

# International Development Association



## Management's Discussion & Analysis and Financial Statements June 30, 2021



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This Management's Discussion & Analysis (MD&A) discusses the results of the International Development Association's (IDA) financial performance for the fiscal year ended June 30, 2021 (FY21). IDA undertakes no obligation to update any forward-looking statements. Certain reclassifications of prior years' information have been made to conform with the current year's presentation. For discussion of IDA's financial results for the year ended June 30, 2020 as compared to the year ended June 30, 2019, see Section IV – Financial Results in IDA's MD&A and Financial Statements for the fiscal year ended June 30, 2020. For information relating to IDA's development operations' results and corporate performance, refer to the World Bank Corporate Scorecard and Sustainability Review.

## Box 1: Selected Financial Data

In millions of U.S. dollars, except ratios which are in percentages

	As of and for the fiscal years ended June 30,				
	2021	2020	2019	2018	2017
<b>Lending Highlights (Sections IV &amp; V)</b>					
<b>Loans, Grants and Guarantees</b>					
Net commitments <sup>a</sup>	\$ 36,028	\$ 30,365	\$ 21,932	\$ 24,010	\$ 19,513
Gross disbursements <sup>a</sup>	22,921	21,179	17,549	14,383	12,718
Net disbursements <sup>a</sup>	16,465	15,112	12,221	9,290	8,154
<b>Balance Sheet (Section IV)</b>					
Total assets	\$ 219,324	\$ 199,472	\$ 188,553	\$ 184,666	\$ 173,357
Net investment portfolio <sup>b</sup>	37,921	35,571	32,443	33,735	29,673
Net loans outstanding	177,779	160,961	151,921	145,656	138,351
Borrowing portfolio <sup>c</sup>	28,335	19,653	10,149	7,318	3,660
Total equity	180,876	168,171	162,982	163,945	158,476
<b>Income Statement (Section IV)</b>					
Interest revenue, net of borrowing expenses	\$ 1,996	\$ 1,843	\$ 1,702	\$ 1,647	\$ 1,521
Transfers from affiliated organizations and others	544	252	258	203	599
Development grants	(2,830)	(1,475)	(7,694)	(4,969)	(2,577)
Net loss	(433)	(1,114)	(6,650)	(5,231)	(2,296)
<b>Non-GAAP Measures:</b>					
<b>Adjusted Net Income (Loss) (Section IV)</b>	\$ 394	\$ 724	\$ 225	\$ (391)	\$ (158)
<b>Capital Adequacy (Section IX)</b>					
Deployable Strategic Capital Ratio	30.4%	35.8%	35.3%	37.4%	37.2%

a. Commitments that have been approved by the Executive Directors (referred to as "the Board" in this document) and net of full cancellations / terminations approved in the same fiscal year. Commitments and disbursements exclude IFC-MIGA Private Sector Window (PSW) activities.

b. For composition of net investment portfolio, see Notes to the Financial Statements, Note C – Investments – Table C2.

c. Includes associated derivatives.

## Section I: Executive Summary

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Owned by its 173 members, IDA, an entity rated triple-A by the major rating agencies, and one of the five institutions of the World Bank Group (WBG<sup>1</sup>), has been providing financing and knowledge services to many of the world's developing countries for 60 years. Each organization is legally and financially independent from IDA, with separate assets and liabilities, and IDA is not liable for their obligations.

With its many years of experience and its depth of knowledge in the international development arena, IDA plays a key role in achieving the WBG goal of helping countries achieve better development outcomes. IDA contributes to the WBG's twin goals of ending extreme poverty and promoting shared prosperity by providing loans, grants, and guarantees to countries to help meet their development needs and by leveraging its experience and expertise to provide technical assistance and policy advice. It also supports countries with disaster risk financing and insurance against natural disasters and health-related crises and facilitates financing through trust fund partnerships.

IDA and its affiliated organizations seek to help countries achieve improvements in growth, job creation, poverty reduction, governance, the environment, climate adaptation and resilience, human capital, infrastructure, and debt transparency. To meet its development goals, the WBG has been increasing its focus on country programs in order to improve growth and development outcomes. The World Bank's operational realignment, which came into effect on July 1, 2020, places country-driven development at the center of the delivery model, while strengthening thought leadership on development issues of critical importance to sustainable growth and poverty alleviation. Support continues to be prioritized for countries at lower levels of income, and fragile and conflict-affected states. The realignment strengthens the focus on Africa by creating two Vice Presidencies, one focused on Western and Central Africa and the other on Eastern and Southern Africa.

In March 2020, IDA's Nineteenth Replenishment of Resources (IDA19) was approved by the Board of Governors. The IDA19 financing framework is an integrated package that will continue to leverage IDA's strong equity base. The first year of the implementation of IDA19 commenced in FY21 which coincided with the onset of the coronavirus disease (COVID-19) crisis. In order to enable IDA to continue meeting the heightened financing needs for IDA resources, IDA members agreed in April 2021 to launch the twentieth IDA replenishment (IDA20), which will commence one year earlier, in FY23. The IDA19 implementation period will be shortened to two years (FY21-FY22), and \$12.5 billion of resources originally projected for use in FY23 will be available for financing in FY22.

In response to the global outbreak of COVID-19 and to support global public goods, IDA has been working in solidarity with partners at global and country levels to support its borrowing countries. A significant portion of the FY21 commitments supported COVID-19 related efforts. IDA's operational response includes three stages: a) Relief stage that involves emergency response to the health threat, b) Restructuring stage that focuses on strengthening health systems, restoring human capital, and restructuring of firms and sectors, and c) Resilient recovery stage that entails new opportunities to build a more sustainable, inclusive and resilient future. Each stage is structured through four thematic crisis response pillars: i) Saving lives, ii) Protecting the poor and vulnerable, iii) Ensuring sustainable business growth and job creation, and iv) Strengthening policies, institutions, and investment for rebuilding better.

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<sup>1</sup> The other WBG institutions are the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID).

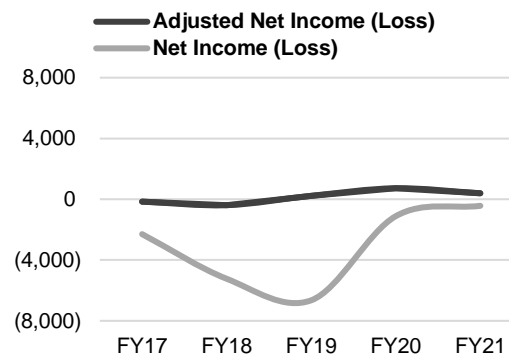
## Summary of Financial Results

### Net Loss and Adjusted Net Income

**Net Loss:** For the fiscal year ended June 30, 2021, IDA reported a net loss of \$433 million, compared to a net loss of \$1,114 million in FY20. The decrease was primarily driven by the increase in unrealized mark-to-market gains on the non-trading portfolios partially offset by an increase in development grant expenses during the year. See Section IV: Financial Results.

**Adjusted Net Income:** For the fiscal year ended June 30, 2021, IDA's adjusted net income was \$394 million, a decrease of \$330 million from the prior year (\$724 million). The decrease was primarily due to lower net investment revenue and higher provision for losses on loans and other exposures, partially offset by higher net interest revenue on loans. See Section IV: Financial Results.

*In millions of U.S. dollars*



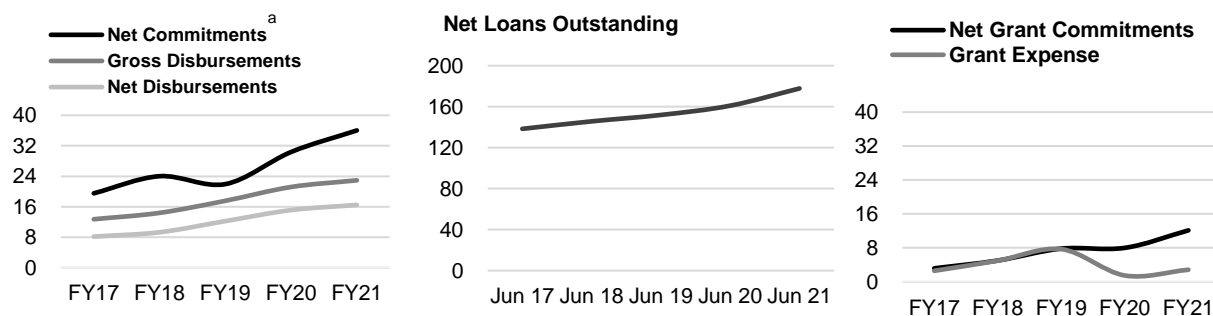
### Lending Operations

IDA made \$36.0 billion of net commitments in FY21, of which \$23.9 billion were loan and guarantee commitments. The remainder were grant commitments, which are recorded as an expense in IDA's Statement of Income once all conditions are met, generally at the time of disbursement. The FY21 net commitments reflected the strong support IDA provided to its client countries during the COVID pandemic including \$2.5 billion of newly approved financing for vaccines as of June 30, 2021, benefiting 41 countries.

IDA's net loans outstanding increased by \$16.8 billion, to \$177.8 billion as of June 30, 2021, from \$161.0 billion as of June 30, 2020. See Section IV: Financial Results.

The decrease in development grant expenses from FY19 to FY20 was due to the timing of the recognition of the grant expenses as a result of the implementation of a new accounting standard in FY20.

*In billions of U.S. dollars*

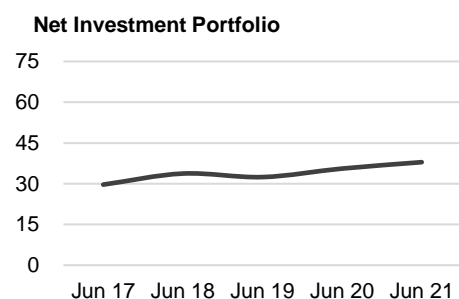


a. Includes loans, grants, and guarantees

### Net Investment Portfolio

As of June 30, 2021, the net investment portfolio was \$37.9 billion, compared with \$35.6 billion as of June 30, 2020. See Section VII: Investment Activities. The primary objective of IDA's investment strategy is principal protection. As of June 30, 2021, 68% of IDA's investment portfolio was held in instruments rated AA or above (See Table 30).

*In billions of U.S. dollars*



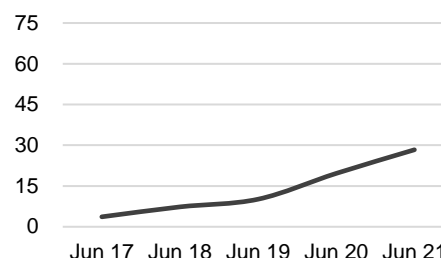
## Borrowing Portfolio

**Market borrowings:** As of June 30, 2021, the total market borrowings portfolio outstanding was \$20.6 billion, an increase of \$8.6 billion compared with June 30, 2020 (\$12.0 billion). See Section IV: Financial Results.

**Concessional Partner Loans:** As of June 30, 2021, total borrowings from members - concessional partner loans (CPLs) - were \$7.7 billion, an increase of \$0.1 billion compared with June 30, 2020 (\$7.6 billion). See Section IV: Financial Results.

*In billions of U.S. dollars*

### Borrowing portfolio

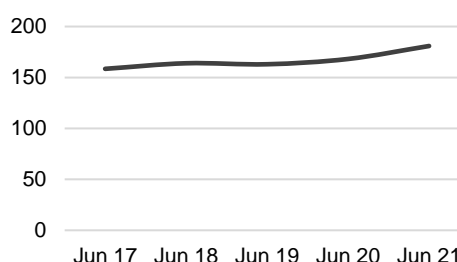


## Equity and Capital Adequacy

As of June 30, 2021, IDA's equity was \$180.9 billion, an increase of \$12.7 billion from June 30, 2020. See Section IV: Financial Results.

*In billions of U.S. dollars*

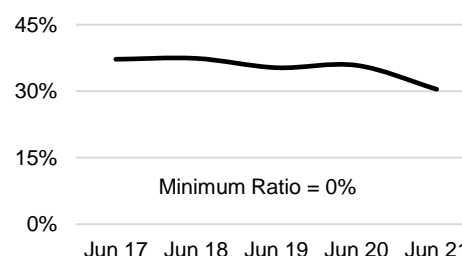
### Equity



The Deployable Strategic Capital (DSC) ratio, IDA's main capital adequacy measure, was 30.4% as of June 30, 2021, above the zero percent policy minimum. The decrease of 5.4 percentage points from June 30, 2020 is primarily driven by a refinement of the DSC framework during FY21 which includes additional capital requirements for approved but not yet expensed grants. While grants are now expensed at disbursement rather than commitment under an accounting standard, IDA has now taken the grants into account upon commitment, consistent with prior practice. IDA's capital continues to be adequate to support its operations. See **Table 27**.

*Ratio in percentages*

### Deployable Strategic Capital Ratio



## Section II: Overview

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### Presentation

This document provides Management's Discussion and Analysis of the financial condition and results of operations for IDA for the fiscal year ended June 30, 2021. A Glossary of Terms is provided at the end of this document.

### Introduction

Generally every three years, representatives of IDA's members<sup>2</sup> meet to assess IDA's financial capacity and the medium-term demand for new IDA financing. Members decide on the policy framework, agree upon the amount of financing to be made available for the replenishment period, and commit to additional contributions of equity that are required to meet these goals. The meetings culminate in a replenishment agreement that determines the size, sources (both internal and external), and uses of funds for the replenishment period.

### Nineteenth Replenishment of Resources (IDA19)

IDA19 supports the world's poorest and most vulnerable countries to implement country-driven solutions that generate growth, are people-centered, and strengthen resilience. IDA19 builds on IDA18 development themes, including creating jobs, focusing on the poorest countries, including Fragile, Conflict and Violent (FCV) states, promoting low carbon enabling environment and investments, gender, and governance. IDA19's policy package incorporates four additional crosscutting issues: debt (including transparency); digital technology and connectivity; investing in people; and disability inclusion. Members agreed that IDA would make \$82.0 billion<sup>3</sup> in new commitments over the replenishment period, backed by \$27.4 billion in new member contributions, including compensation for the Multilateral Debt Relief Initiative (MDRI).

Since the onset of the COVID-19 crisis, IDA has significantly scaled up its financial support, serving clients and targeting resources to those most in need. In recognition of the heightened financing needs of IDA countries and to make additional resources available to them to respond to, and recover from the COVID-19 crisis, IDA members agreed in April 2021 to launch the twentieth IDA replenishment (IDA20) one year early, to commence in FY23. The IDA19 implementation period will be shortened to two years (FY21-FY22), and \$12.5 billion of resources originally projected for use in FY23 will be available for financing in FY22. The IDA19 financing framework has been adjusted to make \$71.3 billion of resources available, of a total original IDA19 commitment authority of \$82.0 billion, all on standard IDA terms. The remaining \$10.7 billion will be carried forward to be utilized in the replenishment period of IDA20.

### Financial Business Model

IDA has financed its operations over the years with its own equity, including regular additions to equity provided by member countries as part of the replenishment process. As a result of the strong support of member countries, IDA has built up a substantial equity base, amounting to \$180.9 billion as of June 30, 2021. In FY15, IDA introduced debt to its financial model with concessional partner loans received from certain member countries. In FY18, IDA introduced a hybrid financing model by including market debt into its business model. By prudently leveraging its equity and blending market debt with equity contributions from members, IDA has increased its financial efficiency, and scaled up its financing to support the escalating demand for its resources to deliver on the following priorities:

- Retain IDA's mandate to provide concessional financing on terms that respond to clients' needs; and
- Ensure long-term financial sustainability of IDA's financial model through a prudent risk management framework.

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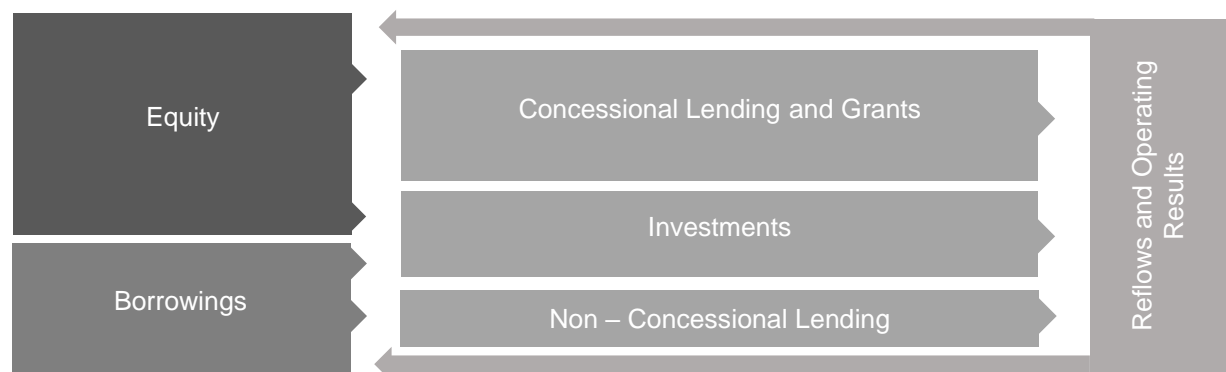
<sup>2</sup> IDA's members are owners and hold voting rights in IDA. Members do not, however, hold shares in IDA and are therefore not referred to as shareholders. Payments for subscriptions and contributions from members increase IDA's paid-in equity and are financially equivalent to paid-in capital in multilateral development organizations that issue shares.

<sup>3</sup> U.S. dollar amounts are based on an IDA19 reference rate of USD/SDR 1.38318. The U.S. dollar amounts are provided for reporting purposes only, as IDA's balance sheet is predominantly managed in Special Drawing Rights (SDR).



Concessional lending, including grants, is primarily financed by IDA's equity. Non-concessional lending will primarily be financed by market debt. To the extent that market debt will be used to finance concessional lending, it will be blended with member contributions (equity). See **Figure 1**.

**Figure 1: IDA's Financial Business Model**



## Basis of Reporting

IDA prepares its financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). IDA's functional currencies are the SDR and its component currencies of U.S. dollar, euro, Japanese yen, pound sterling and Chinese renminbi. For the convenience of its members and other users, IDA's financial statements are reported in U.S. dollars. Management uses net income as the basis for deriving adjusted net income, as discussed in Section IV: Financial Results.

## Adjusted Net Income

Adjusted Net Income (ANI), a non-GAAP measure, reflects the economic results of IDA's operations and is used by IDA's management and the Board as a financial sustainability measure. ANI is defined as IDA's net income, adjusted to exclude certain items. After the effects of these adjustments, the resulting ANI generally reflects amounts which are realized, not restricted for specific uses, and not directly funded by members. For a detailed discussion of the adjustments, see Section IV: Financial Results.

## Section III: IDA's Financial Resources

IDA's replenishments have grown from \$1.0 billion for the initial replenishment to \$82.0 billion in IDA19.

Members' subscriptions and contributions receivable for each replenishment are settled through payment of cash or deposit of nonnegotiable, non-interest-bearing demand notes which become due throughout the replenishment period, generally three years. The notes are encashed by IDA on a pro rata basis over a 9 to 11-year period which generally corresponds with the disbursement period of the loans and grants.

### IDA19 Funding

IDA's financing resource envelope available for lending and grant commitments is based on the long-term outlook of IDA's financial sustainability. This takes into account the amount of member contributions and the concessionality of the proposed financing to borrowers, market conditions, and capital adequacy requirements.

### Allocation of IDA19 Resources

IDA financing is provided in the form of loans, grants, and guarantees. Most of IDA's resources are allocated to eligible members through IDA Country Allocations that provide unearmarked support. IDA Country Allocations are determined using the Performance Based Allocation (PBA) system, which takes into account the country's performance rating (CPR), population size and per capita income, and complemented by the FCV envelope. The rest of IDA support is provided through five IDA Windows dedicated to addressing specific development priorities, and an Arrears Clearance Set-Aside that provides exceptional support for countries to fully reengage with the World Bank. The allocation framework is agreed for each replenishment cycle.

IDA responds to specific needs of its members through the following five IDA Windows:

Concessional Windows	Non-concessional Window	Private Sector Window
<ul style="list-style-type: none"> <li>Regional Window</li> <li>Window for Host Communities and Refugees (WHR)</li> <li>Crises Response Window (CRW)</li> </ul>	<ul style="list-style-type: none"> <li>Scale-up Window (SUW)</li> </ul>	<ul style="list-style-type: none"> <li>Private Sector Window (PSW)</li> </ul>

**Table 1: Adjusted IDA19 Resource Allocation**

*In billions of U.S. dollars*

Allocation	USD equivalent <sup>a</sup>
Country Allocation Envelope	\$ 56.0
IDA Concessional Windows	10.4
Non-concessional Window	3.2
Private Sector Window	1.7
<b>Total IDA19 Allocation</b>	<b>\$ 71.3</b>

*a. U.S. dollar amounts are based on IDA19 reference rate of USD/SDR 1.38318. The U.S. dollar amounts are provided for illustrative purposes only.*

**Table 2: Cumulative Net Commitments under IDA19***In millions of U.S. dollars*

As of June 30, 2021	Loans and Guarantees	Grants	Total
Concessional financing			
IDA Country Allocations	\$ 20,476	\$ 9,171	\$ 29,647
IDA Concessional Windows			
Regional Window	1,171	1,002	2,173
Window for Host Communities and Refugees	-	628	628
Crisis Response Window	445	320	765
Arrears Clearance	-	1,000	1,000
Non-concessional financing	1,815	-	1,815
<b>Total Net Commitments <sup>a</sup></b>	<b>\$ 23,907</b>	<b>\$ 12,121</b>	<b>\$ 36,028</b>

a. Commitments are net of full cancellations/terminations approved in the same fiscal year. Commitments exclude IFC-MIGA Private Sector Window (PSW) activities

Eligibility for IDA's resources is determined primarily by a member's relative poverty. Relative poverty is defined as Gross National Income (GNI) per capita below an established threshold and is updated annually. For FY22, the threshold is \$1,205 (FY21: \$1,185).

As of July 1, 2021, 74 countries are eligible to borrow from IDA on concessional terms as follows:

<b>IDA eligible countries</b>	<b>IDA-only</b>	<p><b>41</b> countries that (a) have not exceeded the IDA operational cut-off GNI per capita for more than two consecutive years; and (b) are not creditworthy to borrow from IBRD. This includes: <b>11</b> Small Island Economies that have per capita incomes above the IDA operational cut-off for more than two consecutive years, but that have been granted the status of an "IDA-only Country" under the Small Island Economies Exception.</p> <p><b>2</b> countries with loans in nonaccrual status, which were classified as "IDA-only" at the time they became nonaccrual countries.</p>
	<b>Gap</b>	<p><b>16</b> countries that are (a) determined by IDA to be eligible for IDA financing; (b) determined by IDA to have a GNI per capita that has exceeded the cut-off for IDA eligibility for more than two consecutive years; and (c) not currently determined by IBRD to be creditworthy to borrow from IBRD. This includes <b>3</b> Small States that are not island states.</p>
	<b>Blend</b>	<p><b>14</b> countries that are determined: (a) by IDA to be eligible for IDA financing; and (b) by IBRD to be creditworthy for borrowing IBRD loans. This includes <b>6</b> Small Island Economies and <b>1</b> Small State that is not an island state.</p> <p><b>1</b> country with loans in nonaccrual status, which was classified as "Blend" at the time it became a nonaccrual country.</p>

### Allocation - Performance Based Allocation (PBA) System

IDA's resources are allocated to eligible members, using its PBA system and the allocation framework agreed during each replenishment. These allocations depend on several factors: the overall availability of IDA's resources, individual country needs, their policy performance and institutional capacity, and each country's performance relative to others. The PBA system is designed to provide resources where they are likely to be most helpful in reducing poverty.

Under the PBA, the main factor that determines the allocation of IDA's core concessional resources among eligible countries is their performance in the Country Policy and Institutional Assessment (CPIA). The CPIA reflects the results of an exercise that rates eligible countries against a set of criteria including economic management; structural policies; policies for social inclusion and equity; and public-sector management and institutions. The CPIA and portfolio performance together constitute the IDA Country Performance Rating (CPR). In addition to the CPR, population, and per capita income are factored into a country's allocation, along with the annual base allocation (SDR15 million per country). In addition, country allocations provide the FCV envelope to enhance support for eligible countries facing different FCV risks. The Sustainable Development Finance Policy (SDFP), which became effective at the beginning of IDA19, aims to incentivize IDA-eligible countries to move towards transparent, sustainable financing and to promote coordination between IDA and other creditors in support of these countries' efforts to address their debt-related vulnerabilities. A set-aside from or a discount of IDA's country allocation are used to incentivize satisfactory implementation of Performance and Policy Actions (PPAs). Countries which demonstrate

satisfactory progress in implementing their PPAs have access to their full annual country allocation. Countries that do not satisfactorily implement their PPAs will either have a share of their country allocation set aside or their country allocation will be reduced.

In recognition of the change in IDA's business model starting in IDA18, and to ensure that its lending decisions are compatible with the capital adequacy requirements of a triple-A rating, the allocation framework for IDA19 is aligned with the Single Borrower Limit (SBL) and capital adequacy requirements under the DSC Framework, see Section IX: Risk Management.

### **Concessional Financing**

Concessional financing is provided in the form of loans, grants and guarantees. Eligibility and percentage of allocation for grants for IDA-only countries is based on an assessment of the country's risk of debt distress, where the higher the risk assessment, the greater the proportion of grant financing. Gap and Blend countries are only eligible for grant financing via the Window for Host Communities and Refugees, if applicable.

**Country Allocation Envelope** represents \$56.0 billion of the adjusted IDA19 resource envelope and is allocated based on the PBA. The amount available for each country is a function of the country's CPR rating, population, and per capita income, complemented by the FCV envelope.

**IDA Concessional Windows** allow IDA to respond to specific needs of its members. In IDA19, \$10.4 billion of the adjusted IDA19 resource envelope will be used to fund the following windows.

- \$5.6 billion of Regional Window;
- \$1.3 billion of Window for Host Communities and Refugees;
- \$2.5 billion of Crisis Response Window;
- \$1.0 billion of Arrears Clearance Set- Aside (Arrears Clearance Framework).

### **Regional Window**

The Regional Window was developed as a funding mechanism to provide additional resources to finance projects that help low-income countries achieve their regional integration objectives. IDA fosters regional integration by playing three overlapping roles:

- supporting an enabling environment through advisory and analytical work;
- financing projects through policy and investment loans; and
- convening state and nonstate actors for coordination and collective actions.

### **Window for Host Communities and Refugees (WHR)**

The Window for Host Communities and Refugees will support operations that promote medium-to long-term development opportunities for refugee and host communities in IDA countries. The purpose of the WHR is to support refugee hosting countries to:

- create social and economic development opportunities for refugee and host communities;
- facilitate solutions that include sustainable socio-economic inclusion of refugees in the host country and/or their return to the country of origin; and
- strengthen country preparedness for increased or potential new refugee flow.

### **Crisis Response Window**

The primary objective of the CRW is to provide IDA countries with additional resources that will help them to respond to major natural disasters, or public health emergencies and severe economic crises, so that they can return to their long-term development paths. The \$2.5 billion window under the adjusted IDA19 resource envelope includes an allocation of up to \$1.0 billion under the CRW Early Response Financing (ERF) which will support IDA countries' response to slower-onset crises, namely disease outbreaks and food insecurity.

### **Arrears Clearance Framework**

IDA has a policy of not providing financing to borrowers who are overdue on their payments to IDA or IBRD. However, it may engage with these countries under limited and clearly defined circumstances. IDA's arrears clearance

framework sets out these circumstances, including (i) pre-arrears clearance grants; and (ii) the arrears clearance set-aside, that can only be financed under the arrears clearance operations.

**(i) *Pre-Arrears Clearance Grants (PACG)***

The PACG mechanism enables IDA to engage early in support of a government undertaking convincing reforms. This was first introduced in IDA12 to be used to finance high priority activities related to the preparation of a program of social and economic recovery and to build resilience until the arrears are fully cleared. Conditions constituting this framework include indications that:

- early performance is promising as evidenced by the recipient country having taken convincing steps towards social and economic recovery;
- arrears to IDA and/or IBRD are large and protracted, and cannot be easily or quickly cleared using domestic resources;
- a concerted international effort to provide positive financial flows and other assistance is underway, and other creditors have agreed not to make net withdrawals of financial resources from the country;
- alternative sources of financing for post-conflict recovery are inadequate or available only on inappropriate terms; and
- *Pari passu* sharing arrangements are in place between preferred creditors, for any payments made by the country in advance of arrears clearance.

The PACG program has met its objectives with each of the prior PACG recipients successfully clearing all their arrears to IDA and subsequently remaining current on their obligations. Prior PACG recipients are Democratic Republic of the Congo, Cote d'Ivoire, Afghanistan, Liberia, Myanmar, and Somalia, for an amount totaling \$702 million between FY01 and FY20.

In FY21, PACGs for Sudan for an amount of \$410 million were approved to support the country's reform momentum towards Heavily Indebted Poor Countries (HIPC) Decision Point. Of this amount, \$100 million had been disbursed and expensed.

**(ii) *Arrears Clearance Set-Aside***

The arrears clearance set-aside (ACSA) forms part of IDA's overall financing commitments. It is financed by additional member contributions under the replenishments. In IDA15, the arrears clearance was further enhanced. IDA members agreed to ring-fence arrears clearance support to IDA countries that were in arrears as of December 31, 2006 and meet a very narrow and well-defined set of criteria— see below, including eligibility for support under the HIPC initiative. Amounts were set aside within the IDA replenishment so that when circumstances allow, IDA would be able to help countries clear arrears and fully re-engage with the World Bank.

To be considered for any arrears clearance support, the country would need to meet the following criteria:

- be eligible for HIPC debt relief;
- agree to implement a medium-term growth-oriented reform program endorsed by the World Bank;
- ensure a sustainable macro and sustainable debt service after arrears clearance;
- agree on a stabilization program endorsed by the International Monetary Fund (IMF) management and monitored by IMF staff or supported by an IMF arrangement; and
- agree to a financing plan for full clearance of arrears, including normalization with other Multilateral Development Banks (MDBs).

In addition, to receive support for arrears clearance, project proposals should meet re-engagement criteria based on facts and circumstances of each case.

On March 25, 2021, Sudan paid all of the overdue principal and charges due to IDA and the outstanding loans remaining to Sudan were restored to accrual status on that date. For more details, see Notes to the Financial Statements for the year ended June 30, 2021, Note D – Loans and Other Exposures. During FY21, \$1.3 billion of development grants were approved and disbursed to Sudan in support of the re-engagement and reform development policy financing, of which \$1.0 billion was under arrears clearance set-aside.

## Non-Concessional Financing

Non-Concessional financing comprises loans and guarantees whose terms are aligned with those of IBRD's flexible loans and guarantees. Under the adjusted IDA19 resource envelope, \$3.2 billion of resources have been allocated to non-concessional financing which entirely relates to the Scale-up Window.

**Scale-up Window:** The Scale-up Window is a window of resources established to enhance support for high-quality, transformational, country-specific and/or regional operations with strong development impact. Allocation of Scale-up Window resources to the regions will broadly conform to the allocations under the PBA, excluding countries at a high risk of debt distress. Allocations are balanced between IDA-only and blend countries, and to avoid countries from having a concentration of Scale-up Window resources. Implementation arrangements will prioritize a country's ability to absorb resources and the proposed projects' alignment with IDA19 policy priorities and the debt-related Sustainable Development Finance Policy.

## Private Sector Window (PSW)

In IDA19, an initial \$2.5 billion IFC-MIGA Private Sector Window was created with the goal of mobilizing private sector investment in IDA-only countries and IDA-eligible Fragile and Conflict-affected States. Under the adjusted IDA19 resource envelope, the allocation was revised to \$1.7 billion.

PSW is deployed through four facilities. These facilities have been designed to target critical challenges faced by the private sector in these difficult markets and will leverage IFC and MIGA's business platforms and instruments.

During FY21, \$595 million of the IDA19 resources, net of full terminations and cancellations, were committed. As of June 30, 2021, \$630 million has been utilized out of a total of \$2.0 billion committed in IDA18 and IDA19. See Notes to the Financial Statements for the year ended June 30, 2021, Note G –Transactions with Affiliated Organizations – Table G4.

**Table 3: Utilization of PSW Commitments**

*In millions of U.S. dollars*

As of June 30, 2021		
Guarantees	\$ 484	Face value of outstanding guarantees
Derivatives	90	Notional amount
Funding of IFC's PSW- related equity investments	46	Amortized cost
Loans	10	Amortized cost
<b>Total utilization of IDA PSW</b>	<b>\$ 630</b>	

## Section IV: Financial Results

### Summary of Financial Results

IDA had a net loss of \$433 million in FY21 compared with a net loss of \$1,114 million in FY20 (See **Table 4**). The decrease in net loss was primarily driven by:

- \$1.1 billion of unrealized mark-to-market gains on non-trading portfolios in FY21 (\$0.7 billion unrealized mark-to-market losses in FY20). In FY21, the gains were primarily from the Capital Value Protection Program (CVP) portfolio, due to the upward movement in U.S. dollar interest rates;
- \$0.4 billion increase in the release of provision for losses on loans and other exposures mainly due to a release of \$0.8 billion of loan loss provision due to Sudan's arrears clearance; partially offset by,
- \$1.4 billion increase in development grant expenses primarily due to the disbursement of \$1.3 billion of development grants to Sudan in support of the re-engagement and reform program after its arrears clearance.

### Adjusted Net Income

Adjusted Net Income, a non-GAAP measure, reflects the economic results of IDA's operations and is used by IDA's management and the Board as a financial sustainability measure. ANI is defined as IDA's net income, adjusted to exclude the following items.

- *Development financing activities directly funded by contributions from members:* These mainly comprise of development grants, provision for HIPC / MDRI debt relief, and amortization of discounts on CPL. For financial reporting, these activities are treated as expenses, while contributions from members which finance these activities, are reflected directly in IDA's equity since they carry voting rights.
- *Contributions/grants received from affiliated organizations or other similar contributions:* These mainly comprise contributions from IBRD, IFC and other contributions from trust funds. These are intended to finance development activities similar to member contributions but are not directly included in equity as they do not carry voting rights.
- *Non-functional currency translation adjustment (gains) losses:* These represent unrealized exchange rate gains/losses resulting from the translation of loans, borrowings, development grants payable and all other assets and liabilities still held on IDA's Balance Sheet, that are denominated in currencies other than the component currencies of SDR.
- *Unrealized mark-to-market gains/losses on non-trading portfolios:* These mainly comprise unrealized mark-to-market gains and losses on the asset/liability management (ALM), borrowing, and non-trading investment portfolios. For the purpose of ANI, the result of loan revenue hedges is not part of the adjustment related to unrealized mark-to-market gains/losses on non-trading portfolio since the objective of the loan revenue hedges is to stabilize IDA's revenue against any currency risk.
- *Pension, Post-Employment Benefit Plan (PEBP) and Post-Retirement Contribution Reserve (PCRF) adjustments:* While IDA is not a participating sponsor to these benefit plans, IDA shares in the costs and reimburses IBRD for its proportionate share of any contributions made to these plans by IBRD, as part of a Board-approved cost sharing ratio. The Pension adjustment reflects the difference between IDA's share of cash contributions to both the pension plans and PCRF, and the accounting expense, as well as the investment revenue earned on those assets related to the PEBP and PCRF. The PCRF was established by the Board to stabilize contributions to the pension and post-retirement benefits plans. Management has designated the income from these assets to meet the needs of the pension plans. As a result, PEBP and PCRF investment revenue is excluded from adjusted net income.
- *Other Adjustments:* Under certain arrangements (such as Externally Funded Outputs (EFOs)), IDA receives a share of the revenue earned from agreements with donors under which funds received are to be used to finance specified outputs or services. These funds may be utilized only for the purposes specified in the agreements and are therefore considered contractually restricted until applied for these purposes. Income attributable to these arrangements is excluded from reported income when determining adjusted net income since there is no discretion about the use of these funds.

