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Update

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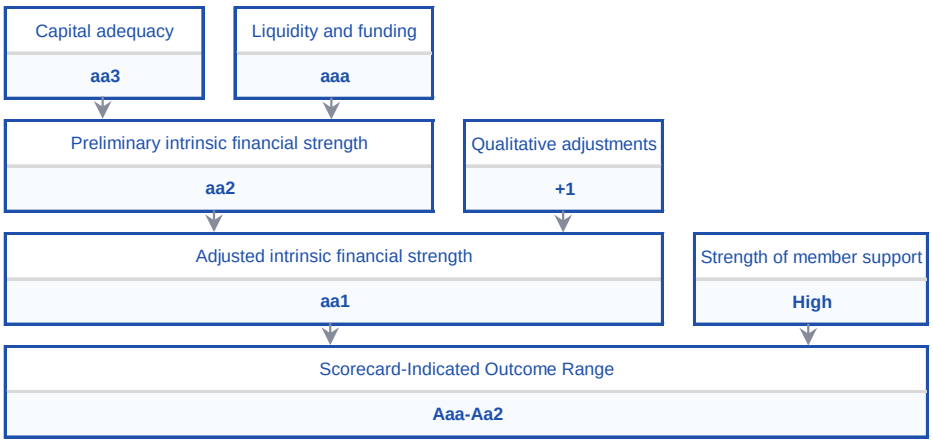
International Development Association (IDA) – Aaa stable

Regular update

Summary

The credit profile of the International Development Association (IDA) – a World Bank Group (WBG) institution that primarily specializes in concessional lending and grant-making to low-income countries – is underpinned by very high and stable capital adequacy, a robust liquidity position and high shareholder support. IDA's credit challenges stem from its development mandate, which requires it to lend to riskier sovereigns, some of which have very limited or no access to capital markets.

Exhibit 1
IDA's credit profile is determined by three factors



Source: Moody's Investors Service

Credit strengths

» Very high and stable capital adequacy

» Robust liquidity position and very high quality of funding

» High shareholder support

Credit challenges

» Development mandate that requires lending to riskier sovereigns

Rating outlook

The stable outlook on the rating reflects our expectation that any weakening in capital adequacy as a result of IDA's expansion of future operations and increase in leverage will be modest and that, as this happens, IDA will continue to benefit from regular capital replenishments and appropriate risk management that will continue to support its very high intrinsic financial strength, consistent with its Aaa credit profile.

Factors that could lead to a downgrade

Although IDA's credit metrics are likely to remain very strong relative to peers even as its operations expand and it increases its leverage, downward rating pressure could emerge if: (1) one or more of its largest borrowers were in default and unwilling or unable to meet their obligations, leading to a deterioration in IDA's capital adequacy; and/or (2) if its key donor countries were to forgo or significantly downsize their contribution to regular replenishments. We consider these to be very unlikely scenarios.

Key indicators

IDA	2014	2015	2016	2017	2018[2]	2019[2]
Total Assets (USD million)	183,445.0	178,685.0	180,475.0	197,041.0	184,666.0	188,553.0
Development-related Assets (DRA) / Usable Equity [1]	88.5	88.9	88.4	89.7	91.5	96.1
Non-Performing Assets / DRA	2.0	1.9	1.9	1.8	1.7	1.6
Return on Average Assets	-0.9	-0.4	0.2	-1.2	-2.7	-3.6
Liquid Assets / ST Debt + CMLTD[3]	684.6	683.7	1,634.4	1,270.2	1,439.2	1,714.9
Liquid Assets / Total Assets	18.7	18.8	17.8	16.5	19.8	17.5
Callable Capital / Gross Debt	0.0	0.0	0.0	0.0	0.0	0.0

[1] Usable equity is total shareholder's equity and excludes callable capital
[2] In fiscal 2019, IDA changed the presentation of its derivative instruments on its balance sheet to netting of derivative assets and liability positions, from presentation of interest rate swaps on a net basis and currency swaps on a gross basis. This resulted in reported assets and liabilities declining substantially in fiscal 2019 and the restated period of fiscal 2018.
[3] Short-term debt and currently-maturing long-term debt

Source: Moody's Investors Service

Detailed credit considerations

IDA's "aa3" **capital adequacy** reflects its very strong capital position, relatively moderate development asset credit quality (DACQ) and strong asset performance.

