HEALTH AID in TRANSITION

A Review of the World Bank International Development Association (IDA)

THE CENTER FOR POLICY IMPACT IN GLOBAL HEALTH

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Summary

1. Eligibility for IDA funds is determined by a country's gross national income per capita (GNI p.c.) and creditworthiness. Exceptions can be made for small island nations and countries facing exceptional circumstances. IDA only allocates funds after an eligible country has been successfully evaluated using IDA's Country Performance Ratings (CPR).
2. The unit of transition is the country (not the sector). Therefore, IDA health funding and programs transition fully to International Bank for Reconstruction and Development (IBRD) funding at the same time as all other sectors.
3. IDA has several transition stages before transitioning to IBRD-only finances: IDA-only non-gap, IDA-only gap, and IDA-blend. During the IDA-blend stage, a country starts accessing both IDA and IBRD funds before eventually graduating to IBRD-only finances.
4. Starting with the 17th replenishment period, IDA began providing transitional support for certain countries. Transitional support is available for the first three years after graduation to IBRD-only finances. The decision to provide transitional support to a country is based on (i) the condition of a country's domestic revenues and external financing (official development assistance and private flows), and (ii) the impact on a country's finances due to a drop in IDA lending.

Overview

The International Development Association (IDA) launched in 1960 with the aim of becoming a concessional lending institution for developing countries.[1] IDA receives most of its funds from World Bank member countries. These countries meet every three years to review IDA policies and replenish IDA funds.[2] During the 18th IDA replenishment (IDA18), finalized in December 2016, 52 countries contributed to IDA.[3] Although 69% of its funding comes from G7 countries, the share of emerging economies contributing to IDA is gradually increasing.[4] After each replenishment, funds are then allocated over the following three-year period based on a borrower country's income profile, creditworthiness, and track record in managing its economy.

Since its inception, there have been 18 IDA replenishments. Member and donor countries meet over the course of the year prior to the replenishment period to decide the replenishment amount and priority focus areas. Before the 18th replenishment, IDA raised funds mainly from donor countries. The IDA18 replenishment was noteworthy as it was the first time in IDA's history that it raised funds from donor countries as well as the debt markets through AA-rated bonds. During IDA18, a replenishment of US$75 billion was raised to fund projects from July 1, 2017 to June 30, 2020.[2] Currently, 76 countries are eligible for IDA grants and loans.[5] Since its inception, IDA has provided concessional loans and grants of about US$369 billion to the 113 poorest countries in the world.[4]

The 4Ds is a project led by the Center for Policy Impact in Global Health that focuses on integrated research across four major global health transitions: disease, demography, development assistance for health, and domestic resources for health.

Key Policies Related to Transition

The unit of transition is the country (not the sector). Therefore, IDA health funding and programs transition to IBRD funding at the same time as all other sectors. The eligibility and transition policies are therefore consistent across all sectors and are not health-specific.

Eligibility Policy

IDA has two firm criteria for a country to be considered eligible for funding:[6]

1. *Relative poverty measure*: The first criterion measures the relative poverty in a country. This is quantified using the gross national income per capita (GNI p.c.),[7] calculated using the World Bank's Atlas Method.[8] GNI p.c. figures are updated by the World Bank annually. For financial year 2020 (FY20), a country's GNI p.c. must be below US$1,175 to be considered for IDA funding.
2. *Lack of creditworthiness*: A country should lack creditworthiness to borrow from the market. This criterion makes a country a candidate to borrow on concessional terms from IDA to finance its development and growth.

However, there are two exceptions to this eligibility policy:[9]

Small-island economies:[10] Six island countries were provided access to IDA funds in 1985 even though their per capita income was above the eligibility cut-off. This list has now grown to accommodate 13 small-island economies. Factors such as a small domestic market, export concentration, and weak institutions make these economies akin to the economy of a low-income country. Moreover, these island countries face additional challenges, such as geographic isolation, lack of access to commercial credit, and a heightened risk of climate hazard.

