ANNEX 11: IMPLEMENTATION OF THE CONCESSIONAL PARTNER LOAN FRAMEWORK

1. This Annex summarizes the final proposed IDA19 Concessional Partner Loan (CPL) framework which maintains the IDA18 CPL framework while updating (i) the reference period for the Minimum Grant Equivalent Contribution benchmark and the discount rates, and (ii) providing new conversion options into eligible non-SDR currencies.

2. Key IDA19 CPL financing terms, as listed below, are proposed to remain the same as the IDA18 framework:

a. *Final Maturity:* of 25 or 40 years.

b. *Grace period:* The grace period would be 5 years for a 25-year loan or 10 years for a 40-year loan.

c. *Principal repayment:* Principal repayments of concessional loans would begin after the grace period. At that point, a straight-line amortizing repayment schedule would be applied. For 25-year credits, principal would amortize at a rate of 5 percent per annum while for 40-year credits, principal would amortize at a rate of 3.3 percent per annum.

d. *Coupon/ Interest:* IDA concessional loans would have an all-in SDR equivalent coupon of up to 1 percent[248], hereinafter referred to as "maximum coupon rate". Partners have the option to provide additional grant resources to buy down the difference between the maximum coupon rate and the CPL coupon rate if higher. For CPLs where the maximum coupon rate is negative, Partners have the additional option to provide a CPL with a coupon rate of 0 percent in the CPL currency and meet the remaining grant element requirement of the framework by providing a larger volume of CPL.[249]

e. *Prepayment:* In order to ensure IDA's financial sustainability, IDA may prepay the outstanding balance of the CPL, in whole or in part, without penalty after giving not less than 12 months' prior notice.

f. *Effectiveness:* based on the date on which the loan agreement is signed by both parties and upon the provision of the full unqualified amount of a coupon equalization grant, as applicable.

g. *Currencies:* For pledging purposes, IDA would accept concessional loans in SDRs, or any one of the SDR basket currencies, namely the US Dollar, Euro, Japanese Yen, British Pound and Chinese Renminbi. Subsequent to pledging, Partners may also request a conversion to eligible non-SDR currencies based on criteria agreed.

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[248] The all-in cost may also be achieved by providing additional grants to buy-down the loan coupon rate.

[249] This implies a higher coupon rate than the maximum coupon rate in the CPL currency. Fair treatment across Partners will be ensured by using the actual coupon rate of the CPL to calculate the loan's grant element to determine voting rights and compliance with the minimum grant equivalent contribution benchmark.

h. *Drawdown:* The concessional loans would be drawn-down in three equal annual installments over the IDA19 3-year period. Management may agree on a different draw-down schedule with the loan provider as it deems necessary.

3. **Grant Contribution:** Partners providing concessional loans in IDA19 are expected to provide basic grant contributions equal to at least 80 percent of the Minimum Grant Contribution Benchmark and target the total Grant Equivalent Contribution (which include basic contribution from grant and grant element of CPLs) to at least their Minimum Grant Contribution Benchmark. Partners could select their preferred Minimum Grant Contribution Benchmark as 100 percent of their total Grant Equivalent Contribution based on IDA17 or IDA18, as the Partner prefers. The Minimum Grant Contribution Benchmark could also be based on the Currency of Pledge, National Currency or SDR amounts, as the Partner prefers.

4. **Grant Element:** As in IDA18, upon receipt of the concessional funding from IDA Partners, the grant element of the CPLs (which reflect the concessionality of the CPL coupon relative to the discount rate) will be recognized for voting rights and burden share purposes. The grant element is a function of the terms of a loan. The terms of the loan determine the cash inflows and outflows related to the loan and the grant element is effectively the ratio of the present value of the debt service to the present value of the loan disbursements, which can be expressed with the formula below:

$$1 - \frac{\sum_{i=1}^{n}(DF_i \times CFS_i)}{\sum_{j=1}^{n}(DF_j \times CFD_j)}$$

Where:
DFi = Discount factor at period i, calculated using the discount rate of CPL framework
CFSi = Cash flow from debt service at period i
DFj = Discount factor at period j, calculated using the discount rate of CPL framework
CFDj = Cash flow from loan disbursement at period j

5. As in IDA18, the currency-specific discount rate under the IDA19 Framework allow Partners to calculate the grant element in each individual currency. Table A11.1 below lists the discount rates by currency and by loan terms.[250]

[250] As of March 29, 2019.

Table A11.1: IDA19 Discount rates

	IDA19 Discount Rates (%)	
	25-year CPL	**40-year CPL**
USD	2.97	3.25
EUR	1.28	1.63
JPY	0.09	0.44
GBP	1.74	1.93
CNY	4.13	4.61
SDR	**2.25**	**2.57**

6. **Maximum coupon rates:** As in IDA18, the coupon rate for the IDA19 CPLs would be subject to a maximum coupon rate of 1 percent in SDR. The equivalent maximum coupon rate for each currency is based on the principle that the grant element generated on CPLs in different currencies will be equivalent. For example, as shown in the table A11.2 below, a 1 percent SDR 25-year maturity loan will have the same grant element of 14.70 percent as a USD CPL with a coupon of 1.64 percent; a EUR CPL with a coupon of 0.13 percent; a JPY CPL with a coupon of -0.95 percent; a GBP CPL with a coupon of 0.54 percent; or a CNY CPL with a coupon of 2.67 percent.

