



IDA14

UPDATE ON DEVELOPMENTS SINCE THE ATHENS MEETING

**International Development Association
February 2005**

Update on Developments since the Athens Meeting

I. Introduction

1. *This note serves as an update to Participants on the current status of the replenishment discussions, in preparation for the final meeting on February 22 in Washington, D.C.* It also provides an update on two significant developments since Participants last met: the impact of Asian tsunami on IDA countries and on IDA; and the publication of the Millennium Project Report.

2. *At the December meeting in Athens, Participants endorsed the IDA14 policy framework for poverty reduction*, including key measures that support the “Working Together to Achieve the MDGs” theme of the replenishment. These include:

- A new system for allocating IDA grants based on countries’ risk of debt distress.
- A strong focus on growth, private sector development and infrastructure.
- A results measurement system for IDA14.
- Increased transparency and accountability, including through the disclosure of IDA’s country performance assessments.
- Measures to strengthen coordination and harmonization among development partners.

3. *In support of the IDA14 policy framework, donors agreed to a 30 percent increase of commitment authority over IDA13.* This substantial increase reflects the consensus that IDA’s policy framework be underpinned by a strong replenishment to maintain IDA’s key role in the financing of development and the global effort to reach the MDGs. A financing gap of 17.3 percent (SDR 2.45 billion) remains (Table 1 and Annex 2), which, if unfilled, would result in significantly lower resources available to IDA countries than the IDA requirements discussed by Deputies.¹ At the next meeting scheduled for February 22, 2005 it is hoped that sufficient resources will be committed to eliminate or significantly reduce the financing gap.

4. *The remainder of the paper is structured as follows:* Section II provides a brief description of IDA’s response to the Asian tsunami; and Section III discusses the UN Millennium Task Force Report that was presented in mid-January, 2005, and the focus this year on the MDGs. The conclusions in Section IV highlight the continuing and pressing development needs of the world’s poorest countries as they strive to achieve the MDGs.

¹ “Financing Requirements from IDA for Poor Countries during IDA14.” IDA/SecM2004-0458, June 24, 2004

Table 1: IDA14 Financing

(in SDR billions)	Pledged in Athens	Financing Gap	Total Target
IDA14 donor contributions	11.7	2.45 (=17.3%)	14.1
Reflows, IBRD transfers and other internal resources	<u>10.0</u>	-	<u>10.0</u>
Total Funding	21.7	2.45	24.1
IDA14 Commitment Authority (after IDA13 grant financing)	21.2	2.45	23.6
Increase vs. IDA13	+17%		+30%

II. Recent Developments: The Tsunami and IDA Response²

5. *Since the last meeting in Athens, a tsunami in the Indian Ocean caused significant damage and loss of life in three regions – South Asia, East Asia and parts of Africa.* The main IDA countries affected are India, Maldives and Sri Lanka in South Asia, Indonesia in East Asia, and Somalia in Africa. The international response to the tsunami is unprecedented with over \$6 billion³ in private and public contributions already pledged for relief and recovery efforts. These pledges, if realized, would amount to over \$1,000 per person affected.⁴ While the overall scope of the reconstruction needs in the affected countries is still being assessed, these countries have expressed their desire for Bank involvement in the reconstruction process. The needs assessments that are currently being undertaken in the affected countries will provide better estimates of the overall scope of the reconstruction effort required and help pinpoint where Bank assistance will be most effective. A detailed discussion of the Bank’s operational and financial response to the tsunami disaster can be found in the attached January 27, 2005 note to the Bank’s Executive Directors.⁵

6. *In the affected countries, poor people living along the coast suffered the most.* Helping rebuild lives and ensuring the delivery of basic services are challenges in the tsunami-affected areas. Four principles are guiding IDA in the reconstruction work. First, IDA will help restore the social and physical infrastructure that was destroyed, with a strong and simultaneous focus on improving the quality of service delivery. For example, simply reconstructing a school is not good enough unless the chances that improved learning will take place in that building are increased. Leveraging financial resources with knowledge assistance will be particularly important if reconstruction is to help pave the way out of poverty. Second, to get reconstruction right and ensure its sustainability, community involvement is crucial. Third, in rebuilding institutional capacity, core government functions will not be bypassed but strengthened. Fourth, IDA

² For IDA’s role in helping countries reduce the impact of shocks, see Annex 1.

