IDA21

Replenishment

The International Development Association (IDA) is the arm of the World Bank Group that serves the world's poorest countries.

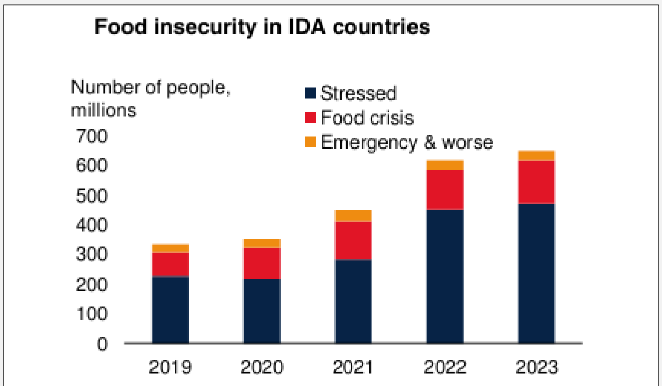
Established in 1960, IDA aims to reduce poverty by providing low-interest loans and grants for programs that boost economic growth, reduce inequalities, and improve people's lives. More than half of **IDA countries** – those at higher risk of debt distress – receive all, or half, of their IDA resources as grants, requiring no repayment. Seventy percent of IDA's resources go to countries in sub-Saharan Africa.

IDA has a real impact on the lives of the world's poorest people.

IDA is the largest source of external financing for low-income countries and provides **critical investment** for health and education, nutrition and agriculture, and **climate adaptation and resilience** in these countries. As a result of IDA financing between 2012 and 2023, 1.2 billion people received essential health services, 117 million people gained access to improved water services, and 92 million people obtained new or improved electricity services.

IDA also supports economic development in low-income countries, helping them to grow their economies and reduce their dependence on aid over time.

IDA supports **government efforts** to strengthen fiscal and debt management, improve the investment climate, build critical infrastructure, and deepen domestic financial sectors. Thirty-six countries have **graduated from IDA** so far. Many graduates have returned to IDA as donors – and they include some of the world's most dynamic economies.



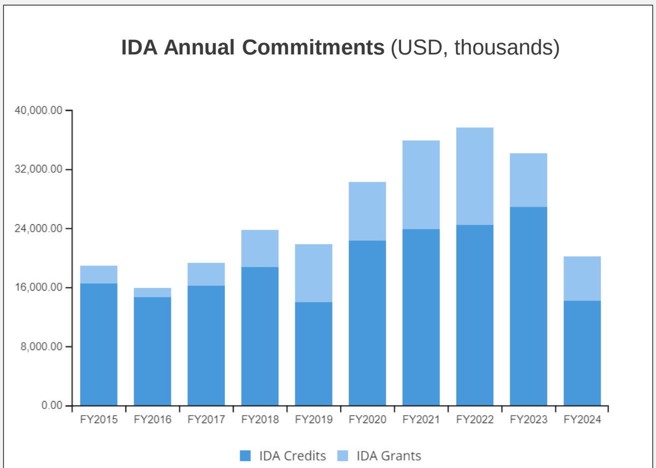
Sources: World Bank, GFRC (database)

IDA countries currently face challenges that undermine our collective efforts to eliminate extreme poverty.

IDA countries experienced strong growth and poverty reduction for the first two decades of the 21st century. But COVID 19 and subsequent crises, ranging from the fallout from Russia's invasion of Ukraine to rising inflation and elevated interest rates, have put **a brake on that progress**. One out of three IDA countries is poorer than it was on the eve of the pandemic. More than 60 percent are in or at high risk of debt distress. Food insecurity has spiked with 651 million people in IDA countries facing food insecurity in 2023, almost double the number in 2019. And the costs of climate disasters have doubled in IDA countries over the past decade: Economic losses from natural disasters average 1.3% of GDP a year.

IDA is an important source of affordable, predictable external financing to help IDA countries manage these challenges and invest in their people and economies.