Over the course of six decades, IDA has built up a large equity capital base via paid-in capital in the form of contributions from its contributing member countries. This capital provides very strong coverage of its developmental operations. In April 2018, IDA issued its first international bond to begin the process of gradually expanding its balance sheet to increase development lending and grants. Our primary measure of capital adequacy is the leverage ratio (which is calculated as development-related assets and liquid assets rated A3 or lower divided by usable equity). IDA's leverage is very low, underpinning its very strong capital position. As of the fiscal year ending in June 2020 (fiscal 2020), IDA's leverage ratio was 0.98, significantly lower than the 2.6 median ratio for Aaa-rated MDB peers. Although we expect the leverage ratio to increase as IDA gradually expands its borrowing program, we do not expect this gradual increase in the use of leverage to materially weaken its capital adequacy.

Our assessment of capital adequacy also incorporates the DACQ of IDA's loan portfolio. IDA's focus on lending to least developed countries results in a relatively moderate DACQ assessment of "baa." We expect this to trend lower over time, as its operations expand into lower-rated borrowers and higher-rated borrowers graduate from new borrowings from IDA due to rising per capita income levels. Nonetheless, the process will be very gradual given the long tenor of IDA's loans (30-40 years). Moreover, IDA's preferred creditor status and diversified international portfolio will continue to provide support to our assessment of its DACQ. Looking ahead, we expect

IDA's capital adequacy to remain very strong, supported by its conservative risk management framework, which is consistent with that of the International Bank for Reconstruction and Development (IBRD, Aaa stable) and managed by the same World Bank professionals.

IDA's asset performance is strong, as measured by the ratio of nonperforming assets (NPAs) to total development-related assets. The ratio declined to 1.3% in fiscal 2020 and has remained below 3.0% since 2010. IDA's low NPA ratio is supported by donor countries' debt relief granted to the most indebted borrowers. Long-term non-accruals tend to be uncorrelated and primarily related to idiosyncratic political risk factors (e.g., wars, adverse regime changes). Concessional features of IDA's loans, combined with its preferred creditor status, have resulted in the vast majority of governments staying current on their payments even through deep and lasting recessions.

IDA's **liquidity and funding** score is set at "aaa" to reflect its very robust liquidity position and indications of strong market access.

IDA's strong availability of liquidity supports our "aaa" assessment of liquid resources. We measure the availability of liquid resources as the percentage of liquid assets of estimated net cash outflows over the next 18 months. With a ratio of about 183% as of fiscal 2020, IDA's liquid resources are very high and we expect them to remain robust despite gradual increases in leverage. IDA's liquid resources will continue to be supported by its triannual capital replenishments and reflows from borrowers. IDA has also started to build solid access to market funding, following its inaugural $1.5 billion bond offering in April 2018. The successful issuance indicated strong market access and quality of funding consistent with that of the other main WBG entities: the IBRD and International Finance Corporation (IFC, Aaa stable). In 2019, IDA followed up with its first short-term debt and first euro-denominated benchmark bond issuances. In 2020, IDA continued making historic issuances, including inaugural British sterling and Swedish krona issuances, demonstrating its strong market access. We expect demand for IDA's debt to remain strong as it expands its global issuances.

We have applied a "+1" upward adjustment to IDA's preliminary intrinsic financial strength of "aa2" on account of its strong **quality of management**, which is the same team that oversees the IBRD. We apply the same adjustment to the IBRD, which is consistent with assessments for other large, well-established MDBs, including the European Bank for Reconstruction and Development (EBRD, Aaa stable), Inter-American Development Bank (IADB, Aaa stable) and Asian Development Bank (ADB, Aaa stable). The adjustment reflects IDA's comprehensive policy framework and strong risk management culture, including adherence to its internal policy requirements.