IDA's adjusted net income was \$394 million in FY21 compared with \$724 million in FY20 (See **Table 4**). The decrease was primarily driven by:

- \$275 million decrease in net interest revenue on investments due to lower interest rate environment during the year;
- \$40 million of unrealized mark-to-market losses on investments-trading, excluding IDA's share of PEBP returns, in FY21, compared to \$187 million of unrealized mark-to-market gains in FY20, reflecting the increase in yield curves during the year;
- \$253 million increase in provision for losses on loans and other exposures, excluding provision for debt relief under HIPC/MDRI; partially offset by,
- \$366 million increase in net interest revenue on loans, mainly driven by the recognition of \$244 million of service charge revenue when Sudan paid all the overdue principal and service charges due to IDA.

**Table 4: Condensed Statement of Income**

*In millions of U.S. dollars*

For the fiscal year ended June 30,	2021	2020	Negative Impact	Positive Impact
<b>Interest Revenue</b>				
Loans, net	\$ 2,050	\$ 1,684		366
Investments, net	147	422	(275)	
Asset/liability management derivatives, net	(14)	(22)		8
<b>Borrowing expenses, net</b>	(187)	(241)		54
<b>Interest Revenue, net of borrowing expenses</b>	<u>\$ 1,996</u>	<u>\$ 1,843</u>		153
Provision for losses on loans and other exposures, release	539	170		369
Other revenue (expenses), net (Table 11)	56	(10)		66
Net non-interest expenses (Table 10)	(1,612)	(1,508)	(104)	
Transfers from affiliated organizations and others	544	252		292
Non-functional currency translation adjustment (losses) gains, net	(372)	95	(467)	
Unrealized mark-to-market gains on investments-trading portfolio, net <sup>a</sup>	144	207	(63)	
Unrealized mark-to-market gains (losses) on non-trading portfolios, net	1,102	(688)		1,790
Development grants	(2,830)	(1,475)	(1,355)	
<b>Net Loss</b>	<u>\$ (433)</u>	<u>\$ (1,114)</u>		681
Adjustments to reconcile net (loss) income to adjusted net income:				
Expenses relating to development financing activities directly funded by contributions from members	2,070	1,389		681
Contributions from affiliated organizations and others	(544)	(252)	(292)	
Non-functional currency translation adjustment losses (gains), net	372	(95)		467
Unrealized mark-to-market (gains) losses on non-trading portfolios, net <sup>b</sup>	(1,118)	731	(1,849)	
Pension, PEBP and PCRF adjustments	42	71	(29)	
EFO revenue	5	(6)		11
<b>Adjusted Net Income</b>	<u><u>\$ 394</u></u>	<u><u>\$ 724</u></u>	(330)	

a. Includes IDA's share of returns from Post-Employment Benefit Plan (PEBP) and Post-Retirement Contribution Reserve Fund (PCRF) assets – \$184 million of returns (FY20 - \$20 million of returns).

b. Excludes \$16 million of losses from revenue-related forward currency contracts (FY20 - \$43 million of gains).



**Table 5: Condensed Balance Sheet***In millions of U.S. dollars*

<i>As of June 30,</i>	<i>2021</i>	<i>2020</i>	<i>Decrease</i>	<i>Increase</i>
<b>Assets</b>				
Due from banks	\$ 496	\$ 674	(178)	
Investments	37,376	34,670		2,706
Net loans outstanding <sup>a</sup>	177,779	160,961		16,818
Derivative assets, net	249	136		113
Other assets	3,424	3,031		393
<b>Total assets</b>	<b>\$ 219,324</b>	<b>\$ 199,472</b>		19,852
<b>Liabilities</b>				
Borrowings	\$ 28,314	\$ 19,766		8,548
Derivative liabilities, net	408	590	(182)	
Other liabilities	9,726	10,945	(1,219)	
<b>Equity</b>	<b>180,876</b>	<b>168,171</b>		12,705
<b>Total liabilities and equity</b>	<b>\$ 219,324</b>	<b>\$ 199,472</b>		19,852

a. The fair value of IDA loans was \$164,606 million as of June 30, 2021 (\$149,597 million – June 30, 2020).

## Equity

See **Table 6** below for the change in IDA's equity during FY21:

**Table 6: Changes in Equity***In millions of U.S. dollars*

Equity as of June 30, 2020	\$ 168,171
Activity during the year:	
Subscriptions and contributions paid-in	9,109
Nonnegotiable, noninterest-bearing demand obligations	(753)
Change in Accumulated deficit	(1,235)
Change in Accumulated other comprehensive income (loss)	5,583
Change in Deferred amounts to maintain value of currency holdings	1
Total activity	12,705
<b>Equity as of June 30, 2021</b>	<b>\$ 180,876</b>

## Total Assets

As of June 30, 2021, total assets were \$219.3 billion, an increase of \$19.8 billion from June 30, 2020 (\$199.5 billion). The increase was primarily driven by the increase in net loans outstanding and net investment portfolio, as discussed below.

## Results from Lending Activities

### Loan Portfolio and Grant Activity

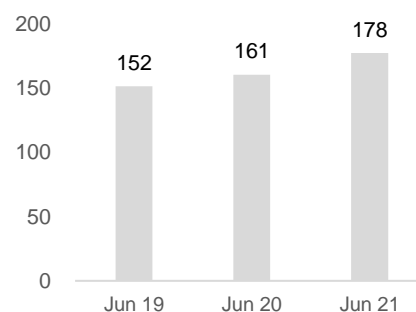
As of June 30, 2021, IDA's net loans outstanding (after accumulated provision for losses on loans) was \$177.8 billion, higher by \$16.8 billion compared with June 30, 2020. The increase was mainly due to \$10.2 billion in net loan disbursements and currency translation gains of \$5.9 billion, consistent with the 3.7% appreciation of the SDR against the U.S. dollar during the year.

As of June 30, 2021, 90% of IDA's total loans outstanding were denominated in SDR. For the regional presentation of total loans outstanding, see Notes to the Financial Statements for the year ended June 30, 2021, Note D – Loans and Other Exposures – Table D8.

**Table 7: Net Loans Outstanding Activity***In millions of U.S. dollars*

Net Loans outstanding as of June 30, 2020	\$	160,961
Activity during the period:		
Gross loan disbursements		16,681
Loan repayments		(6,457)
Change in Accumulated provision for loan losses <sup>a</sup>		702
Translation adjustments		5,909
Other <sup>b</sup>		(17)
<b>Total activity</b>		<b>16,818</b>
<b>Net Loans outstanding as of June 30, 2021</b>	<b>\$</b>	<b>177,779</b>

- a. Includes a decrease of \$59 million in the accumulated provision for loan losses as of July 1, 2020 due to the adoption of ASU 2016-13. See Notes to the Financial Statements, Note D – Loans and other exposures.
- b. Includes deferred loan origination costs of \$8 million, and HIPC debt relief provided of \$9 million.

**Figure 2: Net Loans Outstanding***In billions of U.S. dollars*

IDA's loans generally disburse within five to ten years for investment project financing and one to three years for development policy financing. Therefore, each year's disbursements also include amounts relating to commitments made in earlier years (See **Table 8**).

**Table 8: Gross Disbursements of Loans and Grants by Region***In millions of U.S. dollars*

For the fiscal year ended June 30,	2021			2020			Variance
	Loans	Grants <sup>a</sup>	Total	Loans	Grants <sup>a</sup>	Total	
Eastern and Southern Africa	\$ 4,785	\$ 3,296	\$ 8,081	\$ 5,524	\$ 2,380	\$ 7,904	\$ 177
Western and Central Africa	4,384	1,661	6,045	4,160	1,309	5,469	576
East Asia and Pacific	1,186	111	1,297	1,470	119	1,589	(292)
Europe and Central Asia	736	144	880	282	83	365	515
Latin America and the Caribbean	369	126	495	333	133	466	29
Middle East and North Africa	70	309	379	88	63	151	228
South Asia	5,145	599	5,744	4,587	648	5,235	509
Others <sup>b</sup>	6	-	6	5	-	5	1
<b>Total</b>	<b>\$ 16,681</b>	<b>\$ 6,246</b>	<b>\$ 22,927</b>	<b>\$ 16,449</b>	<b>\$ 4,735</b>	<b>\$ 21,184</b>	<b>\$ 1,743</b>

a. Excludes Project Preparation Advances (PPA).

b. Represents loans under the PSW.

As of June 30, 2021, 60% of IDA's loans were on regular terms (75 basis points SDR equivalent service charge) see **Table 9**. During FY21, the interest revenue from loans included \$1,535 million of service charges. The increase in IDA's revenue from loans was primarily due to \$244 million of service charges recognized when Sudan paid all its overdue principal and charges due to IDA, and the higher volume of loans outstanding. For more details, see Section IX: Risk Management.

**Table 9: Revenue and Balances by Product Category**

In millions of U.S. dollars

Category	Balance as of June 30,		Interest revenue on loans <sup>a</sup>	
	2021	2020	For the fiscal year ended June 30,	
			2021	2020
Loans				
Concessional				
Regular	\$ 109,612	\$ 101,957	\$ 1,055	\$ 828
Blend	65,203	58,652	862	739
Hard <sup>b</sup>	1,406	1,368	49	47
Non-concessional <sup>c</sup>	5,273	3,398	85	71
Others <sup>d</sup>	10	5	1	*
<b>Total</b>	<b>\$ 181,504</b>	<b>\$ 165,380</b>	<b>\$ 2,052</b>	<b>\$ 1,685</b>

a. Excludes interest rate swap expenses related to loan hedges - \$2 million (\$1 million in FY20).

b. Prior to July 1, 2017, IDA offered Hard-Term loans to Blend Countries (excluding Small Island Economies). Hard-term loans are no longer offered.

c. In addition, \$19 million of commitment charges were earned in FY21 on undisbursed balances of non-concessional loans (\$15 million in FY20).

d. Represents loans under the PSW.

\* indicates amount less than \$0.5 million.

## Results from Investing Activities

### Investment Portfolio

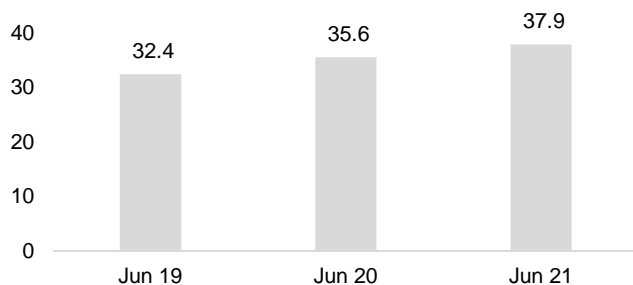
IDA's net investment portfolio increased to \$37.9 billion as of June 30, 2021, from \$35.6 billion as of June 30, 2020. The increase was primarily due to cash received from member contributions and proceeds from net new debt issuances, offset by net loan and grant disbursements.

### Net Investment Revenue

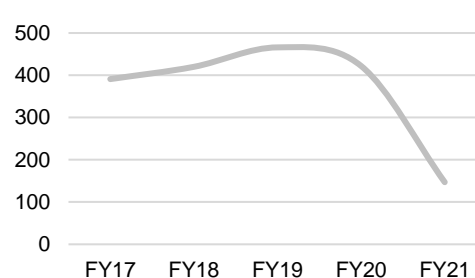
During FY21, IDA's net interest revenue from investments was \$147 million, a decrease of \$275 million compared with FY20. The decrease in interest revenue was mainly driven by the lower interest rate environment in the current year and the impact of negative interest rates in certain SDR component currencies as the investment portfolio is managed in these currencies.

**Figure 3: Net Investment Portfolio**

In billions of U.S. dollars

**Figure 4: Net Investment Revenue**

In millions of U.S. dollars



## Results from Borrowing Activities (excluding associated derivatives)

Market borrowings outstanding were \$20.6 billion as of June 30, 2021, an increase of \$8.5 billion compared to June 30, 2020 (\$12.1 billion). The increase was driven mainly by net new issuances of medium and long-term debt instruments during the year. See Notes to the Financial Statements for the year ended June 30, 2021, Note E – Borrowings.

Concessional partner loans are carried at amortized cost. As of June 30, 2021, total borrowings outstanding from members were \$7.7 billion (\$7.6 billion - June 30, 2020). As part of IDA19, two members have agreed to provide IDA with concessional partner loans totaling \$1.1 billion. As of June 30, 2021, IDA had signed a concessional partner loan agreement with one of the members under IDA19 for \$0.6 billion.

## Transfers from Affiliated Organizations

Since 1964, IBRD has made transfers to IDA out of its net income, upon approval by the Board of Governors. Under a formula-based approach for IBRD's income support to IDA, the amount of income transfer recommended for IDA

is a function of IBRD's financial results. On January 25, 2021, IBRD's Board of Governors approved a transfer of \$331 million to IDA which was received by IDA on February 1, 2021.

On June 21, 2021, IFC's Board of Governors approved a transfer of \$213 million to IDA which was received by IDA on June 25, 2021.

### Net Non-Interest Expense

As shown in **Table 10**, IDA's net non-interest expenses are primarily comprised of administrative expenses, net of revenue from externally funded activities. IBRD and IDA's administrative budget is a single resource envelope that funds the combined work programs of IBRD and IDA. The allocation of administrative expenses between IBRD and IDA is based on an agreed cost and revenue sharing methodology, approved by their Boards, which is primarily driven by the relative level of activities relating to lending, knowledge services and other services between the two institutions. The administrative expenses shown in the table below include costs related to IDA-executed trust funds and other externally funded activities.

See **Table 10** for a comparison of the main sources of administrative expenses and revenue from externally funded activities in FY21 and FY20.

IDA's net non-interest expenses were \$1,612 million in FY21, compared to \$1,508 million in FY20. The key drivers during the year were:

- increase in pension costs driven by a decrease in the discount rate resulting in higher service cost and higher amortization of unrecognized actuarial losses, offset by;
- decrease in travel costs due to COVID-19, and;
- decrease in the share of costs allocated to IDA.

**Table 10: Net Non-Interest Expenses**

*In millions of U.S. dollars*

For the fiscal year ended June 30,	2021	2020	Variance
Administrative expenses:			
Staff costs	\$ 1,121	\$ 1,114	\$ 7
Travel	15	135	(120)
Consultant and contractual services	544	536	8
Pension and other post-retirement benefits	494	357	137
Communications and technology	68	63	5
Premises and equipment	135	151	(16)
Other expenses	29	33	(4)
Total administrative expenses	\$ 2,406	\$ 2,389	\$ 17
Contributions to special programs	20	21	(1)
Revenue from externally funded activities:			
Reimbursable advisory services	(46)	(65)	19
Reimbursable revenue - IDA-executed trust funds	(553)	(586)	33
Revenue – trust funds administration	(38)	(41)	3
Restricted revenue	(15)	(28)	13
Other revenue	(162)	(182)	20
Total revenue from externally funded activities	\$ (814)	\$ (902)	\$ 88
<b>Total Net Non-Interest Expenses (Table 4)</b>	<b>\$ 1,612</b>	<b>\$ 1,508</b>	<b>\$ 104</b>

During FY21, IDA's net other revenue increased by \$66 million. The main driver was the PPA grant activity, including cancellations and refinancing of PPA grants previously approved.

**Table 11: Other Revenue (Expenses), net**

*In millions of U.S. dollars*

For the fiscal year ended June 30,	2021	2020	Variance
Other (primarily PPA grants)	\$ 20	\$ (40)	\$ 60
Guarantee fees	17	15	2
Commitment charges	19	15	4
<b>Other Revenue (Expenses), net (Table 4)</b>	<b>\$ 56</b>	<b>\$ (10)</b>	<b>\$ 66</b>

IDA's goal is to have its net administrative expenses covered by its loan revenue (loan interest, service, commitment, and guarantee fees). Thus, IDA monitors its net administrative expenses as a percentage of its loan revenue, using a measure referred to as the budget anchor. In FY21, IDA's budget anchor was 66.7%, lower by 14.3 percentage points compared to FY20 primarily due to higher interest revenue from loans. See **Table 12**.

**Table 12: Budget Anchor**

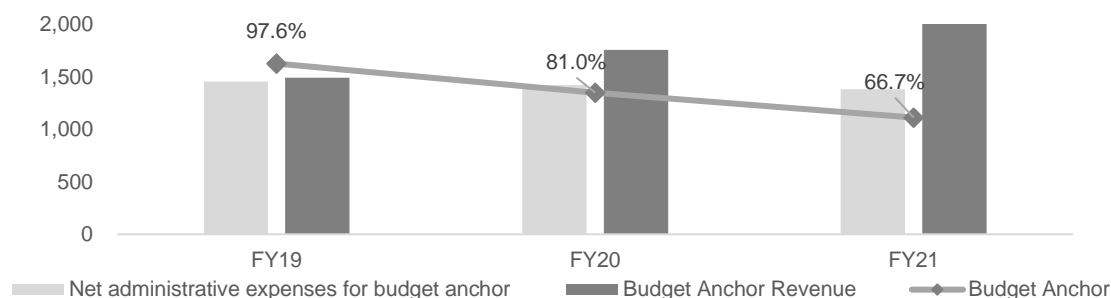
*In millions of U.S. dollars*

For the fiscal year ended June 30,	2021	2020	Variance
Total net Non-interest Expenses (Table 10)	\$ 1,612	\$ 1,508	\$ 104
Pension and EFO adjustments <sup>a</sup>	(231)	(85)	(146)
<b>Net administrative expenses for Budget Anchor</b>	<b>\$ 1,381</b>	<b>\$ 1,423</b>	<b>\$ (42)</b>
Interest Revenue from Loans, net (Table 4)	\$ 2,050	\$ 1,684	\$ 366
Commitment fee and Guarantee fee revenue (Table 11)	36	30	6
(Losses) gains on revenue-hedging forward currency contracts	(16)	43	(59)
<b>Total revenue for Budget Anchor</b>	<b>\$ 2,070</b>	<b>\$ 1,757</b>	<b>\$ 313</b>
<b>Budget Anchor</b>	<b>66.7%</b>	<b>81.0%</b>	<b>-14.3%</b>

a. These adjustments are made to arrive at net administrative expenses used for adjusted net income purposes.

**Figure 5: Budget Anchor**

*In millions of U.S. dollars, except ratio in percentages*



### Provision for losses on loans and other exposures

In FY21, IDA recorded a release of provision for losses on loans and other exposures of \$539 million compared to \$170 million of release in FY20 (see Notes to the Financial Statements for the year ended June 30, 2021, Note D – Loans and Other Exposures – Table D5). The movement is primarily attributed to:

- the release of provision for HIPC debt relief of \$819 million when Sudan paid all its overdue principal and charges due to IDA in March 2021; offset by,
- an increase in exposure comprised of volume of loans as well as inclusion of signed commitments in the provisioning under the Current Expected Credit Losses (CECL) methodology which became effective July 1, 2020. (see section X: Critical Accounting Policies and the Use of Estimates).

**Table 13: Provision for losses on loans and other exposures**

*In millions of U.S. dollars*

For the fiscal year ended June 30,	2021	2020	Variance
Provision for losses on loans and other exposures, release (charge)			
Loans and other exposures	\$ (289)	\$ (36)	\$ (253)
Debt relief under HIPC/MDRI	828	206	622
<b>Total</b>	<b>\$ 539</b>	<b>\$ 170</b>	<b>\$ 369</b>

### Unrealized mark-to-market gains (losses) on non-trading portfolios, net

During FY21, the non-trading portfolios had \$1,102 million of net unrealized mark-to-market gains (\$688 million net unrealized mark-to-market losses in FY20). The increase was mainly driven by unrealized mark-to-market gains from the derivatives held for the CVP portfolio due to the increase in U.S. dollar interest rates.

**Table 14: Unrealized Mark-to-Market gains (losses) on non-trading portfolios, net**

*In millions of U.S. dollars*

For the fiscal year ended June 30,	2021	2020	Variance
Asset-liability management	\$ 1,080	\$ (699)	\$ 1,779
Investment portfolio	(12)	29	(41)
Other <sup>a</sup>	34	(18)	52
<b>Total</b>	<b>\$ 1,102</b>	<b>\$ (688)</b>	<b>\$ 1,790</b>

*a. Other comprises mark-to-market gains or losses on the borrowing and loan portfolios and on PSW.*

### Non-functional currency translation adjustment gains (losses), net

These represent unrealized exchange rate gains/losses resulting from the translation of loans, borrowings, and all other assets and liabilities held on IDA's Balance Sheet, that are denominated in currencies other than the SDR and its component currencies. During FY21, translation adjustment losses on non-functional currencies were \$372 million as most of the non-functional currencies appreciated against the U.S. dollar, IDA's reporting currency. In comparison, in FY20, the translation adjustment gains were \$95 million due to the depreciation of most of these non-functional currencies against the U.S. dollar.

## Section V: Development Activities, Products and Programs

### Lending Framework

IDA provides financing to lower-income countries primarily through loans, grants and guarantees. IDA has a common framework which extends across all its development activities. The main elements of this framework are financing principles, financing cycles and financing categories.

### Financing Principles

IDA's operations are required to conform to the general principles derived from its Articles of Agreement. These principles are described in **Box 2**. Within the scope permitted by the Articles of Agreement, application of these financing principles must be developed and adjusted in light of experience and changing conditions.

### Financing Cycles

The process of identifying and appraising a project and approving and disbursing the funds often extends over several years. However, in response to emergency situations, such as natural disasters and financial crises, IDA is able to accelerate the preparation and approval cycle. In most cases, IDA's Board approves each loan, grant, and guarantee after appraisal of a project by staff. Under a Multiphase Programmatic Approach (MPA) approved by the Board in FY18, the Board may approve an overall program framework, its financing envelope and the first appraised phase, and then authorize management to appraise and commit financing for later program phases. Disbursements are subject to the fulfillment of conditions set out in the loan or grant agreement. IDA used this approach to expedite support for COVID-19 related projects. As of June 30, 2021, \$6.6 billion was committed under the MPA, of which \$4.4 billion was COVID-19 related commitments.

During implementation of IDA-supported operations, staff review progress, monitor compliance with IDA's policies, and assist in resolving any problems that may arise. An independent unit, the Independent Evaluations Group, also assesses the extent to which operations have met their major objectives, and these evaluations are reported directly to the Board.

### Financing Categories

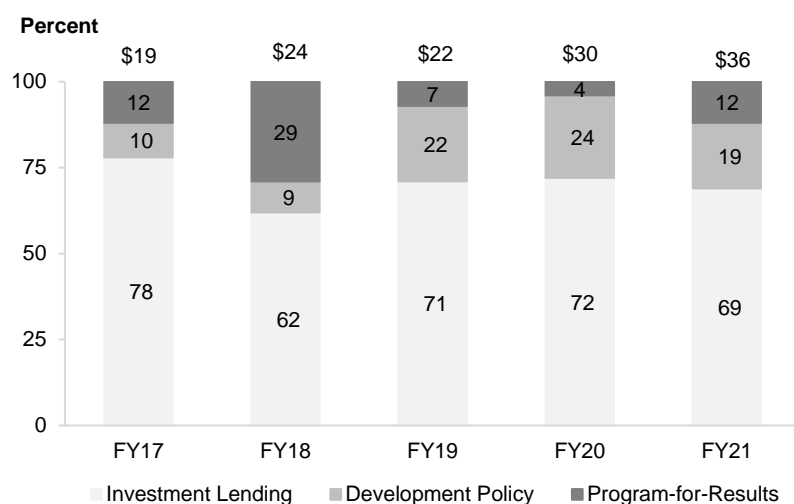
Most of IDA's lending is of three types: investment project financing, development policy financing, and program-for-results. **Figure 6** shows the percentage of loans approved for investment lending, development policy operations and program-for-results over the past five years.

#### Box 2: Financing Principles

- (i) IDA may provide financing for its development operations in the form of loans, grants, and guarantees directly to its members, public or private entities and regional or public international organizations.
- (ii) IDA's financing of its development operations is designed to promote economic development, increase productivity, and thus raise standards of living in its member countries. Investment projects financed by IDA are required to meet IDA's standards for technical, economic, financial, institutional, and environmental soundness. Specific provisions apply to development policy financing, including the treatment of the macroeconomic framework, poverty and social impact, environment, forests, and other natural resources.
- (iii) Decisions to approve financing are based upon, among other things, studies by IDA of a member country's economic structure, including assessments of its resources and ability to generate sufficient foreign exchange to meet debt-service obligations.
- (iv) IDA must be satisfied that in the prevailing market conditions (taking into account the member's overall external financing requirements); the recipient would be unable to obtain financing under conditions which, in the opinion of IDA, are reasonable for the recipient. This would include loans made by private sources or IBRD.
- (v) The use of funds by recipients is supervised. IDA makes arrangements intended to ensure that funds provided are used only for authorized purposes and, where relevant, with due attention to considerations of cost-effectiveness. This policy is enforced primarily by requiring recipients (a) to submit documentation establishing, to IDA's satisfaction, that the expenditures financed with the proceeds of loans or grants are made in conformity with the applicable financing agreements, and (b) to maximize competition in the procurement of goods and services by using, wherever possible, international competitive bidding procedures or, when it is not appropriate, other procedures that ensure maximum economy and efficiency. In addition, IDA considers the use of recipient country procurement, financial management and environmental and social safeguard systems in selected operations once these systems and capacity have been assessed by IDA as acceptable.

**Figure 6: Net Annual Commitments and share of financing categories**

*In billions of U.S. dollars, except rates in percentages*



### Investment Project Financing (IPF)

IPF is used in all sectors and supports a wide range of activities including capital-intensive investments, agricultural development, service delivery, credit and grant delivery, community-based development, and institution building. IPF is usually disbursed over the long-term (5 to 10-year horizon).

FY21 net commitments under IPF totaled \$24.7 billion, compared with \$21.8 billion in FY20.

### Development Policy Financing (DPF)

DPF provides rapidly disbursing financing (1 to 3 years) to help a borrower address actual or anticipated financing requirements. DPF aims to support the borrower in achieving sustainable development through a program of policy and institutional actions, for example, strengthening public financial management, improving the investment climate, addressing bottlenecks to improve service delivery, and diversifying the economy. DPF supports such reforms through non-earmarked general budget financing that is subject to the borrower's own implementation processes and systems. FY21 net commitments under DPF totaled \$7.0 billion, compared with \$7.3 billion in FY20.

### Program-for-Results (PforR)

PforR helps countries improve the design and implementation of their development programs and achieve specific results by strengthening institutions and building capacity. It helps strengthen partnerships with governments, development partners and other stakeholders by providing a platform to collaborate in larger country programs. PforR disburses when agreed results are achieved and verified. Results are identified and agreed upon during the preparation stage. FY21 net commitments under PforR totaled \$4.3 billion, compared with \$1.3 billion in FY20.

These three complementary categories support the policy and institutional changes needed to create an environment conducive to sustained and equitable growth.

## Financial Terms

### Commitment Currency

The currency of commitment for IDA grants and concessional loans is predominantly the SDR. However, in response to client needs to reduce currency exposure and simplify debt management, IDA offers a Single Currency Lending option that allows IDA recipients to denominate new IDA loans in U.S. dollar, euro, pound sterling or Japanese yen. Further, non-concessional loans provided under IDA19 may only be denominated in either U.S. dollar, euro, pound sterling or Japanese yen. For cumulative loans approved under Single Currency program as of June 30, 2021, see **Table 15**.



**Table 15: Cumulative Loans approved under Single Currency program***In billions of U.S. dollar equivalent value*

As of June 30,	2021
Euro	\$ 21.9
U.S. dollar	19.0
Japanese Yen	0.5
<b>Total</b>	<b>\$ 41.4</b>
Of the above, loans outstanding at the end of the year	\$ 15.3

**Table 16: Summary of Financial Terms for IDA Lending Products, effective July 1, 2021**

Instrument type <sup>a</sup>	Currencies	Maturity/Grace Period	Current Charges	Interest rates
Grant	SDR	Not applicable	None	Not applicable
Regular-Term loan	SDR, USD, EUR, GBP, JPY	38/6 years	75bps SDR equivalent service charge	Not applicable
Regular-Small Economy loan	SDR, USD, EUR, GBP, JPY	40/10 years	75bps SDR equivalent service charge	Not applicable
Blend-Term loan	SDR, USD, EUR, GBP, JPY	30/5 years	75bps SDR equivalent service charge	1.25% SDR equivalent interest rate
Non-concessional loans - Scale-up Window (SUW)	USD, EUR, GBP, JPY	Up to 35 years maximum; up to 20 years average maturity	25 bps one-time front-end fee 25 bps commitment fee	IBRD Flexible Loan terms <sup>b</sup>
Catastrophe Deferred Draw Down Option (CAT DDO) <sup>c</sup>	SDR, USD, EUR, GBP, JPY	<b>Before Drawdown:</b> Front end fee and renewal fee are set at 0.5% and 0.25% respectively under SUW option, and at 0% under PBA or Undisbursed balances option.  <b>After Drawdown:</b> - Under PBA or Undisbursed balances option - IDA concessional rates would apply. - Under SUW option - non-concessional rates would apply.		

- a. Prior to July 1, 2017, IDA offered Hard-Term loans to Blend Countries (excluding Small Island Economies). They had a single currency option, and had terms equivalent to IBRD's fixed spread loans, less 200 bps, a variable option was also available. Hard-term loans are no longer offered.
- b. There is an implicit floor of zero on the overall interest rate in IDA's non-concessional loans. Effective April 1, 2021, loans with fixed spread terms were suspended. See the implications of alternative reference rate changes in Section IX: Risk Management.
- c. The volume of committed and undisbursed CAT DDOs financed by IDA is limited to 0.5 percent of the country's GDP or USD 250 million, whichever is lower. The CAT DDO may be renewed once, for a maximum of six years in total.

## Charges on Loans and Grants

Service charges and interest income earned on IDA's loans are reported as Interest revenue on loans in the Statement of Income. Commitment charges earned on loans and grants (if any) are reported as non-interest revenue in the Statement of Income.

**Service Charge:** A service charge is levied on the principal amount disbursed and outstanding on all Regular, Small Economy, and Blend term loans, regardless of repayment terms, at 0.75% per annum.

**Interest:** Interest is charged on all loans subject to blend terms approved from IDA16, hard-term loans, and non-concessional loans. Further, loans offered under non-concessional terms are available at variable interest rates on IBRD terms. All other rates are fixed.

**Commitment Charge:** A commitment charge, which is payable on any undisbursed loan or grant amount, is set by the Board at the beginning of each fiscal year. Commitment charges are set at a level to ensure that net loan revenue covers administrative expenses over the medium term. From FY09 to FY21, the commitment charge on undisbursed concessional loans had been set at nil, and for grants it had been set at nil from FY03 to FY21. For FY22, commitment charges remain set at nil, the same level as FY21. The commitment charge on non-concessional loans is aligned to IBRD terms, which include a commitment charge of 0.25%.

## Repayment Terms

Loans approved through June 30, 1987 have a final maturity of 50 years, including a grace period of 10 years. In recent replenishments, differentiation in IDA's lending terms has been introduced to recognize the variation in economic development of broad categories of IDA recipients.

Since 1987, the legal agreements of regular, blend and hard-term loans include an accelerated repayment clause to double the principal repayments of the loan if the borrower's GNI per capita exceeds a specific threshold and the borrower is eligible for IBRD financing. Implementation is subject to negotiation with the borrower and approval by IDA's Board after considering a borrower's economic development. The borrower can further negotiate either to (a) shorten the loan's maturity (principal option), (b) pay interest at a rate that would result in the same net present value (interest option), or a combination of the two options.

As of June 30, 2021, the acceleration clause was implemented for the qualifying loans of 18 borrowers that have graduated from IDA since the introduction of the accelerated repayment clause. Of these 18 borrowers, 11 borrowers selected the principal option, 6 borrowers selected the interest option, and one borrower selected a combination of the two options.

The accelerated repayment clauses in all of these legal agreements also allow a borrower to subsequently request pausing of those accelerated terms if economic conditions in the borrower's country have deteriorated, in which case, the terms of repayment can revert to the original terms of the financing agreements. Given the challenging economic situation as a result of the COVID-19 outbreak, for ten graduate countries whose accelerated repayments were approved by the Board for implementation in IDA17 and IDA19, management approved a one-year pause of the accelerated payment terms to conform to the schedule originally provided in their financing agreements which became effective July 1, 2020. Subsequently, this was extended for an additional year for five graduate countries. As of June 30, 2021, \$1.7 billion of loans outstanding were under the original accelerated repayment terms.

As these repayment accelerations and decelerations are contemplated in the original terms of the instruments, they do not constitute loan modifications.

## Loans, Grants and Guarantee Activity

### Commitments

FY21 net loan commitments were \$23.9 billion, an increase of \$1.6 billion (7%) over FY20 (\$22.3 billion). There were no guarantee commitments in FY21, a decrease of \$25 million over FY20. (See **Table 17**). Also, see Section VI: Other Development Activities and Programs.

FY21 Net commitments of grants were \$12.1 billion, an increase of \$4.1 billion (52%) over FY20 (\$8.0 billion). (See **Table 18**).

**Table 17: Net Commitments of Loans and Guarantees by Region**

*In millions of U.S. dollars*

For the fiscal year ended June 30,	2021	% of total	2020	% of total	Variance
Eastern and Southern Africa	\$ 7,105	30	\$ 5,751	26	\$ 1,354
Western and Central Africa	7,900	33	7,187	32	\$ 713
East Asia and Pacific	1,003	4	2,248	10	(1,245)
Europe and Central Asia	966	4	1,084	5	(118)
Latin America and the Caribbean	622	3	748	3	(126)
Middle East and North Africa	20	*	146	1	(126)
South Asia	6,291	26	5,210	23	1,081
<b>Total</b>	<b>\$ 23,907</b>	<b>100</b>	<b>\$ 22,374</b>	<b>100</b>	<b>\$ 1,533</b>
of which Guarantees	\$ -		\$ 25		\$ (25)

\* indicates percentage less than 0.5%.

**Table 18: Net Commitments of Grants by Region***In millions of U.S. dollars*

For the fiscal year ended June 30,	2021	% of total	2020	% of total	Variance
Eastern and Southern Africa	\$ 6,984	58	\$ 3,830	48	\$ 3,154
Western and Central Africa	3,055	25	2,327	29	728
East Asia and Pacific	112	1	252	3	(140)
Europe and Central Asia	349	3	413	5	(64)
Latin America and the Caribbean	147	1	230	3	(83)
Middle East and North Africa	638	5	57	1	581
South Asia	836	7	882	11	(46)
<b>Total</b>	<b>\$ 12,121</b>	<b>100</b>	<b>\$ 7,991</b>	<b>100</b>	<b>\$ 4,130</b>

## Section VI: Other Development Activities and Programs

IDA has products, services, and programs, other than lending, that it offers to its borrowing member countries to help them meet their development goals. These include guarantees, debt relief, trust fund administration, and externally funded reimbursable advisory services.

### Guarantees

IDA offers both project-based and policy-based guarantees. These guarantees are available for projects and programs in member countries to help mobilize private financing for development purposes. IDA's guarantees are partial in nature as they are intended to cover risks only to the extent necessary to obtain the required private financing, taking into account country, market and, if appropriate, project circumstances. IDA's guarantees require a sovereign counter-guarantee and indemnity, comparable to the requirement of a sovereign guarantee for IDA lending to sub-sovereign and non-sovereign borrowers. See **Table 19** for the types of guarantees that IDA provides. These guarantees are separate and distinct from those offered under the Private Sector Window. The Corporate Risk Guarantee Committee informs the use of the guarantee instrument.

