

Tanzania Leverages New IDA Financial Product to Maximize Savings

Tanzania secured the largest World Bank policy loan in the country's history to foster inclusive and resilient growth. The \$500 million financing leverages [International Development Association's](#) (IDA's) new highly concessional product – the Shorter Maturity Loan – and blends it with a regular IDA Scale-Up Window loan, which is on market-based terms. The blended package will save Tanzania almost \$1 in interest cost¹ for every \$3 it borrows.

\$500 Million Financing Needed to Support Tanzania's Economic Recovery

Following a long stretch of high growth and macroeconomic stability, Tanzania graduated from lower-income to lower-middle-income country status in July 2020.

In recent years, however, the country has been facing some strong headwinds: stagnant poverty, decelerating private investment, and vulnerability to fiscal shocks, which were further aggravated due to the pandemic and the war in Ukraine.

To support Tanzania's efforts to put the country back on its rapid growth trajectory, the World Bank prepared the \$500 million [Inclusive and Resilient Growth Development Policy Operation](#). This was the first policy loan in eight years that Tanzania took on from the World Bank. The loan will support Tanzania in (i) improving the business environment; (ii) strengthening public sector transparency and fiscal risk management; and (iii) boosting economic resilience.

Country Limits Allow for \$250 Million at 0 Percent Cost with New Product

With a frontloaded ambitious reform program Tanzania had already taken on, the country already allocated regular IDA funding across various investment projects. To avoid crowding out those



Photo Credit by Paul Hampton-Adobe StockPhoto

projects, the authorities opted to use additional resources that come with the IDA Scale-Up Window.

Due to World Bank's pre-defined country limits, the \$250 million portion of the financing could be fully concessional with 0 percent interest cost under the Shorter Maturity Loan. For the remaining portion, Tanzania would utilize the regular Scale-Up Window loan. This loan product, which has market-based pricing and is semi-concessional, and had not been used by Tanzania for a very long time.

Financial Objective: Smart Borrowing

- Max out the full range of concessional financing available from IDA
- Minimize the cost of borrowing for Tanzania

Tanzania potentially saves \$1 in interest cost for every \$3 it borrows

World Bank Treasury structured a \$500 million blended package, combining the new IDA Shorter Maturity Loan (SML) with a regular IDA Scale-Up Window (SUW) loan.

The blended package maximized the available concessional loans from the World Bank for Tanzania in the form of the \$250 million SML and, when combined with the IDA SUW loan, allowed the government to meet its \$500 million external financing goal. This blending minimized the all-in

¹ The estimated savings on interest costs is based on blending the \$250 million SML and \$250 million SUW instead of the original concept of taking all \$500 million as an SUW loan. The calculation is based on

market data in mid-November 2022 when the loan was negotiated and assumes the SUW loan was a fixed rate with a variable spread.

cost, saving Tanzania \$150 million over the life of the loan. Another benefit of this solution was to tailor the loans to fit Tanzania's debt profile. As regular SUW loans can be customized, this solution pushed out the principal repayments by extending the SUW grace period to a point when the SML principal repayments will be winding down, thus smoothing out these payments over a long period.

World Bank Treasury's Role

- **Analyzed Tanzania's overall debt profile** to understand its debt management constraints and objectives and engaged extensively with the Tanzania Debt Management Office on all IDA financial terms and conditions.
- **Provided financial scenarios** for blending the SML and SUW, engaging extensively with the debt management office in Tanzania to ensure the blended financing package met the government's fiscal and debt needs.
- **Structured the \$500 million blended financing package** from two different funding sources to significantly lower the overall cost.
- **Customized the regular SUW loan terms** to provide for a long grace period (10 years) that pushed out the principal repayments.
- **Advised the Government and World Bank project team** throughout the loan negotiation cycle to enable timely delivery of the project to the World Bank Board and the client.

Summary of Financial Terms

	SUW-SML	Regular SUW
Amount	\$250 mil.	\$250 mil.
Term	12 Y final maturity	25 Y final maturity
Grace period	6 Y	10 Y
Amortization	Level	Level
Interest Rate	0	6 Month SOFR + Variable Spread ²
Fees	0	0.25% Front-End Fee + 0.25% Commitment Fee

The new IDA20 Shorter Maturity Loan (SML)

The SML is a new concessional IDA loan unique to IDA20. The SML is offered within the Performance Based Allocation (PBA) and Scale-Up Window. It is designed to help eligible IDA countries meet heightened external financing needs in the aftermath of COVID-19 by securing a higher volume of IDA concessional resources than a borrower would otherwise receive via the traditional PBA system prior to IDA20.

The SML is specifically suited for short- and medium-term financing to support countries for which debt distress is not high. The SML has a 12-year final maturity and a 6-year grace period. Most importantly, the SUW-SMLs are offered at zero interest with no service charge, which makes them fully concessional. In the case of Tanzania, it had already allocated its regular IDA allocation across various investment projects. Therefore, Tanzania was able to max out the SML allocation, which was USD 250 million, to use as a base to blend with other less concessional financing sources from IDA (e.g., regular SUW).

Regular IDA Scale-Up Window (SUW)

The [regular SUW](#) is IBRD's market-based financial product offered to only IDA-eligible countries with low or medium risk of debt distress. Regular SUWs have the same terms as IBRD Flexible Loans, with pricing based on the cost of funds the World Bank secures through issuing bonds in international capital markets. The terms are passed through to clients. SUW loans allow borrowers to customize repayment terms (i.e., grace period, repayment period, and amortization profile) to meet debt management or project needs. The regular SUWs are especially useful where core IDA allocations are insufficient to support transformational initiatives, such as in the case of the new DPO loan in Tanzania.

Contact: **Miguel Navarro-Martin**, Manager, Financial Products & Client Solutions, The World Bank Treasury

✉ mnavarromartin@worldbank.org ☎ +1 (202) 458 4722

📍 1225 Connecticut Avenue NW, Washington, D.C., 20433, U.S.A.

² At the time of loan negotiation on Nov. 14, 2022, 6 month average SOFR was 2.02% and the variable spread was 0.96%.