³ World Bank, (January 27, 2005). “World Bank Response to the Tsunami Disaster,” SecM2005-0035.

⁴ According to early estimates from The Economist (January 8-14, 2005), “Helping the survivors,” approximately 5 million people have been directly affected by the tsunami.

⁵ World Bank (January 27, 2005) op. cit.

is coordinating closely with the governments of the affected countries as well as with other development partners, civil society, and the private sector to ensure the effectiveness of donor support.

7. ***IDA has been able to mobilize resources to respond flexibly to the crisis by drawing on its non-earmarked resource base.*** This has been achieved despite severe constraints on commitment authority in the last year of IDA13. On December 30, 2004, the Bank announced that it would make available US\$250 million as its initial contribution to cover the first six months for emergency reconstruction in the immediate aftermath of the tsunami disaster. Most of this has come from the reallocation of resources from planned projects and restructuring of existing credits.⁶ Thus far, IDA has agreed to provide the countries affected by this reallocation with up to \$125 million of IDA14 resources to compensate for the foregone investments redirected towards the tsunami. The financing requirements from IDA are expected to continue to evolve as the needs assessments are still being completed.

8. ***All severely affected IDA countries have asked the Bank for assistance.*** IDA's response in each country, covering the first six months and beyond, are as follows. In **Sri Lanka**, IDA stands ready to provide roughly \$400 million, including \$75 million from the restructuring of existing credits, a new emergency credit of \$75 million in 2005 (of which 40 percent will be a grant) and a large reconstruction credit of \$250 million in late 2005. In **Maldives**, IDA will provide around \$12 million in restructured commitments and an additional \$2 million in new commitments. The Bank is also opening a liaison office in Male, the country's capital, to facilitate this process. In **India**, a review suggests that \$300 million from ongoing IDA projects could be redirected for reconstruction, should the government so desire. In **Indonesia**, the Bank stands ready to provide up to approximately \$300 million including a proposed \$25 million grant as well as IDA financing. In **Somalia**, where the tsunami struck the northeastern coastline, there is no active IDA program. Given that IDA does not have a presence on the ground, other donors are taking the lead. The Bank plans to use a Japan Social Development Fund grant to provide support to Somalia's recovery program (see attached note on the Bank's planned response to the tsunami for details).

9. ***The last year of IDA13 continues to show very strong demand for IDA funds, and the tsunami will intensify the pressure on IDA resources in IDA13 as well as in IDA14.*** The pipeline of operations for FY05 currently exceeds \$9 billion against remaining available funds of only \$8.5 billion.⁷ To manage the transition into IDA14, some projects will have to be postponed into FY06; others may be reduced in initial volume with a potential increase through additional financing in subsequent years (if the proposed policy is adopted by IDA's Executive Directors). As a measure of last resort, a number of projects may also be pre-approved during the remainder of FY05 on a conditional basis until IDA14 commitment authority becomes available.

⁶ See Table 7, World Bank (January 27, 2005), op.cit.

⁷ Assuming timely payment of IDA13 contributions.

III. Another Recent Development: Completion of the Millennium Task Force Report

10. *Another notable development since the Athens meeting was the conclusion of the Millennium Project in mid-January and the submission of a report to the UN Secretary-General entitled “Investing in Development: A Practical Plan to Achieve the Millennium Development Goals.”* The Millennium Project Report is one of the inputs to the report of the Secretary-General, which will be released in March. The Secretary General’s report, along with a series of other deliverables,⁸ highlights the attention to development and MDGs in 2005 and will culminate in a Millennium Summit scheduled for September 2005 to review progress towards the MDGs. With just 10 years to go until the target date of 2015, the Millennium Project Report calls for a doubling of total annual development assistance to 0.44 percent of donors’ GNP in 2006 (or US\$135 billion) rising to 0.54 percent by 2015, as well as openness to trade and improved governance.