**Table 19: Types of Guarantees**

<b>Project-based guarantees</b>	Project-based guarantees are provided to mobilize private financing for a project and/or mitigate payment and/or performance related risks of a project. There are two types: <ol style="list-style-type: none"> <li>1. Loan guarantees: these cover loan-related debt service defaults caused by the government's failure to meet specific payment and/or performance obligations arising from contract, law, or regulation. Loan guarantees include coverage for debt service defaults on: (i) commercial debt, normally for a private sector project; and, (ii) a specific portion of commercial debt irrespective of the cause of such default, normally for a public-sector project.</li> <li>2. Payment guarantees: These cover payment default on non-loan related government payment obligations to private entities and foreign public entities arising from contract, law, or regulation.</li> </ol>
<b>Policy-based guarantees</b>	Policy-based guarantees are provided to mobilize private financing for sovereigns or sub-sovereigns. They cover debt service default, irrespective of the cause of such default, on a specific portion of commercial debt owed by government and associated with the supported government's program of policy and institutional actions.

**Table 20: Pricing for IDA's Project-Based and Policy-Based Guarantees, effective July 1, 2021**

Charges	Guarantees on Concessional Terms		Guarantees on Non-Concessional Terms	
	Private Projects	Public Projects	Private Projects	Public Projects
Front-end fee	N.A.	N.A.	25 bps	25 bps
Initiation fee <sup>a</sup>	15 bps	N.A.	15 bps	N.A.
Processing fee <sup>b</sup>	Up to 50 bps	N.A.	Up to 50 bps	N.A.
Standby fee	0 bps	0 bps	25 bps	25 bps
Guarantee fee	75 bps	75 bps	50-100 bps <sup>c</sup>	50-100 bps <sup>c</sup>

a. The Initiation fee is 15 basis points of the guaranteed amount or \$100,000, whichever is greater.

b. The processing fee is determined on a case-by-case basis.

c. Based on the weighted average maturity of the guarantee.

### Guarantee Exposure

IDA's guarantee exposure (measured by discounting each guaranteed amount from its next call date), was \$1,998 million as of June 30, 2021 (\$2,019 million—June 30, 2020). The maximum potential undiscounted future payments that IDA could be required to make under these guarantees is \$2,029 million as of June 30, 2021 (\$2,054 million—June 30, 2020). In addition, IDA had \$484 million of exposure under PSW guarantees as of June 30, 2021. See Section III: IDA's Financial Resources. For additional information, see Notes to the Financial Statements for the year ended June 30, 2021, Notes D – Loans and Other Exposures and Note G – Transactions with Affiliated Organizations.

### Other Financial Products and Services

IDA facilitates access to risk management solutions to mitigate the financial effects of natural disasters for borrowing members. Financial solutions can include disaster risk financing through catastrophe swaps, insurance and reinsurance contracts, and regional pooling facilities.

In order to promote countries' resilience to disasters and expand the range of IDA's crisis instruments, in IDA18, members endorsed the introduction of the Catastrophe Deferred Draw-Down Option (CAT-DDO). The CAT-DDO is

a contingent credit line that provides immediate liquidity to countries in the aftermath of a catastrophe and serves as early financing while funds from other sources such as bilateral aid or reconstruction loans are being mobilized. CAT-DDOs are intended to enhance IDA countries' capacity to plan for and manage crises. As of June 30, 2021, the amount of CAT DDOs disbursed and outstanding was \$388 million (compared to \$330 million as of June 30, 2020), and the undisbursed amount of effective CAT DDOs was \$56 million, compared to \$90 million a year earlier.

## Grant Making Facilities

Grant-Making Facilities (GMFs) are complementary to IDA's work. In FY21, IDA recorded \$20 million under this program in accordance with the cost sharing agreement with IBRD (FY20 - \$21 million). These amounts are reflected in contributions to special programs in IDA's Statement of Income.

## Debt Relief

The Heavily Indebted Poor Countries Debt Initiative (HIPC Initiative) and the Multilateral Debt Relief Initiative (MDRI) were implemented in 1996 and 2006 respectively as a part of a global effort focused on heavily indebted poor countries with strong policy performance. The initiatives aim to reduce the external debt of eligible countries as part of a broader poverty reduction strategy, whilst safeguarding the long-term financial capacity of IDA and other participating multilateral institutions; and encouraging the best use of additional member resources for development, by allocating these resources to low-income countries on the basis of policy performance.

In order to receive irrevocable debt relief, eligible countries are required to maintain macroeconomic stability, carry out key structural and social reforms, and implement a Poverty Reduction Strategy, in addition to being in good standing with respect to all eligible debt repayments. To ensure IDA's financial capacity was not eroded, members agreed to compensate IDA with additional contributions to offset the impact of the forgone reflows, resulting from the provision of debt relief.

The accumulated provision for debt relief was recorded at the inception of the initiative and is based on both quantitative and qualitative analyses of various factors, including estimates of the Decision and the Completion Point dates. These factors are periodically reviewed, and the adequacy of the accumulated provision is reassessed and adjusted to reflect the impact of any changes.

During FY21, HIPC debt relief was provided on \$9 million of loans (\$10 million in FY20). There was no HIPC debt relief on service charges in FY21 or FY20. On a cumulative basis, debt relief has been provided on \$2.1 billion of loans and \$335 million of service charges under HIPC as of June 30, 2021.

On June 29, 2021, Sudan reached Decision Point under the HIPC debt relief initiative and became eligible for \$114 million in debt relief. As a result, IDA recorded a \$114 million provision for losses under HIPC on Sudan's outstanding loans as of June 30, 2021.

During FY21 and FY20, there was no cancellation of eligible loans under MDRI. On a cumulative basis, debt relief has been provided on \$40.2 billion of loans under the MDRI as of June 30, 2021. The provision for the debt relief was recorded at the beginning of the MDRI Initiative.

## Externally-Funded Activities

Mobilization of external funds from third-party partners includes Trust Funds. Additional external funds include reimbursable funds and revenues from fee-based services to member countries, which are related to Reimbursable Advisory Services (RAS), and EFO.

### Trust Funds

Trust Funds are a part of the WBG's development activities, providing resources and added flexibility in providing development solutions that serve member recipients and donors alike. The partnerships funded by trust funds often serve as a platform from which IDA and its members can draw on the WBG's diverse technical and financial resources to achieve development goals that cannot be addressed effectively by any single member, given their complexity, scale, and scope.

Management is implementing measures to better integrate planning, support sustainability and enhance alignment of External Funds with mission priorities through greater use of umbrella trust fund programs, increased cost recovery, and new budgetary planning measures to manage External Funds usage.

IDA's roles and responsibilities in managing trust funds depend on the type of fund, outlined as follows:

*IDA-Executed Trust Funds (BETFs):* IDA, alone or jointly with one or more of its affiliated organizations, manages the funds and implements the activities financed. These trust funds support IDA's work program. IDA, as an executing agency, disbursed \$553 million in FY21 (\$586 million in FY20) of trust fund program funds.

*Recipient-Executed Trust Funds (RETFs):* Funds are provided to a third party, normally in the form of project grant financing, and are supervised by IDA.

*Financial Intermediary Funds (FIFs):* IDA, as a trustee, administrator, or treasury manager, offers specific administrative or financial services with a limited operational role. Arrangements include the administration of debt service trust funds, fiscal agency funds and other more specialized limited fund management roles.

IDA earned revenue from Trust Fund administration activity of \$38 million in FY21 (\$41 million in FY20). For additional information, see Notes to the Financial Statements for the year ended June 30, 2021, Note H-Trust Funds Administration.

As noted in the discussion of Trust Fund activities above, IDA, alone or jointly with one or more of its affiliated organizations, administers on donors' behalf funds restricted for specific uses. Such administration is governed by agreements with donors, who include members, their agencies, and other entities. These funds are held in trust and are not included on IDA's Balance Sheet, except for \$749 million of undisbursed third-party contributions made to IDA-executed trust funds, which are recognized on the Balance Sheet. These amounts are included in Other assets and the corresponding liabilities are included in Accounts payable and miscellaneous liabilities on the Balance Sheet. The cash and investment assets held in trust by IDA as administrator and trustee as of June 30, 2021 and June 30, 2020 are summarized in **Table 21**.

**Table 21: Cash and Investment Assets Held in Trust by IDA**

*In millions of U.S. dollars*

As of June 30,	Total Fiduciary Assets	
	2021	2020
IDA-executed	\$ 44	\$ 49
Jointly executed with affiliated organization	1,025	944
Recipient-executed	2,365	1,964
Financial intermediary funds	286	281
Execution not yet assigned <sup>a</sup>	5,365	4,643
<b>Total</b>	<b>\$ 9,085</b>	<b>\$ 7,881</b>

*a. These represent assets held in trust for which the determination as to the type of execution is yet to be finalized.*

### Reimbursable Advisory Services (RAS)

While most of IDA's advisory and analytical work is financed by its own budget or donor contributions (e.g., Trust Funds), clients may also pay for services. IDA offers technical assistance and other advisory services to its member countries, in connection with, and independent of, lending operations. Available services include, for example, assigning qualified professionals to survey developmental opportunities in member countries; analyzing member countries fiscal, economic, and developmental environments; helping members devise coordinated development programs; and improving their asset and liability management techniques. In FY21, income relating to reimbursable advisory services was \$46 million (FY20 - \$65 million).

### Externally Financed Outputs (EFOs)

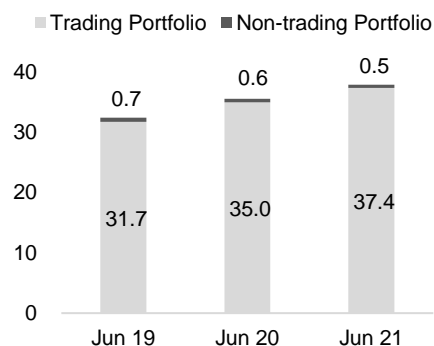
IDA offers donors the ability to contribute to specific projects and programs. EFO contributions are recorded as restricted revenue when received because they are for contractually specified purposes. Restrictions are released once the funds are used for the purposes specified by donors. In FY21, IDA had \$21 million of revenue, compared with \$23 million in FY20.

## Section VII: Investment Activities

As of June 30, 2021, IDA's net investment portfolio totaled \$37.9 billion (**Figure 7**). See the Notes to the Financial Statements for the year ended June 30, 2021, Note C – Investments.

**Figure 7: Net Investment Portfolio**

*In billions of U.S. dollars*



### Liquid Asset Portfolio

The primary objective of IDA's liquid asset portfolio strategy continues to be preservation of capital within institutional constraints. Consistent with this primary objective, IDA invests in high quality instruments. IDA aims to earn reasonable investment returns, while ensuring timely availability of funds for future cash flow requirements, including disbursements for loans, grants, debt service, and administrative expenses.

For IDA19, as part of IDA's evolving ALM needs, to ensure that the overall liquidity level is maintained prudently and to address the new business circumstances of COVID-19 crisis response, the following refinements to the investment strategy were implemented from July 1, 2020. As a result, the average duration of the liquid asset portfolio shortened to four months in FY21 compared to fifteen months in FY20.

- Aligned the stable sub-portfolio investment benchmark with the funding benchmark, as the stable sub-portfolio is expected to be increasingly funded by debt during IDA19 and beyond.
- Merged Tranche 1 assets into stable or discretionary sub-portfolio, as applicable.

**Table 22: Liquid Asset Portfolio Composition**

*In millions of U.S. dollars*

As of June 30,	2021	2020
Liquid Asset Portfolio		
Operational	\$ 12,836	\$ 9,276
Stable	24,598	15,624
Discretionary	-	87
Tranche 1	-	9,959
<b>Total</b>	<b>\$ 37,434</b>	<b>\$ 34,946</b>

As of June 30, 2021, \$28.0 billion (approximately 74% of total volume) was due to mature within six months, of which \$11.6 billion was expected to mature within one month.

IDA's return on its liquid asset portfolio for FY21 (excluding unrealized mark-to-market gains / losses on PEBP assets) was 0.25%, compared to 1.73% in FY20, primarily due to unrealized mark-to-market losses on investments – trading in FY21 compared to unrealized mark-to-market gains in FY20, reflecting the increase in yield curves during the year.

**Table 23** provides a breakdown of the average balances and returns of IDA's liquid asset portfolio. For details on returns of the total portfolio, refer to Section IV: Financial Results.

**Table 23: Average Balances and Returns by Sub-Portfolio***In millions of U.S. dollars, except rates in percentages*

Sub Portfolios	FY21		FY20	
	Average Balance	Return	Average Balance	Return
Operational	\$ 9,557	0.23%	\$ 8,600	0.46%
Stable	25,708	0.23%	15,420	1.87%
Discretionary *	87	0.26%	129	1.72%
Tranche 1	-	0.00%	9,814	2.74%
<b>Total</b>	<b>\$ 35,309</b>	<b>0.25%</b>	<b>\$ 33,963</b>	<b>1.73%</b>

\* Discretionary sub-portfolio was terminated in December 2020.

IDA's liquid assets are held mainly in the following types of highly rated, fixed-income instruments. See **Table 29** for eligibility criteria for IDA's investments.

- Government and Agency Obligations.
- Time deposits, and other unconditional obligations of banks and financial institutions.
- Asset-backed securities (including mortgage-backed securities).
- Currency and interest rate derivatives (including currency forward contracts).
- Exchange-traded options and futures.

IDA's prudential minimum liquidity policy ensures that it holds sufficient liquidity. The prudential minimum liquidity level is set at 80% of 24 months of projected net outflows. For FY21, the prudential minimum was \$21.2 billion. The prudential minimum for FY22 has been set at \$19.3 billion. See Section IX: Risk Management for details on how IDA manages liquidity risk.

## Investments - Non-Trading Portfolio

During FY15, with the proceeds of a concessional loan from a member, IDA purchased a debt security issued by the IFC. IDA elected to measure the security at fair value, so that the measurement method could be consistently applied to all its investments. The changes in fair value for this security are reflected in the Statement of Income. As of June 30, 2021, the investment non-trading portfolio had a fair value of \$487 million (\$625 million in FY20). See Notes to the Financial Statements for the year ended June 30, 2021, Note C – Investments.



## Section VIII: Borrowing Activities

### Concessional Partner Loans

Concessional partner loans (CPLs) continue as a source of funding, whereby the borrowing terms of the concessional loans from members aim to follow the concessional features of IDA's loans.

The maturities of the CPLs are either 25 or 40 years to match the terms of IDA's loans, with a grace period of 5 years for a 25-year loan and 10 years for a 40-year loan. The loans have an all in SDR equivalent coupon of up to one percent.

Voting rights are allocated to members who provide concessional loans following the drawdowns by IDA, and are based on the cash paid, computed as the derived grant element of the loan. The grant element, which is paid in cash and recorded as equity, is a function of the terms of the loan and the discount rate agreed upon during the replenishment discussions – 2.25% SDR equivalent for 25-year maturity and 2.57% for 40-year maturity in IDA19 (IDA18 - 2.35% SDR equivalent for 25-year maturity and 2.70% for 40-year maturity).

The increase of \$0.1 billion in concessional partner loans outstanding was primarily due to translation adjustment losses. Interest expense associated with these loans was \$149 million in FY21 (FY20 - \$138 million). See **Table 24**.

### Market Debt

IDA has been issuing bonds in the international capital markets since 2018. The market borrowings increased by \$8.4 billion compared to June 30, 2020 primarily due to net issuance of medium and long-term debt instruments during the year. See **Table 24**.

**Table 24: Borrowings**

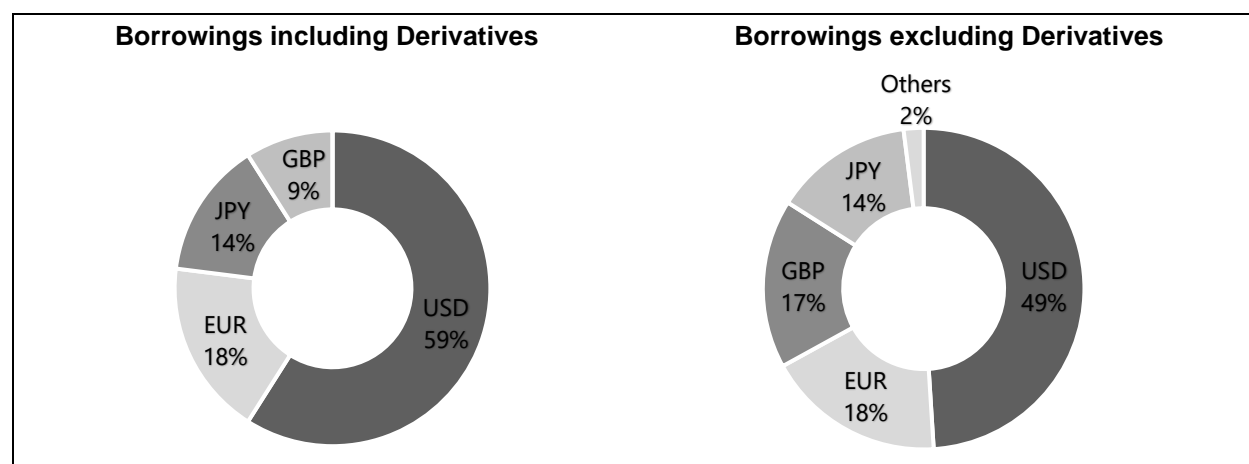
*In millions of U.S. dollars, except rates in percentages*

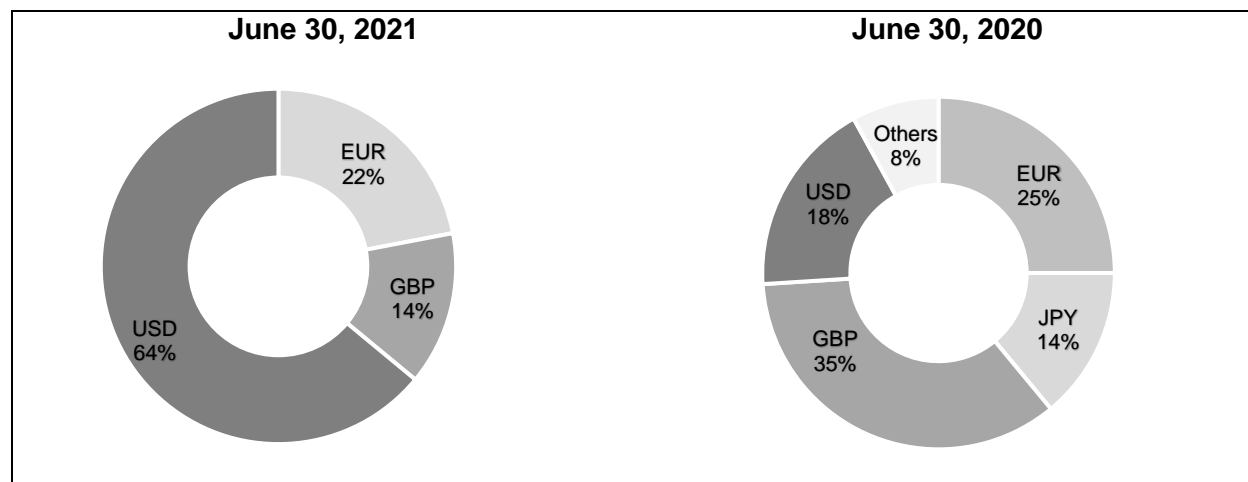
	Outstanding as of June 30,		Interest expense <sup>a</sup>		Weighted average rate	
	2021	2020	FY21	FY20	FY21	FY20
Market debt	\$ 20,555	12,131	95	101	0.65%	0.66%
Concessional partner loans	\$ 7,759	7,635	149	138	1.90%	1.88%
<b>Total</b>	<b>\$ 28,314</b>	<b>\$ 19,766</b>	<b>\$ 244</b>	<b>\$ 239</b>	<b>0.99%</b>	<b>1.14%</b>

a. Excludes gains related to borrowings swaps net of repurchase agreement expenses - \$57 million in FY21 (\$2 million of net expenses in FY20).

IDA uses currency and interest rate derivatives in connection with its borrowings for asset and liability management purposes. For more details, see Section IX: Risk Management.

**Figure 8: Effect of Derivatives on Currency Composition of the Borrowing Portfolio—June 30, 2021**



**Figure 9: Medium- and Long-Term Borrowings Issued by Currency during the year, Excluding Derivatives**

### Other Short-Term Borrowings

Under its Investment Guidelines, IDA is allowed to enter into transactions involving securities sold under repurchase agreements and securities lent under securities lending agreements. These transactions are accounted for as short-term borrowings. The agreements are secured predominantly by high quality collateral, including government issued debt, and are used both to enhance returns and for liquidity management purposes.

As of June 30, 2021, there were no securities sold under repurchase agreements or any securities lent under securities lending agreements (\$107 million – June 30, 2020). **Table 25** provides details on these short-term borrowing activities.

**Table 25: Other Short-Term Borrowings**

*In millions of U.S. dollars, except rates in percentages*

As of June 30,	2021	2020	2019
Securities sold under repurchase agreements and securities lent under securities lending agreements,			
Balance at year-end	\$ -	\$ 107	\$ 698
Average monthly balance during the year	\$ 9	\$ 430	\$ 1,417
Maximum month-end balance	\$ 107	\$ 619	\$ 2,465
Weighted-average rate at end of fiscal year	-	0.16%	2.71%
Weighted-average rate during the fiscal year	0.16%	1.49%	2.20%

### Contractual Obligations

In conducting its business, IDA takes on contractual obligations that may require future payments mainly associated with IDA's borrowings. See Notes to the Financial Statements for the year ended June 30, 2021, Note E – Borrowings – Table E5. These contractual obligations exclude the following obligations reflected on IDA's balance sheet: undisbursed loans, amounts payable for currency and interest rate swaps, amounts payable for investment securities purchased, guarantees, and cash received under agency arrangements.

## Section IX: Risk Management

### Risk Governance

IDA's risk management processes and practices continually evolve to reflect changes in activities in response to market, credit, product, operational, and other developments. The Board, particularly Audit Committee members, periodically review trends in IDA's risk profiles and performance, and any major developments in risk management policies and controls.

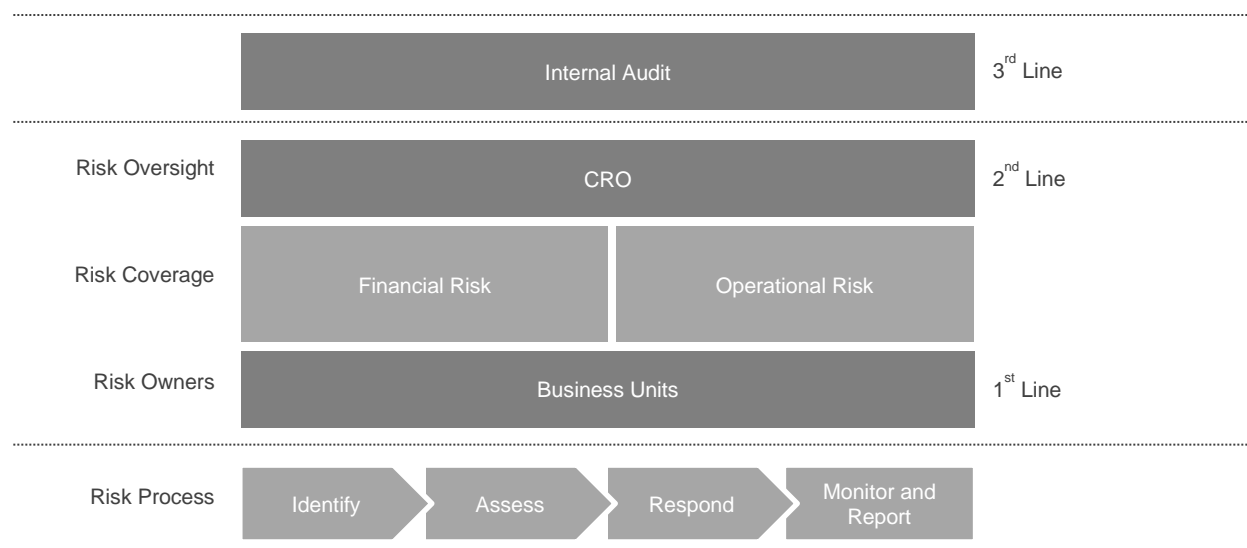
Management believes that effective risk management is critical for IDA's overall operations. Accordingly, the risk management governance structure is designed to manage the principal risks IDA assumes in its activities, and supports management in its oversight function, particularly in coordinating different aspects of risk management and in connection with risks that are common across functional areas.

IDA's financial and operational risk governance structure is built on the "three lines model" where:

- Business units are responsible for directly managing risks in their respective functional areas,
- The Vice President and WBG Chief Risk Officer (CRO) provides direction, challenge, and oversight over financial and operational risk activities, and
- Internal Audit provides independent oversight.

IDA's risk management process comprises risk identification, assessment, response, and risk monitoring and reporting. IDA has policies and procedures under which risk owners and corporate functions are responsible for identifying, assessing, responding to, monitoring, and reporting risks.

**Figure 10: Financial and Operational Risk Management Structure**



### Risk Oversight and Coverage

#### Financial and Operational Risk Management

The CRO oversees both financial and operational risks. These risks include (i) country credit risks in the core sovereign lending business, (ii) market and counterparty risks including liquidity risk, and (iii) operational risks relating to people, processes, and systems. In addition, the CRO works closely with IBRD, IFC, and MIGA's management to review, measure, aggregate, and report on risks and share best practices across the WBG. The CRO also helps enhance cooperation between the entities and facilitates knowledge sharing in the risk management function.

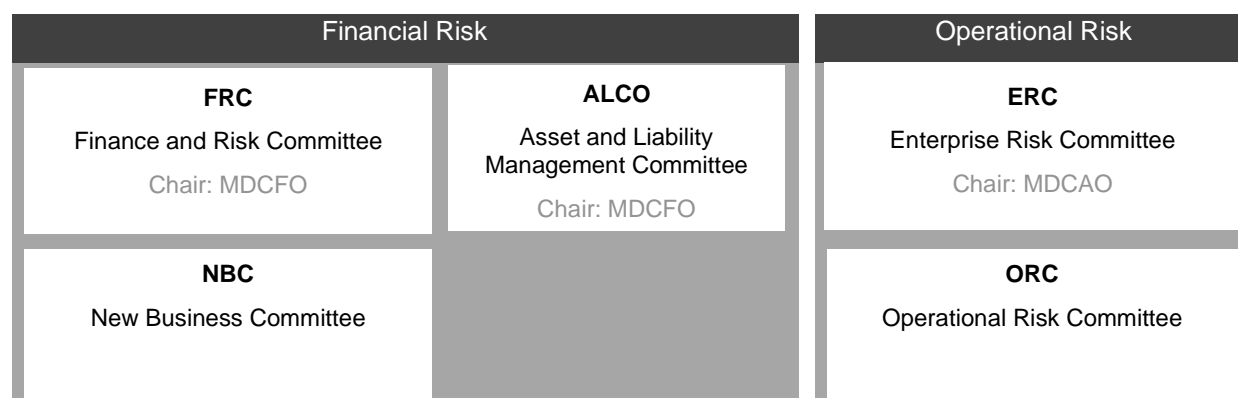
The risk of IDA's operations not meeting the expected development outcomes (development outcome risks) in IDA's lending activities is monitored at the corporate level by Operations Policy and Country Services (OPCS). Where fraud and corruption risks may impact IDA-financed projects, OPCS, the Regions and Practice Groups, and the Integrity Vice Presidency jointly address such issues.

The following three departments report directly to the CRO:

Credit Risk Department	<ul style="list-style-type: none"> <li>Identifies, measures, monitors, and manages country credit risk faced by IDA.</li> <li>Assesses loan portfolio risk and capital requirements, determines the adequacy of provisions for losses on loans and other exposures, and monitors borrowers that are vulnerable to crises in the near term. The Department assesses the consistency of country lending programs as determined in IDA's PBA allocation framework with overall capital adequacy.</li> <li>Whenever a new financial product is being considered for introduction, this department reviews any implications for country credit risk.</li> </ul>
Market and Counterparty Risk Department	<ul style="list-style-type: none"> <li>Responsible for market, liquidity, and counterparty credit risk oversight, assessment, and reporting. It does these in coordination with IDA's financial managers who are responsible for the day-to-day execution of trades for the liquid asset and derivative portfolios within applicable policy and guideline limits.</li> <li>Responsible for ensuring effective oversight, which includes: i) maintaining sound credit assessments, ii) addressing transaction and product risk issues, iii) providing an independent review function, iv) monitoring market and counterparty risk in the investment, borrowing and client operation portfolios, and v) implementing the model risk governance framework. It also provides reports to the Audit Committee and the Board on the extent and nature of risks, risk management, and oversight.</li> </ul>
Operational Risk Department	<ul style="list-style-type: none"> <li>Provides direction and oversight for operational risk activities by business function.</li> <li>Key operational risk management responsibilities include: (i) administering the Operational Risk Committee (ORC) for IDA, (ii) implementing the operational risk management framework which is aligned with Basel principles and providing direction to business unit partners to ensure consistent application, (iii) assisting and guiding business unit partners in identifying and prioritizing significant operational risks and enabling monitoring and reporting of risks through suitable metrics (or risk indicators), (iv) helping identify emerging risks and trends through monitoring of internal and external risk events, (v) supporting risk response and mitigating activities, and preparing a corporate Operational Risk Report for review and discussion by the ORC.</li> <li>The department is also responsible for business continuity management, and enterprise risk management functions.</li> </ul>

## Risk Committees

Figure 11: Management Risk Committee Structure for Financial and Operational Risks



## Financial Risk Committees:

**The Finance and Risk Committee (FRC)**, a Vice President level committee, provides a high-level governance structure for decisions that may have financial risks. The FRC is chaired by the Managing Director and WBG Chief Financial Officer (MDCFO) and approves, clears, or discusses: (a) risk policy and procedure documents related to financial integrity, income sustainability and balance sheet strength, and (b) issues and new business initiatives with policy implications related to IDA's risks in the areas of finance, which include country credit, market, counterparty, liquidity, model risks, and operational risks related to the finance business functions. The FRC helps to integrate individual components of finance and risk management activities by building on mechanisms and processes already in place and provides a forum for discussing and communicating significant risk related issues. The FRC meets regularly to discuss the financial performance, new products and services, and risk management of IDA.

**The New Business Committee (NBC)** is a standing subcommittee of the FRC. The NBC provides advice, guidance, and recommendations to the FRC, by performing due diligence over new financial products or services to ensure that management has a full understanding of the rationale, costs, risks and rewards of the product or service being considered.

**Asset Liability Management Committee (ALCO)**, a Vice President level committee chaired by the MDCFO provides a high-level forum to ensure prudent balance sheet management of IDA by: a) monitoring its financial positions and ALM activities for compliance with its respective guidelines, policies and procedures, including borrowing and investment activities; b) identifying and providing recommendations on emerging ALM issues for IDA, as well as those related to capital, balance-sheet planning, and financial sustainability; and c) serving as reviewing and recommending body for ongoing decisions as part of implementing the ALM policies and procedures of IDA, including those that impact lending rates and net income.

## Operational Risk Committees:

**The Enterprise Risk Committee (ERC)** is a corporate committee that has oversight over operational and non-financial risks across IDA. Chaired by IDA's Managing Director and Chief Administrative Officer (MDCAO), it consists of Vice President level committee members to review and discuss enterprise risk matters. Specifically, the Committee has a governance role over risk matters relating to corporate security, business continuity and IT security.

**Operational Risk Committee (ORC)** is the main governance committee for operational risk and provides a mechanism for an integrated review and response across IDA units on operational risks associated with people, processes, and systems including business continuity, and recognizing that business units remain responsible for managing operational risks. The Committee's key responsibilities include monitoring significant operational risk matters and events on a quarterly basis to ensure that appropriate risk-response measures are taken and reviewing and concluding on IDA's overall operational risk profile. The ORC is chaired by the CRO and escalates significant risks/decisions to the FRC and ERC.

## Management of IDA's Risks

IDA assumes financial risks in order to achieve its development and strategic objectives. IDA's financial risk management framework is designed to enable and support the institution in achieving its goals in a financially sustainable manner. IDA manages credit, market, and operational risks for its financial activities which include lending, borrowing, and investing (**Table 26**). The primary financial risk to IDA is the country credit risk inherent in its loan and guarantee portfolio. IDA is also exposed to risks in its liquid asset and derivative portfolios, where the major risks are interest rate, exchange rate, commercial counterparty, and liquidity risks. IDA's operational risk management framework is based on a structured and uniform approach to identify, assess, and monitor key operational risks across business units.

**Table 26: Summary of IDA's Specific Risk Categories**

Types of Financial Risk	How the risk is managed
<b>Credit Risk</b>	
Country Credit Risk	IDA's credit-risk-bearing capacity and individual country exposure limits.
Counterparty Credit Risk	Counterparty credit limits and collateral.
<b>Market Risk</b>	
Interest Rate Risk	Interest rate derivatives to match the sensitivity of assets and liabilities.
Exchange Rate Risk	Currency derivatives to match the currency composition of assets and liabilities.
Liquidity Risk	Minimum liquidity target levels.
<b>Operational Risk</b>	Risk assessment and monitoring of key risk indicators and events.

### Coronavirus Disease 2019 Outbreak

The 2019 outbreak of COVID-19 resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, quarantine periods and social distancing, have caused material disruption to businesses globally. Governments and central banks reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

In light of COVID-19, IDA faces additional credit, market, and operational risks for its activities. IDA continues to monitor the developments and to manage the risks associated with all its portfolios.

As of June 30, 2021, IDA had sufficient resources to meet its liquidity requirements and continues to have access to the capital markets, despite market volatility. IDA continues to maintain a robust liquidity position and flexibility to access the necessary liquidity resources. Management remains vigilant in assessing funding needs in the medium and longer-term to manage the effect of possible severe market movements.

IDA's capital remains adequate, as indicated by the DSC ratio, despite increased market volatility since the COVID-19 outbreak (**Table 27**).

As of the reporting date, country credit risk and counterparty credit risk remain in line with the existing governance framework and established credit limits. The loan loss provisions reflect IDA's current assessment of country credit risk. The fair values of related financial instruments reflect counterparty credit risk in IDA's portfolios. Developments in the market continue to be closely monitored and managed.

Home-based work continues in many World Bank offices throughout the world, in line with IDA's Business Continuity Procedures. In addition, IDA has adopted other prudent measures to ensure the health and safety of its employees, including imposing travel restrictions and holding public events in virtual format.

While the duration of the COVID-19 pandemic and its effects remain difficult to predict at this time, IDA has continued to respond to demand and operate its core business functions effectively by utilizing technology for remote work, and by leveraging its extensive local presence in client countries around the world.

Management has an office reopening framework that prioritizes staff health and safety while taking into consideration risks including business continuity. The office reopening framework provides for the incremental return to office and on-site business activities in stages or "tiers," allowing for enough time in between tiers to assess risk and preparedness indicators. IDA continues to monitor risks associated with COVID-19 and maintains plans to respond as the situation evolves. While the World Bank offices around the world are in differing operating statuses based on local conditions, IDA has started the process for a gradual reopening of offices for certain locations, including the headquarter office in Washington D.C.

### Capital Adequacy

IDA uses a solvency-based capital adequacy model, which mandates that IDA holds capital for credit risk, market risk and operational risk covering all activities and assets on its books. The main measure of capital adequacy is the Deployable Strategic Capital (DSC), a non-GAAP measure, which is the capital available to support future commitments, over and above the current portfolio. IDA is required, by the Board, to keep the DSC at levels greater than or equal to zero percent. The DSC is calculated as the amount by which Total Resources Available (TRA) exceed

Total Resources Required (TRR), plus a Conservation Buffer (CB). The TRA consists of IDA's existing equity plus accumulated provision for loan losses. The TRR is the minimum capital required to cover expected and unexpected losses, (under a stressed but still plausible downside scenario), in connection with all of IDA's currently existing operations and assets. Within the TRR there is also a capital allowance to reflect losses that result from valuing IDA's concessional loan portfolio in present value terms using market interest rates. This allowance is calculated using a stressed interest rate to account for a potential future rise in market interest rates. The CB is an extra buffer in the amount of 10 percent of TRA. As part of the DSC framework refinement, during FY21, adjustments were made to the TRR beginning in June 2021. TRR now include additional capital requirements to account for development grants which are approved but not yet expensed so that the full effect of grant commitments is included. This adjustment addresses the delay in expense recognition for grants made as a result of the implementation of the accounting standard update. Under the expense recognition requirements of the accounting standard update, grants are no longer expensed at commitment (approval) but generally at disbursement. TRR now also includes a reduction in capital requirements to account for the capital adequacy protection provided by long-term fixed rate borrowings against changes in market interest rates. Following a change in market interest rates, the change in the present value of IDA's long-term fixed rate borrowings offsets the changes in the present value of loans, partially reducing the sensitivity of IDA's capital adequacy to interest rate movements.