Exceptional circumstances: IDA has also provided access to some countries based on exceptional circumstances such as:

- Countries that have massive reconstruction needs, unsustainable public debt levels, payment arrears, and have recently ended a long period of conflict. Examples include Serbia and Iraq.
- Newly independent states with a fragile macroeconomic situation, massive infrastructure needs, public arrears, and an unsustainable debt level. Bosnia and Herzegovina is one such example—it did not qualify through IDA's eligibility policy but obtained access to IDA funds when it became an independent state.

If a country meets the above criteria or exceptions, it can be considered for IDA financing. IDA support is available for all sectors. The eligibility and graduation policies for countries are the same regardless of sector.

Country Evaluation

Once a country is eligible for IDA financing, it is assessed by IDA on its ability to effectively implement poverty reduction and economic growth policies prior to the issuance of a loan. The country's performance in implementing these policies is gauged using the Country Performance Ratings (CPR). The CPR is based on the Country Policy and Institutional Assessment (CPIA) and performance-based ratings.[11] The CPIA rates a country according to 16 criteria grouped into four main categories:[12]

- economic management
- structural policies
- policies for social inclusion and equity
- public sector management and institutions.

The combination of a country's population, CPR, and per capita income are used to determine the maximum allocation of IDA finances to a country. According to IDA17, about 82% of IDA's allocations were based on the results of this performance ratings-based system. The remaining 18% of its funds were called "set asides," which were to be used by IDA for the Crisis Response Window (CRW) (Box 1), regional programs, financing arrears clearance, and IDA17 transitional support for India (transitional support is a loan given after graduating from IDA to help a country transition smoothly from IDA to IBRD).[13] The CRW is only open to countries who are eligible for IDA funds and closes once a country graduates to IBRD-

During the IDA16 replenishment (started in 2011), the CRW was created to help address external economic shocks to an IDA country. In November 2015, public health emergencies and epidemics were also included under the purview of the CRW. The CRW acts as an extra financial resource for IDA-eligible countries to tap into during external economic, natural, or health shocks.

Box 1: The Crisis Response Window (CRW)[15]

only funding eligibility (IBRD provides "loans, guarantees, risk management products, and advisory services to middle-income and creditworthy low-income countries.")[14]

IDA to IBRD Graduation Policy

When a country graduates from IDA funding, it then becomes eligible for IBRD funding. IBRD funding is less concessional than IDA funding because it is close to or at market rates. However, countries generally pass through various phases once their GNI p.c. crosses the maximum IDA threshold but before being considered fully eligible for IBRD finances. Figure 1 shows the stages a country goes through when transitioning from IDA-only to IBRD-only financing. A country typically passes through each step in the IDA transition band before it finally graduates to IBRD-only financing and stops receiving resources from IDA. However, the step-by-step progression is flexible and a country can skip stages if it satisfies criteria of the later stages.

Several criteria determine a country's transition phase:[16]

- *IDA-only non-gap*: This is the first stage of IDA's transition phase. A country is kept in the IDA-only non-gap stage when its GNI p.c. is below IDA's operational income cutoff and the country is also not creditworthy to borrow on market terms.
- *IDA-only gap*: A country can move to this stage if its GNI p.c. remains above IDA's GNI p.c. cut-off for two consecutive years, but the country is still not sufficiently creditworthy to access IBRD finances.
- *IDA-blend*: After passing through the IDA-only gap stage the country enters the final stage of IDA's transition phase: IDA-blend. A country can enter the blend stage only when it becomes creditworthy. In the blend stage, a country's IDA finances are slowly decreased as it begins to access some IBRD finances.[16] The time period for which a country remains in the blend stage is variable.
- *IBRD-only*: After passing through the IDA-blend stage a country will graduate to IBRD-only. At this stage a country stops receiving IDA funds and is eligible for IBRD finances only. However, beginning in IDA17, transitioning countries can be provided with transitional support for the first three years after IDA graduation to smooth the process of transition to IBRD-only funding. The graduation process from IDA-blend to IBRD-only begins only when a country's GNI p.c. remains above the IDA operational income cut-off for at least three years and it maintains positive creditworthiness. Even if a country meets income and creditworthiness criteria, the real graduation to IBRD-only occurs after it has been satisfactorily assessed according to multiple indicators. These indicators include macroeconomic prospects, risk of debt distress, vulnerability to shocks, external debt and liquidity, political stability,