Our assessment of IDA's "aa1" adjusted intrinsic financial strength is complemented by our assessment of its **strength of member support**, which is set at an assigned score of "High," above the adjusted score of "Medium," which reflects the particular importance assigned to the entity by its shareholders and a very strong assessment of non-contractual support from its diverse global membership. At "aa3," IDA's weighted average shareholder rating (WASR) denotes very strong ability of its members to support the institution. Meanwhile, despite the lack of explicit contractual support, such as callable capital, we assess that IDA benefits from very high non-contractual support from its members, consistent with proven willingness to support the organization through regular capital replenishments.

ESG considerations

How environmental, social and governance risks inform our credit analysis of IDA

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing a supranational issuers' credit profile. In the case of IDA, the materiality of ESG to the credit profile is as follows:

Environmental considerations are not material for IDA's rating. Although IDA's borrowers are exposed to the negative impact of climate trends, the geographically diverse structure of the institution's development portfolio offsets this risk.

Social considerations are not material for IDA's rating. We do not expect social risks affecting IDA's borrowers to impact its financial strength.

Governance is very strong for IDA and is a key driver of its Aaa rating. The quality of management score is adjusted up by one notch from the level indicated in the scorecard to reflect IDA's high quality of risk and liquidity management.

All of these considerations are further discussed in the "detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks. Additional information about our rating approach is provided in our Rating Methodology for Multilateral Development Banks and other Supranational Entities.

Recent developments

New adjusted net income measure introduced to better reflect economic results

In fiscal 2020[1], IDA reported a net loss of $1.1 billion compared to a net loss of $6.7 billion in fiscal 2019. The change was primarily driven by development grants (which are classified as expenses) decreasing, due to a new accounting standard coming into effect that changed the timing of recognition of grant expenses. IDA's grants are financed by contributions from members, which are recorded as equity and not reflected in IDA's income statement. The new accounting standard deems grants as conditional; therefore, they are not expensed until all conditions are met, usually when disbursed. Previously, grants were expensed when approved.

To better reflect the institution's core business performance, IDA published a new net income measure in its fiscal 2019 statements called adjusted net income (ANI). ANI is a new income measure used by IDA's management and its Board to monitor the economic results of IDA's operations. ANI is defined as reported net income adjusted to exclude such items as activities directly funded by contributions from members and unrealized mark-to-market gains/losses on non-trading portfolios.[2] In fiscal 2020, IDA's ANI increased to a gain of $724 million from a gain of $225 million in fiscal 2019.

In fiscal 2020, IDA's net lending commitments stood at $30.4 billion, of which $22.4 billion were loan and guarantee commitments. The remaining $8 billion were grant commitments. Europe and Central Asia had the largest percentage increase in IDA commitments, increasing to almost $1.5 billion from only $583 million in 2019. In terms of sectoral breakdown, the largest increases in commitments were for education, health and social protection, as part of IDA's response to the COVID-19 pandemic.

Asset quality improved in fiscal 2020 with decline in non-accruals

In fiscal 2020, the asset quality of IDA's development asset portfolio improved. In particular, the NPA ratio declined to 1.3% from 1.6% in fiscal 2019, due to Somalia's exit from the nonaccrual portfolio in March 2020. Only four countries remain in nonaccrual status. IDA's latest nonaccrual is from Syria, dating back to June 2012. No guarantees have been called over the last eight years. Overall, the NPA ratio has remained below 3% since 2010 and continues to trend downward. We expect IDA's NPA ratio to remain strong even if the asset quality of several higher-risk country exposures were to decline.

Record $82 billion IDA19 replenishment cycle will support IDA's development goals

IDA's donor capital replenishment cycles occur every three years. The IDA18 cycle had a record $75 billion headline replenishment figure to finance projects from July 2017 through June 2020. Of this total, an estimated one third of funding is expected to come from capital market debt as projects disburse and needs arise. The remaining two-thirds were more or less evenly split between new equity contributions and internal sources (such as repayments of outstanding credits and transfers from other WBG institutions).