As of June 30, 2021, the DSC was 30.4%, lower by 5.4 percentage points compared with June 30, 2020 (35.8%). The decrease in ratio is primarily driven by the DSC framework refinement. IDA's capital continues to be adequate to support its operations. See **Table 27**.

**Table 27: Deployable Strategic Capital Ratio**

*In billions of U.S. dollars except ratios in percentages*

As of June 30,	2021	2020
Total Resources Available (TRA)	\$ 185.7	\$ 172.6
Total Resources Required (TRR)	110.6	93.5
Conservation Buffer (CB)	18.6	17.3
Deployable Strategic Capital (DSC = TRA-TRR-CB)	\$ 56.5	\$ 61.8
<b>Deployable Strategic Capital as a percentage of Total Resources Available</b>	<b>30.4%</b>	<b>35.8%</b>

## Asset/Liability Management

### Capital Value Protection Program

In FY20, as part of IDA's ALM policies, IDA executed pay fixed, receive floating forward-starting swaps with a notional of \$15.0 billion under a Board-approved Capital Value Protection Program. The objective of the program is to partially reduce the sensitivity of IDA's capital adequacy model to changes in long-term interest rates and allow for more resources to be available for lending under the capital adequacy framework.

Changes in the values of these forward-starting swaps partially offset changes in the present value of loans, thereby reducing the sensitivity of IDA's capital adequacy to long-term interest rate movements and providing greater stability in IDA's long-term financing to clients. These swaps are included under the ALM portfolio. For more details, see Notes to the Financial Statements for the year ended June 30, 2021, Note F - Derivative Instruments.

### Asset Coverage Principles

In addition to the DSC framework, IDA has policies in place to ensure alignment of its lending and borrowing activities. Specifically, the Board approved the following asset coverage principles:

- Management will monitor the level of assets available to satisfy all of IDA's borrowings and shall adjust future lending and grant commitments should the level of asset coverage fall below the level expected for a triple-A rated entity.
- Management will monitor IDA's liquidity to ensure its ability to satisfy its borrowing and commitment obligations even under stressed conditions taking into account the level expected for a triple-A rated entity without callable capital.
- If IDA's access to the capital markets or alternative sources of cash funding is impaired, then no additional loan or grant commitments will be approved until access to cash funding has resumed or all market debt is repaid.

## Credit Risk

IDA faces two types of credit risk: country credit risk and counterparty credit risk. Country credit risk is the risk of loss due to a country not meeting its contractual obligations, and counterparty credit risk is the risk of loss attributable to a counterparty not honoring its contractual obligations. IDA is exposed to commercial as well as noncommercial counterparty credit risk.

### Country Credit Risk

IDA's lending management framework encompasses the long-standing PBA mechanism and allocation framework agreed at each replenishment, complemented by additional considerations required when accessing debt markets to ensure adherence to risk management (capital adequacy) requirements.

While the PBA framework was not originally intended as a credit quality metric, it incorporates factors related to country credit risk. The PBA determines the volume of concessional IDA resources allocated to each country, based on performance in implementing policies that promote economic growth and poverty reduction, as assessed under the Country Policy and Institutional Assessment (CPIA). The CPIA includes economic management criteria, such as fiscal policy and debt policy and management.

In addition to these considerations in the PBA, IDA assesses the country credit risk of all its borrowers. IDA produces credit risk ratings for all its borrowing countries, which reflect country economic, financial, and political circumstances, and also considers environmental, social and governance (ESG) risk factors. Based on these risk ratings, to manage overall portfolio risk, the allocation outcomes of the PBA and other mechanisms are reviewed to ensure that they are compatible with the Deployable Strategic Capital Framework and Single Borrower Limit.

### Single Borrower Limit

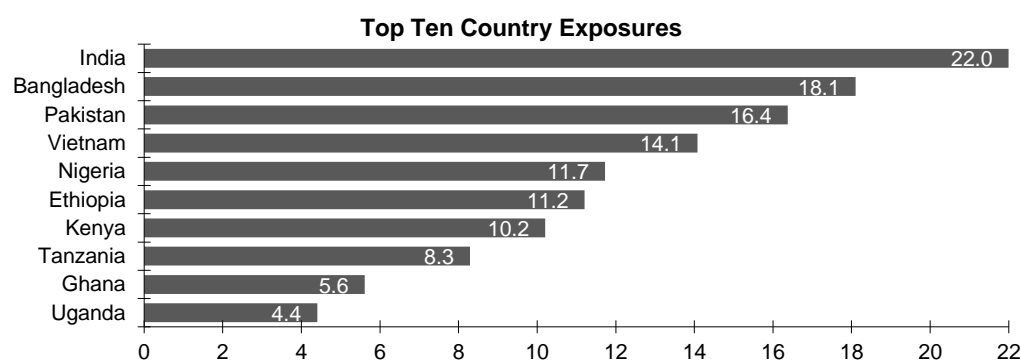
Portfolio concentration risk, which arises when a small group of borrowing countries account for a large share of loans outstanding, is a key consideration for IDA. Concentration risk is managed through the SBL, which caps exposure to any single borrowing country at 25 percent of equity, in line with the Basel-based maximum exposure limit.

For FY22, the SBL has been set at \$45 billion (25 percent of \$180.9 billion of equity as of June 30, 2021), marginally higher than FY21. Currently, the maximum country exposure levels compatible with IDA's overall capital adequacy target are lower than the SBL for all IDA-borrowing countries. As a consequence, the SBL is not currently a constraining factor.

As of June 30, 2021, the ten countries with the highest exposures accounted for 66% of IDA's total exposure (**Figure 12**). IDA's largest exposure to a single borrowing country, India, was \$22 billion as of June 30, 2021. Monitoring these exposures relative to the SBL, requires consideration of the repayment profiles of existing loans, as well as disbursement profiles and projected new loans and guarantees.

**Figure 12: Country Exposures as of June 30, 2021**

*In billions of U.S. dollars*



### Debt Relief

IDA has participated in two comprehensive debt relief initiatives, HIPC and MDRI, adopted by the global development community to reduce the debt burdens of developing countries. In each case, IDA agreed to provide debt relief in return for future compensation from members for forgone reflows, ensuring that IDA's financial capacity would not be reduced. For a borrower to be eligible for debt relief on its loans with IDA, it is required to maintain macroeconomic stability, carry out key structural and social reforms, and maintain all loans in accrual status.



### Expected Losses, Overdue Payments and Non-Performing Loans

When a borrower fails to make payments on any principal, interest, or other charges due to IDA, IDA may suspend disbursements immediately on all loans and grants to that borrower. IDA's current practice is to exercise this option using a gradual approach (**Table 28**). These practices also apply to member countries eligible to borrow from both IDA and IBRD, and whose payments on IBRD loans may become overdue. It is IDA's practice not to reschedule service charges, interest or principal payments on its loans or participate in debt rescheduling agreements with respect to its loans. As of June 30, 2021, none of the IDA borrowing countries in the accrual portfolio had overdue payments beyond 45 days.

**Table 28: Treatment of Overdue Payments**

Overdue by 30 days	Where the borrower is the member country, no new loans or grants to the member country, or to any other borrower in the country, will be presented to the Board for approval nor will any previously approved loans or grants be signed, until payments for all amounts 30 days overdue or longer have been received. Where the borrower is not the member country, no new loans or grants to that borrower will be signed or approved.
Overdue by 45 days	In addition to the provisions cited above for payments overdue by 30 days, to avoid proceeding further on the notification process leading to suspension of disbursements, the country as borrower or guarantor and all borrowers in the country must pay not only all payments overdue by 30 days or more, but also all payments due regardless of the number of days since they have fallen due. Where the borrower is not the member country, no new loans, or grants to, or guaranteed by, the member country, will be signed or approved.
Overdue by 60 days	In addition to the suspension of approval for new loans or grants and signing of previously approved loans or grants, disbursements on all grants or loans to or guaranteed by the member country are suspended until all overdue amounts are paid. This policy applies even when the borrower is not the member country. Under exceptional circumstances, disbursements can be made to a member country upon the Board's approval.
Overdue by more than six months	All loans made to or guaranteed by a member of IDA are placed in nonaccrual status, unless IDA determines that the overdue amount will be collected in the immediate future. Unpaid service charges and other charges not yet paid on loans outstanding are deducted from the income for the current period. To the extent that these payments are received, they are included in income. At the time of arrears clearance, if collectability risk is considered to be particularly high, the member's exposures may not automatically emerge from nonaccrual status. In such instances, a decision is made on the restoration of accrual status on a case-by-case basis and in certain cases, this decision may be deferred until after a suitable period of payment performance has passed.

As an exception to the practices set forth in **Table 28**, IDA has provided financing to countries with overdue payments, in very specific situations:

- IDA has provided grants from its Crisis Response Window to third party agencies for use in Somalia and Zimbabwe in response to major crises, during FY17 and FY19 respectively, and;
- IDA has financed a few regional projects, for the benefit of countries with overdue payments to IDA, through its Regional Program Window.

In the past, on an exceptional basis, IDA financed through concessional loans and grants the following regional projects, where participation of a country with overdue payments was crucial to the success of the regional project.

- In April 2017, the Kenya Displacement project (\$103 million) through Intergovernmental Authority on Development (IGAD) that included financing for Somalia.
- In December 2014, Kariba Dam Rehabilitation Project (\$75 million) that included benefits for Zimbabwe.
- In September 2003, West Africa HIV/AIDS project for the Abidjan-Lagos Transport Corridor (\$17 million) that included benefits for Togo, a country with overdue payments at that time.

In the above cases, financing was not made directly to the country with overdue payments. Implementation arrangements were such that a regional bank or another participating country took on the obligation of the regional project on behalf of the country with overdue payments to IDA.

In addition, IDA may engage with countries with overdue payments when a very narrow and well-defined set of criteria are met, including a clear path to arrears clearance. For more details on exceptional financing, see Section III: IDA's Financial Resources.

#### *Arrears Clearance*

On March 25, 2021, Sudan paid all of the overdue principal and charges due to IDA of \$849 million and \$244 million, respectively. The outstanding loans remaining to Sudan were restored to accrual status on that date, in accordance

with IDA's policy. For more details, see Notes to the Financial Statements for the year ended June 30, 2021, Note D – Loans and Other Exposures.

#### *Accumulated Provision for Losses on Loans and other Exposures*

Beginning July 1, 2020, IDA records a provision to reflect the expected losses inherent in its loan and other exposures. Prior to July 1, 2020, the provision was determined based on an incurred loss model. On July 1, 2020, IDA recorded a transition adjustment of \$802 million, increasing the beginning balance of accumulated deficit. This adjustment represented the difference between the previous method and CECL. For more details, see Notes to the Financial Statements for the year ended June 30, 2021, Note A – Summary of Significant Accounting and Related Policies.

A key determinant in the provision for losses on loans and other exposures is IDA's borrowing country credit risk ratings. These ratings are IDA's own assessment of borrowers' ability and willingness to repay IDA on time and in full.

As of June 30, 2021, IDA had \$181.5 billion of loans outstanding, of which loans in nonaccrual status represent 0.5%. IDA's total provision for losses on loans and other exposures was \$4.9 billion, which represents a provisioning rate of 2.0% of the underlying exposures (\$4.5 billion as of June 30, 2020, 2.7% of the underlying exposures). For a summary of countries with loans or guarantees in nonaccrual status as of June 30, 2021, see Notes to the Financial Statements for the year ended June 30, 2021, Note D–Loans and Other Exposures.

#### **Commercial Counterparty Credit Risk**

Commercial counterparty credit risk is the risk that counterparties fail to meet their payment obligations under the terms of the contract or other financial instruments. Effective management of counterparty credit risk is vital to the success of IDA's funding, investment, and asset/liability management activities. The monitoring and management of these risks is continuous as the market environment evolves.

IDA mitigates the counterparty credit risk from its investment and derivative holdings through the credit approval process, the use of collateral agreements and risk limits, and other monitoring procedures. The credit approval process involves evaluating counterparty and product specific creditworthiness, assigning internal credit ratings and limits, and determining the risk profile of specific transactions. Credit limits are set and monitored throughout the year. Counterparty exposure is updated daily, taking into account current market values of assets held, estimates of potential future movements of exposure for derivative instruments, and related counterparty collateral agreements. Collateral posting requirements are based on thresholds driven by public credit ratings. Collateral held includes cash and highly rated liquid investment securities. Commercial credit risk management includes ESG related assessments in the approval and monitoring of higher exposure counterparts for the liquid asset portfolio and for derivative counterparts. In addition, third-party ESG scores of the liquid asset portfolio and derivative exposures are monitored.

IDA's liquid asset portfolio consists mostly of sovereign government bonds, debt instruments issued by sovereign government agencies, and time deposits with banks. More than half of these investments are with issuers and counterparties rated triple-A or double-A (**Table 30**).

#### **Derivative Instruments**

In the normal course of its business, IDA enters into various derivative instruments to manage foreign exchange and interest rate risks. These instruments are also used to help borrowers to manage their financial risks. Derivative transactions are conducted with other financial institutions and, by their nature, entail commercial counterparty credit risk.

While the volume of derivative activity can be measured by the contracted notional value of derivatives, notional value is not an accurate measure of credit or market risk. IDA uses the estimated replacement cost of the derivative instruments, or potential future exposure (PFE), to measure credit risk with counterparties.

Under IDA's mark-to-market collateral arrangements, IDA receives collateral when mark-to-market exposure is greater than the ratings-based collateral threshold. As of June 30, 2021, IDA did not receive any cash collateral for its derivative transactions (June 30, 2020 – \$2 million).

IDA is not required to post collateral under its derivative agreements as long as it maintains a triple-A credit rating. (For the contractual value, notional amounts, related credit risk exposure amounts, and the amount IDA would be required to post in the event of a downgrade, see Notes to the Financial Statements for the year ended June 30, 2021, Note F–Derivative Instruments).

## Investment Securities

IDA's Board-approved General Investment Authorization provides the basic authority for IDA to invest its liquid assets. Furthermore, all investment activities are conducted in accordance with a more detailed set of Investment Guidelines set by management. The Investment Guidelines are approved by the MDCFO and implemented by the Treasurer. The most recent update was in FY18, to incorporate the changes required under the IDA18 hybrid financing model. Issuer and product investment eligibility and risk parameters relative to benchmarks are core components of these Guidelines. The Guidelines also include a consultative loss limit to reflect a level of tolerance for the risk of underperforming the benchmark in any fiscal year and a duration deviation metric. Clear lines of responsibility for risk monitoring and compliance are highlighted in the Guidelines. Credit risk appetite is conveyed through specific eligibility criteria (**Table 29**). IDA has procedures in place to monitor performance against this limit and potential risks, and it takes appropriate actions if the limit is reached. All investments are subject to additional conditions specified by the Chief Risk Officer department, as deemed necessary.

**Table 29: Eligibility Criteria for IDA's Investments**

Eligible Investments <sup>a</sup>	Description
Sovereigns	IDA may only invest in obligations issued or unconditionally guaranteed by governments of member countries with a minimum credit rating of AA-. However, no rating is required if government obligations are denominated in the national currency of the issuer.
Agencies	IDA may invest only in obligations issued by an agency or instrumentality of a government of a member country, a multilateral organization, or any other official entity other than the government of a member country, with a minimum credit rating of AA-.
Corporates and asset-backed securities	IDA may only invest in securities with a triple-A credit rating.
Time deposits <sup>b</sup>	IDA may only invest in time deposits issued or guaranteed by financial institutions, whose senior debt securities are rated at least A-.
Commercial paper	IDA may only invest in short-term borrowings (less than 190 days) from commercial banks, corporates, and financial institutions with at least two Prime-1 ratings.
Securities lending, and borrowing, repurchases, resales, and reverse repurchases	IDA may engage in securities lending, against adequate collateral repurchases and reverse repurchases, against adequate margin protection, of the securities described under the sovereigns, agencies, and corporates and asset-backed security categories.
Collateral assets	IDA may engage in collateralized forward transactions, such as swap, repurchase, resale, securities lending, or equivalent transactions that involve certain underlying assets not independently eligible for investment. In each case, adequate margin protection needs to be received.

- a. All investments are subject to approval by the Market and Counterparty Risk department and must appear on the "Approved List" created by the department.
- b. Time deposits include certificates of deposit, bankers' acceptances and other obligations issued or unconditionally guaranteed by banks or other financial institutions.

The credit quality of IDA's investment portfolio remains in the upper end of the credit spectrum with 68% of the portfolio rated AA or above as of June 30, 2021, reflecting IDA's continued preference for highly-rated securities and counterparties across all categories of financial instruments. Total commercial counterparty credit exposure, net of collateral held, was \$37,521 million as of June 30, 2021.

## Commercial Counterparty Credit Risk Exposure

As a result of IDA's use of mark-to-market collateral arrangements for swap transactions, its residual commercial counterparty credit risk exposure is concentrated in the investment portfolio, in instruments issued by sovereign governments and non-sovereign holdings (including agencies, asset backed securities, corporates, and time deposits). (See **Table 30**).

**Table 30: Commercial Credit Exposure, Net of Collateral Held, by Counterparty Rating**

In millions of U.S. dollars, except rates in percentages

Counterparty Rating <sup>a</sup>	As of June 30, 2021					% of Total
	Sovereigns	Non-Sovereigns	Net Swap Exposure	Total Exposure		
AAA	\$ 9,345	\$ 6,023	\$ -	\$ 15,368		41
AA	2,519	7,438	179	10,136		27
A	7,571	4,378	68	12,017		32
BBB or below	-	-	-	-		-
Total	\$ 19,435	\$ 17,839	\$ 247	\$ 37,521		100

Counterparty Rating <sup>a</sup>	As of June 30, 2020				
	Sovereigns	Non-Sovereigns	Net Swap Exposure	Total Exposure	% of Total
AAA	\$ 2,814	\$ 6,617	\$ -	\$ 9,431	27
AA	2,221	6,997	106	9,324	27
A	11,886	3,832	46	15,764	46
BBB or below	-	*	-	*	*
Total	\$ 16,921	\$ 17,446	\$ 152	\$ 34,519	100

a. Average rating is calculated using available ratings from the three major rating agencies; however, if ratings are not available from each of the three rating agencies, IDA uses the average of the ratings available from any of such rating agencies or a single rating to the extent that an instrument or issuer (as applicable) is rated by only one rating agency.

\* Indicates amount less than \$0.5 million or percentage less than 0.5%.

For the contractual value, notional amounts and related credit risk exposure amounts by instrument see Notes to the Financial Statements for the year ended June 30, 2021, Note F - Derivative Instruments.

### Credit and Debit Valuation Adjustments

Most outstanding derivative positions are transacted over-the-counter and therefore valued using internally developed valuation models. For commercial and non-commercial counterparties where IDA has a net exposure (net receivable position), IDA calculates a Credit Valuation Adjustment (CVA) to reflect credit risk. For net derivative positions with commercial and non-commercial counterparties where IDA is in a net payable position, IDA calculates a Debit Valuation Adjustment (DVA) to reflect its own credit risk.

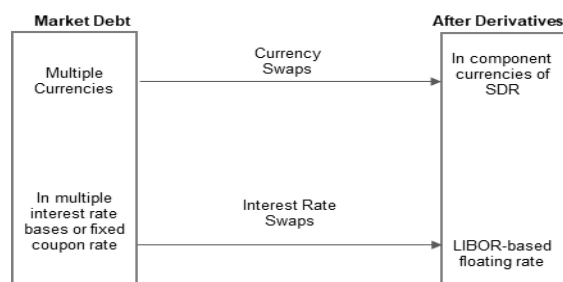
The CVA is calculated using the fair value of the derivative contracts, net of collateral received under credit support agreements, and the probability of counterparty default based on the Credit Default Swaps (CDS) spread and, where applicable, proxy CDS spreads. IDA does not currently hedge this exposure. The DVA calculation is generally consistent with the CVA methodology and incorporates IDA's own credit spread as observed through the CDS market. As of June 30, 2021, IDA recorded a CVA on its balance sheet of \$2 million, and a DVA of \$6 million, on outstanding derivatives.

### Market Risk

IDA is exposed to changes in interest and exchange rates. The introduction of market debt financing into IDA's business model from FY18 presents additional exposures. The impending discontinuance of LIBOR and the transition to alternative reference rates also presents a significant risk to IDA's business activities.

IDA uses derivatives to manage its exposure to various market risks. These are used to align the interest and currency composition of its assets (loan and investment trading portfolios) with that of its liabilities (borrowing portfolio) and equity. **Figure 13** below illustrates the use of derivatives for market borrowing portfolios. Loan and investment portfolios are largely maintained in SDR and its component currencies.

**Figure 13: Use of Derivatives for Market Borrowings**



### Interest Rate Risk

IDA is exposed to interest rate risk due to mismatches between its assets (loan and investment portfolios) and its liabilities (borrowing portfolio) both in terms of maturity and instrument type. Given IDA's lengthy disbursement profile, the duration of IDA's loans is relatively long. This long duration, combined with volatility in market interest rates, would result in significant year-on-year variability in the fair value of equity. However, since the loan portfolio is not reported at fair value under U.S. GAAP the impact of this variability on IDA's Balance Sheet is not fully evident.

As of June 30, 2021, IDA's investment-trading portfolio (liquid asset portfolio) had a duration of four months. Low and negative fixed interest rates present a challenge for the investment of the liquid asset portfolio. During FY21, this portfolio experienced unrealized mark-to-market losses of \$40 million, excluding positive returns from IDA's share of PEBP earnings, as a result of the increase in yield curves (\$187 million of unrealized mark-to-market gains in FY20).

Under its integrated financing model, IDA employs the following strategies to continue to enhance its management of interest rate risk:

- The capital adequacy policies factor in the sensitivity to interest rates.
- Matching interest rates between assets and related funding to minimize open interest rate positions.
- The funding risk related to the mismatch between the maturity profile of the debt funding and the related assets is monitored through duration measurements and adjustments to capital requirements to cover this risk.

### Alternative Reference Rate

In July 2017, the Financial Conduct Authority (FCA), the regulator of the London Interbank Offered Rate (LIBOR), announced that it would no longer compel panel banks to submit rates required to calculate LIBOR after December 31, 2021. Therefore, market participants, including IDA and its borrowers, need to move to alternative reference rates because the availability of LIBOR after this date is not a certainty.

In March 2021, the FCA confirmed that all LIBOR settings will either cease to be provided by any administrator or will no longer be representative, as follows:

- All sterling, euro, Swiss franc and Japanese yen LIBOR settings, and the 1-week and 2-month U.S. dollar LIBOR settings, will cease immediately following publication on December 31, 2021.
- All remaining U.S. dollar LIBOR settings, including the 6-month U.S. dollar LIBOR used as the reference rate for IDA loans, will cease immediately following its publication on June 30, 2023.

Despite the extension of the publication of certain U.S. dollar LIBOR rates to June 30, 2023, the regulators' guidance remains that LIBOR should not be used for new contracts after 2021. In consideration of the regulatory guidance and in preparations for the global markets' transition away from LIBOR, IDA has taken important steps to facilitate a smooth and orderly transition of its financial instruments effected by alternative reference rates.

IDA previously completed an initial impact assessment of its exposure, both quantitatively and qualitatively, to LIBOR and developed an implementation roadmap for the LIBOR transition. IDA is actively working through this transition and is analyzing the impact from multiple perspectives: lending, funding, accounting, operations, information technology, liquidity investing, risk and legal, considering the portfolio of existing loans and other instruments that use LIBOR as a benchmark. Although most of IDA's loans are on fixed rate concessional terms, for IDA's LIBOR based non-concessional and hard-term loans, in FY20, IDA's Executive Directors endorsed an omnibus amendment process with borrowers for loan agreements, where relevant, to address the replacement of LIBOR, allowing IDA to maintain the principles of fairness and equivalence for any replacement reference rate. The contract amendments will enable similar treatment to all loans by bringing the fallback provisions related to changes in the reference rate in the General Conditions into conformity with the revised General Conditions of December 2018. The new language permits IDA to transition the interest rate to alternative reference rates when a suitable alternative is available, and it is appropriate to do so. To date, IDA has made significant progress in securing counter-signature of the omnibus amendments from the borrowing countries. IDA is also using pre-existing provisions in loan agreements to implement these changes.

In addition, as the market undergoes fundamental changes due to the transition to alternative reference rates, as a part of its interest rate risk management, on January 26, 2021, IDA suspended the offering of non-concessional loans on fixed spread terms as well as the suspension of a related conversion feature from the variable spread terms to fixed spread terms, effective from April 1, 2021. An existing feature to permit fixing of the reference rate in loans with variable spread terms remains available.

While IDA's primary product is fixed rate loans that is not dependent on a reference rate (see Section V: Development Activities, Products and Programs), IDA does offer certain borrowers non-concessional terms based on the lending rate of IBRD loan products (See **Table 16**). In July 2021, the Board approved offering new loans with new alternative reference rates and ceasing to offer LIBOR based loans effective January 1, 2022 for all variable spread loans. Careful consideration was given to the regulatory guidance, relevant provisions in IDA's General Conditions and loan

agreements, ALM needs, as well as borrower implications. As a result of the different characteristics of the new market reference rates and LIBOR and the implications of a staggered LIBOR cessation timetable, there will be changes to the current loan processes for non-concessional loans, including billing and cost-pass through methodologies used for IBRD lending rates. However, the impact of these changes will be limited as IDA's non-concessional loans portfolio represented 3% of the total loans outstanding as of June 30, 2021.

IDA will continue to work with key stakeholders, including internal subject matter experts, senior management, borrowers, industry groups and other market participants, to mitigate potential financial and operational risks to which IDA is exposed and to ensure an orderly transition to alternative reference rates. IDA is managing the transition prudently and in a cost-effective manner.

### **Exchange Rate Risk**

IDA faces foreign exchange rate risk exposure as a result of the currency mismatch between its commitments for loans and grants, which are mainly denominated in SDRs; equity contributions from members, which are typically denominated in national currencies; and the portion of IDA's internal resources and expenditures that are denominated in U.S. dollars.

Changes in exchange rates affect the capital adequacy of IDA when the currency of the equity supporting the loan portfolio and other assets is different from that of the risk exposure. Accordingly, the primary objective of IDA's currency risk management is to protect IDA's financial capacity, as measured by the capital adequacy framework, from exchange rate movements.

To achieve this, IDA's balance sheet is managed in multiple currencies: SDR and the currencies comprising the SDR basket. The exchange rate risk management methodology includes the hedging of: (i) currency risk arising from settlement of loan disbursements, loan repayments and donor contributions; (ii) debt funding; (iii) IDA loans; (iv) donor contributions; and (v) administrative budget.

The reported levels of its assets, liabilities, income, and expenses in the financial statements are affected by exchange rate movements in all the currencies in which IDA transacts, relative to its reporting currency, the U.S. dollar. These movements are shown as currency translation adjustments. Translation adjustments relating to the revaluation of assets and liabilities denominated in SDR and SDR component currencies, (IDA's functional currencies), are reflected in Accumulated Other Comprehensive Income (Loss), in equity. Translation adjustments relating to non-functional currencies are reported in IDA's Statement of Income (see Notes to the Financial Statements for the year ended June 30, 2021, Note A – Summary of Significant Accounting and Related Policies).

IDA uses currency forward contracts to convert future inflows from members' receivables provided in national currencies into the five currencies of the SDR basket, thereby aligning the currency composition of member contributions with the net cash outflows relating to loans and grants, which are primarily denominated in SDR.

### **Liquidity Risk**

Liquidity risk arises in the general funding of IDA's activities and in managing its financial position. It includes the risk of IDA being unable to fund its portfolio of assets at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

IDA's aggregate liquid asset holdings are kept above a specified prudential minimum to safeguard against cash flow interruptions. The Prudential Minimum is equal to 80% of 24 months of projected net outflows. For FY21, the prudential minimum was \$21.2 billion. For FY22, the prudential minimum has been set at \$19.3 billion. As of June 30, 2021, IDA's liquid assets were 177% of the prudential minimum.

IDA will hold liquidity above the prudential minimum to ensure sufficient liquidity under a wide range of shock scenarios as well as to give it flexibility in timing its borrowing transactions and to meet working capital needs.

### **Operational Risk**

Operational risk is defined as the risk of financial loss, or damage to IDA's reputation resulting from inadequate or failed internal processes, people, and systems, or from external events.

IDA recognizes the importance of operational risk management activities, which are embedded in its financial operations. As part of its business activities, IDA is exposed to a range of operational risks including physical security and staff health and safety, data and cyber security, business continuity, and external vendor risks. IDA's approach to identifying and managing operational risk includes a dedicated program for these risks and a robust process that

includes identifying, assessing and prioritizing operational risks, monitoring and reporting relevant key risk indicators, aggregating and analyzing internal and external events, and identifying emerging risks that may affect business units and developing risk response and mitigating actions.

**Cybersecurity Risk Management**

IDA's operations rely on the secure processing, storage, and transmission of confidential and other information in computer systems and networks. As is the case for financial institutions generally, cybersecurity risk continues to be significant for IDA due to the evolving sophistication and complexity of the cyber threat landscape. These risks are unavoidable, and IDA seeks to manage them on a cost-effective basis consistent with its risk appetite.

To protect the security of its computer systems, software, networks and other technology assets, IDA has developed its cybersecurity risk management program, consisting of cybersecurity policies, procedures, compliance, and awareness programs. IDA deploys a multi-layered approach for cybersecurity risk management to help prevent and detect malicious activity, both from within the organization and from external sources. In managing emerging cyber threats such as malware including ransomware, denial of service and phishing attacks, IDA strives to adapt its technical and process-level controls and raise the level of user awareness to mitigate the risk.

IDA periodically assesses the maturity and effectiveness of its cyber defenses, through risk mitigation techniques, including but not limited to, targeted testing, internal and external audits, incident response desktop exercises and industry benchmarking.

## Section X: Critical Accounting Policies and the Use of Estimates

IDA's significant accounting policies, as well as estimates made by management, are integral to its financial reporting. While all of these policies require a certain level of judgment and estimates, significant policies require management to make highly difficult, complex, and subjective judgments as these relate to matters inherently uncertain and susceptible to change. Note A to the financial statements contains a summary of IDA's significant accounting policies including a discussion of recently issued accounting pronouncements.

### Fair Value of Financial Instruments

All fair value adjustments are recognized through the Statement of Income, except for changes in the fair value of debt related to IDA's own credit, which are reported in Other Comprehensive Income.

The fair values of financial instruments are based on a three-level hierarchy.

For financial instruments classified as Level 1 or 2, less judgment is applied in arriving at fair value measures as the inputs are based on observable market data. For financial instruments classified as Level 3, unobservable inputs are used. These require management to make important assumptions and judgments in determining fair value measures.

Derivative contracts include currency forward contracts, to-be-announced (TBA) securities, swaptions, exchange traded options and futures contracts, currency swaps, and interest rate swaps. Plain vanilla swaps, and structured swaps are valued using the standard discounted cash flow methods using observable market inputs such as yield curves, foreign exchange rates and basis spreads.

In instances where management relies on instrument valuations supplied by external pricing vendors, there are procedures in place to validate the appropriateness of the models used as well as the inputs applied in determining those values.

The majority of IDA's financial instruments which are recorded at fair value are classified as Level 1 and Level 2 as of June 30, 2021, as the inputs are based on observable market data and less judgment is applied in arriving at fair value measures.

On a quarterly basis, the methodology, inputs, and assumptions are reviewed to assess the appropriateness of the fair value hierarchy classification of each financial instrument. All the financial models used for input to IDA's financial statements are subject to both internal and periodic external verification and review by qualified personnel.

### Provision for Losses on Loans and Other Exposures

On July 1, 2020, IDA adopted ASU No. 2016-13, *Financial Instruments—Credit Losses* (Topic 326) which introduced a new approach to credit loss measurement - the Current Expected Credit Losses methodology and required additional disclosures. See Notes to the Financial Statements for the year ended June 30, 2021, Note A – Summary of Significant Accounting and Related Policies.

For IDA, the primary changes, compared to the previous approach under U.S. GAAP, were to evaluate estimated exposures over the life of the instrument, to incorporate undisbursed loan commitments in the measure of exposure and to incorporate estimations of future market conditions for a reasonable and supportable forecast period along with historical experience. The overall provision for expected losses is the sum of the computed annual losses, taking into account borrower risk ratings and associated expected default frequencies, estimates of exposure, and severity of loss given default.

IDA's accumulated provision for losses on loans and other exposures reflects the expected losses inherent in its nonaccrual and accrual portfolios after taking into consideration the expected relief under the HIPC Debt Initiative and MDRI and any provision for losses on the buy-down of loans.

Adjustments to the accumulated provision are recorded as a charge to or a release of provision in the Statement of Income. Actual losses may differ from expected losses due to unforeseen changes in any of the factors that affect borrowers' creditworthiness.

The Credit Risk Committee monitors aspects of country credit risk, in particular, reviewing the provision for losses on loans and guarantees taking into account, among other factors, any changes in exposure, risk ratings of borrowing member countries, or movements between the accrual and nonaccrual portfolios.



Additional information on IDA's provisioning policy and the status of nonaccrual loans can be found in the Notes to Financial Statements for the year ended June 30, 2021, Note A-Summary of Significant Accounting and Related Policies and Note D- Loans and Other Exposures.

### **Provision for HIPC Debt Initiative and MDRI**

The HIPC Debt Initiative is a comprehensive approach to reduce the external debt of the world's poorest, most heavily indebted countries. See Section VI: Other Development Activities and Programs and Section IX: Risk Management.

The list of countries potentially eligible under the HIPC framework has been limited. No new countries are considered for eligibility unless they met the criteria at the end of 2004 as specified in the initiative.

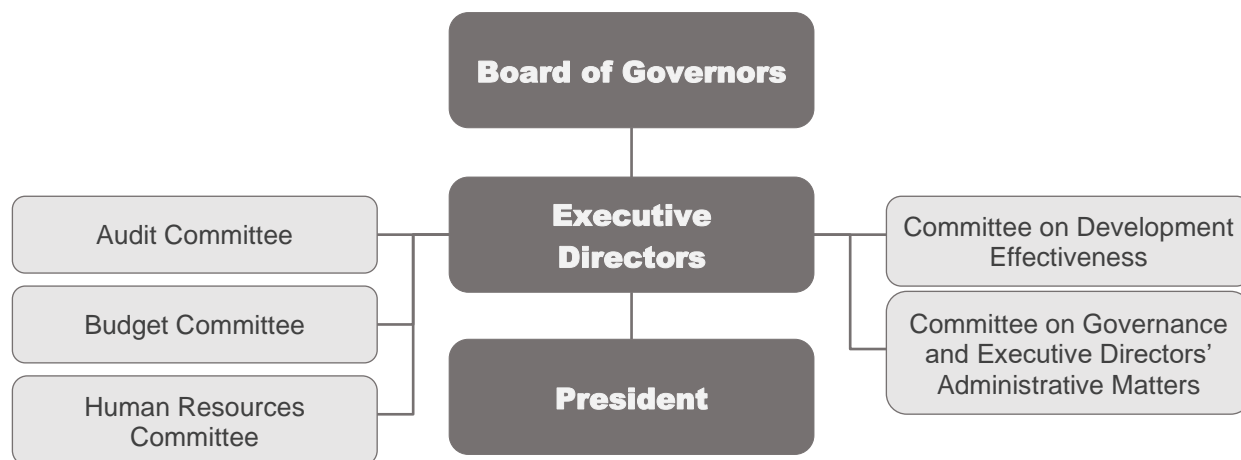
The MDRI, approved by the Board in June 2006, provides additional debt relief through cancellation of eligible debt owed to IDA by countries that reach the HIPC Completion Point.

