



IDA17

**Effective Foreign Exchange Rates
for Use in the IDA17 Replenishment**

**International Development Association
IDA Resource Mobilization (CFPIR)**

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Selected Abbreviations and Acronyms

IDA	International Development Association
MDRI	Multilateral Debt Relief Initiative
SDR	Special Drawing Right

Effective Foreign Exchange Rates for Use in the IDA17 Replenishment

1. **Averaging period to set the reference exchange rates used for each replenishment.** For IDA replenishments, partner contributions announced in pledge currencies are translated into SDR terms by using a set of average foreign exchange rates over an agreed reference period. Since IDA7, partners have chosen to determine the reference period at the beginning of the replenishment discussions. In setting the reference period, partners have agreed to use the following criteria:

- *Sufficient lead time should be allowed to determine the pledge currency amounts that partners will contribute to meet a specific percentage burden share or SDR amount in the replenishment.* Since partners would need to obtain authorization for their pledge currency contributions, they should be able to calculate well in advance the necessary pledge currency amounts.
- *The reference period chosen should cover an upcoming period to avoid using known foreign exchange rates to the extent feasible.* This was seen as the most equitable approach, avoiding the risk of selecting among different sets of foreign exchange rates that could be more favorable to some partners and less so to others. Defining the reference period at the beginning of the replenishment discussions and basing the foreign exchange rates on future dates will meet this criterion.
- *The method for determining exchange rates should mitigate short-term currency fluctuations.* Using average foreign exchange rates over several months would serve this purpose. Except for IDA10, partners have usually selected a reference period of six months (see table).

IDA Replenishments: Exchange Rate Averaging Periods			
Replenishment	Discussions Completed	Exchange Rate Averages Adopted	Length
IDA7	January 1984	June 10 – December 9, 1983	6 months
IDA8	December 1986	March 1 – August 29, 1986	6 months
IDA9	December 1989	May 1 – October 31, 1989	6 months
IDA10	December 1992	March 1 – June 30, 1992	4 months
IDA11	March 1996	June 1 – November 30, 1995	6 months
IDA12	November 1998	March 1 – August 31, 1998	6 months
IDA13	July 2002	April 1 – September 30, 2001	6 months
IDA14	February 2005	April 1 – September 30, 2004	6 months
IDA15	March 2007	April 1 – September 30, 2007	6 months
IDA16	March 2010	April 1 – September 30, 2010	6 months

2. **Threshold for determining partner countries with high domestic inflation rates.** Recognizing the potential loss of replenishment resources caused by currency depreciation due to high domestic inflation, in previous replenishments partners have agreed that countries with high inflation rates – exceeding an annual average threshold over a specified period of time – would denominate their IDA contributions in SDRs. For IDA9 and IDA10, the applicable threshold was an average inflation rate of 15 percent over the three-year period prior to the replenishment discussions. For IDA11 through IDA16, the inflation threshold was an average inflation rate of 10 percent.

3. **While the reference exchange rates will be used to determine IDA's agreed lending envelope at the time of the final pledging session, IDA's actual commitment authority for IDA17 will be determined by the subsequent hedges executed by IDA.** Following the December pledging session, IDA confirms partners' payment schedules and executes foreign exchange hedges to ensure stability in IDA's commitment authority.

Recommendations

4. **There are two recommendations for IDA Deputy approval at the first replenishment meeting in March 2013 related to effective foreign exchange rates for use in the IDA17 Replenishment:**

- a. It is recommended that a six-month averaging period from March 1, 2013 through August 31, 2013 be adopted for setting the IDA17 reference exchange rates.¹
- b. It is also recommended that an average annual inflation rate threshold of 10 percent over the three-year period of 2010-2012 be used to determine partner countries with high domestic inflation rates.

¹ This is one month earlier than the averaging period used since IDA13 in order to allow the MDRI cost update provided for the October meeting to be prepared using the final IDA17 reference exchange rates. This would allow earlier reporting of the final MDRI costs for donors' budgeting purposes.