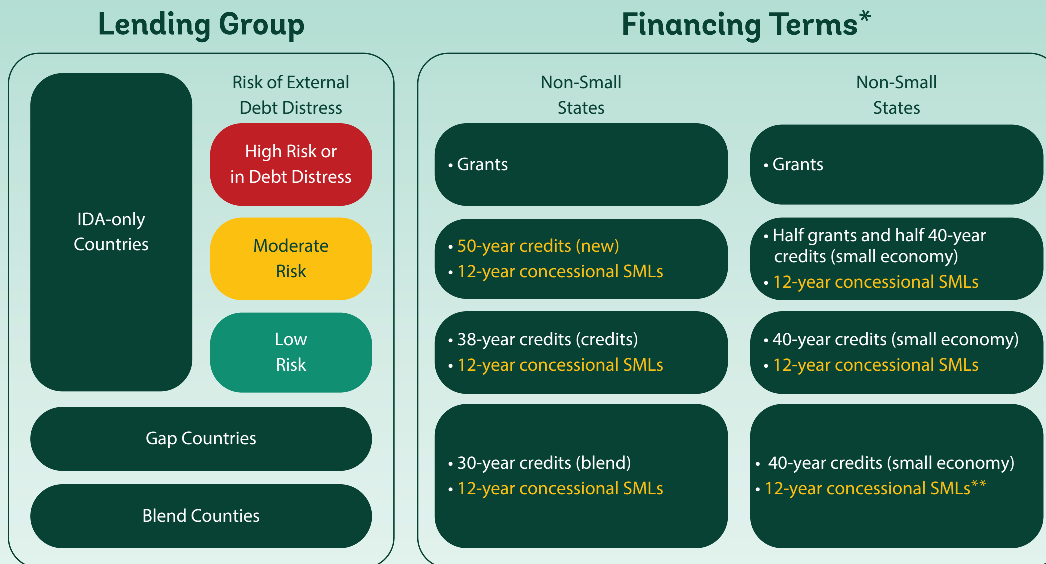
IDA20 FINANCING TERMS: KEY NOVELTIES

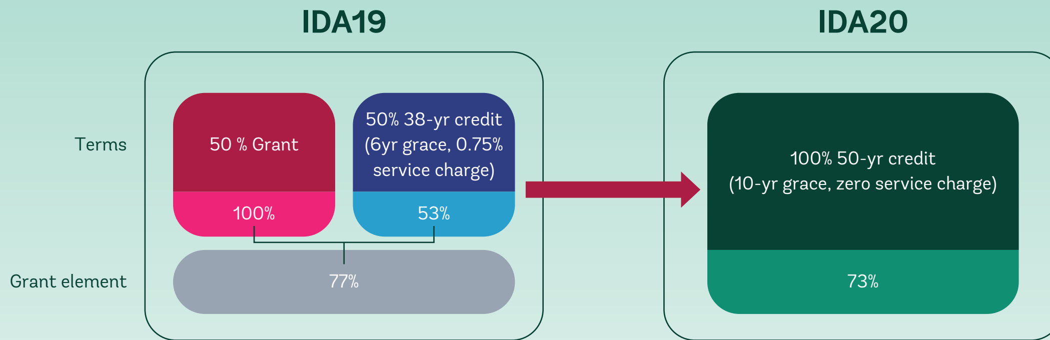


*Some of the financing terms are adjusted under IDA Windows; please refer to the Windows implementation arrangements for more details.
**Except for red light Small States.

IDA20 prioritizes **grant resources to countries facing acute debt risks,** while providing **higher volumes for all countries** to meet their financing needs due to the COVID-19 pandemic and other looming crisis. IDA financing terms are determined by the country's lending group, its risk of debt distress, and whether it is classified as a Small State. For some countries, the financing terms are adjusted in IDA20. The adjustments to the financing terms are part of the balance sheet optimization measures introduced in IDA20 to secure a financing package totaling $93 billion, up from $82 billion in IDA19, with flat donor contributions. Without such adjustments, the IDA20 financing package would have been 24% smaller, with lower IDA Country Allocations. Countries at high risk of debt distress or already in debt distress continues to exclusively receive grants.

The two novelties the IDA20 financing package brings about are: (i) the introduction of **50-year credit** for IDA-only countries at moderate risk of debt distress, and (ii) the new **shorter-maturity loans** (SMLs), made available to several countries to support their COVID-19 response and recovery efforts, along with other development needs. The text highlighted in yellow above expands on these new financing terms, per country lending group.

The refinement of the financing terms for IDA-only yellow-light countries from the 50 percent grant and 50 percent 38-year credit terms in IDA19 to 100 percent in 50-year credit terms in IDA20, aims to increase the efficiency of IDA's capital utilization while keeping a very high level of concessionality of financing to IDA countries. As per the figure below, the 50-year credits will have a 10-year grace with a zero-service charge and will therefore keep the financing terms' grant element substantial and similar to the IDA19 terms.



In addition, the newly introduced SMLs will be made available through two channels:

- **$8.8 billion** will be provided through the **concessional Performance-Based Allocation** (PBA SMLs) to support country priorities; and
- **$7.8 billion** will be provided through the **Scale-Up Window SMLs** (SUW-SMLs) to provide dedicated additional financing to countries' COVID-19 response and recovery efforts.

The main **characteristics of the SMLs** are summarized below:

	PBA-SMSs	SUW-SMLs
Eligibility	IDA-only countries at low or moderate risk of debt distress, as well as Gap and Blend countries (except Small States that are at high risk or in debt distress), will receive a share of their IDA20 country allocation as PBA-SMLs to finance operations in line with their strategic priorities.	IDA-only countries at low or moderate risk of debt distress, as well as Gap and Blend countries (except Small States at high risk or in debt distress). Operations financed through the SUW-SML must align with the four pillars of the WBG COVID-19 Approach.
Allocation	SMLs are automatically available to countries (except IDA-only at high risk of or in debt distress and Gap and Blend Small States) as part of their country allocations, as follows: • About 24% for IDA-only Green/Gap/Blend (except for GAP/Blend Small States at high risk of or in debt distress) • About 12% for IDA-only countries at moderate risk of debt distress	Indicative IDA20 regional allocations and final FY23 annual allocations from SUW-SML are provided to each region at the beginning of IDA20. With SUW-SMLs, additional concessional volume can be accessed.
Instrument	All lending instruments (Investment Project Financing, Developing Policy Financing, and Program for Results) are eligible for PBA- and SUW-SMLs.	
Terms	SMLs are characterized by a six-year grace period, 12-year final maturity, and no interest or service charge. SMLs have shorter maturity than other IDA terms, hence requiring faster repayment (over six years), but also carry no borrowing cost, compared to the 0.75% service charge of regular IDA credits and 2% interest of blend/gap credits. The grant element of SMLs, which capture both shorter maturity and zero cost effect, is at 36%, slightly higher than blend terms (35%), but lower than regular IDA credits (53%). SMLs are not expected to lead to changes in the external risk of debt distress classification of eligible IDA countries. Solvency and liquidity indicators are expected to remain the same or increase slightly, but with minimal impact on debt risk ratings. Importantly, the additional resources made available through SUW SMLs could improve debt burden indicators if countries use SMLs to substitute for less concessional financing.	