IDA records a provision for all the estimated probable write-offs of loans outstanding for debt relief to be delivered under the HIPC Debt Initiative and MDRI. Donors have agreed to compensate IDA through member contributions for the foregone loan reflows under the HIPC Debt Initiative and MDRI.

The adequacy of the accumulated provision for the HIPC Debt Initiative and MDRI is based on both quantitative and qualitative analyses of various factors, including estimates of Decision and Completion Point dates of eligible countries. IDA periodically reviews these factors and reassesses the adequacy of the accumulated provision for the HIPC Debt Initiative and MDRI. Adjustments to the accumulated provision are recorded as a charge to or release of provision in the Statement of income.

## Section XI: Governance and Internal Controls

Figure 14: Governance Structure



### Business Conduct

The WBG promotes a positive work environment in which staff members understand their ethical obligations to the institution. In support of this commitment, the institution has in place a Code of Conduct. The WBG has both an Ethics Helpline and a Fraud and Corruption hotline. A third-party service offers many methods of worldwide communication. Reporting channels include telephone, mail, email, or confidential submission through a website.

IDA has in place procedures for receiving, retaining, and handling recommendations and concerns relating to business conduct identified during the accounting, internal control, and auditing processes.

WBG staff rules clarify and codify the staff's obligations in reporting suspected fraud, corruption, or other misconduct that may threaten the operations or governance of the WBG. These rules also offer protection from retaliation.

### General Governance

IDA's decision-making structure consists of the Board of Governors, the Executive Directors, the President, management, and staff. The Board of Governors is the highest decision-making authority. Governors are appointed by their member governments for a five-year term, which is renewable. The Board of Governors may delegate authority to the Executive Directors (referred to as the Board in this document) to exercise any of its powers, except for certain powers enumerated in the IDA Articles. IDA has its own policies and frameworks that are carried out by staff that share responsibilities for both IDA and IBRD.

### Executive Directors

In accordance with the Articles, Executive Directors are appointed or elected every two years by their member governments. The Board currently has 25 Executive Directors who represent all 173-member countries. Executive Directors are neither officers nor staff of IDA. The President is the only member of the Board from management, and he serves as a non-voting member and as Chairman of the Board.

The Board is required to consider proposals made by the President on IDA loans, grants, and guarantees and on other policies that affect its general operations. The Board is also responsible for presenting to the Board of Governors, at the Annual Meetings, audited accounts, an administrative budget, and an annual report on operations and policies and other matters.

The Board and its committees are in sessions as business requires. Each committee's terms of reference establish its respective roles and responsibilities. In light of the COVID-19 situation, currently, the committee meetings are held in a virtual format. As committees do not vote on issues, their role is primarily to serve the Board in discharging its responsibilities.

The committees are made up of eight members and function under their respective terms of reference. These committees are as follows:

- Audit Committee - assists the Boards in overseeing IDA's finances, accounting, risk management and internal controls (See further explanation below).
- Budget Committee - assists the Boards in approving the World Bank's budget and in overseeing the preparation and execution of IDA's business plans. The committee provides guidance to management on strategic directions of IDA.
- Committee on Development Effectiveness - supports the Boards in assessing IDA's development effectiveness, providing guidance on strategic directions of IDA, monitoring the quality and results of operations.
- Committee on Governance and Executive Directors' Administrative Matters - assists the Boards in issues related to the governance of IDA, the Boards' own effectiveness, and the administrative policy applicable to Executive Directors' offices.
- Human Resources Committee - strengthens the efficiency and effectiveness of the Board in discharging its oversight responsibility on the World Bank's human resources strategy, policies and practices, and their alignment with the business needs of the organization.

## **Audit Committee**

### **Membership**

The Audit Committee consists of eight Executive Directors. Membership in the Audit Committee is determined by the Board, based on nominations by the Chairman of the Board, following informal consultation with Executive Directors.

### **Key Responsibilities**

The Audit Committee is appointed by the Board for the primary purpose of assisting the Board in overseeing IDA's finances, accounting, risk management, internal controls, and institutional integrity. Specific responsibilities include:

- Oversight of the integrity of IDA's financial statements.
- Appointment, qualifications, independence, and performance of the External Auditor.
- Performance of the Group Internal Audit Vice Presidency.
- Adequacy and effectiveness of financial and accounting policies and internal controls and the mechanisms to deter, prevent and penalize fraud and corruption in IDA operations and corporate procurement.
- Effective management of financial, fiduciary and compliance risks in IDA.
- Oversight of the institutional arrangements and processes for risk management across IDA.

In carrying out its role, the Audit Committee discusses financial issues and policies that affect IDA's financial position and capital adequacy, with management, external auditors, and internal auditors. It also recommends the annual audited financial statements for approval to the Board. The Audit Committee monitors and reviews developments in corporate governance and its own role on an ongoing basis.

### **Executive Sessions**

Under the Audit Committee's terms of reference, it may convene an executive session at any time, without management's presence. The Audit Committee meets separately in executive session with the external and internal auditors.

### **Access to Resources and to Management**

Throughout the year, the Audit Committee receives a large volume of information to enable it to carry out its duties and meets both formally and informally throughout the year to discuss relevant matters. It has complete access to management, and reviews and discusses with management topics considered in its terms of reference.

The Audit Committee has the authority to seek advice and assistance from outside legal, accounting, or other advisors as it deems necessary.

## Auditor Independence

The appointment of the external auditor for IDA is governed by a set of Board-approved principles. These include:

- Limits on the external auditor's provision of non-audit-related services;
- Requiring all audit-related services to be pre-approved on a case-by-case basis by the Board, upon recommendation of the Audit Committee; and
- Renewal of the external audit contract every five years, with a limit of two consecutive terms and mandatory rotation thereafter.

The external auditor may provide non-prohibited, non-audit related services subject to monetary limits.

Broadly, the list of prohibited non-audit services includes those that would put the external auditor in the roles typically performed by management and in a position of auditing their own work, such as accounting services, internal audit services, and provision of investment advice. The total non-audit services fees over the term of the relevant external audit contract shall not exceed 70 percent of the audit fees over the same period.

Communication between the external auditor and the Audit Committee is ongoing and carried out as often as deemed necessary by either party. The Audit Committee meets periodically with the external auditor and individual committee members have independent access to the external auditor. IDA's external auditors also follow the communication requirements with the Audit Committee set out under generally accepted auditing standards in the United States.

## External Auditors

The external auditor is appointed to a five-year term, with a limit of two consecutive terms, and is subject to annual reappointment based on the recommendation of the Audit Committee and approval of a resolution by the Board.

Following a mandatory rebidding of the external audit contract, IDA's Executive Directors approved the selection of Deloitte & Touche LLP as IDA's external auditor for a five-year term commencing FY19, subject to annual reappointment.

## Senior Management Changes

There were no senior management changes during the year.

## Internal Controls

### Internal Control over Financial Reporting

Each fiscal year, management evaluates the internal control over financial reporting to determine whether any changes made in these controls during the fiscal year materially affect, or would be reasonably likely to materially affect, IDA's internal control over financial reporting. The internal control framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), "Internal Control - Integrated Framework (2013)" provides guidance for designing, implementing, and conducting internal control and assessing its effectiveness. IDA uses the 2013 COSO framework to assess the effectiveness of the internal control over financial reporting. As of June 30, 2021, management maintained effective internal control over financial reporting. See "Management's report regarding effectiveness of Internal Control over Financial Reporting" on page 54.

IDA's internal control over financial reporting was audited by Deloitte & Touche LLP, and their report expresses an unqualified opinion on the effectiveness of IDA's internal control over financial reporting as of June 30, 2021. See Independent Auditor's Report on page 56.

### Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed is gathered and communicated to management as appropriate, to allow timely decisions regarding required disclosure by IDA. Management conducted an evaluation of the effectiveness of such controls and procedures and the President and the MDCFO have concluded that these controls and procedures were effective as of June 30, 2021.

## Appendix

### Glossary of Terms

**Blend Borrower:** IDA Member that is eligible to borrow from IDA on the basis of per capita income and is also eligible to borrow from IBRD. Given the access to both sources of funds, blend borrowers are expected to limit IDA funding to social sector projects and to use IBRD resources for projects in the other sectors.

**Board:** The Executive Directors as established by IDA's Articles of Agreement.

**Replenishment Envelope:** Total value of resources available during a particular replenishment including member equity contributions, borrowings, internal resources, IBRD transfers, IFC grants and other resources.

**Completion Point:** When conditions specified in the legal notification sent to a country are met and the country's other creditors have confirmed their full participation in the HIPC debt relief initiative. When a country reaches its Completion Point, IDA's commitment to provide the total debt relief for which the country is eligible, becomes irrevocable.

**Consultative Loss Limit:** Reflects a level of IDA's tolerance for risk of underperforming the benchmark in any fiscal year.

**Credit Valuation Adjustment (CVA):** The CVA represents the counterparty credit risk exposure and is reflected in the fair value of derivative instruments.

**Debit Valuation Adjustment (DVA):** Debit Valuation Adjustment on Fair Value Option (FVO) Elected Liabilities that corresponds to the change in fair value of the liability presented under the FVO that relate to the instrument specific credit risk ("own-credit risk").

**Deputies:** Representatives of IDA's contributing partners, known as "the IDA Deputies".

**Duration:** Provides an indication of the sensitivity of underlying yield to changes in interest rates.

**Encashment:** Draw down (payment in cash) of a demand note in accordance with a schedule agreed for each replenishment.

**Externally Financed Output (EFO):** An instrument for receiving external contributions to support the Bank's work program, typically, for amounts under \$1 million, however larger amounts can also be received.

**Graduate Member:** A member country that was once eligible to borrow from IDA, however due to improvements in the member's economic results is no longer eligible to borrow from IDA and is deemed to have "graduated" to IBRD.

**Instrument of Commitment (IoC):** The instrument through which a government commits to make a subscription or a subscription and contribution to IDA's resources.

**Lending operations:** Total projects from a fiscal year based on project approval date as of June 30 of the fiscal year.

**Net Commitments:** Commitments of Loans, grants and guarantees, net of full cancellations and terminations approved in the same fiscal year.

**Net Disbursements:** Loans and grant disbursements net of repayments and prepayments.

**Prudential Minimum:** The minimum amount of liquidity that IDA is required to hold. It represents 80% of twenty-four months coverage as calculated at the start of every fiscal year.

**Replenishment:** The process of regular review of the adequacy of IDA resources and authorization of additional subscriptions. Under IDA's Articles, replenishments are required to be approved by IDA's Board of Governors by a two-thirds majority of the total voting power.

**Special Drawing Rights (SDR):** The SDR is an international reserve asset, created by the International Monetary Fund in 1969 to supplement the existing official reserves of member countries. The SDR is defined as a basket of currencies, consisting of the Chinese Renminbi, Euro, Japanese Yen, Pound Sterling, and U.S. dollar. The basket composition is reviewed every five years to ensure that it reflects the relative importance of currencies in the world's trading and financial systems.

**Voting Rights:** IDA's voting rights consist of a combination of membership and subscription votes.

**World Bank (WB):** The World Bank consists of IBRD and IDA.

**World Bank Group (WBG):** The World Bank Group consists of the IBRD, IDA, IFC, MIGA and ICSID.

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# MANAGEMENT'S REPORT REGARDING EFFECTIVENESS OF INTERNAL CONTROL OVER EXTERNAL FINANCIAL REPORTING

## **Management's Report Regarding Effectiveness of Internal Control over Financial Reporting**

August 6, 2021

The management of the International Development Association (IDA) is responsible for the preparation, integrity, and fair presentation of its published financial statements. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include amounts based on informed judgments and estimates made by management.

The financial statements have been audited by an independent audit firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Executive Directors and their Committees. Management believes that all representations made to the independent auditors during their audit of IDA's financial statements and audit of its internal control over financial reporting were valid and appropriate. The independent auditors' reports accompany the audited financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting for financial statement presentations in conformity with accounting principles generally accepted in the United States of America. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. The system of internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal control over financial reporting supports the integrity and reliability of the external financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

IDA assessed its internal control over financial reporting for financial statement presentation in conformity with accounting principles generally accepted in the United States of America as of June 30, 2021. This assessment was based on the criteria for effective internal control over financial reporting described in the *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that IDA maintained effective internal control over financial reporting presented in conformity with accounting principles generally accepted in the United States of America as of June 30, 2021. The independent audit firm that audited the financial statements has issued an Independent Auditors Report which expresses an opinion on IDA's internal control over financial reporting.



The Executive Directors of IDA have appointed an Audit Committee responsible for monitoring the accounting practices and internal controls of IDA. The Audit Committee is comprised entirely of Executive Directors who are independent of IDA's management. The Audit Committee is responsible for recommending to the Executive Directors the selection of independent auditors. It meets periodically with management, the independent auditors, and the internal auditors to ensure that they are carrying out their responsibilities. The Audit Committee is responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of IDA in addition to reviewing IDA's financial reports. The independent auditors and the internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the adequacy of internal control over financial reporting and any other matters which they believe should be brought to the attention of the Audit Committee.



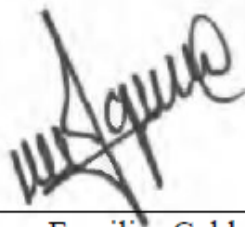
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David Malpass  
*President*



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Anshula Kant  
*Managing Director and World Bank Group Chief Financial Officer*



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Jorge Familiar Calderon  
*Vice President and World Bank Group Controller*

# INDEPENDENT AUDITORS' REPORT ON MANAGEMENT'S ASSERTION REGARDING EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING



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## INDEPENDENT AUDITORS' REPORT

President and Board of Executive Directors  
International Development Association:

We have audited the internal control over financial reporting of the International Development Association ("IDA") as of June 30, 2021, based on the criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

### Management's Responsibility for Internal Control over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report Regarding Effectiveness of Internal Control Over Financial Reporting.

### Auditors' Responsibility

Our responsibility is to express an opinion on IDA's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit also includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

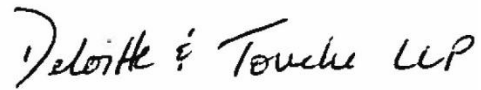
Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## Opinion

In our opinion, IDA maintained, in all material respects, effective internal control over financial reporting as of June 30, 2021, based on the criteria established in the Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

## Report on Financial Statements

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements as of and for the year ended June 30, 2021 of IDA, and our report dated August 6, 2021 expressed an unmodified opinion on those financial statements.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

August 6, 2021

# INDEPENDENT AUDITORS' REPORT



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## INDEPENDENT AUDITORS' REPORT

President and Board of Executive Directors  
International Development Association:

We have audited the accompanying financial statements of the International Development Association ("IDA"), which comprise the balance sheets as of June 30, 2021 and 2020, and the related statements of income, comprehensive income, changes in accumulated deficit, and cash flows for each of the three years in the period ended June 30, 2021, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to IDA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IDA as of June 30, 2021 and 2020, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2021 in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As described in Note A to the financial statements, IDA changed its method of accounting for the accumulated provision for loan losses and other exposures on July 1, 2020, due to the adoption of Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

## **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The summary statement of loans and the statement of voting power and subscriptions and contributions as of June 30, 2021 ("supplementary information") listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. This supplementary information is the responsibility of IDA's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

## **Report on Internal Control over Financial Reporting**

We have also audited, in accordance with auditing standards generally accepted in the United States of America, IDA's internal control over financial reporting as of June 30, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 6, 2021 expressed an unmodified opinion on IDA's internal control over financial reporting.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

August 6, 2021

# BALANCE SHEET

June 30, 2021 and June 30, 2020

Expressed in millions of U.S. dollars

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
<b>Due from banks—Notes C and K</b>		
Unrestricted cash	\$ 470	\$ 650
Restricted cash	<u>26</u>	<u>24</u>
	496	674
<b>Investments (including securities transferred under repurchase or securities lending agreements of Nil - June 30, 2021; \$108 million - June 30, 2020) —Notes C, G and K</b>	37,376	34,670
<b>Derivative assets, net—Notes C, F and K</b>	249	136
<b>Receivable from affiliated organization—Note G</b>	865	858
<b>Other receivables</b>		
Receivable from investment securities traded—Note C	7	636
Accrued interest and commitment charges	<u>511</u>	<u>440</u>
	518	1,076
<b>Loans outstanding (Summary statement of loans, Notes D, G and K)</b>		
Total loans approved	251,676	227,291
Less: Undisbursed balance (including signed loan commitments of \$60,775 million—June 30, 2021; \$49,580 million—June 30, 2020)	<u>(70,172)</u>	<u>(61,911)</u>
Loans outstanding	181,504	165,380
Less: Accumulated provision for loan losses	<u>(3,718)</u>	<u>(4,420)</u>
Add: Deferred loans origination costs	<u>(7)</u>	<u>1</u>
Net loans outstanding	177,779	160,961
<b>Other assets—Note H</b>	2,041	1,097
<b>Total assets</b>	<u>\$ 219,324</u>	<u>\$ 199,472</u>

	2021	2020
<b>Liabilities</b>		
<b><i>Borrowings—Notes E and K</i></b>		
Market borrowings (at fair value)	\$ 20,555	\$ 12,131
Concessional partner loans (at amortized cost)	7,759	7,635
	<u>28,314</u>	<u>19,766</u>
<b><i>Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received—Note C and K</i></b>	-	108
<b><i>Derivative liabilities, net—Notes C, F and K</i></b>	408	590
<b><i>Payable for development grants—Note I</i></b>	6,820	9,141
<b><i>Payable to affiliated organization—Note G</i></b>	561	509
<b><i>Other liabilities</i></b>		
Payable for investment securities purchased—Note C	73	101
Accounts payable and miscellaneous liabilities—Notes D and H	2,272	1,086
	<u>2,345</u>	<u>1,187</u>
<b>Total liabilities</b>	<u>38,448</u>	<u>31,301</u>
<b>Equity</b>		
<b><i>Members' subscriptions and contributions (Statement of voting power and subscriptions and contributions and Note B)</i></b>		
Unrestricted	292,210	267,207
Restricted	324	322
Subscriptions and contributions committed	292,534	267,529
Less:		
Subscriptions and contributions receivable	(38,240)	(22,415)
Cumulative discounts/ acceleration credits on subscriptions and contributions	(3,842)	(3,771)
Subscriptions and contributions paid-in	<u>250,452</u>	<u>241,343</u>
<b><i>Nonnegotiable, noninterest-bearing demand obligations on account of members' subscriptions and contributions</i></b>		
Unrestricted	(11,382)	(10,630)
Restricted	(50)	(49)
	<u>(11,432)</u>	<u>(10,679)</u>
<b><i>Deferred amounts to maintain value of currency holdings</i></b>	(244)	(245)
<b><i>Accumulated deficit (Statement of changes in accumulated deficit)</i></b>	(59,556)	(58,321)
<b><i>Accumulated other comprehensive income (loss)—Note J</i></b>	1,656	(3,927)
<b>Total equity</b>	<u>180,876</u>	<u>168,171</u>
<b>Total liabilities and equity</b>	<u>\$ 219,324</u>	<u>\$ 199,472</u>

*The Notes to Financial Statements are an integral part of these Statements.*

# STATEMENT OF INCOME

For the fiscal years ended June 30, 2021, June 30, 2020 and June 30, 2019

Expressed in millions of U.S. dollars

	2021	2020	2019
<b>Interest revenue</b>			
Loans, net—Note D	\$ 2,050	\$ 1,684	\$ 1,462
Investments, net—Notes C, F, G and K	147	422	466
Asset/liability management derivatives, net	(14)	(22)	(8)
<b>Borrowing expenses, net—Note E</b>	(187)	(241)	(218)
<b>Interest revenue, net of borrowing expenses</b>	<u>1,996</u>	<u>1,843</u>	<u>1,702</u>
<b>Provision for losses on loans and other exposures, release (charge)—Note D</b>	539	170	(316)
<b>Non-interest revenue</b>			
Revenue from externally funded activities—Notes G and H	814	902	783
Commitment charges—Note D	19	15	13
Other	<u>17</u>	<u>15</u>	<u>12</u>
Total	<u>850</u>	<u>932</u>	<u>808</u>
<b>Non-interest expenses</b>			
Administrative—Notes G and H	(2,406)	(2,389)	(2,241)
Contributions to special programs—Note G	(20)	(21)	(21)
Other	<u>20</u>	<u>(40)</u>	<u>12</u>
Total	<u>(2,406)</u>	<u>(2,450)</u>	<u>(2,250)</u>
<b>Transfers from affiliated organizations and others—Notes G and H</b>	544	252	258
<b>Development grants—Note I</b>	(2,830)	(1,475)	(7,694)
<b>Non-functional currency translation adjustment (losses) gains, net</b>	(372)	95	105
<b>Unrealized mark-to-market gains on Investments-Trading portfolio, net—Notes F and K</b>	144	207	351
<b>Unrealized mark-to-market gains (losses) on Non-Trading portfolios, net</b>			
Asset-liability management—Notes F and K	1,080	(699)	359
Investments—Note K	(12)	29	32
Other	<u>34</u>	<u>(18)</u>	<u>(5)</u>
Total	<u>1,102</u>	<u>(688)</u>	<u>386</u>
<b>Net loss</b>	<u>\$ (433)</u>	<u>\$ (1,114)</u>	<u>\$ (6,650)</u>

**The Notes to Financial Statements are an integral part of these Statements.**



## STATEMENT OF COMPREHENSIVE INCOME

For the fiscal years ended June 30, 2021, June 30, 2020 and June 30, 2019

Expressed in millions of U.S. dollars

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b>Net loss</b>	\$ (433)	\$ (1,114)	\$ (6,650)
<b>Other Comprehensive income (loss)—Note J</b>			
Currency translation adjustments on functional currencies	5,647	(1,526)	(1,735)
Net Change in Debit Valuation Adjustment (DVA) on Fair Value option elected liabilities	<u>(64)</u>	<u>7</u>	<u>2</u>
<b>Comprehensive income (loss)</b>	<u>\$ 5,150</u>	<u>\$ (2,633)</u>	<u>\$ (8,383)</u>

## STATEMENT OF CHANGES IN ACCUMULATED DEFICIT

For the fiscal years ended June 30, 2021, June 30, 2020 and June 30, 2019

Expressed in millions of U.S. dollars

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b>Accumulated Deficit at beginning of the fiscal year</b>	\$ (58,321)	\$ (57,207)	\$ (50,557)
Cumulative effect of a change in accounting principle—Notes A and D	<u>(802)</u>	<u>-</u>	<u>-</u>
<b>Adjusted Accumulated Deficit at beginning of the fiscal year</b>	\$ (59,123)	\$ (57,207)	\$ (50,557)
Net loss	<u>(433)</u>	<u>(1,114)</u>	<u>(6,650)</u>
<b>Accumulated Deficit at end of the fiscal year</b>	<u>\$ (59,556)</u>	<u>\$ (58,321)</u>	<u>\$ (57,207)</u>

*The Notes to Financial Statements are an integral part of these Statements.*

# STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2021, June 30, 2020 and June 30, 2019

Expressed in millions of U.S. dollars

	2021	2020	2019
<b>Cash flows from investing activities</b>			
Loans			
Disbursements	\$ (16,681)	\$ (16,449)	\$ (13,562)
Principal repayments	6,457	6,016	5,277
Principal prepayments	-	51	51
Non-trading securities—Investments			
Repayments	125	124	122
Net cash used in investing activities	(10,099)	(10,258)	(8,112)
<b>Cash flows from financing activities</b>			
Members' subscriptions and contributions	8,355	7,823	7,421
Medium and long-term borrowings			
New issues	9,405	5,725	872
Retirements	(96)	(43)	-
Short-term borrowings (original maturities greater than 90 days)			
New issues	8,219	12,018	1,724
Retirements	(9,561)	(8,178)	-
Net short-term borrowings (original maturities less than 90 days)	120	16	140
Net derivatives-borrowings	29	(20)	(2)
Net cash provided by financing activities	16,471	17,341	10,155
<b>Cash flows from operating activities</b>			
Net loss	(433)	(1,114)	(6,650)
Adjustments to reconcile net loss to net cash used in operating activities			
Provision for losses on loans and other exposures (release) charge	(539)	(170)	316
Non-functional currency translation adjustment losses (gains), net	372	(95)	(105)
Unrealized mark-to-market (gains) losses on non-trading portfolios, net	(1,102)	688	(386)
Other non-interest (income) expenses, net	(20)	40	(12)
Amortization of discount on borrowings	96	133	88
Changes in:			
Investments—Trading	(2,090)	(2,323)	2,956
Net investment securities traded/purchased	603	(155)	(643)
Net derivatives—Investments	160	(89)	(14)
Net derivatives—Asset-liability management	19	533	127
Net securities purchased/sold under resale/repurchase agreements and payable for cash collateral received	(109)	(601)	(1,811)
Net receivable from affiliated organizations	45	14	(26)
Payable for development grants	(2,652)	(3,070)	3,697
Accrued interest and commitment charges	(57)	(43)	(13)
Other assets	(1,367)	(1,279)	379
Accounts payable and miscellaneous liabilities	471	992	(332)
Net cash used in operating activities	(6,603)	(6,539)	(2,429)
<b>Effect of exchange rate changes on unrestricted and restricted cash</b>	53	(8)	1
<b>Net (decrease) increase in unrestricted and restricted cash</b>	(178)	536	(385)
<b>Unrestricted cash and restricted cash at beginning of the fiscal year</b>	674	138	523
<b>Unrestricted and restricted cash at end of the fiscal year</b>	\$ 496	\$ 674	\$ 138

## STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2021, June 30, 2020 and June 30, 2019

Expressed in millions of U.S. dollars

	2021	2020	2019
<b>Supplemental disclosure</b>			
Increase (Decrease) in ending balances resulting from exchange rate fluctuations:			
Loans outstanding	\$ 5,909	\$ (1,543)	\$ (1,696)
Investment portfolio	1,180	(449)	(334)
Derivatives—Asset-liability management	(880)	321	293
Borrowings	627	(149)	12
Principal repayments written off under Heavily Indebted Poor Countries (HIPC) Debt Initiative	9	10	10
Loans prepaid—carrying value	-	54	54
Interest paid on borrowing portfolio	118	161	88

***The Notes to Financial Statements are an integral part of these Statements.***

# SUMMARY STATEMENT OF LOANS

June 30, 2021

Amounts expressed in millions of U.S. dollars

Borrower or guarantor	Total loans	Undisbursed balance		Loans outstanding	Percentage of total loans outstanding <sup>a</sup>
		Loans approved but not yet signed	Signed loan commitments		
Afghanistan	\$ 337	\$ -	\$ -	\$ 337	\$ 0.19%
Albania	541	-	-	541	0.30
Angola	506	-	5	501	0.28
Armenia	964	-	10	954	0.53
Azerbaijan	281	-	-	281	0.15
Bangladesh	26,277	1,132	7,101	18,044	9.94
Benin	2,212	27	863	1,322	0.73
Bhutan	366	-	2	364	0.20
Bolivia	1,030	-	246	784	0.43
Bosnia and Herzegovina	949	-	1	948	0.52
Botswana	*	-	-	*	*
Burkina Faso	3,361	221	1,012	2,128	1.17
Burundi	137	-	-	137	0.07
Cabo Verde, Republic of	536	20	60	456	0.25
Cambodia	1,592	197	693	702	0.39
Cameroon	3,242	826	708	1,708	0.94
Central African Republic	139	-	4	135	0.07
Chad	175	-	-	175	0.10
China	649	-	-	649	0.36
Comoros	129	-	109	20	0.01
Congo, Democratic Republic of	3,540	287	1,527	1,726	0.95
Congo, Republic of	520	63	170	287	0.16
Côte d'Ivoire	4,844	268	2,278	2,298	1.27
Djibouti	346	-	138	208	0.11
Dominica	179	-	98	81	0.05
Dominican Republic	1	-	-	1	*
Ecuador	*	-	-	*	*
Egypt, Arab Republic of	344	-	-	344	0.19
El Salvador	2	-	-	2	*
Equatorial Guinea	19	-	-	19	0.01
Eritrea	446	-	-	446	0.25
Eswatini	1	-	-	1	*
Ethiopia	15,320	-	4,130	11,190	6.16
Fiji	234	-	54	180	0.10
Gambia, The	159	-	27	132	0.07
Georgia	893	-	10	883	0.49
Ghana	6,581	300	1,602	4,679	2.58
Grenada	246	-	66	180	0.10
Guinea	906	14	261	631	0.35
Guinea-Bissau	298	-	127	171	0.09
Guyana	169	5	71	93	0.05
Honduras	1,642	190	441	1,011	0.56
India	23,133	112	1,026	21,995	12.12
Indonesia	757	-	-	757	0.42
Iraq	284	-	-	284	0.16
Jordan	207	-	75	132	0.07
Kenya	13,096	127	2,968	10,001	5.51
Kosovo	330	18	145	167	0.09
Kyrgyz Republic	994	9	320	665	0.37
Lao People's Democratic Republic	1,162	-	434	728	0.40
Lebanon	102	-	10	92	0.05
Lesotho	672	22	234	416	0.23

# SUMMARY STATEMENT OF LOANS

June 30, 2021

Amounts expressed in millions of U.S. dollars

Borrower or guarantor	Total loans	Undisbursed balance		Loans outstanding	Percentage total of loans outstanding <sup>a</sup>
		Loans approved but not yet signed	Signed loan commitments		
Liberia	\$ 920	\$ -	\$ 340	\$ 580	0.32 %
Madagascar	3,095	348	747	2,000	1.10
Malawi	2,021	125	735	1,161	0.64
Maldives	131	-	27	104	0.06
Mali	2,771	107	493	2,171	1.20
Mauritania	433	-	15	418	0.23
Mauritius	1	-	-	1	*
Moldova	994	29	253	712	0.39
Mongolia	965	-	214	751	0.41
Montenegro	25	-	-	25	0.01
Morocco	1	-	-	1	*
Mozambique	3,429	149	61	3,219	1.77
Myanmar	3,329	-	1,540	1,789	0.98
Nepal	5,526	60	1,538	3,928	2.16
Nicaragua	1,006	-	188	818	0.45
Niger	3,028	156	1,139	1,733	0.95
Nigeria	19,538	1,462	6,605	11,471	6.32
North Macedonia	194	-	-	194	0.11
Pakistan	21,698	-	5,566	16,132	8.89
Papua New Guinea	851	129	255	467	0.26
Paraguay	3	-	-	3	*
Philippines	24	-	-	24	0.01
Rwanda	3,301	-	731	2,570	1.42
Samoa	112	-	-	112	0.06
São Tomé and Príncipe	11	-	-	11	0.01
Senegal	4,973	-	1,746	3,227	1.78
Serbia	158	-	-	158	0.09
Sierra Leone	534	-	79	455	0.25
Solomon Islands	119	-	71	48	0.03
Somalia	130	-	-	130	0.07
South Sudan	81	-	-	81	0.04
Sri Lanka	3,979	-	741	3,238	1.78
St. Kitts and Nevis	*	-	-	*	*
St. Lucia	271	-	136	135	0.07
St. Vincent and the Grenadines	255	50	58	147	0.08
Sudan	371	-	-	371	0.20
Syrian Arab Republic	14	-	-	14	0.01
Tajikistan	553	-	199	354	0.19
Tanzania	12,033	1,143	2,599	8,291	4.57
Timor-Leste	162	-	128	34	0.02
Togo	516	16	219	281	0.16
Tonga	50	-	5	45	0.03
Tunisia	1	-	-	1	*
Turkey	2	-	-	2	*
Uganda	6,227	298	1,545	4,384	2.41
Uzbekistan	3,983	540	1,505	1,938	1.07
Vanuatu	141	-	46	95	0.05
Vietnam	17,467	642	2,746	14,079	7.76
Yemen, Republic of	1,462	-	28	1,434	0.79
Zambia	2,296	139	812	1,345	0.74
Zimbabwe	472	-	-	472	0.26
Subtotal—Members <sup>a</sup>	\$ 250,507	\$ 9,231	\$ 60,136	\$ 181,140	99.79 %

# SUMMARY STATEMENT OF LOANS

June 30, 2021

Amounts expressed in millions of U.S. dollars

Borrower or guarantor	Total loans	Undisbursed balance		Loans outstanding	Percentage of total loans outstanding <sup>a</sup>
		Loans approved but not yet signed	Signed loan commitments		
African Trade Insurance Agency	\$ 423	\$ -	\$ 388	\$ 35	0.02 %
Bank of the States of Central Africa	60	-	18	42	0.02
Caribbean Development Bank	10	-	-	10	0.01
West African Development Bank	389	-	122	267	0.15
<b>Subtotal—Regional development banks</b>	<b>\$ 882</b>	<b>\$ -</b>	<b>\$ 528</b>	<b>\$ 354</b>	<b>0.20 %</b>
Private Sector Window (PSW) Loans	287	166	111	10	0.01
Total—June 30, 2021 <sup>a</sup>	<b>\$ 251,676</b>	<b>\$ 9,397</b>	<b>\$ 60,775</b>	<b>\$ 181,504</b>	<b>100.00 %</b>
Total—June 30, 2020	<b>\$ 227,291</b>	<b>\$ 12,331</b>	<b>\$ 49,580</b>	<b>\$ 165,380</b>	

\* Indicates amount less than \$0.5 million or 0.005 percent

a. May differ from the calculated amounts or sum of individual figures shown due to rounding.