11. *The Millennium Project Report offers an ambitious vision of what developing countries could achieve if adequate aid resources were available to reach the MDGs and sound policies were put in place.* Furthermore, the report also poses a major challenge to the global community, not just on increasing aid, but on ensuring that implementation of scaled-up development programs financed by the increased aid, is successful and actually delivers the results sought – i.e., make progress towards achieving the MDGs. As such, absorptive capacity for additional aid must be built up where it is limited. This is particularly true in sub-Saharan Africa, where some of the most difficult development challenges are found, but also in other regions.

12. *The overall vision set out in the Millennium Project Report is one that is broadly consistent with the Deputies’ framework for IDA14.* The MDGs are the central theme of the IDA14 framework, as underlined by the title of the IDA14 report, “Working Together to Achieve the MDGs.” Economic growth was selected as a special theme for IDA14 replenishment meetings, reflecting Deputies’ emphasis on growth as an essential requirement for reaching the MDGs. For faster growth, IDA countries would need to implement substantial policy and institutional reforms, which include improving the investment climate for private activity – by extending progress on macroeconomic stability, improving regulatory and institutional framework governing markets, strengthening infrastructure, and improving the quality of governance and the capacity of the public sector. Both private sector development as well as provision of infrastructure services featured prominently during the IDA14 replenishment discussions.⁹ Acknowledging the strong demand for development resources to complement national efforts, Deputies agreed to a 30 percent increase in commitment authority in IDA14.

⁸ Some of the other key deliverables as part of the lead up to the Millennium Summit include: (i) a report by the UK’s Commission of Africa in March; (ii) World Development Indicators by the World Bank in April; and (iii) Global Monitoring Report in April by the World Bank and the IMF.

⁹ (i) “Growth in IDA Countries” IDA/SecM2004-0641, September 22, 2004; (ii) “Strengthening the Private Sector in IDA Countries” IDA/SecM2004-0653, September 27, 2004; (iii) “Strengthening the Private Sector in IDA Countries: Status of World Bank Group Collaboration” IDA/SecM2004-0769, November 29, 2004; and (iv) “Strengthening the Private Sector in IDA Countries: Status of World Bank Group Collaboration with External Partners” IDA/SecM2004-0768, November 29, 2004.

13. ***IDA's strength is in linking resources to practical implementation on the ground in poor countries.*** At this crucial operational level, making progress towards the MDGs will require development assistance that is carefully focused to achieve results, a key policy recommendation by Deputies for IDA14. For this, it is vital for all development partners to work together intensively over the coming years. In contributing to this major collaborative effort, IDA will draw on the following comparative advantages: its extensive knowledge base, particularly in country-specific analytical work; its on-the-ground presence through which enables it to work closely with the client country, donors and other stakeholders; and its ability to manage complex projects, particularly those infrastructure which are vital to the achievement of MDGs. Moreover, IDA's performance-based allocation system will help to target higher levels of resources to those countries with governance, institutions, and policies that can maximize the effectiveness of additional assistance.

IV. Conclusion

14. ***The vulnerability of developing countries and, in particular, of the poorer sections of the population was brought into sharp focus during the recent tsunami, which killed around 300,000 people.***¹⁰ Not as visible, but no less devastating is "the silent tsunami"¹¹ of global poverty that kills more than 275,000 people every month from Malaria and HIV/AIDS in sub-Saharan Africa alone.¹² The HIV/AIDS epidemic and other diseases threaten progress made so far in IDA countries and contribute, in part, to the stubbornly high infant and maternal mortality rates. Universal primary education remains a distant goal in many IDA countries. Progress towards gender parity in primary and secondary education is slow as is the progress towards providing access to safe water and sanitation. There remain, therefore, long-term challenges that continue to confront the development community.

