IDA Single Currency Concessional Lending Program

**Highlights**

- For many IDA countries SDR credits create extra currency risk and challenges in managing the liabilities.
- In IDA 19, All IDA countries that receive IDA concessional credits and non-concessional loans are eligible for single-currency lending.
- There is no separate process to request a credit in single currency. The borrower should indicate the currency selected at loan negotiation.

IDA offers three main concessional financial instruments: grants, credits, and guarantees. Terms such as charges and interest rates, maturity structure, grace period and repayment profile vary according to type of instrument and eligible recipient. Before IDA18, IDA’s currency of commitment was the Special Drawing Rights (SDR), given that the currency composition of its primary source of funding (partner contributions) closely reflects the composition of the SDR basket. The SDR is not itself a currency that can be bought and sold in the financial markets. Its value is linked to that of a basket of currencies, currently US dollar, euro, pound sterling, Japanese yen and Chinese yuan. This means when IDA recipients take IDA credits in SDR, they are effectively borrowing in five different currencies.

While the SDR as a basket of currencies is less volatile than its individual components, for many IDA countries SDR credits create extra currency risk and challenges in managing the liabilities. This was supported by World Bank surveys of treasury and debt management officials in IDA countries. In response to client requests, IDA introduced the Single Currency Lending pilot program in 2012 with the size of SDR 3 billion. The program allowed IDA recipients to denominate new credits in the four SDR constituent currencies, which were US dollar, euro, pound sterling and Japanese yen. The program was extended for three more years beginning April 2015 after the expiry of the initial pilot period in December 2014. Starting from IDA18, IDA allows its clients to apply the concessional borrowing in either SDR or the four SDR currencies (USD, EUR, JPY and GBP). The pilot program limit has been removed.

**Eligibility**

All IDA countries that receive IDA concessional credits and non-concessional loans are eligible for single-currency lending.

**Key Features**

Single currency denominated concessional credits are similar to SDR-denominated IDA concessional credits in almost all aspects. The key differences are in the currency of commitment/repayment and the pricing.

**Currency of Commitment/Repayment**

For concessional credits denominated in a single currency, when IDA borrowers choose the SDR constituent currency they want to denominate their credit in (commitment currency), they will automatically be obligated to repay IDA in the same currency (payment currency). This is a change from the past practice in which recipients choose a payment currency during negotiation, and are informed by the Bank of the payment due (depending on prevailing exchange rates) on each billing date.

**Pricing**

Pricing of single currency denominated concessional credits is set on a financial equivalence basis; i.e., at the time of the setting of pricing, the recipient of the credit and IDA would be financially indifferent to the denomination of the credit in SDR or the single currency options. As a result, the nominal level of service charges (and interest charges for countries on blend terms) for a single currency denominated credit may differ from a traditional SDR credit, and may also differ between currencies. The difference between the traditional SDR credit service charge and a service charge denominated in single currency is called the basis adjustment. The basis adjustment will vary depending on prevailing foreign exchange, interest rates, and type of credit. All the concessional credits offered by IDA have fixed coupon.

The basis adjustments and the resulting service and interest charges for each currency in the Single-Currency Lending program are calculated and published every quarter (see IDA lending rates). The service and fixed interest charges are fixed for the life of each credit based on the prevailing published figures at the time of credit approval by the Board of Executive Directors.

**Benefits**
Borrowing in a single currency as opposed to a basket of currencies can:

a) Reduce currency exposure (particularly for countries with revenues in one foreign currency or countries with local currencies pegged to one of the SDR composite currencies);
b) Provide an opportunity to better match the currency of revenues with debt;
c) Offer the opportunity to benefit from currency diversification;
d) Create opportunities to hedge currency exposure (the liability stream of credit repayments on SDR credits is difficult to hedge to a single currency because the SDR composition is reset every five years by the IMF);
e) Provide better matching of credit terms with project expenditures (for SDR credits, project costs in disbursement currencies may exceed the IDA-approved SDR credit volume due to fluctuations in exchange rates over the up to 10-year disbursement horizon on IDA credits); and
f) Simplify and strengthen the financial management of debt portfolios.

Process

There is no separate process to request a credit in single currency. The borrower should indicate the currency selected at loan negotiation.

The introduction of single-currency lending makes IDA products more flexible and customer oriented, providing risk mitigation benefits and contributing to the building of a client country toolkit of instruments and options.

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