**The Notes to Financial Statements are an integral part of these Statements.**

# STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS

June 30, 2021

Amounts expressed in millions of U.S. dollars

Amounts expressed in millions of U.S. dollars

Member <sup>a</sup>	Number of votes	Percentage of total votes	Subscriptions and contributions committed <sup>b</sup>		
<b>Part I Members</b>					
Australia	365,955	1.25	%	\$	5,531.34
Austria	272,150	0.93			4,183.42
Belgium	320,639	1.09			5,453.06
Canada	782,320	2.66			13,483.05
Denmark	275,568	0.94			4,339.45
Estonia	54,427	0.19			21.85
Finland	185,339	0.63			2,271.86
France	1,118,918	3.81			20,625.63
Germany	1,569,980	5.35			29,272.77
Greece	57,465	0.20			214.16
Iceland	65,779	0.22			103.96
Ireland	110,230	0.38			938.89
Italy	667,995	2.28			11,349.98
Japan	2,454,693	8.36			50,118.26
Kuwait	122,208	0.42			1,121.38
Latvia	60,916	0.21			20.73
Lithuania	54,278	0.18			19.83
Luxembourg	83,584	0.28			471.47
Netherlands	590,188	2.01			10,731.10
New Zealand	81,955	0.28			421.18
Norway	308,671	1.05			4,686.94
Portugal	74,308	0.25			332.75
Russian Federation	90,647	0.31			750.72
Slovenia	60,445	0.21			46.49
South Africa	76,902	0.26			249.43
Spain	315,111	1.07			5,006.44
Sweden	608,339	2.07			10,095.48
Switzerland	389,326	1.33			6,575.63
United Arab Emirates	1,367	-			5.58
United Kingdom	1,984,072	6.76			36,991.70
United States	2,925,790	9.96			56,214.92
Subtotal—Part I Members <sup>b</sup>	16,129,565	54.94	%	\$	281,649.45
<b>Part II Members</b>					
Afghanistan	59,204	0.20			1.50
Albania	61,859	0.21			0.37
Algeria	122,959	0.42			30.57
Angola	153,438	0.52			8.27
Argentina	412,256	1.40			156.21
Armenia	65,146	0.22			0.69
Azerbaijan	72,636	0.25			6.14
Bahamas, The	59,906	0.20			8.54
Bangladesh	156,110	0.53			8.16
Barbados	62,860	0.21			2.36
Belize	19,834	0.07			0.27
Benin	60,820	0.21			0.78
Bhutan	58,732	0.20			0.08
Bolivia, Plurinational State of	75,994	0.26			1.65
Bosnia and Herzegovina	55,440	0.19			2.50

# STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS

June 30, 2021

Amounts expressed in millions of U.S. dollars

<i>Member<sup>a</sup></i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed<sup>b</sup></i>
Botswana	53,728	0.18 %	\$ 3.63
Brazil	477,996	1.63	834.89
Burkina Faso	66,310	0.23	0.81
Burundi	55,801	0.19	1.09
Cabo Verde, Republic of	43,840	0.15	0.13
Cambodia	71,089	0.24	1.60
Cameroon	60,782	0.21	1.61
Central African Republic	48,910	0.17	0.77
Chad	52,210	0.18	0.78
Chile	58,505	0.20	39.12
China	660,966	2.25	1,135.53
Colombia	133,321	0.45	25.21
Comoros	47,140	0.16	0.13
Congo, Democratic Republic of	82,699	0.28	4.60
Congo, Republic of	52,210	0.18	0.75
Costa Rica	28,362	0.10	0.28
Côte d'Ivoire	67,377	0.23	1.57
Croatia	91,994	0.31	5.98
Cyprus	75,021	0.26	32.18
Czech Republic	131,906	0.45	157.38
Djibouti	48,116	0.16	0.26
Dominica	58,892	0.20	0.14
Dominican Republic	27,780	0.09	0.58
Ecuador	50,151	0.17	0.94
Egypt, Arab Republic of	134,452	0.46	18.66
El Salvador	46,516	0.16	0.49
Equatorial Guinea	6,167	0.02	0.41
Eritrea	46,536	0.16	0.14
Eswatini	22,322	0.08	0.42
Ethiopia	51,732	0.18	0.69
Fiji	19,809	0.07	0.76
Gabon	2,093	0.01	0.63
Gambia, The	55,208	0.19	0.42
Georgia	65,717	0.22	0.97
Ghana	86,677	0.30	3.14
Grenada	28,927	0.10	0.14
Guatemala	40,696	0.14	0.56
Guinea	37,287	0.13	1.33
Guinea-Bissau	44,500	0.15	0.22
Guyana	74,343	0.25	1.27
Haiti	54,538	0.19	1.11
Honduras	59,206	0.20	0.44
Hungary	205,105	0.70	173.10
India	851,128	2.90	628.42
Indonesia	259,846	0.88	140.09
Iran, Islamic Republic of	115,867	0.39	24.18
Iraq	72,712	0.25	1.11
Israel	90,204	0.31	152.76
Jordan	24,865	0.08	0.41
Kazakhstan	23,297	0.08	8.50



# STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS

June 30, 2021

Amounts expressed in millions of U.S. dollars

<i>Member<sup>a</sup></i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed<sup>b</sup></i>
Kenya	77,960	0.27 %	\$ 2.41
Kiribati	43,592	0.15	0.10
Korea, Republic of	297,756	1.01	2,817.34
Kosovo, Republic of	50,857	0.17	0.86
Kyrgyz Republic	64,522	0.22	0.57
Lao People's Democratic Republic	48,910	0.17	0.73
Lebanon	8,562	0.03	0.56
Lesotho	57,005	0.19	0.23
Liberia	52,038	0.18	1.12
Libya	44,771	0.15	1.31
Madagascar	70,516	0.24	1.39
Malawi	58,540	0.20	0.99
Malaysia	104,565	0.36	59.81
Maldives	55,046	0.19	0.05
Mali	62,445	0.21	1.37
Marshall Islands	4,902	0.02	0.01
Mauritania	52,210	0.18	0.78
Mauritius	75,236	0.26	1.32
Mexico	142,236	0.48	168.34
Micronesia, Federated States of	18,424	0.06	0.03
Moldova	56,582	0.19	0.88
Mongolia	45,818	0.16	0.30
Montenegro	59,594	0.20	0.76
Morocco	111,332	0.38	5.70
Mozambique	63,917	0.22	2.06
Myanmar	82,096	0.28	2.57
Nepal	54,710	0.19	0.72
Nicaragua	62,982	0.21	0.44
Niger	52,210	0.18	0.76
Nigeria	119,982	0.41	40.49
North Macedonia	47,095	0.16	1.10
Oman	59,288	0.20	1.42
Pakistan	244,070	0.83	78.42
Palau	3,804	0.01	0.03
Panama	10,185	0.03	0.03
Papua New Guinea	67,754	0.23	1.27
Paraguay	46,493	0.16	0.44
Peru	93,132	0.32	18.07
Philippines	149,770	0.51	34.43
Poland	587,836	2.00	149.36
Romania	96,010	0.33	5.20
Rwanda	52,038	0.18	1.12
Samoa	43,901	0.15	0.14
São Tomé and Príncipe	49,519	0.17	0.12
Saudi Arabia	980,019	3.34	3,205.70
Senegal	74,743	0.25	2.69
Serbia	86,096	0.29	7.11
St. Kitts and Nevis	13,868	0.05	0.17
St. Lucia	30,532	0.10	0.23
St. Vincent and the Grenadines	49,929	0.17	0.12

# STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS

June 30, 2021

Amounts expressed in millions of U.S. dollars

<i>Member <sup>a</sup></i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed <sup>b</sup></i>
Sierra Leone	63,638	0.22 %	\$ 1.04
Singapore	56,746	0.19	317.81
Slovak Republic	94,704	0.32	37.56
Solomon Islands	43,901	0.15	0.13
Somalia	10,506	0.04	0.95
South Sudan	52,447	0.18	0.45
Sri Lanka	106,639	0.36	4.34
Sudan	65,003	0.22	1.50
Syrian Arab Republic	14,131	0.05	1.19
Tajikistan	53,918	0.18	0.53
Tanzania	68,943	0.23	2.32
Thailand	113,639	0.39	19.18
Timor-Leste	45,123	0.15	0.44
Togo	61,840	0.21	1.19
Tonga	49,514	0.17	0.11
Trinidad and Tobago	81,067	0.28	2.13
Tunisia	2,793	0.01	1.89
Turkey	177,195	0.60	204.79
Tuvalu	8,838	0.03	0.03
Uganda	50,392	0.17	2.32
Ukraine	115,569	0.39	8.05
Uzbekistan	73,936	0.25	1.92
Vanuatu	50,952	0.17	0.31
Vietnam	61,168	0.21	2.23
Yemen, Republic of	68,976	0.23	2.20
Zambia	87,027	0.30	3.63
Zimbabwe	105,982	0.36	6.41
Subtotal—Part II Members <sup>b</sup>	<u>13,232,035</u>	<u>45.06 %</u>	<u>\$ 10,884</u>
Total—June 30, 2021 <sup>b</sup>	<u>29,361,600</u>	<u>100.00 %</u>	<u>\$ 292,534</u>
Total—June 30, 2020	<u>28,824,451</u>		<u>\$ 267,529</u>

a. See Notes to Financial Statements—Note A for an explanation of the two categories of membership

b. May differ from the calculated amounts or sum of individual figures shown due to rounding.

**The Notes to Financial Statements are an integral part of these Statements.**

# NOTES TO FINANCIAL STATEMENTS

## PURPOSE AND AFFILIATED ORGANIZATIONS

The International Development Association (IDA) is an international organization established in 1960. IDA's main goal is reducing poverty through promoting sustainable economic development in the less developed countries of the world that are members of IDA, by extending concessionary and non-concessionary financing in the form of grants, loans and guarantees, and by providing related technical assistance. The activities of IDA are complemented by those of three affiliated organizations, the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Each of these organizations is legally and financially independent from IDA, with separate assets and liabilities, and IDA is not liable for their respective obligations. Transactions with these affiliates are disclosed in the notes that follow.

IDA is immune from taxation pursuant to Article VIII, Section 9, *Immunities from Taxation*, of IDA's Articles of Agreement.

## NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

IDA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Due to the inherent uncertainty involved in making those estimates, actual results could differ from these estimates. Significant judgment has been used in the valuation of certain financial instruments and the determination of the adequacy of the accumulated provisions for debt relief and losses on loans and other exposures (signed loan commitments, including deferred drawdown options that are effective and irrevocable commitments, guarantees and repaying project preparation facilities).

On August 6, 2021, the Executive Directors approved these financial statements for issue, which was also the date through which IDA's management evaluated subsequent events.

Certain reclassifications to the prior year's information have been made to conform with the current year's presentation.

### Translation of Currencies

IDA's financial statements are expressed in U.S. dollars for the purpose of summarizing its financial position and the results of its operations for the convenience of its members and other users.

IDA conducts its operations in Special Drawing Rights (SDR) and its component currencies of U.S. dollar, euro, Japanese yen, pound sterling and Chinese renminbi. These constitute the functional currencies of IDA.

Assets and liabilities are translated at market exchange rates in effect at the end of the accounting period. Revenue and expenses are translated at either the market exchange rates in effect on the dates of revenue and expense recognition, or at an average of the market exchange rates in effect during each month. Translation adjustments relating to the revaluation of all assets and liabilities denominated in either SDR or the component currencies of SDR, are reflected in Accumulated Other Comprehensive Income. Translation adjustments relating to non-functional currencies are reported in the Statement of Income.

### Members' Subscriptions and Contributions

#### Recognition

Members' subscriptions and contributions committed for each IDA replenishment are initially recorded both as subscriptions and contributions committed and, correspondingly, as subscriptions and contributions receivable. Prior to effectiveness, only a portion of the value of Instruments of Commitment (IoCs) received as specified in the replenishment resolution is recorded as subscriptions and contributions committed. Upon effectiveness, the remainder of the value of IoCs received is subsequently recorded as subscriptions and contributions committed.

IoCs can contain unqualified or qualified commitments. Under an unqualified commitment, a contributing member agrees to pay a specified amount of its subscription and contribution without requiring appropriation legislation. A qualified commitment is subject to the contributing member obtaining the necessary appropriation legislation. Subscriptions and contributions made under IoCs become available for commitment for loans, grants and guarantees by IDA for a particular replenishment in accordance with the IDA replenishment envelope as approved by the Executive Directors.

A replenishment becomes effective when IDA receives IoCs from members whose subscriptions and contributions aggregate to a specified portion of the full replenishment. Amounts not yet paid in at the date of effectiveness, are recorded as subscriptions and contributions receivable and shown as a reduction of subscriptions and contributions committed. These receivables become due throughout the replenishment period, generally three years, in accordance with an agreed payment schedule. The actual payment of receivables when they become due may be subject to the budgetary appropriation processes for certain members.

The subscriptions and contributions receivable are settled through payment of cash or deposit of nonnegotiable, non-interest bearing demand notes. The notes are encashed by IDA on an approximately *pro rata* basis either as provided in the relevant replenishment resolution over the disbursement period of the loans and grants committed under the replenishment, or as needed.

In certain replenishments, donors receive discounts (a reduced obligation) when they pay a contribution amount before the relevant due date, and acceleration credits when they pay their full contribution amount before the due date. IDA retains any related revenue earned on these early payments, with subscriptions and contributions committed being recorded at contribution amounts received, grossed up for discounts and acceleration credits. The discounts and acceleration credits are deducted in arriving at the subscriptions and contributions paid-in.

Under the Seventeenth Replenishment of IDA's Resources (IDA17), which became effective beginning fiscal year ended June 30, 2015, IDA's Executive Directors approved the use of a limited amount of concessional debt funding, referred to as concessional partner loans, which continued in the subsequent Replenishments of IDA's Resources. The borrowing terms of this concessional debt funding aim to match the concessional features of IDA's loans. Proceeds received under this arrangement have two separate components: (1) a borrowing component and (2) a grant component, for which voting rights are allocated to providers of the concessional partner loans. The borrowing component of the concessional partner loans is recognized and reported at amortized cost (see borrowings section for more details). The grant component is calculated as a function of the terms of the loan and the discount rate agreed upon during the replenishment discussions. This grant component is recorded as equity equivalent to the cash received.

For the purposes of determining its subscriptions and contributions, the membership of IDA is divided into two categories: (1) Part I members, which make payments of subscriptions and contributions provided to IDA in convertible currencies that may be freely used or exchanged by IDA in its operations and (2) Part II members, which make payments of ten percent of their initial subscriptions in freely convertible currencies, and the remaining 90 percent of their initial subscriptions, and all additional subscriptions and contributions in their own currencies or in freely convertible currencies. Certain Part II members provide a portion of their subscriptions and contributions in the same manner as mentioned in (1) above. IDA's Articles of Agreement and subsequent replenishment resolutions provide that the currency of any Part II member paid in by it may not be used by IDA for projects financed by IDA and located outside the territory of the member except by agreement between the member and IDA. The national currency portion of subscriptions of Part II members is recorded as restricted under Members' subscriptions and contributions unless released under an agreement between the member and IDA, or used for administrative expenses. The cash paid and notes deposited in nonconvertible local currencies for the subscriptions of Part II members are recorded either as Restricted cash under Due from Banks, or as restricted notes included under Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Members' subscriptions and contributions.

Following adoption by the Board of Governors on April 21, 2006 of a resolution authorizing additions to IDA's resources to finance the MDRI (Multilateral Debt Relief Initiative), pledges received in the form of IoCs for financing the MDRI are recorded and accounted for in their entirety. Therefore, the full value of all IoCs received is recorded as Subscriptions and contributions committed. Correspondingly, the IoCs are recorded as Subscriptions and contributions receivable and deducted from equity.

### ***Withdrawal of Membership***

Under IDA's Articles of Agreement, a member may withdraw from membership in IDA at any time. When a government ceases to be a member, it remains liable for all financial obligations undertaken by it to IDA, whether as a member, borrower, guarantor or otherwise. The Articles provide that upon withdrawal, IDA and the government shall proceed to a settlement of accounts. If agreement is not reached within six months, standard arrangements are provided. Under these arrangements, IDA would pay to the government the lower of the member's total paid-in subscriptions and contributions or the member's proportionate share of IDA's net assets. These funds would be paid as a proportionate share of all principal repayments received by IDA on loans made during the period of the government's membership.

### ***Valuation of Subscriptions and Contributions***

The subscriptions and contributions provided through the Third Replenishment are expressed in terms of "U.S. dollars of the weight and fineness in effect on January 1, 1960" (1960 dollars). Following the abolition of gold as a common denominator of the monetary system and the repeal of the provision of the U.S. law defining the par value of the U.S. dollar in terms of gold, the pre-existing basis for translating 1960 dollars into current dollars or any other currency disappeared. The Executive Directors of IDA decided, that until such time as the relevant provisions of the Articles of Agreement are amended, the words "U.S. dollars of the weight and fineness in effect on January 1, 1960" in Article II, Section 2(b) of the Articles of Agreement of IDA are interpreted to mean the SDR introduced by the International Monetary Fund as the SDR was valued in terms of U.S. dollars immediately before the introduction of the basket method of valuing the SDR on July 1, 1974, such value being equal to \$1.20635 for one SDR (the 1974 SDR). The Executive Directors also decided to apply the same standard of value to amounts expressed in 1960 dollars in the relevant resolutions of the Board of Governors.

The subscriptions and contributions provided through the Third Replenishment are expressed on the basis of the 1974 SDR. Prior to the decision of the Executive Directors, IDA had valued these subscriptions and contributions on the basis of the SDR at the current market value of the SDR.

The subscriptions and contributions provided under the Fourth Replenishment and thereafter are expressed in members' currencies or SDRs and are payable in members' currencies. Subscriptions and contributions made available for disbursement in cash to IDA are translated at market exchange rates in effect on the dates they were made available. Subscriptions and contributions not yet available for disbursements are translated at market exchange rates in effect at the end of the accounting period.

### ***Maintenance of Value***

Article IV, Section 2(a) and (b) of IDA's Articles of Agreement provides for maintenance of value payments on account of the local currency portion of the initial subscription whenever the par value of the member's currency or its foreign exchange value has depreciated or appreciated to a significant extent, so long as, and to the extent that, such currency shall not have been initially disbursed or exchanged for the currency of another member. The provisions of Article IV, Section 2(a) and (b) have by agreement been extended to cover additional subscriptions and contributions of IDA through the Third Replenishment, but are not applicable to those of the Fourth and subsequent replenishments.

The Executive Directors decided on June 30, 1987 that settlements of maintenance of value, which would result from the resolution of the valuation issue on the basis of the 1974 SDR, would be deferred until the Executive Directors decide to resume such settlements. These amounts are shown as Deferred Amounts to Maintain Value of Currency Holdings and deducted from equity; any changes relate solely to translation adjustments.

### ***Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Members' Subscriptions and Contributions***

Payments on these instruments are due to IDA upon demand and these instruments are held in bank accounts in IDA's name. These instruments are carried and reported at face value as a reduction to equity on the Balance Sheet.

### ***Loans and Other Exposures***

In fulfilling its mission, IDA makes concessional and non-concessional loans to the poorest countries. These loans and other exposures (collectively "exposures") are made to, or guaranteed by, member governments or to the government of a territory of a member (except for loans which have been made to regional development institutions for the benefit of members or territories of members of IDA). In order to qualify for lending on IDA terms, a

country's per capita income must be below a certain level (\$1,185 for the fiscal year ended June 30, 2021 and \$1,175 for the fiscal year ended June 30, 2020) and the country may have only limited or no access to IBRD lending.

Loans are carried at amortized cost. Commitment charges on the undisbursed balance of loans, are recognized in revenue as earned. Incremental direct costs associated with originating loans are capitalized and amortized over the life of the loans. Accrued interest is presented on the Balance Sheet in the line item Other receivables, accrued interest and commitment charges.

It is IDA's practice not to reschedule service charges, interest or principal payments on its loans or participate in debt rescheduling agreements with respect to its loans. Should modifications be made to the terms of existing loans, IDA would perform an evaluation to determine the required accounting treatment, including whether the modifications would result in the affected loans being accounted for as a trouble debt restructuring, new loan, or as a continuation of the existing loans.

It is the policy of IDA to place into nonaccrual status all loans and other exposures made to, or guaranteed by, a member or to the territory of a member if principal or charges with respect to any such loan and other exposures are overdue by more than six months, unless IDA's management determines that the overdue amount will be collected in the immediate future. In addition, if loans by IBRD to a member government are placed into nonaccrual status, all loans and other exposures to that member will also be placed into nonaccrual status by IDA. On the date a member's loans and other exposures are placed into nonaccrual status, unpaid charges that had been accrued on loans are deducted from loan revenue in the current period.

Revenue on nonaccrual loans is included in the Statement of Income only to the extent that payments have been received by IDA. If collectability risk is considered to be particularly high at the time of arrears clearance, the member's loans and other exposures may not automatically emerge from nonaccrual status, even though the member's eligibility for new loans may have been restored. In such instances, a decision on the restoration of loans to accrual status is made on a case-by-case basis after a suitable period of payment or policy performance has passed from the time of arrears clearance.

The repayment obligations of loans funded from resources through the Fifth Replenishment are expressed in the loan agreements in terms of 1960 dollars. In June 1987, the Executive Directors decided to value those loans at the rate of \$1.20635 per 1960 dollar on a permanent basis. Loans funded from resources provided under the Sixth Replenishment and thereafter are denominated in SDRs, with the exception of loans provided under the Single Currency Lending program, which allows IDA recipients to denominate new IDA loans in one of the five constituent currencies of the SDR basket.

*Loan commitments:* Undisbursed loans relate to operations approved by the Executive Directors for which disbursements are yet to be made. IDA records a provision for expected losses on undisbursed loan commitments including Deferred Drawdown Options (DDOs), when signed by both parties. The signature of the loan agreement is a binding event that prevents IDA from unconditionally withdrawing from the agreement.

### **Buy-down of Loans**

IDA enters into loan buy-down agreements with third party donors who make payments on the borrower's service and commitment charges through a trust fund until the borrower reaches agreed performance goals. The trust fund then buys down the related loans for an amount equivalent to the present value of the remaining cash flows of the related loans, ensuring IDA incurs no economic loss. The trust fund subsequently cancels the purchased loans, converting them to grant terms.

### **Development Grants**

Effective July 1, 2019, with the adoption of ASU 2018-08 *Not-For-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, development grants made by IDA that are deemed to be conditional, are expensed when all the conditions have been met, which generally occurs at the time of disbursement. Development grants that are deemed to be unconditional, continue to be expensed upon approval. Prior to July 1, 2019, grants were recorded as an expense, and a liability was recognized, upon approval of the development grant by the Executive Directors.

Commitment charges on the undisbursed balance of development grants are recognized in revenue as earned.

## **Project Preparation Advances**

Project Preparation Advances (PPAs) are advances made to borrowers to finance project preparation costs pending the approval of follow-on development operations. If approved under grant terms, these amounts are expensed upon approval by management. To the extent there are follow-on loans or grants, these PPAs are refinanced out of the proceeds of the loans and grants. Accordingly, the PPA grant amounts initially charged to expense are reversed upon approval of the follow-on development grants or loans.

## **Guarantees**

Financial guarantees are commitments issued by IDA to guarantee payment performance by a member country (the debtor) to a third party in the event that a member government (or government-owned entity) fails to perform its contractual obligations to a third party.

Guarantees are regarded as outstanding when the underlying financial obligation of the borrower is incurred, and called when a guaranteed party demands payment under the guarantee. IDA would be required to perform under its guarantees if the payments guaranteed are not made by the borrower and the guaranteed party called the guarantee by demanding payment from IDA in accordance with the terms of the guarantee.

At inception of the guarantees, IDA records the fair value of the obligation to stand ready and a corresponding guarantee fee receivable, included in Other Liabilities - Accounts payable and miscellaneous liabilities and in Other Assets, respectively, on the Balance Sheet. Upfront guarantee fees received are deferred and amortized over the life of the guarantee.

In the event that a sovereign guarantee is called, IDA has the contractual right to require payment from the member country.

## **HIPC Debt Initiative**

The Heavily Indebted Poor Countries (HIPC) Debt Initiative was launched in 1996 as a joint effort by bilateral and multilateral creditors to ensure that reform efforts of HIPCs would not be put at risk by unsustainable external debt burdens.

Under the Enhanced HIPC Framework, implementation mechanisms include: (i) partial forgiveness of IDA debt service as it comes due, and ii) in the case of countries with a substantial amount of outstanding IBRD debt, partial repayment with IDA resources (excluding transfers from IBRD) of outstanding IBRD debt.

Upon signature by IDA of the country specific legal notification, immediately following the decision by the Executive Directors of IDA to provide debt relief to the country (the Decision Point), the country becomes eligible for debt relief up to the nominal value equivalent of one third of the net present value of the total HIPC debt relief committed to the specific country. A Completion Point is reached when the conditions specified in the legal notification are met and the country's other creditors have confirmed their full participation in the debt relief initiative. When the country reaches its Completion Point, IDA's commitment to provide the total debt relief for which the country is eligible, becomes irrevocable. IDA's provisioning policy for the HIPC Debt Initiative is discussed below.

Donors compensate IDA on a "pay-as-you-go" basis to finance IDA's forgone loan reflows (principal and service charge repayments) under the HIPC Debt Initiative. This means that for the debt relief provided by writing off the principal and charges during a replenishment, the donors compensate IDA for the forgone reflows through additional contributions in the relevant replenishment. These additional resources are accounted for as equity, as subscriptions and contributions, because they carry voting rights.

## **MDRI**

Debt relief provided under the Multilateral Debt Relief Initiative (MDRI), which is characterized by the write-off of eligible loans upon qualifying borrowers reaching the HIPC Completion Point, is in addition to existing debt relief commitments provided by IDA and other creditors under the HIPC Debt Initiative. When a country reaches Completion Point, the applicable loans are written off. This write off occurs at the beginning of the quarterly period following the date on which the country reaches Completion Point. For forgone repayments under MDRI, donors established a separate MDRI replenishment spanning fiscal years 2007 through 2044 and pledged to compensate IDA for the costs of providing debt relief under MDRI on a "dollar-for-dollar" basis. These additional resources are accounted for as equity, as subscriptions and contributions, because they carry voting rights.

## **Accumulated Provision for Losses on Loans and Other Exposures**

Management determines the appropriate level of accumulated provisions for losses on loan exposures, which reflects the expected losses inherent in IDA's exposures.

The accumulated provision for losses on loans and other exposures includes the accumulated provision for HIPC Debt Initiative and MDRI.

### ***HIPC Debt Initiative and MDRI***

The adequacy of the accumulated provision for the HIPC Debt Initiative and MDRI is based on both quantitative and qualitative analyses of various factors, including estimates of the Decision and the Completion point dates. IDA periodically reviews these factors and reassesses the adequacy of the accumulated provision for the HIPC Debt Initiative and MDRI.

Upon approval by the Executive Directors of a country as potentially eligible for IDA debt relief under the Enhanced HIPC Initiative, the principal component of the estimated debt relief costs is recorded within the accumulated provision for loan losses on the Balance Sheet, and as a provision expense in the Statement of Income. This estimate is subject to periodic revision. Adjustments to the accumulated provision are recorded as a charge to or release of provision in the Statement of Income. The accumulated provision for HIPC Debt Initiative is reduced as debt relief is provided. The accumulated provision for HIPC Debt Initiative is reduced by the amount of the eligible loans written off when the country reaches Completion Point and becomes eligible for MDRI debt relief.

Following the Executive Directors' approval of IDA's participation in the MDRI in June 2006, IDA fully provided for the estimated write-off of the principal component of debt relief to be delivered under the MDRI for the HIPC eligible countries confirmed by the Executive Directors as eligible for relief at that time.

### ***Loans***

Loan exposures are disaggregated into two groups: exposures in accrual status and exposures in nonaccrual status. In each group, a credit risk rating is then assigned to the exposures for each borrower (defined as the nominal amount of loans outstanding less the accumulated provision for loss under the HIPC Debt Relief Initiative, and MDRI).

The total exposure for provisioning is the current exposure and the estimated exposure taking into account expected disbursements and repayments over the life of the instruments. The expected credit losses related to loans and other exposures are calculated over the life of the instruments based on the expected exposures, the expected default frequency (probability of default to IDA) and the estimated loss given default. The provision for expected losses is the sum of the expected annual losses over the life of the instruments.

For countries in accrual status, these exposures are grouped in pools of borrowers with a similar risk rating. The determination of a borrower's rating is based on various factors (see Note D—Loans and other exposures). Each risk rating is mapped to an expected default frequency using IDA's credit migration matrix, based on historical observations of credit ratings at the beginning and at the end of each year.

Expected losses on loan exposures comprise estimates of potential losses arising from default and nonpayment of principal and interest amounts due, and any economic loss due to delays in receiving payments. The estimated loss given default is determined at each balance sheet date, based on IDA's historical experience as well as parameters adjusted for current conditions during the reasonable and supportable forecast period of IDA. The loss given default is based on the borrower's eligibility, namely: IDA, Blend (IBRD and IDA) and IBRD, with the highest loss given default associated with IDA eligibility. The borrower's eligibility is assessed at least annually. The main factors used to determine the loss given default are the estimated length of delays in receiving loan payments and the effective interest rate of the exposures. IDA's loan portfolio comprises mostly fixed interest rate loans, therefore, the measurement of loss severity is not sensitive to market interest rate movements.

For the calculation of expected credit losses, IDA applies a three-year reasonable and supportable forecast period representing the most reliable and available economic data during this period. IDA also applies a ten-year straight-line reversion to the mean to reflect the historical pattern of rating migration to the mean of its loan portfolio.

This methodology is also applied to countries with exposures in nonaccrual status, although the expected default frequency is equal to one. At times, to reflect certain distinguishing circumstances of a particular nonaccrual situation, different input assumptions may be used for a specific country.



All exposures for countries in nonaccrual status are individually assessed. Except for debt relief provided under the HIPC Debt Initiative and MDRI, it is IDA's practice not to write off its loans. To date, no loans have been written off, other than under the HIPC Debt Initiative, MDRI and buy-down of loans.

Management reassesses the adequacy of the accumulated provision on a quarterly basis and adjustments to the accumulated provision are recorded as a charge to or release of provision in the Statement of Income. In addition, reasonableness of the inputs used is reassessed at least annually.

When a member country prepays its outstanding loans, it may receive a discount equivalent to the difference between the outstanding carrying amount and the present value of the remaining cash flows. In such instances, IDA records a provision for losses on loans equivalent to the discount provided, at the time when the prepayment terms are agreed between IDA and the member country.

### ***Loan Commitments***

IDA records the expected credit losses on loan commitments based on the projected disbursements of signed loan commitments (adjusted by cancellations based on historical experience), the probability of default and loss given default. The provision is included in Other liabilities - Accounts payable and miscellaneous liabilities on the Balance Sheet.

### ***Guarantees***

IDA records a contingent liability for the expected losses related to guarantees over the projected life of the instruments, which is determined based on the estimated exposure at default multiplied by the corresponding loss given default and expected default probability for the projected life of the guarantee. This provision, as well as the unamortized balance of the deferred guarantee fees, and the unamortized balance of the obligation to stand ready, are included in Other liabilities - Accounts payable and miscellaneous liabilities on the Balance Sheet.

**Statement of Cash Flows:** For the purpose of IDA's Statement of Cash Flows, cash is defined as the amount of both Unrestricted cash and Restricted cash presented under the Due from banks line on the Balance Sheet.

**Restricted Cash:** This mainly includes amounts which have been received from members as part of their subscriptions, which are restricted for specified purposes.

### ***Investments***

Investment securities are classified based on management's intention on the date of purchase, their nature, and IDA's policies governing the level and use of such investments. All investment securities are held in the trading portfolio except for a security purchased from IFC in 2015 which is classified as non-trading. While IDA does not plan to sell the IFC security, IDA elected to measure it at fair value, so that all of its investment securities are measured on the same basis. All investment securities and related financial instruments held by IDA are carried and reported at fair value, or at face value which approximates fair value. Where available, quoted market prices are used to determine the fair value of trading securities. Examples include most government and agency securities, asset-backed securities (ABS), mortgage-backed securities (MBS), to-be-announced securities (TBA securities) and futures contracts. For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, whether internally generated or vendor-supplied, that include the standard discounted cash flow method using observable market inputs such as yield curves, credit spreads, and constant prepayment rates. Where applicable, unobservable inputs such as constant prepayment rates, probability of default and loss severity are used. Unless quoted prices are available, time deposits are reported at face value, which approximates fair value, as they are short term in nature. The first-in first-out method is used to determine the cost of securities sold in computing the realized gains and losses on these instruments.

Interest revenue is included in the Investments, net line in the Statement of Income. Unrealized mark-to-market gains and losses for investment securities and related financial instruments held in the investment portfolio are included in the Statement of Income. Realized gains and losses on trading securities are recognized in the Statement of Income when securities are sold.

IDA may require collateral in the form of cash or approved liquid securities from individual counterparties under legal agreements that provide for collateralization, in order to mitigate its credit exposure to these counterparties. For collateral received in the form of cash from counterparties, IDA invests the amounts received and records the investment and a corresponding obligation to return the cash. Collateral received in the form of liquid securities is

only recorded on IDA's Balance Sheet to the extent that it has been transferred under securities lending agreements in return for cash.

### **Securities Purchased Under Resale Agreements, Securities Sold Under Repurchase Agreements, Securities Lent Under Securities Lending Agreements and Payable for Cash Collateral Received**

Securities purchased under resale agreements, securities sold under repurchase agreements, securities lent under securities lending agreements and payable for cash collateral received are recorded at face value, which approximates fair value, as they are short term in nature. IDA receives securities purchased under resale agreements, monitors the fair value of the securities and, if necessary, closes out transactions and enters into new repriced transactions. The securities transferred to counterparties under the repurchase and security lending arrangements and the securities transferred to IDA under the resale agreements have not met the accounting criteria for treatment as a sale. Therefore, securities transferred under repurchase agreements and security lending arrangements are retained as assets on the Balance Sheet, and securities received under resale agreements are not recorded on the Balance Sheet. Securities lent under securities lending agreements and sold under securities repurchase agreements as well as securities purchased under resale agreements are presented on a gross basis, which is consistent with the manner in which these instruments are settled. The interest earned with respect to securities purchased under resale agreements is included in Investments, net, line in the Statement of Income. The interest expense pertaining to the securities sold under repurchase agreements and security lending arrangements is included in the Borrowing expenses, net line in the Statement of Income.

### **Borrowings**

IDA introduced long term borrowings through concessional partner loans for the first time in the fiscal year commencing July 1, 2014. The borrowing terms of the concessional partner loans aim to match the features of IDA's concessional loans. As of June 30, 2021, these borrowings are unsecured and unsubordinated fixed rate debt in SDR component currencies. IDA may prepay some or the entire outstanding amounts without penalty. These borrowings are carried and reported at amortized cost.

IDA has also issued debt instruments in the capital markets. IDA has elected the fair value option for all market debt issued, as of June 30, 2021. For debt carried at fair value, changes in fair value are recognized in the related Unrealized mark-to-market gains and losses on non-trading portfolios, net, line in the Statement of Income, except for changes in the fair value that relate to IDA's own credit risk, which are reported in Other Comprehensive Income (OCI) as a Debit Valuation Adjustment (DVA). The DVA on fair value option elected liabilities is measured by revaluing each liability to determine the changes in fair value of that liability arising from changes in IDA's cost of funding relative to the London Inter-Bank Offered Rate (LIBOR).

Plain vanilla bonds and discount notes, if any, are valued using the standard discounted cash flow method which relies on observable market inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads. Where available, quoted market prices are used to determine the fair value of short-term notes.

For the purpose of the Statement of Cash Flows, new issuances and retirements pertaining to short term borrowings, if any, with an original maturity of less than 90 days, are presented on a net basis. In contrast, short term borrowings with an original maturity greater than 90 days and less than one year are presented on a gross basis.

Interest expense relating to all debt instruments in IDA's borrowing portfolio is measured on an effective yield basis and is reported as part of the Borrowing expenses, net line in the Statement of Income.

For presentation purposes, amortization of discounts and premiums is also included in the Borrowing expenses, net line in the Statement of Income.

### **Accounting for Derivatives**

IDA has elected not to designate any hedging relationships for accounting purposes. Rather, all derivative instruments are marked to fair value on the Balance Sheet, with changes in fair value accounted for through the Statement of Income.

The presentation of derivative instruments on IDA's Balance Sheet reflects the netting of derivative asset and liability positions and the related cash collateral received from the counterparty when a legally enforceable master netting agreement exists, and the other conditions set out in *ASC Topic 210-20, Balance Sheet—Offsetting*, are met. In addition, in the Notes to the financial statements, unless stated differently, derivatives are presented on a net basis by instrument.

A master netting agreement is an industry standard agreement with a counterparty that permits multiple transactions governed by that agreement to be terminated or accelerated and settled through a single payment in a single currency in the event of a default (e.g., bankruptcy, failure to make a required payment or transfer securities or deliver collateral when due). Obligations under master netting agreements are often secured by collateral posted under an industry standard credit support annex to the master netting agreement. Upon default by the counterparty, the collateral agreement grants an entity the right to set-off any amounts payable by the counterparty against any posted collateral.

IDA uses derivative instruments in its investment trading portfolio to manage interest rate and currency risks. These derivatives are carried and reported at fair value. Interest revenue (expenses) are reflected as part of Interest revenue, while unrealized mark-to-market gains and losses on these derivatives are reflected as part of the Unrealized mark-to-market gains (losses) on Investments-Trading portfolio, net line in the Statement of Income.

IDA also uses derivatives in its loan, asset-liability management and borrowing portfolios. Within the asset-liability management portfolio, currency forward contracts are used to manage foreign exchange fluctuation risks and interest rate swap contracts under the Capital Value Protection program are used to manage interest rate volatility of IDA's capital adequacy model. In the loan and borrowing portfolios, interest rate swaps are used to modify the interest rate characteristics of these portfolios. The interest component of these derivatives is recognized as an adjustment to the loan revenue and borrowing costs over the life of the derivative contracts and is included in Loans, net and Borrowing expenses, net lines in the Statement of Income. Changes in fair values of these derivatives are recorded in the Statement of Income as Unrealized mark-to-market gains and losses on non-trading portfolios, net.