15. ***There is pressure to increase resources to finance the vital unmet needs in IDA countries to help them reach their MDGs.*** In addition, unforeseen events such as the recent tsunami intensify the pressure on existing scarce resources. These events underscore the need for sufficient and flexible resources. The recent large replenishments for the AfDF and AsDB are welcome developments and are positive signals that an escalation in ODA levels is happening in response to the demonstrated needs of the poorest countries. At the same time, IDA Deputies and recipient countries continue to expect IDA to provide leadership in the design and delivery of complex technical operations, and coordinate support from other aid agencies for country strategies aimed at accelerating the momentum towards the MDGs. A greater overall IDA envelope, as envisaged in the agreed IDA14 funding level with a 30 percent increase in commitment authority over IDA13, will increase the ability of IDA to provide the much needed resources and leadership to help countries make progress towards the MDGs.¹³

¹⁰ Latest available estimate as of early February, 2005.

¹¹ Jeffrey Sachs (2005). "U.N. Report Urges Rich Nations to Double Aid to the Poor," in The New York Times, January 17.

¹² According to estimates from the World Health Organization.

¹³ The need for an "ambitious replenishment of IDA14" was underscored at the recent meeting of the G7 Finance Ministers and Central Bank Governors held in London on February 4-7, 2005.

Annex 1

IDA's role in helping countries reduce the impact of shocks

16. *Natural disasters are becoming more frequent, more intense and the costs of disaster recovery are increasing.* Low-income countries are disproportionately affected by these natural disasters, especially the poor populations within these countries. Economic loss relative to GDP is often much higher in low-income countries even though the absolute costs of natural disasters are higher in developed countries. At the same time, mortality losses from such disasters are much higher in low-income countries as a result of their vulnerability and lack of disaster prevention measures.¹⁴ Clearly much more needs to be done to find ways to prevent the human and physical damage caused by disasters and at the same time increasing the ability of countries to quickly respond to disasters when they hit.

17. *IDA's role in helping countries reduce the impact of such shocks is threefold.* First, IDA has also been active in encouraging direct ex-ante measures that help prevent shocks and reduce their impact and costs, by providing risk analysis and incorporating prevention and mitigation measures in IDA projects and assistance strategies, and promoting training in the areas of disaster prevention, mitigation and response. Second, once a disaster strikes, the World Bank's role is to support near and longer-term recovery and reconstruction, taking care to reduce the vulnerability of affected communities. Third, IDA's regular development assistance plays the most significant role. Economic growth and poverty reduction are the key factors that will reduce countries' vulnerability to shocks.

- **Disaster Prevention.** Volatility is a way of life in many IDA countries, and multiple consecutive shocks are not uncommon, especially in small island states and countries with large coastal areas, yet disaster responses are often seen to be exceptional activities. Funding of disaster prevention initiatives¹⁵ can have tremendous returns to investment, reducing the constant erosion of development gains that can happen when countries are faced with multiple disasters. The return from such investments would almost certainly be even higher in IDA countries that are particularly prone to natural disasters. IDA has been active in encouraging countries to view disaster prevention as a priority in their country strategies, and has encouraged the inclusion of mitigation and prevention components in new investment projects.¹⁶

¹⁴ According to Freeman, Keen and Mani, "Dealing with Increased Risk of Natural Disasters: Challenges and Options," IMF Working Paper WP/03/97, 2003, more than 97 percent of all deaths from natural disasters between 1990 and 1998 were in developing countries.

¹⁵ These could include better building techniques designed to help buildings withstand earthquakes and hurricanes, planting trees and vegetation to reduce the impact of floods and landslides, improving building techniques to help houses withstand earthquakes, building cyclone shelters and developing early-warning systems.

¹⁶ One example is an Elementary Education Project in India that includes guidelines for school site selection that ensures buildings are designed according to code for disaster prevention, and some schools will be designed to double up as shelters.