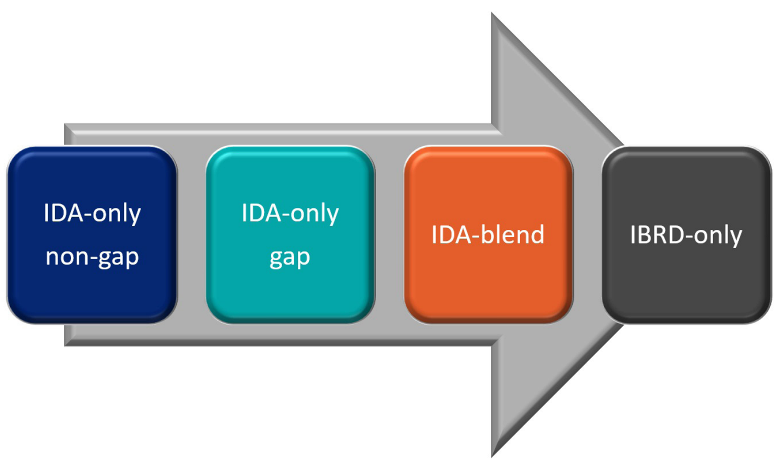

Figure 1: IDA transition stages
Figure adapted from information found in IDA18 Mid-Term Review

levels of poverty, and social indicators. Even when a country reaches this stage, it can continue to receive IDA funds committed before its graduation.

A country typically remains in IDA-blend for two replenishment cycles; graduation to IBRD-only occurs at the end of the second replenishment. However, this process of graduation to IBRD-only stage from IDA-blend stage is flexible and can vary on a country-by-country basis. IDA emphasizes its flexibility in the transition process as its main strength.[10] This flexibility, according to the IDA18 mid-term review, helps a country graduate to IBRD-only financing only when it has mitigated its economic vulnerabilities and is ready to receive resources on market terms. This flexibility is seen in Figure 2, which shows the varied lengths of time that countries have taken to transition to the IBRD-only stage. For example, while Bosnia and Herzegovina took 18 years, Azerbaijan only took 8 years to graduate from IDA.

Transitional Support

IDA decided to provide transitional support for the first time in its history during the IDA17 replenishment. Previous IDA graduates had expressed concerns that when they lost access to concessional funding, they faced major challenges sustaining development gains and poverty reduction. The transitional support mechanism was established beginning in IDA17 to help graduating countries prepare for the loss of concessional financing and maintain investments in development projects. This mechanism provides graduated countries with financial support for the first three years after graduation from IDA to help minimize any negative effects from a major reduction in concessional funding from the World Bank.

To identify which graduating countries should receive transitional funding, IDA analyzes two key phenomena:[10]

- *Public finances and external financing*: IDA analyzes the domestic revenues and the external financing (official development assistance and private flows) at the time of a country's graduation. This analysis helps inform where a country stands with respect to its tax revenues and the availability of sufficient external financing during the time of a country's graduation. Some countries simultaneously graduate from both IDA and other donors, since other donors (e.g., Gavi, the Vaccine Alliance) also use GNI p.c. in their graduation criteria. Such simultaneous transitions can lead to a sharp decline in a country's overall external financing portfolio.
- *World Bank lending*: A sudden drop in the availability of concessional financing from IDA can severely affect a country's ability to finance its development projects after graduation. This risk is especially true for countries that have been heavily dependent on IDA. Therefore, the World Bank aims to make sure that no graduates experience a substantive drop in World Bank lending.

IDA analyzes both of the above factors rigorously for all graduating countries. As with most other IDA criteria, the decision to provide transitional support is also flexible and depends on a case-by-case analysis for graduating countries. Based on the available domestic revenues, external financing, and World Bank lending situation, IDA decides whether to provide transitional support, and if so, how much.