Given the structure of their economies – high rates of informality, underdeveloped financial sectors, high dependence on commodity exports – most IDA countries struggle to mobilize domestic resources. In 2021, tax revenue in IDA countries averaged only 11.9 percent of GDP. And post-pandemic, most sources of external financing for these countries – **official development assistance** or lending from private or sovereign creditors – has failed to keep up with IDA countries' financing needs or become prohibitively expensive. IDA, however, has stepped up its support, increasing annual commitments by nearly 50% over pre-pandemic levels to reach an average of $36 billion a year from FY2021-23. More than 90 percent of IDA's financing is channeled through recipient governments, supporting national development strategies and efficient administration.

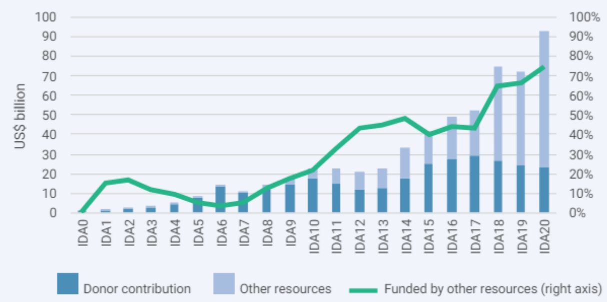


Source: World Bank

Given their lack of access to other sources of affordable, external financing, this year's IDA21 replenishment will be critical in helping low-income countries meet multiple challenges and get back on a path of strong growth and poverty reduction.

Because of its concessional financing terms, IDA requires new donor contributions every three years. Donors pledged $23.5 billion for IDA20 which, due to IDA's hybrid financial model, supported $93 billion in financing for low-income countries. Donors will make pledges to IDA21 in December 2024.

IDA Replenishment Size Over Time



Source: World Bank

Top IDA20 Donors (USD, thousands)

United States	3499	**Netherlands**	1009
Japan	3438	**Switzerland**	723
UK	1965	**Italy**	705
Germany	1931	**Saudi Arabia**	700
France	1739	**Belgium**	533
China	1319	**Austria**	520
Canada	1184	**Korea**	515
Sweden	1079	**Others**	2641

To deliver a successful replenishment, donors should increase their contributions to at least $28 billion in IDA21.

Donor contributions to IDA have been flat in nominal terms for more than a decade and have declined by 20% in real terms. If the current level of donor contributions holds in IDA21, IDA would be forced to reduce its annual financing commitments to IDA countries or offer less generous terms to IDA countries dealing with high levels of debt -- inappropriate options given the challenges facing IDA countries. However, increasing contributions to at least $28 billion would allow IDA to maintain annual commitments in the range of $35 billion, enable a more robust economic recovery in IDA countries, and respond to the **clear requests** of **African leaders**.

Supporting IDA is a collective responsibility shared across a wide range of traditional and emerging donors.

Although OECD countries are the largest contributors to IDA, non-OECD countries, most prominently China and Saudi Arabia, have rapidly increased their contributions in recent years. China's contributions have increased by 369% to $1.3 billion since the IDA17 replenishment, while those of Saudi Arabia have risen 983% to $700 million in the same time frame. Recognizing the value of IDA to supporting international development and solidarity, many former IDA borrowing countries such as India, Indonesia, Turkey, and Egypt contributed to the IDA20 replenishment. In total, 52 countries contributed funds to IDA20 – a broad and diverse funding base.

A successful IDA21 replenishment is an important, immediate step for supporting the world's poorest countries, but it should be complemented by stronger efforts to restructure and reduce the debt burdens of IDA countries.

Too many IDA countries are experiencing **net financial outflows** due to a combination of existing debt service obligations and a withdrawal of new financing by many emerging official and private creditors. There must be reform of the G20 Common Framework to provide creditors and debtors greater clarity on the timing and terms of debt relief. Equally, creditors should agree **to maintain financing** flows to developing countries (in return for reforms that would boost growth and investment) in order to prevent developing countries from tipping back into economic distress.