

**Speaking Note for the IDA Working Group Meeting**  
*06 March 2012 (0830-1500 hours)*

I. **PURPOSE/FOCUS (9:00-10:00 AM)**

A. **Sovereign Receipts**

1. **Sub-sovereign Lending:** In this case, the first alternative of sub-sovereign lending sounds more pragmatic as it entails direct funding in terms of grants/credits to at sub-national levels or even to NGOs in the region with per capita incomes below the IDA threshold, even if the countries average income level is above the threshold.
2. **Two Windows:** In case of having two windows, splitting on the basis of poor-country and poor-people and developing an allocation mechanism for the latter would be really challenging, because of two reasons: (i) as it would be allocated to countries and not for specific projects, the allocated credit/loans may be diverted to address non-specified challenges (may be other than what IDA has allocated for) as per the discretion of national development commission of a country, (ii) it would be strenuous to ensure that the beneficiaries/target audience for such allocations are clearly defined and that they are receiving full benefit of IDA allocations. Accountability and transparency would be more pronounced and easy to assess if such grants are allocated on specific project basis to NGOs and sub-sovereign entities.
3. **GPG Window:** It is a vague concept of credit/lending simply because (i) the national priorities of development/poverty alleviation may be different for different countries, and (ii) working out the modality for identifying global public goods and project implementation mechanisms for them would be time taking as it would require consultations at several levels, without the “guarantee” of reaching a consensus. Why waste resources in making volatile attempts when we already have something more concrete to brainstorm and work on. Also, GPGs can well be focussed on when on a global level, the development has reached a threshold, not now; as it could divert global attention toward inductive logic (from specific to general).

B. **Need/Policy Emphasis**

In this case, I think a better choice could be to base the allocation primarily on need and then choose how to channel the funds (through federal governments, local governments or NGOs) and which type of projects to fund depending on policy and governance. This would go well with our proposition of sub-sovereign lending.

C. **Preference for Projects**

I think IDA should continue its policy of giving preference to project financing over budget support or program funding. Net present value (NPV) could be calculated using variable discount rate as against calculating it on the basis of constant discount rate for the entire duration of project. This would be feasible in identifying the opportunity cost of that capital and such NPV calculation would allow a direct comparison to be made between a given project and its alternative, and would better

consider the time value of money as well. I think the proposed alternative could well be followed, especially those which the differences between the NPV of the different instruments in credit/grant amounts.

## **II. ALLOCATIONS (10:00-11:00 AM)**

### **A. Formula**

I think the approach should be to allocate funds based on the number of poor people (instead of total population and per capita income), and use the policy ratings to determine the recipients (see sovereign point above) rather than the country's overall allocation.

### **B. Numeriare for country allocations and grant criteria**

I would support the alternative choice here. IDA should follow an NPV allocation model, whereby a set NPV allocation would translate in different possible combinations of grants, projects and quick-disbursing operations. This will support what I have mentioned under the head “preference for projects” as well as will be in line with “sub-sovereign lending” procedure.

### **C. Graduated Concessionalty**

Concessionalty on the basis of national per capita level/GDP would not be feasible, and would not be in line with sub-sovereign lending. I think only three levels should be there, which will help shift the focus of grants/credits on the basis of “urgency” (and not “priority”) and it could be: 1) sub-national identities/NGOs working in areas with per capita income (only of beneficiary group) is under 500 dollars shall receive 100 per cent grants, 2) \$500 to \$1,175 (IDA threshold for 2012) should receive standard concessionalty, 3) more than threshold – no concessionalty (It is for their respective governments to explore options).

## **III. FINANCING (11:15 AM - 12:15 PM)**

### **A. Donor Contributions**

Memberships and high-visibility recognitions could be used as incentives for donors.

### **B. Reflows**

As countries are crossing the threshold their repayments are becoming faster. The only aspect to be given attention is toward the utilisation of repayments or redirecting them, with more accountability and transparency.

### **C. Liquidity Investment Policy**

In order to retain liquidity, it is important that funds be subjected to growth in such financial instruments with smaller lock-in period and higher interest rates.

### **D. IBRD Contributions and IDA Cost-sharing in WB budget**

In fact, IBRD could well focus on Middle Income Countries (MIC) and IDA should keep it mandate to lower income countries (LIC), and heavily indebted poor countries (HIPC).

E. IFC Contribution

Cancel the transfer from IFC, and allow IFC to earmark the funds for projects in IDA-only countries. IDA should take support from IFC for involving private partnerships at least for a period of 3 years till 2015 target of MDG. This should be carried out by IFC through generating venture capital for supporting IDA loans/credits.