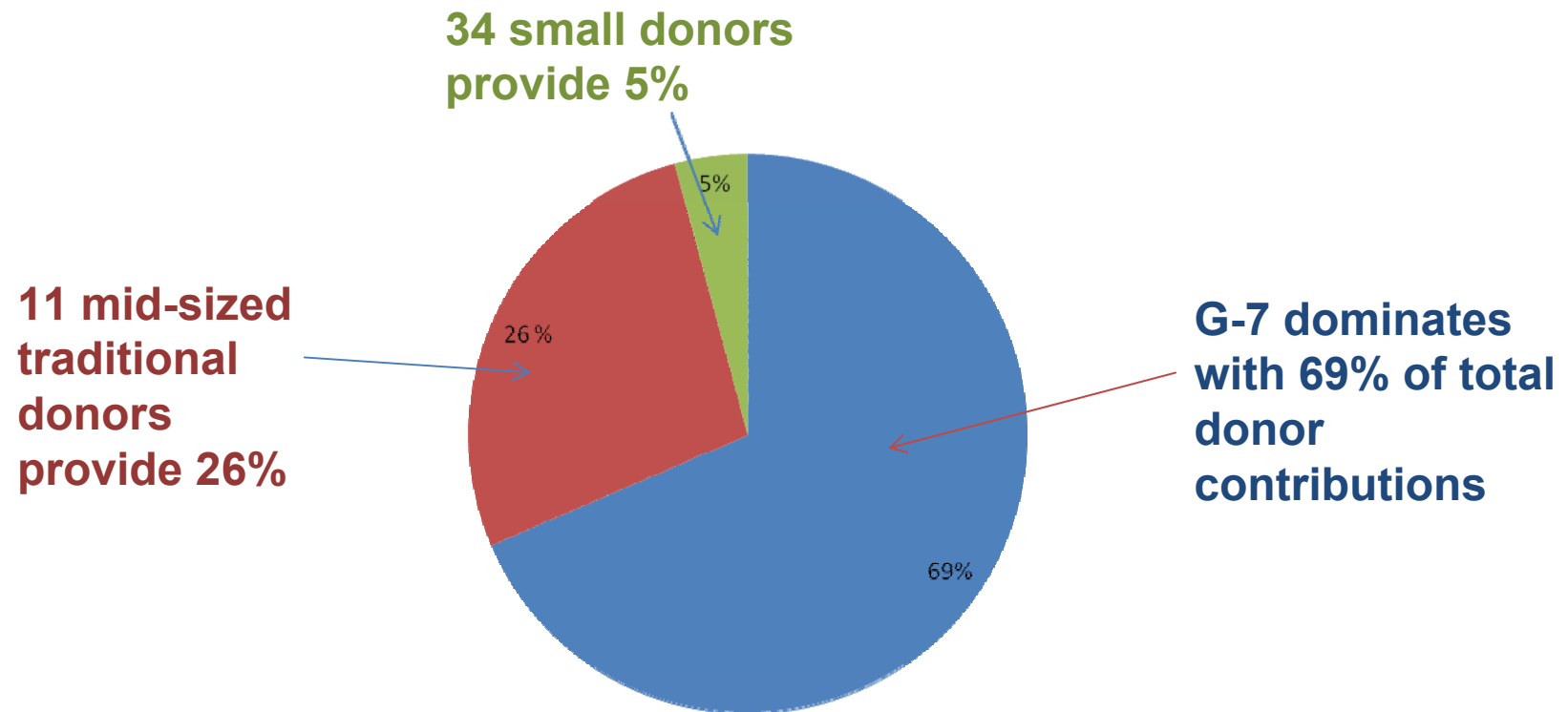
Table 1. Total IDA resources in nominal and real terms





How IDA is funded (cont'd)

IDA16 Donor Contributions by Country Type





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How IDA's resources are allocated