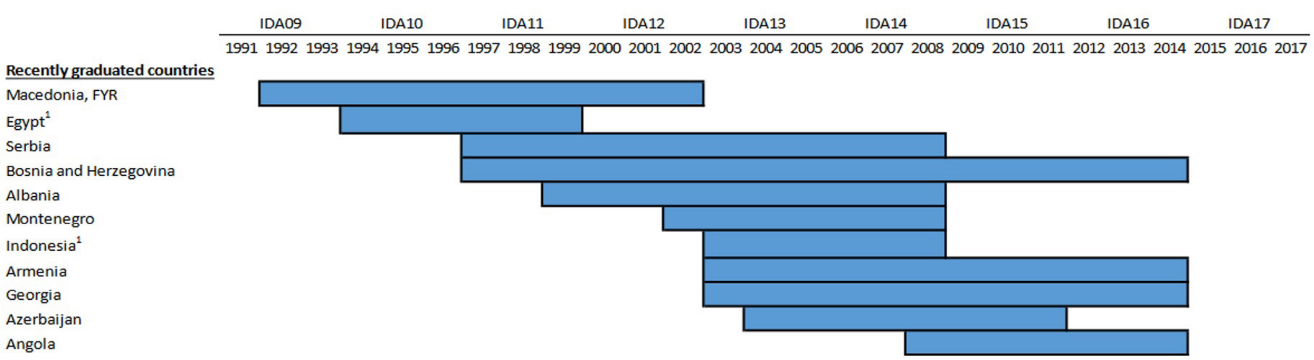

Figure 2: Graduation period for recent IDA graduates
From first year above IDA operational income cut-off to year of graduation
Source: IDA18 Review of IDA's Graduation Policy[16]
Note: This figure includes two "reverse graduates" that have since graduated again (Egypt and Indonesia).

Innovative Co-financing to Help Ease Transitions

Even if a country graduates to IBRD-only status, certain sectors may still face underperformance. In these scenarios, innovative financing mechanisms are available that can help unlock additional concessional financing. One such novel financing method is a "loan buy-down."[17] In a loan buy-down, another development funder agrees to pay a portion of the principal or the interest of the loan, thus reducing the cost of the loan for the recipient country (the borrower). It also incentivizes the country to invest more resources in a development project that it might not have otherwise invested in due to interest rate terms. In addition, trust funds such as the Global Financing Facility (GFF), and donors such as the Global Fund to Fight AIDS, Tuberculosis, and Malaria (The Global Fund) are now using innovative blended finance approaches to help countries convert their market term loans into concessional finance, hence increasing the impact of the development loans in the country (Box 2).[18]

For example, India graduated to IBRD-only funding in 2014 yet still faces a high burden of tuberculosis (TB), including drug-resistant TB. In June 2019, IBRD provided a loan of US$400 million to support TB control. The Global Fund further awarded US$40 million to India to buy down a portion of the IBRD loan over a period of five years.[19] This loan buy-down will help India convert the market term loan from IBRD into a concessional loan, thus reducing the overall loan burden on India, and also incentivizing India and other donors to invest more in the fight against TB.

The World Bank Group launched the GFF at the Financing for Development Conference in Addis Ababa in 2015. The GFF's goal is to help achieve selected targets in the health-related Sustainable Development Goals (SDGs) by focusing on reducing the financing gap for reproductive, maternal, newborn, child, and adolescent health and nutrition (RMNCAH-N). The GFF has identified under-funded and high impact RMNCAH-N areas as crucial to achieving the health-related SDGs by 2030.

The GFF has a unique financial model where it provides limited financing and technical assistance to identify priorities, bring together different partners, and address important bottlenecks in the area of RMNCAH-N. The main aim is to attract other external-resources and crowd-in domestic resources to achieve the SDG goals identified by the countries in the RMNCAH-N sphere. The fund alone does not have enough resources to reduce the financing gap for health and nutrition. The trust fund does not provide any goods and services directly but uses its moderate amount of funds as a facilitator to bring together countries and funding from other sources, such as domestic resources, the World Bank's IDA and IBRD financing, aligned external financing, and private sector resources. The countries own the GFF process, and under the country's leadership, priorities and funding decisions are made to achieve their goals. The trust fund often buys down loans helping countries to access IDA-type concessional funding even after they have graduated from IDA.

Box 2: The Global Financing Facility (GFF)

Transition Status

Upcoming IDA Graduations

IDA does not produce a list of countries that are projected to graduate during future IDA replenishments. However, discussions between IDA and graduating countries typically start one to two years before a country is expected to graduate to IBRD-only status.