For the purpose of the Statement of Cash Flows, IDA has elected to report the cash flows associated with the derivative instruments that are used to economically hedge its borrowings and investments, in a manner consistent with the presentation of the related borrowing and investment cash flows.

Derivative contracts include currency forward contracts, TBA securities, swaptions, exchange traded options and futures contracts, currency swaps and interest rate swaps. Currency swaps and interest rate swaps are primarily plain vanilla instruments and they are valued based on standard discounted cash flow methods using observable market inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

Most outstanding derivative positions are transacted over-the-counter and are therefore valued using internally developed valuation models. For commercial and non-commercial counterparties where IDA is in a net receivable position, IDA calculates a Credit Valuation Adjustment (CVA) to reflect credit risk. For net derivative positions with commercial and non-commercial counterparties where IDA is in a net payable position, IDA calculates a DVA to reflect its own credit risk. The CVA is calculated using the fair value of the derivative contracts, net of collateral received under credit support agreements, and the probability of counterparty default based on the Credit Default Swap (CDS) spread and, where applicable, proxy CDS spreads. The DVA calculation is generally consistent with the CVA methodology and incorporates IDA's own credit spread as observed through the CDS market.

### **Valuation of Financial Instruments**

IDA has an established and documented process for determining fair values. Fair value is based upon quoted market prices for the same or similar securities, where available.

Financial instruments for which quoted market prices are not readily available are valued based on discounted cash flow models and other established valuation models. These models primarily use market-based or independently sourced market parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves, and may incorporate unobservable inputs. Selection of these inputs may involve some judgment. In instances where management relies on instrument valuations supplied by external pricing vendors, there are procedures in place to validate the appropriateness of the models used as well as the inputs applied in determining those values.

IDA also has various internal controls in place to ensure that the valuations are appropriate where internally developed models are used.

As of June 30, 2021 and June 30, 2020, IDA had no financial assets or liabilities measured at fair value on a non-recurring basis.

### **Fair Value Hierarchy**

Financial instruments are categorized based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the

next highest priority to observable market-based inputs or inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs that are not corroborated by market data (Level 3).

Financial assets and liabilities recorded at fair value on the Balance Sheet are categorized based on the inputs to the valuation techniques as follows:

*Level 1:* Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets.

*Level 2:* Financial assets and liabilities whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in non-active markets; or pricing models for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

*Level 3:* Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

IDA's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

### **Accounting for Contributions to Special Programs**

IDA recognizes unconditional grants such as contributions to special programs as an expense upon approval by the Executive Directors.

### **Transfers**

Transfers from IBRD's net income to IDA are recognized in the Statement of Income upon approval by the Board of Governors of IBRD. Similarly, transfers relating to grants made from IFC's retained earnings to IDA are recognized in the Transfers from affiliated organizations and others on the Statement of Income and Other assets on the Balance Sheet upon execution of a grant agreement between IFC and IDA.

In addition, IDA periodically receives contributions from trust funds and private institutions. IDA does not assign any voting rights for these contributions. Temporary restrictions relating to these contributions may arise from the timing of receipt of cash, or donor imposed restrictions as to use.

### **Trust Funds**

To the extent that IDA acts as an agent for or controls IDA-executed trust funds, assets held on behalf of specified beneficiaries are recorded on IDA's Balance Sheet, along with corresponding liabilities. Amounts disbursed from these trust funds are recorded as expenses with the corresponding amounts recognized as revenue. For Recipient-executed trust funds, since IDA acts as a trustee, no assets or liabilities relating to these activities are recorded on the Balance Sheet.

In some trust funds, execution is split between Recipient-executed and IDA-executed portions. Decisions on assignment of funding resources between the two types of execution may be made on an ongoing basis; therefore, the execution of a portion of these available resources may not yet be assigned.

IDA also acts as a financial intermediary to provide specific administrative or financial services with a limited fiduciary or operational role. These arrangements, referred to as Financial Intermediary Funds, include, for example, administration of debt service trust funds, financial intermediation and other more specialized limited fund management roles. For these arrangements, funds are held and disbursed in accordance with instructions from donors or, in some cases, an external governance structure or a body operating on behalf of donors. For Financial Intermediary Funds, since IDA acts as a trustee, no assets or liabilities relating to these activities are recorded on IDA's Balance Sheet.

### **Segment Reporting**

Based on an evaluation of its operations, management has determined that IDA has only one reportable segment since financial results are reviewed and resource allocation decisions are made at the entity level.

## Accounting and Reporting Developments

### *Evaluated Accounting Standards:*

In January 2021, the FASB issued ASU 2021-01 - *Reference Rate Reform (Topic 848): Scope*. The ASU permits entities to elect certain optional expedients and exceptions when accounting for derivative contracts affected by changes in the interest rates used in computations affected by reference rate reform activities. IDA adopted the standard prospectively effective March 31, 2021, as permitted by the ASU, and the adoption did not have a material impact on the financial statements.

In March 2020, the FASB issued ASU 2020-04 - *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The ASU provides temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burden of the expected market transition from LIBOR and other interbank offered rates. To be eligible for the optional expedients, modifications of contractual terms that change (or have the potential to change) the amount or timing of contractual cash flows must be related only to replacement of a reference rate. The relief is temporary and is only available through December 31, 2022. IDA will apply the standard consistently to contractual amendments made to all applicable floating rate instruments indexed to IBOR (inter-bank offered rate) rates. IDA adopted the standard effective June 30, 2020 and the adoption did not have a material impact on the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which amends the disclosure requirements of ASC 820. The guidance became effective for IDA from the quarter ending September 30, 2020. The adoption of this ASU had no material impact on IDA’s financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (CECL ASU). The ASU and its subsequent amendments introduce a new model for the accounting of credit losses of loans and other financial assets measured at amortized cost. The current expected credit loss (CECL) model, requires an entity to estimate the credit losses expected over the life of an exposure, considering historical information, current information, and reasonable and supportable forecasts. Additionally, the ASUs require enhanced disclosures about credit quality and significant estimates and judgments used in estimating credit losses.

For IDA, the ASUs became effective on July 1, 2020. The transition adjustment increased the Accumulated Deficit by \$802 million, which reflects the increase in the credit losses relating to loans and other exposures under CECL compared to the previous “incurred loss” model. The impact is mainly driven by the requirement to provision over the full life of IDA’s long maturity profile credit exposures as well as the inclusion of signed loan commitments in the determination of the provision.

See the table below for details of the CECL transition adjustment as of July 1, 2020. The transition adjustment had no impact to the Statement of Income. See Note D — Loans and Other Exposures, for additional details.

*In millions of U.S. dollars*

<i>Accumulated provision related to</i>	<i>Location on the Balance Sheet</i>	<i>June 30, 2020 As reported</i>	<i>Impact of the adoption of the CECL ASU</i>	<i>July 1, 2020 Adjusted</i>
Loans outstanding	Accumulated provision for loan losses	\$ 2,829	\$ (59)	\$ 2,770
Debt Relief under HIPC/MDRI	Accumulated provision for loan losses	1,591	-	1,591
Signed loan commitments	Other liabilities	-	859	859
Other exposures	Other liabilities	72	2	74
Total accumulated provision		<u>\$ 4,492</u>	<u>\$ 802</u>	<u>\$ 5,294</u>
Accumulated Deficit		\$ (58,321)	\$ (802)	\$ (59,123)

## NOTE B—MEMBERS' SUBSCRIPTIONS AND CONTRIBUTIONS, AND MEMBERSHIP

The movement in subscriptions and contributions paid-in is summarized below:

**Table B1: Subscriptions and contributions paid-in**

<i>In millions of U.S. dollars</i>		
	<i>June 30, 2021</i>	<i>June 30, 2020</i>
<b>Beginning of the fiscal year</b>	\$ 241,343	\$ 234,078
Cash contributions received <sup>a</sup>	3,442	3,336
Demand obligations received	4,901	4,233
Translation adjustment	766	(304)
<b>End of the fiscal year</b>	<u>\$ 250,452</u>	<u>\$ 241,343</u>

a. Includes any restricted cash subscriptions.

During the fiscal year ended June 30, 2021, IDA encashed demand obligations totaling \$4,913 million (\$4,487 million—fiscal year ended June 30, 2020).

## NOTE C—INVESTMENTS

The investment securities held by IDA are designated as either trading or non-trading. All securities are carried and reported at fair value, or at face value which approximates fair value.

As of June 30, 2021, IDA's Investments were mainly comprised of government and agency obligations (68%), with all the instruments being classified as either Level 1 or Level 2 within the fair value hierarchy. As of June 30, 2021, the largest holding of Investments-Trading with a single counterparty was Japanese Government instruments (14%).

A summary of IDA's investments composition is as follows:

**Table C1: Investments-composition**

<i>In millions of U.S. dollars</i>		
	<i>June 30, 2021</i>	<i>June 30, 2020</i>
<b>Trading</b>		
Government and agency obligations	\$ 25,277	\$ 24,198
Time deposits	11,460	8,398
Asset-backed securities	152	1,449
	<u>\$ 36,889</u>	<u>\$ 34,045</u>
<b>Non-trading (at fair value)</b>		
Debt securities	487	625
<b>Total</b>	<u>\$ 37,376</u>	<u>\$ 34,670</u>

IDA manages its investments on a net portfolio basis. The following table summarizes IDA's net portfolio position; the presentation of derivative instruments is on a net instrument basis:

**Table C2: Net investment portfolio position**

*In millions of U.S. dollars*

	<i>June 30, 2021</i>	<i>June 30, 2020</i>
<b>Investments</b>		
Trading	\$ 36,889	\$ 34,045
Non-trading	487	625
Total	<u>37,376</u>	<u>34,670</u>
<b>Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received <sup>a</sup></b>	-	(109)
<b>Derivative Assets</b>		
Currency swaps and currency forward contracts	167	19
Interest rate swaps	-	1
Other <sup>b</sup>	-	3
Total	<u>167</u>	<u>23</u>
<b>Derivative Liabilities</b>		
Currency swaps and currency forward contracts	(65)	(143)
Interest rate swaps	(17)	(6)
Other <sup>b</sup>	-	(1)
Total	<u>(82)</u>	<u>(150)</u>
<b>Cash held in investment portfolio <sup>c</sup></b>	426	602
<b>Receivable from investment securities traded and other assets <sup>d</sup></b>	107	636
<b>Payable for investment securities purchased <sup>e</sup></b>	(73)	(101)
<b>Net Investment Portfolio</b>	<u>\$ 37,921</u>	<u>\$ 35,571</u>

a. As of June 30, 2021 there was no cash collateral received from counterparties under derivative agreements (\$2 million - June 30, 2020, including \$1 million excess collateral).

b. These relate to TBA securities, swaptions, exchange traded options and futures contracts.

c. This amount is included in Unrestricted cash under Due from Banks on the Balance Sheet.

d. This amount is included in Other receivables and in Other assets, respectively, on the Balance Sheet.

e. As of June 30, 2021 there were no short sales (less than \$0.5 million—June 30, 2020)

IDA uses derivative instruments to manage currency and interest rate risk in the investment portfolio. For details regarding these instruments, see Note F—Derivative Instruments.

The maturity structure of IDA's non-trading investment portfolio (principal amount due) is provided in the table below:

**Table C3: Maturity structure of non-trading investment portfolio**

*In millions of U.S. dollars*

<i>Period</i>	<i>June 30, 2021</i>	<i>June 30, 2020</i>
Less than 1 year	\$ 113	\$ 125
Between		
1 - 2 years	96	113
2 - 3 years	77	96
3 - 4 years	62	77
4 - 5 years	34	62
Thereafter	90	124
	<u>\$ 472</u>	<u>\$ 597</u>

## Commercial Credit Risk

For the purpose of risk management, IDA is party to a variety of financial transactions, certain of which involve elements of credit risk. Credit risk exposure represents the maximum potential loss due to possible nonperformance

by obligors and counterparties under the terms of the contracts. For all securities, IDA limits trading to a list of authorized dealers and counterparties. In addition, credit limits have been established for counterparties by type of instrument and maturity category.

**Swap Agreements:** Credit risk is mitigated through a credit approval process, volume limits, monitoring procedures and the use of mark-to-market collateral arrangements. IDA may require collateral in the form of cash or other approved liquid securities from individual counterparties to mitigate its credit exposure.

IDA has entered into master derivative agreements, which contain legally enforceable close-out netting provisions. These agreements may further reduce the gross credit risk exposure related to the swaps. Credit risk with financial assets subject to a master derivative arrangement is further reduced under these agreements to the extent that payments and receipts with the counterparty are netted at settlement. The reduction in exposure as a result of these netting provisions can vary due to the impact of changes in market conditions on existing and new transactions. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date. For more information on netting and offsetting provisions, see Note F—Derivative Instruments.

The following table is a summary of the collateral received by IDA related to swap transactions:

**Table C4: Collateral received**

<i>In millions of U.S. dollars</i>			
		<i>June 30, 2021</i>	<i>June 30, 2020</i>
Collateral received			
Cash	\$	-	\$ -
Securities		-	68
Total collateral received	\$	-	\$ 68
Collateral permitted to be repledged	\$	-	\$ 68
Amount of collateral repledged		-	-
Amount of Cash Collateral invested		-	-

**Securities Lending:** IDA may engage in securities lending and repurchases, against adequate collateral, as well as securities borrowing and reverse repurchases (resales) of government and agency obligations, and ABS.

These transactions have been conducted under legally enforceable master netting arrangements, which allow IDA to reduce its gross credit exposure related to these transactions. As of June 30, 2021, there were no amounts which could potentially be offset as a result of legally enforceable master netting arrangements (Nil— June 30, 2020).

Transfers of securities by IDA to counterparties are not accounted for as sales as the accounting criteria for the treatment as a sale have not been met. Counterparties are permitted to repledge these securities until the repurchase date.

Securities lending agreements and repurchase agreements expose IDA to several risks, including counterparty risk, reinvestment risk, and risk of a collateral gap (increase or decrease in the fair value of collateral pledged). IDA has procedures in place to ensure that trading activity and balances under these agreements are below predefined counterparty and maturity limits, and to actively monitor net counterparty exposure, after collateral, through daily mark-to-market. Whenever the collateral pledged by IDA related to its borrowings under securities lending agreements and repurchase agreements declines in value, the transaction is re-priced as appropriate by returning cash or pledging additional collateral.

As of June 30, 2021, there were no liabilities relating to securities transferred under repurchase or securities lending agreements (\$107 million — June 30, 2020, comprised entirely of government and agency obligations, with agreements of overnight and continuous remaining contractual maturity).

As of June 30, 2021, none of the liabilities relating to securities transferred under repurchase or securities lending Agreements remained unsettled at that date (Nil— June 30, 2020). There were no replacement trades entered into in anticipation of maturing trades of a similar amount (Nil— June 30, 2020).

In the case of resale agreements, IDA receives collateral in the form of liquid securities and is permitted to repledge these securities. While these transactions are legally considered to be true purchases and sales, the securities received are not recorded on IDA's balance sheet as the accounting criteria for treatment as a sale have not been



met. As of June 30, 2021, and June 30, 2020, there were no securities purchased under resale agreements, nor were there any such instruments that remained unsettled on those dates.

## NOTE D—LOANS AND OTHER EXPOSURES

IDA's loans and other exposures are generally made to, or guaranteed by, member countries of IDA. Loans are carried at amortized cost. Based on IDA's internal credit quality indicators, the majority of the loans outstanding are in the Medium and High risk classes.

IDA excludes the interest and service charges receivable balance from the amortized cost basis and the related disclosures as permitted by U.S. GAAP. As of June 30, 2021, accrued interest income and service charges on loans of \$502 million is presented in Other receivables – Accrued interest and commitment charges on the Balance Sheet.

As of June 30, 2021, loans outstanding totaling \$932 million (0.5% of the portfolio) from three-borrowers, remain in nonaccrual status. On March 25, 2021, all remaining loans to Sudan were restored to accrual status, upon receipt of overdue amounts, in accordance with IDA's policy.

### Maturity Structure

The maturity structure of loans outstanding was as follows:

**Table D1: Loans - Maturity structure**

<i>In millions of U.S. dollars</i>			
<i>June 30, 2021</i>		<i>June 30, 2020</i>	
July 01, 2021 through June 30, 2022	\$ 7,415	July 01, 2020 through June 30, 2021	\$ 6,688
July 01, 2022 through June 30, 2026	36,318	July 01, 2021 through June 30, 2025	31,134
July 01, 2026 through June 30, 2031	46,624	July 01, 2025 through June 30, 2030	40,491
Thereafter	91,147	Thereafter	87,067
Total	<u>\$ 181,504</u>	Total	<u>\$ 165,380</u>

### Currency Composition

Loans outstanding had the following currency composition:

**Table D2: Loans outstanding- Currency composition**

<i>In millions of U.S. dollars</i>		
	<i>June 30, 2021</i>	<i>June 30, 2020</i>
Euro	\$ 7,407	\$ 4,715
U.S. dollar	10,123	7,812
SDR	163,964	152,853
JPY	10	-
Total	<u>\$ 181,504</u>	<u>\$ 165,380</u>

### Credit Quality of Sovereign Loans

Based on an evaluation of IDA's exposures, management has determined that IDA has one portfolio segment – Sovereign Exposures. IDA's loans constitute the majority of the Sovereign Exposures portfolio segment.

IDA's country risk ratings are an assessment of its borrowers' ability and willingness to repay IDA on time and in full. These ratings are internal credit quality indicators. Individual country risk ratings are derived on the basis of both quantitative and qualitative analyses. The components considered in the analysis can be grouped broadly into eight categories: political risk, external debt and liquidity, fiscal policy and public debt burden, balance of payments risks, economic structure and growth prospects, monetary and exchange rate policy, financial sector risks, and corporate sector debt and vulnerabilities. The analysis also takes into account Environmental, Social and Governance factors. For the purpose of analyzing the risk characteristics of IDA's exposures, these exposures are grouped into three classes in accordance with assigned borrower risk ratings, which relate to the likelihood of loss: Low, Medium and High risk classes, as well as exposures in nonaccrual status.

IDA's borrower country risk ratings are key determinants in the provision for loan losses. Country risk ratings are grouped in pools of borrowers with similar credit ratings for the purpose of the calculation of the expected credit losses. Country risk ratings are determined in review meetings that take place several times a year. All countries are reviewed at least once a year, or more frequently if circumstances warrant, to determine the appropriate ratings.

An assessment was also performed to determine whether a qualitative adjustment was needed on the loan loss provision as of June 30, 2021, particularly in consideration of the COVID-19 pandemic. Management concluded that a qualitative adjustment beyond the regular application of IDA's loan loss provision framework was not warranted.

IDA considers loans to be past due when a borrower fails to make payment on any principal, interest or other charges due to IDA on the dates provided in the contractual loan agreement.

The following tables provide an aging analysis of loans outstanding:

**Table D3: Loans-Aging structure**

*In millions of U.S. dollars*

<i>Days past due</i>	<i>June 30, 2021</i>					<i>Total Past Due</i>	<i>Current</i>	<i>Total</i>
	<i>Up to 45</i>	<i>46-60</i>	<i>61-90</i>	<i>91-180</i>	<i>Over 180</i>			
Risk Class								
Low	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 659	\$ 659
Medium	-	-	-	-	-	-	23,092	23,092
High	7	-	-	-	-	7	156,814 <sup>a</sup>	156,821
Loans in accrual status	7	-	-	-	-	7	180,565	180,572
Loans in nonaccrual status	7	1	3	9	399	419	513	932
Total	<u>\$ 14</u>	<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ 9</u>	<u>\$ 399</u>	<u>\$ 426</u>	<u>\$ 181,078</u>	<u>\$ 181,504</u>

**Table D3.1**

*In millions of U.S. dollars*

<i>Days past due</i>	<i>June 30, 2020</i>					<i>Total Past Due</i>	<i>Current</i>	<i>Total</i>
	<i>Up to 45</i>	<i>46-60</i>	<i>61-90</i>	<i>91-180</i>	<i>Over 180</i>			
Risk Class								
Low	\$ *	\$ -	\$ -	\$ -	\$ -	\$ *	\$ 985	\$ 985
Medium	-	-	-	-	-	-	23,100	23,100
High	3	*	*	-	-	3	139,195 <sup>a</sup>	139,198
Loans in accrual status	3	*	*	-	-	3	163,280	163,283
Loans in nonaccrual status	10	1	3	20	1,131	1,165	932	2,097
Total	<u>\$ 13</u>	<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ 20</u>	<u>\$ 1,131</u>	<u>\$ 1,168</u>	<u>\$ 164,212</u>	<u>\$ 165,380</u>

*a. Includes PSW-related loans of \$10 million (\$5 million-June 30, 2020)*

*\* Indicates amount less than \$0.5 million.*

IDA considers the signature date of a loan as the best indicator of the decision point in the origination process, rather than the disbursement date.

The table below discloses the outstanding balances of IDA's loan portfolio as of June 30, 2021 classified by the year the loan agreement was signed.

**Table D4: Loan portfolio vintage disclosure**

*In millions of U.S. dollars*

in millions of U.S. dollars

	June 30, 2021								
	Fiscal Year of origination						CAT DDOs	CAT DDOs	Loans
Risk Class	2021	2020	2019	2018	2017	Prior Years	disbursed and revolving	Converted to Term Loans	Outstanding as of June 30, 2021
Low	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 659	\$ -	\$ -	\$ 659
Medium	401	564	255	64	488	21,320	-	-	23,092
High	4,803	6,260	8,266	8,861	8,927	119,316	388	-	156,821
Loans in accrual status	5,204	6,824	8,521	8,925	9,415	141,295	388	-	180,572
Loans in nonaccrual status	-	-	-	-	-	932	-	-	932
Total	\$ 5,204	\$ 6,824	\$ 8,521	\$ 8,925	\$ 9,415	\$ 142,227	\$ 388	\$ -	\$ 181,504

There were no Catastrophe Deferred Drawdown Option (CAT DDO) outstanding and revolving converted to term loans during the fiscal year ended June 30, 2021.

#### Accumulated Provision for Losses on Loans and Other Exposures

Management determines the appropriate level of accumulated provisions for losses, which reflects the expected losses inherent in IDA's exposures.

The provision for HIPC Debt Initiative and MDRI is based on quantitative and qualitative analyses of various factors, including estimates of Decision Point and Completion Point dates. These factors are reviewed periodically as part of the reassessment of the adequacy of the accumulated provision for loan losses. Provisions are released as qualifying debt service becomes due and is forgiven under the HIPC Debt Initiative and are reduced by the amount of the eligible loans written off when the country reaches Completion Point and becomes eligible for MDRI debt relief.

The accumulated provision as of July 1, 2020 was increased by an \$802 million transition adjustment recorded upon adoption of CECL. The transition adjustment corresponds to the difference between the accumulated provision calculated under the previous "incurred loss" model and the CECL model. Changes to the accumulated provision for losses on loans and other exposures are summarized below.

**Table D5: Accumulated provisions***In millions of U.S. dollars*

	June 30, 2021				
	<i>Loans outstanding</i>	<i>Loan commitments</i>	<i>Debt relief under HIPC/MDRI</i>	<i>Other</i>	<i>Total</i>
<b>Accumulated provision, beginning of the fiscal year</b>	\$ 2,829	\$ -	\$ 1,591	\$ 72	\$ 4,492
CECL Transition adjustment	(59)	859	-	2	802
<b>Adjusted accumulated provision at the beginning of the fiscal year</b>	<u>2,770</u>	<u>859</u>	<u>1,591</u>	<u>74</u>	<u>5,294</u>
Provision, net - charge (release)	77	166	(828) <sup>b</sup>	46	(539)
Loans written off under:					
HIPC/MDRI	-	-	(9) <sup>d</sup>	-	(9)
Translation adjustment	99	29	18	-	146
<b>Accumulated provision, end of the fiscal year</b>	<u>\$ 2,946</u>	<u>\$ 1,054</u>	<u>\$ 772</u>	<u>\$ 120</u>	<u>\$ 4,892</u>
Including accumulated provision for losses on:					
Loans in accrual status	\$ 2,692		\$ 485		\$ 3,177
Loans in nonaccrual status	254		287		541
<b>Total</b>	<u>\$ 2,946</u>		<u>\$ 772</u>		<u>\$ 3,718</u>
Loans:					
Loans in accrual status					\$ 180,572
Loans in nonaccrual status					932
<b>Total</b>					<u>\$ 181,504</u>

**Table D5.1:***In millions of U.S. dollars*

	June 30, 2020				
	<i>Loans outstanding</i>	<i>Loan commitments</i>	<i>Debt relief under HIPC/MDRI</i>	<i>Other</i>	<i>Total</i>
<b>Accumulated provision, beginning of the fiscal year</b>	\$ 2,826	\$ -	\$ 1,812	\$ 70	\$ 4,708
Provision, net - charge (release) <sup>a</sup>	33	-	(206) <sup>c</sup>	3	(170)
Loans written off under:					
Prepayments	(3)	-	-	-	(3)
HIPC/MDRI	-	-	(10) <sup>d</sup>	-	(10)
Translation adjustment	(27)	-	(5)	(1)	(33)
<b>Accumulated provision, end of the fiscal year</b>	<u>\$ 2,829</u>	<u>\$ -</u>	<u>\$ 1,591</u>	<u>\$ 72</u>	<u>\$ 4,492</u>
Including accumulated provision for losses on:					
Loans in accrual status	\$ 2,556		\$ 201		\$ 2,757
Loans in nonaccrual status	273		1,390		1,663
<b>Total</b>	<u>\$ 2,829</u>		<u>\$ 1,591</u>		<u>\$ 4,420</u>
Loans:					
Loans in accrual status					\$ 163,283
Loans in nonaccrual status					2,097
<b>Total</b>					<u>\$ 165,380</u>

a. For the fiscal year ended June 30, 2020, the provision includes \$3 million of discount on prepayment of loans

b. Includes \$819 million release of Sudan HIPC provision due to arrears clearance

c. Includes \$280 million release of Somalia HIPC provision due to arrears clearance

d. Represents debt service reduction under HIPC

	Reported as Follows	
	Balance Sheet	Statement of Income
<b>Accumulated Provision for Losses on:</b>		
Loans Outstanding	Accumulated provision for loan losses	Provision for losses on loans and other exposures, release
Debt Relief under HIPC/MDRI	Accumulated provision for loan losses	Provision for losses on loans and other exposures, release
Loan commitments and Other Exposures	Other liabilities	Provision for losses on loans and other exposures, release

### Loans to be written off under MDRI

During the fiscal years ended June 30, 2021 and June 30, 2020, there were no loans written off under the MDRI.

### Overdue Amounts

IDA considers loans to be past due when a borrower fails to make payment on any principal, service charges or interest due to IDA on the dates provided in the contractual loan agreement. As of June 30, 2021, there were no principal or charges under sovereign loans in accrual status which were overdue by more than three months.

On March 25, 2021, Sudan paid all of their overdue principal and charges due to IDA of \$849 million and \$244 million, respectively. The outstanding loans remaining to Sudan were restored to accrual status on that date, in accordance with IDA's policy. Revenue from loans for the nine months ended March 31, 2021, increased by \$244 million, which represents service charges received on March 25, 2021, that would have been recognized in previous periods had these loans been in accrual status. The arrears clearance of the overdue payments to IDA for Sudan was accomplished using a bridge financing provided by a member country. On the same day, IDA disbursed two development grants totaling \$1.3 billion to Sudan in support of re-engagement and reform programs. Sudan used \$1.1 billion of the proceeds from the program to repay the bridge financing. Sudan's arrears clearance led to a \$831 million release of loan loss provision.

On June 29, 2021, Sudan reached Decision Point under the HIPC debt initiative and became eligible for approximately \$114 million in interim debt relief. As a result, IDA recorded a \$114 million charge to the HIPC provision for losses on Sudan's outstanding loans as of June 30, 2021.

The following tables provide a summary of selected financial information for loans in nonaccrual status:

**Table D6: Loans in nonaccrual status**

*In millions of U.S. dollars*

Borrower	Nonaccrual since	Recorded investment <sup>a</sup>	Average recorded investment	Principal Outstanding	Provision for debt relief	Provision for loan losses <sup>b</sup>	Overdue amounts	
							Principal	Charges
Eritrea	March 2012	\$ 446	\$ 446	\$ 446	\$ 287	\$ 17	\$ 103	\$ 33
Syrian Arab Republic	June 2012	14	14	14	-	1	12	1
Zimbabwe	October 2000	472	472	472	-	236	304	68
Total - June 30, 2021		<u>\$ 932</u>	<u>\$ 932</u>	<u>\$ 932</u>	<u>\$ 287</u>	<u>\$ 254</u>	<u>\$ 419</u>	<u>\$ 102</u>
Total - June 30, 2020		<u>\$ 2,097</u>	<u>\$ 2,093</u>	<u>\$ 2,097</u>	<u>\$ 1,390</u>	<u>\$ 273</u>	<u>\$ 1,165</u>	<u>\$ 324</u>

a. A loan loss provision has been recorded against each of the loans in nonaccrual status.

b. Loan loss provisions are determined after taking into account accumulated provision for debt relief.

During the fiscal years ended June 30, 2021 and June 30, 2020, no new loans were placed into nonaccrual status.

**Table D7: Service charge revenue not recognized***In millions of U.S. dollars*

	<i>Fiscal Year Ended June 30,</i>		
	<i>2021</i>	<i>2020</i>	<i>2019</i>
Service charge revenue not recognized as a result of loans being in nonaccrual status	\$ 7	\$ 15	\$ 19

During the fiscal year ended June 30, 2021, no service charge revenue was recognized on loans in nonaccrual status (less than \$1 million—fiscal year ended June 30, 2020 and less than \$1 million —fiscal year ended June 30, 2019).

**Guarantees**

Guarantees of \$2,513 million were outstanding as of June 30, 2021 (\$2,362 million – June 30, 2020). This amount includes \$484 million relating to the PSW (\$308 million—June 30, 2020). The outstanding amount of guarantees represent the maximum potential undiscounted future payments that IDA could be required to make under these guarantees that is not included on the Balance Sheet. The guarantees issued by IDA have original maturities ranging between 2 and 22 years, and expire in decreasing amounts through 2041.

As of June 30, 2021, liabilities related to IDA's obligations under guarantees of \$138 million (\$138 million— June 30, 2020), have been included in Other liabilities on the Balance Sheet. These include the accumulated provision for guarantee losses of \$109 million (\$66 million— June 30, 2020). The cumulative effect of the adoption of CECL was a decrease of \$3 million in the accumulated provision for guarantee losses as of July 1, 2020.

During the fiscal years ended June 30, 2021 and June 30, 2020, no guarantees provided by IDA to sovereign or sub-sovereign borrowers were called. As of June 30, 2021 IDA-PSW Blended Finance Facility guarantees under the Small Loan Guarantee Program pursuant to the risk-sharing agreement between IDA and IFC were called for an amount less than \$0.5 million. During the fiscal years ended June 30 2021 and June 30, 2020, no other guarantees provided by IDA under the PSW were called.

**Concentration Risk**

Loan revenue comprises service charges and interest charges on outstanding loan balances. For the fiscal year ended June 30, 2021, loan revenue from two countries of \$242 million and \$218 million were each in excess of ten percent of total loan revenue.

The following table presents IDA's loans outstanding and associated loan revenue by geographic region:

**Table D8: Loan revenue and outstanding balance by geographic region***In millions of U.S. dollars**As of and for the fiscal years ended June 30,*

<i>Region</i>	<i>2021</i>		<i>2020</i>	
	<i>Service and Interest Charges <sup>c</sup></i>	<i>Loans Outstanding</i>	<i>Service and Interest Charges <sup>c</sup></i>	<i>Loans Outstanding</i>
South Asia	\$ 676	\$ 64,141	\$ 621	\$ 59,629
Eastern and Southern Africa <sup>a</sup>	639 <sup>b</sup>	48,508	408	43,598
Western and Central Africa <sup>a</sup>	330	34,786	266	29,701
East Asia and Pacific	230	20,460	209	19,602
Europe and Central Asia	114	7,821	126	7,388
Latin America and the Caribbean	42	3,267	34	2,925
Middle East and North Africa	20	2,511	21	2,532
Others <sup>d</sup>	1	10	-	5
Total	<u>\$ 2,052</u>	<u>\$ 181,504</u>	<u>\$ 1,685</u>	<u>\$ 165,380</u>

a. Effective July 1st, 2020, Africa region has been reorganized into two regions: Eastern and Southern Africa & Western and Central Africa.

b. Includes \$248 million of service charges pertaining to Sudan.

c. Excludes \$2 million of interest rate swap expenses related to loan hedges (\$1 million-June 30, 2020).

d. Represents loans under the PSW.

## NOTE E—BORROWINGS

IDA's borrowings comprise both concessional partner loans from IDA's members and market borrowings.

Concessional partner loans are unsecured and unsubordinated fixed rate debt in SDR component currencies. IDA may prepay some or the entire outstanding amounts without penalty. These borrowings are reported at amortized cost, and have original maturities of 25 and 40 years, with the final maturity in 2060. This does not include the proceeds received under the grant component of the concessional partner loan agreements, included in equity for which voting rights have been attributed.

**Table E1: Borrowings-concessional partner loans outstanding**

*In millions of U.S. dollars*

	<i>Concessional Partner Loans outstanding</i>		
	<i>Principal at face value</i>	<i>Net unamortized premium (discount)</i>	<i>Total</i>
June 30, 2021	\$ 9,495	\$ (1,736)	\$ 7,759
June 30, 2020	\$ 9,360	\$ (1,725)	\$ 7,635

Market borrowings are unsecured and unsubordinated fixed debt in a variety of currencies. Some of these instruments are callable. IDA has elected the fair value option for these instruments, which have original maturities that range from 34 days to 15 years, with the final maturity in 2036.

IDA uses derivative contracts to manage the currency risk as well as the interest rate risk in the market borrowings portfolio. For example, as part of IDA's asset-liability management strategy, IDA may also enter into derivative transactions to convert fixed rate bonds into floating rate instruments. For details regarding the derivatives used in the borrowing portfolio, see Note F—Derivative Instruments.

**Table E2: Market borrowings after derivatives, at fair value**

*In millions of U.S. dollars*

	<i>June 30, 2021</i>	<i>June 30, 2020</i>
Market borrowings	\$ 20,555	\$ 12,131
Currency swaps, net	(97)	40
Interest rate swaps, net	118	(153)
Total	<u>\$ 20,576</u>	<u>\$ 12,018</u>

As of June 30, 2021, all of the instruments in IDA's borrowing portfolio were classified as Level 2, within the fair value hierarchy.