- Only countries meeting IDA's eligibility criteria can receive IDA allocations
 - Relative poverty, as measured by the GNI per capita (cutoff for FY12: US\$1,175)
 - Lack of creditworthiness for market-based financing options
 - ⇒ 79 IDA-eligible countries in FY11
- IDA resources are allocated annually through a transparent, formula-driven Performance-Based Allocation (PBA) system
- The PBA provides for larger IDA allocations to countries with better policy and institutional outcomes
 - Consistent with aid effectiveness research findings that better policies lead to stronger development outcomes
- Country performance is measured through an annual Country Policy and Institutional Assessment (CPIA) as well as portfolio performance



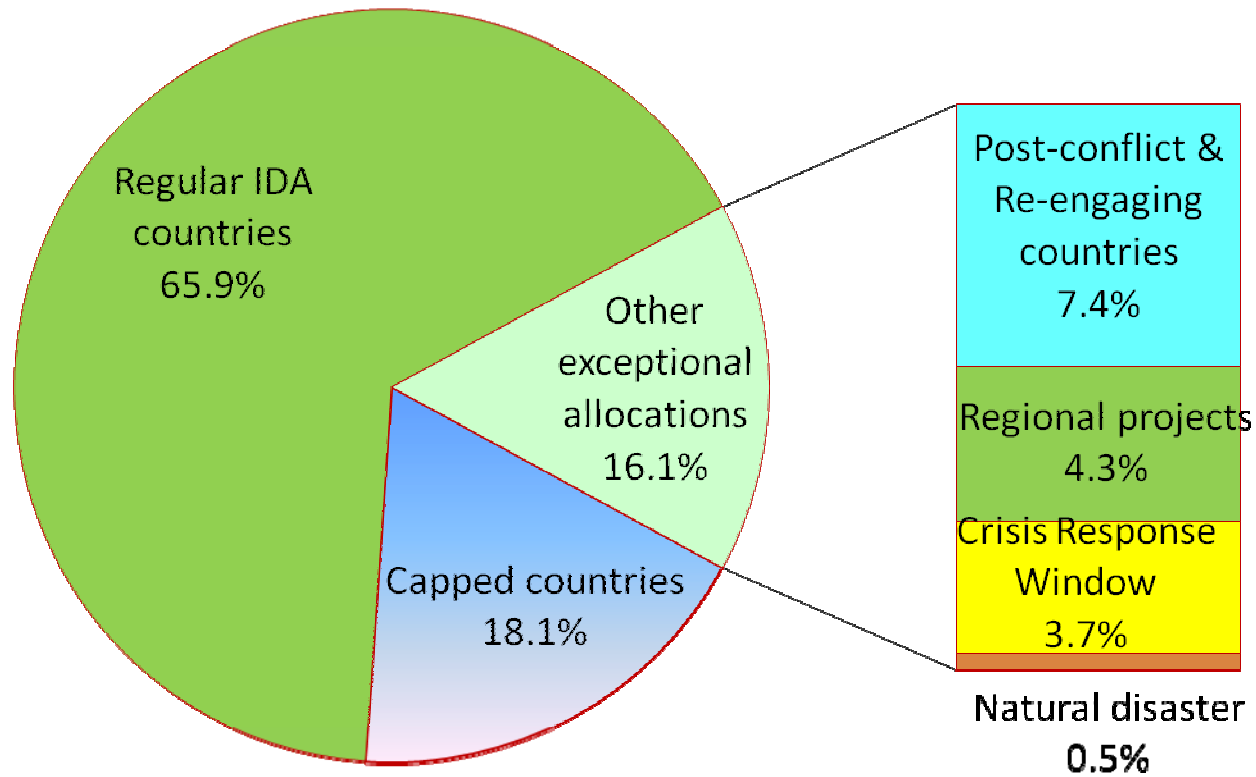
How IDA's resources are allocated (cont'd)

- The specific PBA formula has evolved since its introduction in the 1970, in line with research findings on aid effectiveness and donor priorities
- Much greater emphasis on governance, which now carries a weight of 68% in the PBA formula
 - this reflects the direct impact of governance on the development performance at the country, program and project levels, as well as donor concern over the integrity of their contributions
- Although the system is primarily performance based, country needs are taken into account through:
 - IDA eligibility criteria (per capita income below \$1175; lack of creditworthiness)
 - GNI per capita, population
 - Base (or minimum) allocation to all IDA countries (benefits small states)
 - Capping IDA allocations to large blend countries
 - Special allocations to post conflict and re-engaging countries
 - Crisis Response Window
- Terms of IDA assistance (grants vs. soft loans) is determined by countries' risk of debt distress