Countries in the IDA-blend stage are those that are experiencing a decrease in IDA finances as access to IBRD finances increases. The duration in the blend stage is variable, but this stage signals a country's gradual transition towards IBRD-only funding. Currently, there are 17 blend countries, seven of which are eligible based on the small-island economies exception (Table 1).

Table 1: Countries in the IDA-blend transition phase[5]

IDA-blend countries	
1. Cameroon	*Small-island economy terms*
2. Congo, Republic of	1. Cape Verde
3. Kenya	2. Dominica
4. Moldova	3. Fiji
5. Mongolia	4. Grenada
6. Nigeria	5. St. Lucia
7. Pakistan	6. St. Vincent
8. Papua New Guinea	7. Timor-Leste
9. Uzbekistan	
10. Zimbabwe	

Previous IDA Graduations

Since 1960, 44 countries have graduated from IDA. Of these 44, twelve have "re-entered" IDA support. Three of these "reverse graduates," Egypt, Indonesia, and the Philippines, have again graduated from IDA. Indonesia's journey as a reverse graduate is shown in Figure 3. Indonesia was considered IBRD-only until it became IDA-eligible again in FY1999 due to a drop in its GNI p.c. during the Asian Financial Crisis. Between 1999 and 2007, Indonesia remained IDA-eligible before graduating back to IBRD-only status in 2008.

Of the five countries that graduated at the start of IDA17–Angola, Armenia, Bosnia and Herzegovina, Georgia, and India—only India fulfilled the requirements for transitional financing. India was the first country in IDA history to receive transitional support. India received this transitional support for three years after its graduation to IBRD-only in 2014. India was provided SDR 2.3 billion (about US$3.5 billion at the IDA17 reference exchange rate) in transitional support. Around SDR 1.4 billion was committed for FY15 and FY16, and the remaining amount was provided in FY17.[16] Transitional support was invested across many different sectors, such as education, livelihood, agriculture, infrastructure, and health.

Among the countries that graduated to IBRD-only support during the IDA17 and IDA18 replenishments, four countries—India, Bolivia, Vietnam and Sri Lanka—received transitional support from IDA (Table 2).

Transition Learning

In 2016, IDA conducted a holistic review of its graduation policy. The main conclusions from the review include[16]:

- *Flexibility in graduation*: IDA found that the flexibility in the graduation process was one of the main strengths of IDA transition. The case-by-case review of country-specific needs during graduation reduces the risk of reverse graduation from IBRD-only back into IDA.
- *Operational GNI p.c. limit*: During many replenishment meetings, discussions were held on raising the operational GNI p.c. limit for graduation. However, the IDA review found that the current operational limit was appropriate and there was no urgent need to amend the limit. IDA argued that any upward revision of the GNI p.c. threshold would have an adverse effect on IDA's finances since many more countries would then be classified as IDA-gap countries, thereby making them eligible to access concessional IDA finances.

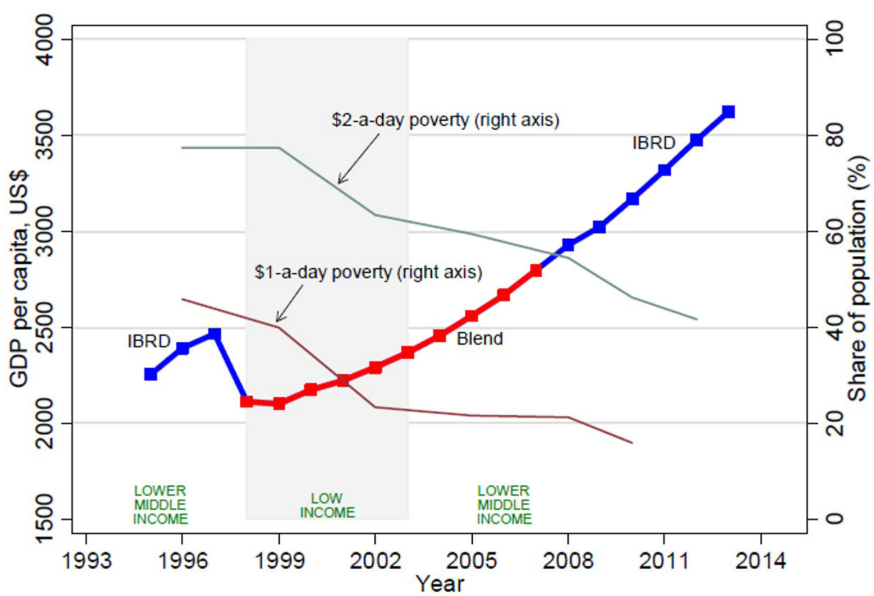

Figure 3: Indonesia's reverse graduation
Source: Indonesia Health Financing System Assessment[20]
Note: GDP per capita in 2015 constant US$