The following table provides a summary of the interest rate characteristics of IDA's borrowings:

**Table E3: Borrowings-Interest rate composition**

*In millions of U.S. dollars*

	<i>June 30, 2021</i>	<i>WAC<sup>a</sup></i>	<i>June 30, 2020</i>	<i>WAC<sup>a</sup></i>
Fixed	\$ 28,404	0.99 %	\$ 19,610	1.14 %
Variable	-	-	-	-
Borrowings <sup>b</sup>	\$ 28,404	0.99 %	\$ 19,610	1.14 %
Fair Value Adjustment	(90)		156	
Total Borrowings	<u>\$ 28,314</u>		<u>\$ 19,766</u>	

*a. WAC refers to weighted average cost.*

*b. At amortized cost.*

The currency composition of debt in IDA's borrowing portfolio before derivatives was as follows:

**Table E4: Borrowings-Currency composition before derivatives**

	<i>June 30, 2021</i>		<i>June 30, 2020</i>	
Euro	18	%	18	%
Japanese yen	14		20	
Pound sterling	17		17	
U.S. dollar	49		43	
Others	2		2	
	100	%	100	%

The maturity structure of IDA's borrowings outstanding was as follows:

**Table E5: Borrowings-Maturity structure**

*In millions of U.S. dollars*

<i>Period</i>	<i>June 30, 2021</i>		<i>June 30, 2020</i>	
Less than 1 year	\$	4,724	\$	5,840
1 - 2 years		1,713		120
2 - 3 years		146		1,740
3 - 4 years		2,837		137
4 - 5 years		4,154		2,564
Thereafter		16,476		11,090
Total <sup>a</sup>	\$	30,050	\$	21,491

*a. For June 30, 2021, total includes net unamortized discount of \$1,736 million (\$1,725 million—June 30, 2020) for Concessional Partner Loans.*

The following table provides information on the unrealized mark-to-market gains or losses on market borrowings included in the Statement of Income:

**Table E6: Unrealized mark-to-market gains or losses relating to market borrowings**

*In millions of U.S. dollars*

<i>Reported as</i>	<i>2021</i>	<i>2020</i>	<i>2019</i>
Unrealized mark-to-market gains (losses) on non-trading portfolios, net	\$ 318	\$ (106)	\$ (63)



## NOTE F—DERIVATIVE INSTRUMENTS

IDA uses derivative instruments in its investment, loan and borrowing portfolios, for asset/liability management purposes, and to assist clients in managing risks.

The following table summarizes IDA's use of derivatives in its various financial portfolios.

**Table F1: Use of derivatives in various financial portfolios**

Portfolio	Derivative instruments used	Purpose/Risk being managed
<b>Risk management purposes:</b>		
Investments-Trading	Interest rate swaps, currency forward contracts, currency swaps, options, swaptions, futures contracts and TBA securities	Manage currency and interest rate risk in the portfolio.
Other assets/liabilities	Currency forward contracts, currency swaps and interest rate swaps	Manage currency and interest rate risks.
Loans	Interest rate swaps	Manage interest rate risk in the portfolio.
Borrowings	Interest rate swaps and currency swaps	Manage currency and interest rate risk in the portfolio.
<b>Other purposes:</b>		
Client operations	Structured swaps	Assist clients in managing risks.

The derivatives in the related tables of Note F are presented on a net basis by instrument. A reconciliation to the Balance Sheet presentation is shown in table F2.

### Offsetting assets and liabilities

IDA enters into International Swaps and Derivatives Association, Inc. (ISDA) master netting agreements with substantially all of its derivative counterparties. These legally enforceable master netting agreements give IDA the right to liquidate securities held as collateral and to offset receivables and payables with the same counterparty, in the event of a default by the counterparty.

The following tables summarize the gross and net derivative positions by instrument type. Instruments that are in a net asset position are included in the Derivative Assets columns and instruments that are in a net liability position are included in the Derivative Liabilities columns. The gross columns represent the fair value of the instrument leg that is in an asset or liability position that are then netted with the other leg of the instrument in the gross offset columns. The effects of the master netting agreements are applied on an aggregate basis to the total derivative asset and liability positions and are presented net of any cash collateral received on the Balance Sheet in accordance with ASC 815 – *Derivatives and Hedging*. The net derivative asset positions in the tables below have been further reduced by any securities received as collateral to disclose IDA's net exposure on its derivative asset positions.

**Table F2: Derivatives assets and liabilities before and after netting adjustments***In millions of U.S. dollars*

	June 30, 2021					
	Located on the Balance Sheet					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts	Gross Amounts Offset	Net Amounts	Gross Amounts	Gross Amounts Offset	Net Amounts
Interest rate swaps	\$ 1,105	\$ (912)	\$ 193	\$ 1,886	\$ (1,577)	\$ 309
Currency swaps <sup>a</sup>	15,691	(15,231)	460	14,956	(14,449)	507
Other <sup>b</sup>	-	-	-	-	-	-
Total	\$ 16,796	\$ (16,143)	\$ 653 <sup>d</sup>	\$ 16,842	\$ (16,026)	\$ 816 <sup>d</sup>
Less:						
Amounts subject to legally enforceable master netting agreements			\$ 404 <sup>e</sup>			\$ 408 <sup>f</sup>
Cash collateral received <sup>c</sup>			-			-
<b>Net derivative positions on the Balance Sheet</b>			<u>\$ 249</u>			<u>\$ 408</u>
Less:						
Securities collateral received <sup>c</sup>			-			-
<b>Net derivative exposure after collateral</b>			<u>\$ 249</u>			

**Table F2.1***In millions of U.S. dollars*

	June 30, 2020					
	Located on the Balance Sheet					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts	Gross Amounts Offset	Net Amounts	Gross Amounts	Gross Amounts Offset	Net Amounts
Interest rate swaps	\$ 189	\$ (30)	\$ 159	\$ 2,328	\$ (1,231)	\$ 1,097
Currency swaps <sup>a</sup>	10,622	(9,909)	713	7,857	(7,593)	264
Other <sup>b</sup>	3	-	3	1	-	1
Total	\$ 10,814	\$ (9,939)	\$ 875 <sup>d</sup>	\$ 10,186	\$ (8,824)	\$ 1,362 <sup>d</sup>
Less:						
Amounts subject to legally enforceable master netting agreements			\$ 738 <sup>e</sup>			\$ 772 <sup>f</sup>
Cash collateral received <sup>c</sup>			1			-
<b>Net derivative positions on the Balance Sheet</b>			<u>136</u>			<u>590</u>
Less:						
Securities collateral received <sup>c</sup>			68			-
<b>Net derivative exposure after collateral</b>			<u>\$ 68</u>			

*a. Includes currency forward contracts.**b. These include swaptions, exchange traded options, futures contracts and TBA securities.**c. Does not include excess collateral received.**d. Based on the net value per a derivative instrument**e. Includes \$2 million CVA adjustment (\$7 million-June 30, 2020).**f. Includes \$6 million DVA adjustment (\$41 million-June 30, 2020).*

The following table provides information about the credit risk exposures, at the instrument level, of IDA's derivative instruments.

**Table F3: Credit risk exposure of the derivative instruments:**

*In millions of U.S. dollars*

	June 30, 2021			
	Interest rate swaps	Currency swaps (including currency forward contracts)	Other <sup>a</sup>	Total
Investments - Trading	\$ -	\$ 167	\$ -	\$ 167
Asset/liability management	78	176	-	254
Other <sup>b</sup>	115	117	-	232
<b>Total Exposure</b>	<b>\$ 193</b>	<b>\$ 460</b>	<b>\$ -</b>	<b>\$ 653</b>

**Table F3.1:**

*In millions of U.S. dollars*

	June 30, 2020			
	Interest rate swaps	Currency swaps (including currency forward contracts)	Other <sup>a</sup>	Total
Investments - Trading	\$ 1	\$ 19	\$ 3	\$ 23
Asset/liability management	-	691	-	691
Other <sup>b</sup>	158	3	-	161
<b>Total Exposure</b>	<b>\$ 159</b>	<b>\$ 713</b>	<b>\$ 3</b>	<b>\$ 875</b>

a. Includes swaptions, exchange traded options and futures contracts and TBA securities. Exchange traded instruments are generally subject to daily margin requirements and are deemed to have no material credit risk. All swaptions, options, and futures contracts are interest rate contracts.

b. Includes derivatives related to loans, borrowings and PSW.

The volume of derivative contracts is measured using the U.S. dollar equivalent notional balance. The notional balance represents the face value or reference value on which the calculations of payments on the derivative instrument are determined. As of June 30, 2021, the notional of interest rate swap contracts was \$33,432 million (\$24,027 million as of June 30, 2020), currency swaps \$30,349 million (\$18,158 million as of June 30, 2020), there were no long or short positions of other derivatives (\$1,992 million of long position and \$507 million of short position as of June 30, 2020).

**Collateral:** Under almost all of its ISDA master agreements, IDA is not required to post collateral as long as it maintains liquidity holdings at predetermined levels that are a proxy for a triple-A credit rating. After becoming a rated entity, IDA has started to enter into derivative agreements with commercial counterparties in which IDA is not required to post collateral as long as it maintains a triple-A rating. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position as of June 30, 2021 is \$414 million (\$719 million—June 30, 2020). As of June 30, 2021, IDA was not required to post any collateral in accordance with the relevant agreements.

If the credit-risk related contingent features underlying these agreements were triggered to the extent that IDA would be required to post collateral as of June 30, 2021, the amount of collateral that would need to be posted would be \$25 million (\$58 million—June 30, 2020). Subsequent triggers of contingent features would require posting of additional collateral, up to a maximum of \$414 million as of June 30, 2021 (\$719 million—June 30, 2020).

Amounts of gains and losses on the non-trading derivatives, by instrument type and their location in the Statement of Income are as follows:

**Table F4: Unrealized mark-to-market gains or losses on non-trading derivatives**

*In millions of U.S. dollars*

<i>Type of instrument</i>	<i>Reported as</i>	<i>Unrealized mark-to-market gains (losses)</i>		
		<i>Fiscal Year Ended June 30,</i>		
		<i>2021</i>	<i>2020</i>	<i>2019</i>
Interest rate swaps	Unrealized mark-to-market	898	(996)	58
Currency forward contracts and currency swaps	gains (losses) on Non-Trading	(101)	385	359
<b>Total</b>	portfolios, net	<u>\$ 797</u>	<u>\$ (611)</u>	<u>\$ 417</u>

The majority of the instruments in IDA's investment portfolio are held for trading purposes. Within the trading portfolio, IDA holds highly rated fixed income instruments as well as derivatives. The trading portfolio is primarily held to ensure the availability of funds to meet future cash flow requirements and for liquidity management purposes.

The following table provides information on the amount of gains and losses on the IDA's investment trading portfolio (derivative and non-derivative instruments), and their location in the Statement of Income:

**Table F5: Unrealized mark-to-market gains or losses on investment trading portfolio**

*In millions of U.S. dollars*

<i>Type of instrument</i>	<i>Reported as</i>	<i>Unrealized mark-to-market gains</i>		
		<i>Fiscal Year Ended June 30,</i>		
		<i>2021</i>	<i>2020</i>	<i>2019</i>
Fixed income (including related derivatives)	Unrealized mark-to-market	\$ 144	\$ 207	\$ 351
	gains on Investment-			
	Trading portfolios, net			

## NOTE G—TRANSACTIONS WITH AFFILIATED ORGANIZATIONS

IDA transacts with affiliated organizations as a recipient of transfers and grants, administrative and derivative intermediation services, and through cost sharing of IBRD's sponsored pension and other postretirement benefit plans.

### Transfers and Grants

Cumulative transfers and grants made to IDA as of June 30, 2021 were \$20,202 million (\$19,658 million—June 30, 2020). Details by transferor are as follows:

**Table G1: Transfers and grants**

*In millions of U.S. dollars*

<i>Transfers from</i>	<i>Beginning of the fiscal year</i>	<i>Transfers during the fiscal year</i>	<i>End of the fiscal year</i>
Total	\$ 19,658	\$ 544	\$ 20,202
Of which transfers from:			
IBRD	15,756	331	16,087
IFC	3,672	213	3,885

## Receivables and Payables

The total amounts receivable from (payable to) affiliated organizations is comprised of the following:

**Table G2: IDA's receivables and payables with affiliated organizations**

*In millions of U.S. dollars*

	June 30, 2021			June 30, 2020		
	IBRD	IFC	Total	IBRD	IFC	Total
Administrative Services, net <sup>a</sup>	\$ (268)	\$ -	\$ (268)	\$ (271)	\$ -	\$ (271)
Derivative Transactions						
Derivative assets, net	19	6	25	74	3	77
Derivative liabilities, net	(27)	(2)	(29)	(53)	(3)	(56)
PSW-Blended Finance Facility <sup>b</sup>	-	41	41	-	7	7
Pension and Other						
Postretirement Benefits	572	-	572	620	-	620
Investments	-	487	487	-	625	625
	<u>\$ 296</u>	<u>\$ 532</u>	<u>\$ 828</u>	<u>\$ 370</u>	<u>\$ 632</u>	<u>\$ 1,002</u>

a. Includes \$293 million for the fiscal year ended June 30, 2021 (\$238 million-June 30, 2020) receivable from IBRD for IDA's share of investments associated with Post-Retirement Contribution Reserve Fund (PCRF), which is a fund established to stabilize contributions made to the pension plans.

b. Refer to Table G4: Summary of PSW-related transactions.

The receivables from (payables to) these affiliated organizations are reported on the Balance Sheet as follows:

Receivables / Payables related to:	Reported as:
Receivable for pension and other postretirement benefits	Receivable from affiliated organization
Net receivables (payables) for derivative transactions	Derivative assets/liabilities, net
Payable for administrative services <sup>a</sup>	Payable to affiliated organization

a. Includes amounts receivable from IBRD for IDA's share of investments associated with PCRF. This receivable is included in Receivable from affiliated organization on the Balance Sheet.

## Administrative Services

The payable to IBRD represents IDA's share of joint administrative expenses, including contributions to special programs, net of other revenue jointly earned. The allocation of expenses is based upon an agreed cost sharing formula, and amounts are settled quarterly.

During the fiscal year ended June 30, 2021, IDA's share of joint administrative expenses and contributions to special programs totaled \$1,873 million (\$1,824 million—fiscal year ended June 30, 2020 and \$1,795 million—fiscal year ended June 30, 2019). This amount excludes IDA-executed trust fund expenses of \$553 million (\$586 million—fiscal year ended June 30, 2020 and \$467 million—fiscal year ended June 30, 2019).

## Other revenue

IDA's share of other revenue jointly earned with IBRD during the fiscal year ended June 30, 2021 totaled \$261 million (\$316 million—fiscal year ended June 30, 2020 and \$316 million—fiscal year ended June 30, 2019). This amount excludes IDA-executed trust fund revenue of \$553 million (\$586 million—fiscal year ended June 30, 2020 and \$467 million—fiscal year ended June 30, 2019).

The amount of fee revenue associated with services provided to other affiliated organizations is included in Other revenue in the Statement of Income, as follows:

**Table G3: Fee revenue from affiliated organizations**

*In millions of U.S. dollars*

	Fiscal Year Ended June 30,		
	2021	2020	2019
Fees charged to IFC	\$ 77	\$ 80	\$ 77
Fees charged to MIGA	5	5	5

### **Pension and Other Postretirement Benefits**

The staff of IBRD perform functions for both IBRD and IDA, but all staff compensation is paid directly by IBRD. Accordingly, a portion of IBRD's staff and associated administrative costs is allocated to IDA based on an agreed cost sharing ratio using various indicators. The methodology for computing this share ratio is approved by the Executive Directors for both institutions.

IBRD, along with IFC and MIGA, sponsors a defined benefit Staff Retirement Plan and Trust (SRP), the Retired Staff Benefits Plan and Trust (RSBP) and the Post-Employment Benefits Plan (PEBP) that cover substantially all of their staff members.

The SRP provides regular defined pension benefits and also includes a cash balance component. The RSBP provides certain health and life insurance benefits to eligible retirees. The PEBP provides certain pension benefits administered outside the SRP.

June 30 is used as the measurement date for these pension and other postretirement benefit plans. All costs, assets and liabilities associated with these plans are allocated between IBRD, IFC, and MIGA based upon their employees' respective participation in the plans.

While IDA is not a participating entity to these benefit plans, IDA shares in the costs and reimburses IBRD for its proportionate share of any contributions made to these plans by IBRD. During the fiscal year ended June 30, 2021, IDA's share of IBRD's costs relating to all the three plans totaled \$494 million (\$357 million—fiscal year ended June 30, 2020 and \$299 million—fiscal year ended June 30, 2019).

The receivable from IBRD represents IDA's net share of prepaid costs for pension and other postretirement benefit plans and PEBP assets. These will be realized over the lives of the plan participants.

The cost of any potential future liability arising from these plans would be shared by IBRD and IDA using the applicable share ratio. As of June 30, 2021, the SRP and the RSBP were underfunded by \$320 million and \$90 million, respectively. The PEBP, after reflecting IBRD and IDA's share of assets which are included in IBRD's investment portfolio of \$1,806 million, was underfunded by \$533 million.

### **Derivative transactions**

IDA enters into currency forward contracts with IBRD acting as the intermediary with the market, primarily to convert donors' expected contributions in national currencies under the Sixteenth and Seventeenth replenishments of IDA's resources into the five currencies of the SDR basket.

### **Investments – Non-trading**

During the fiscal year ended June 30, 2015, IDA purchased a debt security issued by IFC for a principal amount of \$1,179 million, amortizing over a period of 25 years. The investment carries a fixed interest rate of 1.84% and has a weighted average maturity of 3 years. As of June 30, 2021, the principal amount due on the debt security was \$472 million (\$597 million—fiscal year ended June 30, 2020), and it had a fair value of \$487 million (\$625 million—fiscal year ended June 30, 2020). The investment is reported under Investments on the Balance Sheet. During the fiscal year ended June 30, 2021, IDA recognized interest income of \$10 million from this investment (\$12 million—fiscal year ended June 30, 2020 and \$14 million—fiscal year ended June 30, 2019).

### **Private Sector Window**

The PSW was created under Eighteenth Replenishment of IDA's Resources (IDA18), which became effective beginning fiscal year ended June 30, 2018, to mobilize private sector investment in IDA-only countries and IDA-eligible Fragile and Conflict-affected States (FCS). In IDA18, PSW allocation was \$1.4 billion which was fully committed. The PSW continued under IDA's Nineteenth Replenishment of Resources (IDA19), which became effective beginning fiscal year ending June 30, 2021, with an initial allocation set at \$2.5 billion which was revised to \$1.7 billion. Under the fee arrangement for the PSW, IDA receives fee income for transactions executed under this window and reimburses IFC and MIGA for the related costs incurred in administering these transactions.

The following tables provide a summary of all PSW related transactions under which IDA had an exposure as of June 30, 2021:

**Table G4: Summary of PSW related transactions**

*In millions of U.S. dollars*

Facility	Notional	Net Asset/ (Liability) position	Description	Location on the Balance Sheet	
Local Currency Facility	\$ 90	\$ 4	Currency swaps with IFC to support local currency denominated loans	Derivative assets/ liabilities, net	

Facility	Exposure	Accumulated Provision	Description	Exposure	Accumulated Provision
MIGA Guarantee Facility	\$188	\$22	Expanding the coverage of MIGA Political Risk Insurance (PRI) products through shared first-loss or risk participation similar to reinsurance	Off Balance Sheet item	Other liabilities
Blended Finance Facility	\$296	\$50	Sharing the first loss to support IFC's Small Loan Guarantee Program, Global Trade Finance Program and Working Capital Solutions in PSW eligible countries	Off Balance Sheet item	Other liabilities
	41	Not applicable	Funding for IFC's PSW equity investment	Other assets	
	10	2	Concessional senior & sub-ordinated loans to support medium term projects	Loans outstanding	Accumulated Provision for Loan Losses

## NOTE H—TRUST FUNDS ADMINISTRATION

IDA, alone or jointly with one or more of its affiliated organizations, administers on behalf of the donors, including members, their agencies and other entities, funds restricted for specific uses in accordance with administration agreements with the donors. Specified uses of the funds include, among others, co-financing of IDA lending projects, debt reduction operations for IDA members, technical assistance for borrowers including feasibility studies and project preparation, global and regional programs, and research and training programs. These funds are held in trust by IDA and/or IBRD, and are held in a separate investment portfolio which is not commingled with IDA and/or IBRD funds.

Trust fund execution may be carried out in one of two ways: Recipient-executed or IDA-executed.

Recipient-executed trust funds involve activities carried out by a recipient third-party executing agency. IDA enters into agreements with and disburses funds to such recipients, who then exercise spending authority to meet the objectives and comply with terms stipulated in the agreements.

IDA-executed trust funds involve execution of activities by IDA as described in relevant administration agreements with donors, which define the terms and conditions for use of the funds. Spending authority is exercised by IDA, under the terms of the administration agreements. The executing agency services provided by IDA include, among others, activity preparation, analytical and advisory activities and project-related activities, including procurement of goods and services.

The following table summarizes the expenses pertaining to IDA-executed trust funds:

**Table H1: Expenses pertaining to IDA-executed trust funds**

*In millions of U.S. dollars*

	Fiscal Year Ended June 30,		
	2021	2020	2019
IDA-executed trust funds expenses	\$ 553	\$ 586	\$ 467

These amounts are included in Administrative expenses and the corresponding revenue is included in Revenue from externally funded activities in the Statement of Income. Administrative expenses primarily relate to staff cost, travel and consultant fees.

The following table summarizes undisbursed contributions made by third party donors to IDA-executed trust funds, recognized on the Balance Sheet:

**Table H2: Undisbursed contributions made by third party donors to IDA-executed trust funds**

<i>In millions of U.S. dollars</i>			
	<i>June 30, 2021</i>		<i>June 30, 2020</i>
IDA-executed trust funds	\$	749	\$ 707

These amounts are included in Other Assets and the corresponding liabilities are included in Accounts payable and miscellaneous liabilities on the Balance Sheet.

## Revenues

IDA's revenues for the administration of trust fund operations were as follows:

**Table H3: IDA's revenues for the administration of trust fund operations**

<i>In millions of U.S. dollars</i>			
	<i>Fiscal Year Ended June 30,</i>		
	<i>2021</i>	<i>2020</i>	<i>2019</i>
Revenues	\$ 38	\$ 41	\$ 46

These amounts are included in Other non-interest revenue in the Statement of Income.

Amounts collected from donor contributions for administration activities, but not yet earned, totaling \$70 million at June 30, 2021 (\$65 million—June 30, 2020) are included in Other Assets and in Accounts payable and miscellaneous liabilities, respectively, on the Balance Sheet.

## Transfers Received

Under the agreements governing the administration of certain trust funds, IDA may receive any surplus assets as transfers upon the termination of these trust funds. In addition, as loans are repaid to trust funds, in certain cases the repayments are transferred to IDA. During the fiscal year ended June 30, 2021 no funds were recorded as Transfers from affiliated organizations and others, under these arrangements (Nil—fiscal year ended June 30, 2020 and \$10 million —fiscal year ended June 30, 2019).

## NOTE I—DEVELOPMENT GRANTS

A summary of changes to the amounts payable for development grants is presented below:

**Table I1: Grants payable**

<i>In millions of U.S. dollars</i>			
	<i>June 30, 2021</i>		<i>June 30, 2020</i>
Balance, beginning of the fiscal year	\$	9,141	\$ 12,345
Unconditional grants approved		-	-
Disbursement (including PPA grant activity) <sup>a</sup>		(2,417)	(2,472)
Cancellations		(235)	(598)
Translation adjustment		331	(134)
Balance, end of the fiscal year	\$	6,820	\$ 9,141

*a. Project Preparation Advances (PPA)*



A summary of the development grant expenses is presented below:

**Table I2: Grant activity**

*In millions of U.S. dollars*

	<i>Fiscal Year Ended June 30,</i>	
	<i>2021</i>	<i>2020</i>
Conditional development grants disbursed <sup>a</sup>	\$ 3,829	\$ 2,216
Unconditional development grants approved	-	-
Less:		
Cancellations	(235)	(598)
Disbursement of grant advances not yet expensed <sup>b</sup>	(1,033)	(236)
Add:		
Grant advances meeting expense condition <sup>c</sup>	269	27
Other disbursements <sup>d</sup>	-	66
<b>Grant Expenses</b>	<b>\$ 2,830</b>	<b>\$ 1,475</b>
Grants Approved	\$ 12,192	\$ 7,997

*a. Disbursements of conditional grants approved on or after July 1, 2019.*

*b. Disbursements made over the period for which the expense recognition criteria has not yet been met.*

*c. Prior disbursement of grant advances meeting the criteria to be expensed over the period.*

*d. Comprises PEF conditional grants and CAT DDOs approved prior to July 1, 2019.*

As of June 30, 2021, the cumulative amount of conditional grants approved but not yet expensed was \$14,836 million.

## **NOTE J—ACCUMULATED OTHER COMPREHENSIVE INCOME**

Comprehensive income consists of net income (loss) and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income (loss). For IDA, comprehensive income (loss) is comprised of net income (loss), DVA on fair value option elected liabilities and currency translation adjustments on functional currencies. These items are presented in the Statement of Comprehensive Income.

The following table presents the changes in Accumulated Other Comprehensive (Loss) Income balances:

**Table J1: Changes in accumulated other comprehensive income (loss)**

*In millions of U.S. dollars*

	<i>Fiscal Year Ended June 30,</i>		
	<i>2021</i>	<i>2020</i>	<i>2019</i>
Balance, beginning of the fiscal year	\$ (3,927)	\$ (2,408)	\$ (675)
Currency translation adjustments on functional currencies	5,647	(1,526)	(1,735)
DVA on fair value option elected liabilities	(64)	7	2
Balance, end of the fiscal year	<b>\$ 1,656</b>	<b>\$ (3,927)</b>	<b>\$ (2,408)</b>

## **NOTE K—FAIR VALUE DISCLOSURES**

### **Valuation Methods and Assumptions**

As of June 30, 2021, and June 30, 2020, IDA had no financial assets or liabilities measured at fair value on a non-recurring basis.

#### ***Due from Banks***

The carrying amount of unrestricted and restricted cash is considered a reasonable estimate of the fair value of these positions.

#### ***Loans and loan commitments***

There were no loans carried at fair value as of June 30, 2021 and June 30, 2020. IDA's loans and loan commitments would be classified as Level 3 within the fair value hierarchy.

Summarized below are the techniques applied in determining the fair values of IDA's financial instruments.

#### ***Investment securities***

Where available, quoted market prices are used to determine the fair value of trading securities. Examples include most government and agency securities and futures contracts.

For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, whether internally-generated or vendor-supplied, that include the standard discounted cash flow method using observable market inputs such as yield curves, credit spreads, and constant prepayment spreads. Where applicable, unobservable inputs such as conditional prepayment rates, probability of default, and loss severity are used.

Unless quoted prices are available, time deposits are reported at face value, which approximates fair value, as they are short term in nature.

#### ***Securities purchased under resale agreements, securities sold under repurchase agreements, and securities lent under securities lending agreements***

These securities are of a short-term nature and are reported at face value, which approximates fair value.

#### ***Borrowings***

The fair value of IDA's borrowings is calculated using a discounted cash flow method which relies on observable market inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

#### ***Derivative instruments***

Derivative contracts include currency forward contracts, TBA securities, swaptions, exchange traded options and futures contracts, currency swaps and interest rate swaps.

Where available, quoted market prices are used to determine the fair value of trading securities. Examples include exchange traded options and futures contracts.

For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, whether internally-generated or vendor-supplied, that include the standard discounted cash flow method using observable market inputs such as yield curves, foreign exchange rates, credit spreads, basis spreads, funding spreads and constant prepayment spreads. Where applicable, unobservable inputs such as constant prepayment rates, probability of default, and loss severity are used.

#### ***Valuation adjustments on fair value option elected liabilities***

The DVA on fair value option elected liabilities (market borrowings) is being measured by revaluing each liability to determine the changes in fair value of that liability arising from changes in IDA's cost of funding relative to LIBOR.

The table below presents IDA's estimates of fair value of its financial assets and liabilities along with their respective carrying amounts.

**Table K1: Fair value and carrying amounts of financial assets and liabilities**

*In millions of U.S. dollars*

	June 30, 2021		June 30, 2020	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Assets				
Due from banks	\$ 496	\$ 496	\$ 674	\$ 674
Investments (including securities transferred under repurchase or securities lending agreements)	37,376	37,376	34,670	34,670
Net loans outstanding	177,779	164,606	160,961	149,597
Derivative assets, net	249	249	136	136
Liabilities				
Borrowings				
Market borrowings	20,555	20,555	12,131	12,131
Concessional partner loans	7,759	9,516	7,635	10,031
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received	-	-	108	108
Derivative liabilities, net	408	408	590	590

As of June 30, 2021, IDA's signed loan commitments were \$60.8 billion (\$49.6 billion – June 30, 2020) and had a fair value of \$(5.4) billion (\$(5.1) billion – June 30, 2020).

The following tables present IDA's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis.

**Table K2: Fair value hierarchy of IDA's assets and liabilities**

*In millions of U.S. dollars*

	Fair Value Measurements on a Recurring Basis As of June 30, 2021			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments—Trading				
Government and agency obligations	\$ 7,852	\$ 17,425	\$ -	\$ 25,277
Time deposits	728	10,732	-	11,460
ABS	-	152	-	152
Total Investments—Trading	8,580	28,309	-	36,889
Investments—Non-trading (at fair value)	-	487	-	487
Total Investments	\$ 8,580	\$ 28,796	\$ -	\$ 37,376
Derivative assets:				
Currency swaps and currency forward contracts <sup>a</sup>	\$ -	\$ 460	\$ -	\$ 460
Interest rate swaps	-	193	-	193
Other <sup>b</sup>	-	-	-	-
	\$ -	\$ 653	\$ -	\$ 653
Less:				
Amounts subject to legally enforceable master netting agreements <sup>c</sup>				404
Cash collateral received				-
Derivative assets, net				\$ 249
<b>Liabilities:</b>				
Market Borrowings	\$ -	\$ 20,555	\$ -	\$ 20,555
Securities sold under repurchase agreements and securities lent under security lending agreements <sup>e</sup>	\$ -	\$ -	\$ -	\$ -
Derivative liabilities:				
Currency swaps and currency forward contracts	\$ -	\$ 507	\$ -	\$ 507
Interest rate swaps	-	309	-	309
Other <sup>b</sup>	-	-	-	-
	\$ -	\$ 816	\$ -	\$ 816
Less:				
Amounts subject to legally enforceable master netting agreements <sup>d</sup>				408
Derivative liabilities, net				\$ 408

a. Includes structured swaps.

b. These include swaptions, exchange traded options, futures contracts and TBA securities.

c. Includes \$2 million CVA.

d. Includes \$6 million DVA.

e. Excludes amount payable for cash collateral received Nil.

**Table K2.1***In millions of U.S. dollars*

	<i>Fair Value Measurements on a Recurring Basis As of June 30, 2020</i>			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments—Trading				
Government and agency obligations	\$ 9,711	\$ 14,487	\$ -	\$ 24,198
Time deposits	2,458	5,940	-	8,398
ABS	-	1,449	-	1,449
Total Investments—Trading	12,169	21,876	-	34,045
Investments—Non-trading (at fair value)	-	625	-	625
Total Investments	\$ 12,169	\$ 22,501	\$ -	\$ 34,670
Derivative assets:				
Currency swaps and currency forward contracts <sup>a</sup>	\$ -	\$ 713	\$ -	\$ 713
Interest rate swaps	-	159	-	159
Other <sup>b</sup>	-	3	-	3
	\$ -	\$ 875	\$ -	\$ 875
Less:				
Amounts subject to legally enforceable master netting agreements <sup>c</sup>				738
Cash collateral received				1
Derivative assets, net				<u>\$ 136</u>
<b>Liabilities:</b>				
Market Borrowings	\$ -	\$ 12,131	\$ -	\$ 12,131
Securities sold under repurchase agreements and securities lent under security lending agreements <sup>e</sup>	\$ -	\$ 107	\$ -	\$ 107
Derivative liabilities:				
Currency swaps and currency forward contracts	\$ -	\$ 264	\$ -	\$ 264
Interest rate swaps	-	1,097	-	1,097
Other <sup>b</sup>	-	1	-	1
	\$ -	\$ 1,362	\$ -	\$ 1,362
Less:				
Amounts subject to legally enforceable master netting agreements <sup>d</sup>				772
Derivative liabilities, net				<u>\$ 590</u>

*a. Includes structured swaps.**b. These include swaptions, exchange traded options, futures contracts and TBA securities.**c. Includes \$7 million CVA.**d. Includes \$41 million DVA.**e. Excludes amount payable for cash collateral received \$2 million.*

Presented below is the difference between the aggregate fair value and aggregate contractual principal balance of non-trading securities in the investment portfolio:

**Table K3: Investment portfolio-Non-trading securities**

*In millions of U.S. dollars*

	<i>Fair value</i>	<i>Principal amount due</i>	<i>Difference</i>
June 30, 2021	\$ 487	\$ 472	\$ 15
June 30, 2020	\$ 625	\$ 597	\$ 28

Presented below is the difference between the aggregate fair value and aggregate contractual principal balance of market borrowings:

**Table K4: Market Borrowings-Fair value and contractual principal balance**

*In millions of U.S. dollars*

	<i>Fair Value</i>	<i>Principal Due Upon Maturity</i>	<i>Difference</i>
June 30, 2021	\$ 20,555	\$ 20,659	\$ (104)
June 30, 2020	\$ 12,131	\$ 11,952	\$ 179

***Valuation adjustments on fair value option elected liabilities***

During the fiscal year ended June 30, 2021, IDA recorded unrealized mark-to-market loss of \$64 million (\$7 million unrealized mark-to-market gains – June 30, 2020) in Other Comprehensive Income, in relation to the changes in its own credit (DVA) on fair value option elected liabilities (market borrowings).

As of June 30, 2021, IDA's Balance Sheet included a DVA of \$56 million cumulative loss (\$8 million cumulative gain—June 30, 2020) in Accumulated other comprehensive income, associated with the changes in IDA's own credit for its market borrowings.

The following table reflects the components of the unrealized mark-to-market gains or losses on IDA's trading and non-trading portfolios, net.

**Table K5: Unrealized mark-to-market gains (losses) on trading and non-trading portfolios, net**

*In millions of U.S. dollars*

	<i>Fiscal Year Ended June 30, 2021</i>		
	<i>Realized gains (losses)</i>	<i>Unrealized gains (losses) excluding realized amounts <sup>a</sup></i>	<i>Unrealized gains (losses)</i>
Investments- Trading—Note F	\$ 185	\$ (41)	\$ 144
Non-trading portfolios, net			
Asset-liability management—Note F	-	1,080	1,080
Investment portfolio—Note C	-	(12)	(12)
Other <sup>b</sup>	-	34	34
Total	\$ -	\$ 1,102	\$ 1,102

**Table K5.1:**

*In millions of U.S. dollars*

	<i>Fiscal Year Ended June 30, 2020</i>		
	<i>Realized gains (losses)</i>	<i>Unrealized gains (losses) excluding realized amounts <sup>a</sup></i>	<i>Unrealized gains (losses)</i>
Investments- Trading—Note F	\$ 207	\$ -	\$ 207
Non-trading portfolios, net			
Asset-liability management—Note F	-	(699)	(699)
Investment portfolio—Note C	-	29	29
Other <sup>b</sup>	-	(18)	(18)
Total	\$ -	\$ (688)	\$ (688)

**Table K5.2:**

*In millions of U.S. dollars*

	<i>Fiscal Year Ended 2019</i>		
	<i>Realized gains (losses)</i>	<i>Unrealized gains (losses) excluding realized amounts <sup>a</sup></i>	<i>Unrealized gains (losses)</i>
Investments- Trading—Note F	\$ (34)	\$ 385	\$ 351
Non-trading portfolios, net			
Asset-liability management—Note F	-	359	359
Investment portfolio—Note C	-	32	32
Other <sup>b</sup>	-	(5)	(5)
Total	\$ -	\$ 386	\$ 386

*a. Adjusted to exclude amounts reclassified to realized gains/losses.*

*b. Other comprises mark to market gains or losses on the borrowing and loan portfolios and on PSW*

## NOTE L—CONTINGENCIES

In light of the COVID-19 pandemic, IDA faces additional credit, market and operational risks. The duration of the COVID-19 pandemic is difficult to predict at this time, as are the extent and efficacy of economic interventions by

governments and central banks. The length and severity of the pandemic and the related developments, as well as the impact on the financial results and position of IDA in future periods cannot be reasonably estimated at this point in time and continues to evolve. IDA continues to monitor the developments and to manage the risks associated with its various portfolios within existing financial policies and limits.

From time to time, IDA may be named as a defendant or co-defendant in legal actions on different grounds in various jurisdictions. The outcome of any existing legal action, in which IDA has been named as a defendant or co-defendant, as of and for the fiscal year ended June 30, 2021, is not expected to have a material adverse effect on IDA's financial position, results of operations or cash flows.