How IDA's resources are allocated (cont'd)

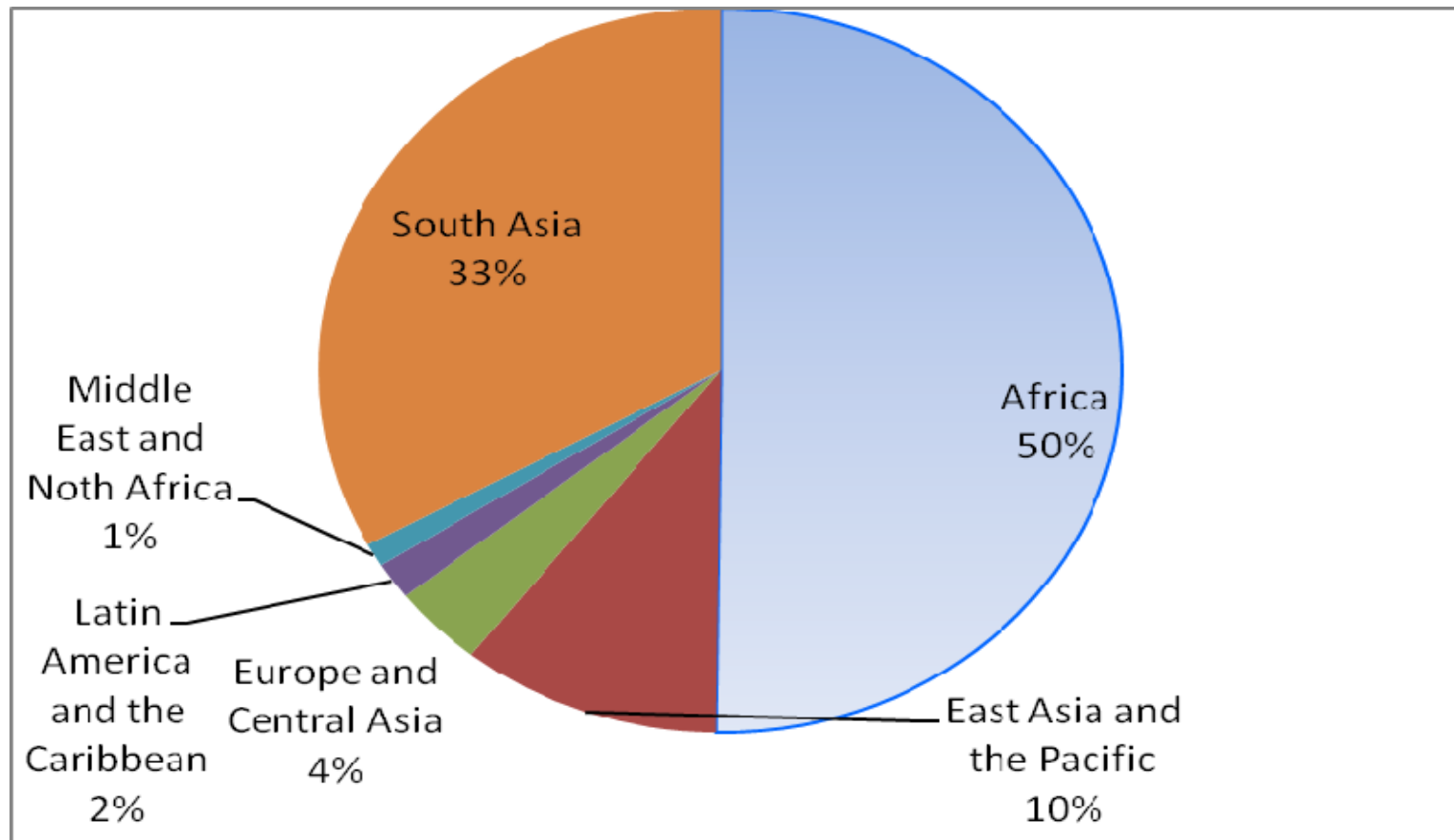
IDA15: 84% of IDA resources allocated through the PBA system