Table 2: Transitional financing by replenishment cycle and country[10]

Replenishment Cycle	Country	Amount (SDR)
IDA17	India	2.3 billion
IDA18	Bolivia	99 million
	Vietnam	1.6 billion
	Sri Lanka	303 million

- *Coordination with other development partners*: The review recommended that coordination with World Bank country teams needs to start earlier in the graduation process to better prepare countries for graduation. In addition, the World Bank should coordinate more with other multilateral and bilateral organizations, given the risk of simultaneous transitions with funders that also adopt a GNI p.c. threshold.

Transition Impact: Country Experiences

The 2016 review of IDA's graduation policy highlighted some common challenges faced by graduating countries.[16] These challenges include:

- Increased borrowing costs, from both the World Bank and the market, since the country can only access short maturity and higher interest market financing.
- For those graduating countries that depended heavily on concessional financing from IDA, access to external financing from the market after graduation might be limited due to how the market perceives these countries, or a country's debt servicing capacity. Hence, a recently graduated country might not be able to borrow amounts on the market similar to those they used to get from IDA without incurring unsustainable levels of debt.
- The total transfer of funds from the World Bank to the country might also decrease after graduation. This could be because of the World Bank's accelerated payment clause (Box 3) or increased debt servicing.

In addition to these challenges, many countries also experience "reverse graduation" from IBRD-only to IDA. The reason why some countries reverse graduate to IDA can be traced to poor macroeconomic management in the country, volatile international commodity prices, excess borrowing at market terms during boom years, and/or a downturn in the global economy. All or some of these factors combined together could push a country back into IDA eligibility.[9] Some reverse-graduates have graduated again back to IBRD-only such as Egypt, Indonesia, and the Philippines. However, many countries that entered back into IDA have yet to graduate, including Nigeria, Côte d'Ivoire, Syria, Honduras, Cameroon, Nicaragua, the Republic of Congo, Papua New Guinea, and Zimbabwe.

> IDA introduced an acceleration clause in 1987. As per this clause, after graduating from IDA a country not only loses IDA's concessional finances, but it might also be subjected to the doubling of principal repayment on an outstanding IDA credit/loan. The country can apply for some flexibility by asking to substitute some or all the principal repayment with the interest charge. The IDA acceleration clause can only be implemented after the board's approval.

Box 3: Acceleration clause[10]

Outlook

The IDA19 replenishment is currently underway. The first meeting for IDA19 took place in November 2018 in Livingston, Zambia. Three more meetings will be held in 2019 before the final pledging of funds in December 2019. The funds raised this year will be allocated from 2021-2023.

The availability of total finances for the IDA19 replenishment period will determine the total amount available for transitional support to graduating countries during this cycle. Presently, many blend countries are facing macroeconomic vulnerabilities. Therefore, their graduation readiness will have to be reviewed carefully, which may affect the requirements for transitional support. In addition, there is some risk for graduating countries with poor health indicators, which may be a disadvantage in IDA's current graduation system.

The IDA19 replenishment meeting in Zambia also discussed the need for putting into place a framework to guide decisions on which recently graduated IBRD-only small economies could have access to IDA's CRW.[21] The remaining meetings of the IDA19 replenishment will determine the framework for choosing the countries eligible to access IDA's CRW.

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Methods

Our research included a desk-based review of donor websites, strategy documents, grey literature reports, and academic literature. We triangulated the findings of our desk review with key informant interviews with high-level policy personnel within each of the donor agencies. This project was screened for exemption by the Duke University Institutional Review Board as part of the study 'Driving health progress during disease, demographic, domestic finance and donor transitions (the "4Ds"): policy analysis and engagement with transitioning countries.'