- **Recovery and Reconstruction.** Reconstruction efforts following a natural disaster typically require significant investments to restore, redesign and rebuild infrastructure in affected areas. The Bank has demonstrated its ability to help countries with their reconstruction efforts as a result of its strong presence on the ground, its ongoing dialogue with governments in their pursuit of integrated development policies and programs, and its experience with large infrastructure projects. In fact, the Bank is the largest external financier of disaster reconstruction and recovery in the world.¹⁷
- **Growth, Poverty Alleviation, and Reducing Country Vulnerability.** The primary focus of IDA's lending and technical assistance has been on promoting growth to reduce poverty and vulnerability to shocks. The Bank's strategy for growth and poverty reduction is centered on 1) encouraging good governance and strong institutions, sound macroeconomic policies, and integration into global markets; 2) economic services such as infrastructure and rural development to enable direct participation in growth; and 3) human capital formation to enable shared benefits from growth. These factors are, in and of themselves, also critically important in reducing countries' vulnerability to shocks.

18. ***The Bank is preparing a paper on exogenous shocks and related financing issues for the Board in March 2005.*** The vulnerability of low-income countries to shocks has again been underscored by the recent Tsunami. The upcoming Board paper takes a fresh look at the risks associated with exogenous shocks in low-income countries and whether the international community can do more to help with this tough issue, knowing that it is possible only to mitigate, but not fully compensate for the damage caused by shocks. This upcoming paper will contain a preliminary review of possible measures available to the international community (including financial instruments that creditors could offer) to help mitigate the impact of such shocks on growth and debt sustainability and reduce country vulnerability, in response to a Development Committee request.¹⁸ It builds upon an earlier paper originally prepared for a technical briefing to the Board in April 2004.¹⁹ In addition, for the mid-term review IDA will provide an assessment of IDA's role within the international community, looking at current IDA instruments that can be mobilized to help mitigate the impact of shocks, and evaluating the need for additional measures with due consideration to their operational feasibility.

¹⁷ Since 1980, the Bank has lent more than \$40 billion for over 550 disaster-related projects. This figure includes emergency recovery projects, and projects with components aimed at preventing and mitigating disasters.

¹⁸ See Development Committee Communiqué, October 2, 2004.
http://siteresources.worldbank.org/DEVCOMMINT/NewsAndEvents/20264401/Sept_2004_DC_Communique_E.pdf.

¹⁹ For an updated version of this note see World Bank, "Exogenous Shocks in Low Income Countries: Economic Policy Issues and the Role of the International Community", November 2004, mimeo.

Annex 2

IDA14 Funding Framework, SDR million (based on Athens pledges)

Sources	IDA14 as per Athens			Total	IDA13 (as agreed)	IDA14 vs. IDA13	
	Pledged	Financing Gap				Pledged	Total
1. Donor Contributions							
2. Regular & suppl. contributions	10,126	2,374	19.0%	12,500	10,020	^{1/}	
3. Foregone charges on IDA13 grants	<u>470</u>	0	-	<u>470</u>	-		
4. Subtotal	10,596			12,970			
5. HIPC costs during IDA14	<u>1,083</u>	<u>77</u>	6.7%	<u>1,160</u>	-		
6. Total Donor Contributions	11,679	2,451	17.3%	14,130	10,020		
7. Internal Resources	8,700			8,700	7,300		
8. IBRD Net Income Transfers	1,025			1,025	^{3/} 700		
9. Carry-over Items	<u>269</u>			<u>269</u>	<u>100</u>		
12. Total Sources	21,673	2,451		24,124	18,120		
Uses							
13. Commitment Authority	21,203	2,451		23,654	18,120	17.0%	30.5%
14. Foregone Charges on IDA13 Grants	470			470	-		
15. Total Uses	21,673	2,451		24,124	18,120		

^{1/} Donor contributions in IDA13 included an allocated financing gap of 5.23%.

^{2/} Includes the contingent contribution of the United Kingdom in IDA13 for financing of IDA13 grants (total of SDR 91.68 million).

^{3/} IBRD net income transfers are included at USD 500 million per annum during the IDA14 period.

^{4/} Carry-over consists of US arrears and pro rata items.