How IDA's resources are allocated (cont'd)

IDA15: 50% of IDA resources went to Sub-Saharan Africa





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IDA Operations: Country-Led Strategies

- IDA countries define their own development objectives and approaches with input from a wide range of stakeholders through the Poverty Reduction Strategy (PRS) process.
- IDA, with help from the government and other stakeholders, uses the country-led strategies to prepare a four-year Country Assistance Strategy (CAS).
- The CAS is based on an analysis of country needs and defines a program of lending and non-lending assistance based on:
 - The country's development priorities, and
 - The Bank's comparative advantage – that is, how the Bank can best leverage its capabilities to produce the desired results.
- The CAS also identifies a results-based framework for monitoring the impact of the assistance.



IDA Operations: Financial Instruments

- IDA has three main financial instruments
 - **Investment Operations** finance a wide range of activities that create the physical and social infrastructure necessary to reduce poverty and create sustainable development. They:
 - are provided to achieve results agreed with the recipient
 - finance expenditures that are eligible under Bank policy; and
 - are disbursed as the expenditures are incurred
 - **Development Policy Operations** provide rapid assistance to finance policy and institutional actions that are consistent with a country's economic and sectoral policies.
 - DPOs are provided as budget support
 - **IDA Guarantees** help mobilize private sector finance by covering debt service default on a loan for a private sector project when the default is caused by the government's failure to meet its obligations under the project agreement



IDA Operations: Key Operational Policies

- IDA's work is guided by a set of operational policies approved and monitored by Executive Directors. Key policies include:
 - **Fiduciary Policies** ensure that funds are used effectively, efficiently and transparently for the intended purposes and help the country build capacity for sound fiduciary management.
 - Procurement policies (to ensure lowest price from qualified bidders) for the purchase of goods, works and services.
 - Financial management policies to provide assurance on the use of project funding and avoid corruption.
 - Disbursement management policies to ensure that funds reach beneficiaries.



IDA Operations: Key Operational Policies

- **Safeguard Policies** address the environmental and social impacts of Bank operations.
 - Integrating environmental and social issues into decision-making in operations.
 - Providing tools for countries and Bank staff to assess environmental and social implications of projects and mitigate them where needed.
 - Ensuring transparency and participation by potentially affected stakeholders on a timely basis.
- These and other Bank policies provide donors and recipients with assurance that funds are used to deliver maximum development results.
- As such, they are instrumental for the success of IDA efforts to mobilize resources for the poorest countries.



IDA Operations: Managing for Development Results

- IDA supports managing for development results through:
 - Working with governments to develop their own capacity to manage for results
 - Strengthening IDA own capacity to measure, monitor and report on results of IDA-supported programs
- To strengthen its own capacity IDA has adopted a four-tiered Results Monitoring System (RMS):
 - Tier 1: How is IDA countries progressing on key development indicators?
 - Tier 2: What is the contribution of IDA supported activities to development?
 - Tier 3: What is the operational effectiveness of IDA?
 - Tier 4: What is the organizational effectiveness of IDA?
- Note: A stronger results orientation has been a key donor demand in the last few replenishments as donors seek clear evidence of “value for money”



IDA Operations: Implementation Support

- Key lesson learned has been need to provide strong implementation support to address specific country needs and circumstances
- The World Bank has offices/staff in 127 countries in 6 regions
 - IDA has offices in 72 out of 79 IDA countries
 - IDA's global reach facilitates generation and sharing of knowledge and global best practices
- Increased decentralization over the last decade – with more staff located in, and tasks managed from, country offices.
 - Decentralization came in response to lesson learned that a solid country presence is critical to development results.
 - Also, a strong demand from both IDA recipients and donors.

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