The most recent replenishment cycle, IDA19, which was announced in December 2019 and approved by the board in March 2020, set a record replenishment figure of $82 billion for the fiscal years 2021-23 period with $23.5 billion coming from member equity contributions and up to $53.7 billion coming from market debt and internal resources. As part of the IDA18 and IDA19 cycles, IDA also announced in March 2020 that it would provide $50-$55 billion over a 15-month period to support member countries in their efforts to combat the coronavirus outbreak, which at the time complied with the IDA18 and IDA19 financial frameworks.

We do not expect the additional market debt to significantly impact IDA's intrinsic financial strength over the medium term, given that the pace of issuance will be gradual and partially offset by shareholder capital contributions.

IDA's access to funding continues to expand and strengthen

Our assessment of IDA's quality and access to funding is first informed by its current borrowings. Even as IDA has begun to access the capital markets for market funding, concessional partner loans (CPLs) continue to be an important source of funding as a part of IDA19. The maturities of these loans are either 25- or 40-year tenors, following maturities of IDA's loans, and include a grace period of five and 10 years, respectively. These loans are extended on explicitly concessional terms by donor countries and the interest rate is set in line with the concessional lending programs that they are intended to fund. The concessional component (difference between face value and carrying value of loans received) is capitalized and recognized as equity on the balance sheet. As of fiscal 2020, CPLs stood at $7.6 billion, an increase of $800 million from $6.8 billion in fiscal 2019.

In April 2018, as part of its new Global Debt Issuance Facility, IDA successfully launched its first debt issuance in the global capital markets, raising $1.5 billion in five-year bonds with a fixed coupon of 2.75%. As a part of IDA's asset-liability management strategy, it entered into derivative transactions to convert the fixed-rate bond into a floating rate instrument. Overall, the inaugural offering captured very strong interest globally. In fiscal 2019, IDA followed up this issuance with its first short-term debt instrument issuance. The amount outstanding as of the end of fiscal 2020 was $5.7 billion. IDA also issued its first euro-denominated benchmark bond in October 2019 for EUR1.25 billion at a maturity of seven years. In 2020, IDA continued to make historic issuances, including inaugural British sterling and Swedish krona issuances, demonstrating its strong market access.

We expect IDA to continue to expand and diversify its funding sources as its debt management strategy continues to evolve.

Rating methodology and scorecard factors

Rating factor grid - International Development Association	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)		aa3	aa3
Capital position (20%)		aaa	
Leverage ratio	aaa		
Trend	0		
Impact of profit and loss on leverage	0		
Development asset credit quality (10%)		baa	
DACQ assessment	baa		
Trend	0		
Asset performance (20%)		a1	
Non-performing assets	a1		
Trend	0		
Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)		aaa	aaa
Liquid resources (10%)		aaa	
Availability of liquid resources	aaa		
Trend in coverage outflow	0		
Access to extraordinary liquidity	0		
Quality of funding (40%)		aaa	
Preliminary intrinsic financial strength			aa2
Other adjustments			1
Operating environment	0		
Quality of management	+1		
Adjusted intrinsic financial strength			aa1
Factor 3: Strength of member support (+3,+2,+1,0)		Medium	High
Ability to support - weighted average shareholder rating (50%)		aa3	
Willingness to support (50%)			
Contractual support (25%)	ca	ca	
Strong enforcement mechanism	0		
Payment enhancements	0		
Non-contractual support (25%)		Very High	
Scorecard-Indicated Outcome Range			Aaa-Aa2
Rating Assigned			Aaa

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Investors Service

Moody's related publications

» **Credit Analysis**: International Development Association - Aaa stable: Annual credit analysis, 1 December 2020

» **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 28 October 2020

Endnotes

1 IDA has a June 30 fiscal year-end.

2 ANI excludes: (1) activities directly funded by contributions from members; (2) contributions/grants received from affiliated organizations' other similar contributions (mainly IBRD and IFC); (3) nonfunctional currency translation adjustment gains/losses; (4) unrealized mark-to-market gains/losses on non-trading portfolios; and (5) pension and post-retirement adjustments, among some others that are more minor in impact.

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