Table A11.2: IDA19 Maximum Coupon Rates and corresponding grant element

	IDA19 Maximum Coupon Rates (%)	
	25-year CPL	**40-year CPL**
USD	1.64	1.55
EUR	0.13	0.24
JPY	-0.95	-0.75
GBP	0.54	0.48
CNY	2.67	2.62
SDR	1.00	1.00
Grant Element	14.70%	27.17%

7. Implications of coupon rate lower or higher than maximum coupon rate:

a. As in IDA18, if a Partner provides a CPL with a coupon lower than the maximum coupon rate in a given currency, it would benefit from a larger grant element compared to providing a loan at the maximum coupon. For example, a 25-year CPL with a coupon of 0 percent in SDR would generate a grant element of 26.58 percent as opposed to a 1 percent SDR coupon generating grant element of 14.70 percent.

b. As in IDA18, if a Partner would like to provide a CPL with a coupon rate higher than the Maximum Coupon Rate but lower than the Discount Rate[251] in a given currency, the

[251] Coupon rates cannot exceed the discount rate in a given currency otherwise the CPL doesn't generate a grant element.

Partner would be required to compensate for the difference through additional grants to "buy down" the terms of the CPL to the level of the Maximum Coupon rate.

c. If a Partner makes this additional grant payment up front, the required payment amount will be calculated based on the present value of the difference in future cash flows between the original coupon payments and the targeted coupon payments. The same discount rate in the CPL framework will be used in the present value calculation. The Partner can make the additional grant payment over several installments only if the CPL has the same disbursement schedule (which has a maximum period of 3-year) and if the present value of the additional grant payments is the same as if paying upfront. Table A11.3 illustrates the additional grant payments required for a buydown of 100bps to meet the maximum coupon rate in a given currency.

Table A11.3: Additional grant amount required for a buydown of 100bps to meet the maximum coupon rate

(1,000 million, 25-year CPL)

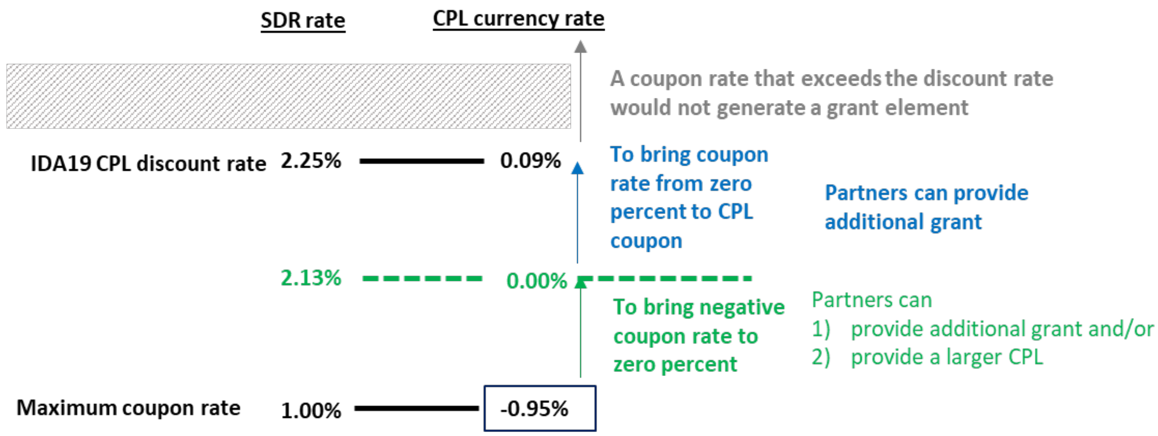
Currency	Additional Grant required upfront in the loan currency (in million)
USD	**112**
EUR	**128**
JPY	**141**
GBP	**123**
CNY	**104**
SDR	**119**

(1,000 million, 40-year CPL)

Currency	Additional Grant required upfront in the loan currency (in million)
USD	**163**
EUR	**197**
JPY	**228**
GBP	**189**
CNY	**140**
SDR	**175**

d. As in IDA18, if the Maximum Coupon Rate for a particular currency is negative, in addition to the option above (i.e., having a higher CPL coupon rate and making up for the difference in resulting grant element through a "buydown" grant), CPL providers would have the additional option of providing a CPL with zero percent coupon rate and making up for the difference in resulting grant element through a larger CPL. In such a scenario, a zero coupon would mean that the CPL coupon rate would be higher than the maximum 1 percent SDR rate. Fair treatment across Partners will be ensured by using the 0 percent coupon rate of the CPL to calculate the loan's grant element to determine voting rights and compliance with the minimum grant contribution benchmark (aka, "80/20 rule"). See illustration in the Figure A11.1 below:

Figure A11.1: Illustrative example of how to bridge the difference between the Maximum Coupon Rate and the CPL coupon rate if higher



8. **Consistent with previous replenishments, IDA requires that Partners provide their Instruments of Commitment before IDA can sign a CPL agreement with the Partner country**. This requirement is to enhance the fairness between CPL providers and grant providers, where Instruments of Commitment are required before the grant payment can be received. In addition, in case a Partner plans to provide additional grant resources to lower the coupon rate on the CPL, IDA would require the payment of the additional grant by the Partner as a prerequisite for IDA to accept the disbursement from the CPL. This is to protect IDA from paying a high borrowing cost on CPL without receiving the related grant payment that ensures the required concessionality.

9. **Flexibility to provide CPLs in non-SDR currencies:** Partners will have some flexibility to provide CPLs in non-SDR currencies while ensuring financial and risk neutrality to IDA by using market instruments and ensuring fair and equal treatment among Partners.

10. **To ensure financial and risk neutrality to IDA, Partners who would like to include a CPL in its pledges will continue to be required to pledge the CPL in one of the SDR currencies**, with grant element calculated based on the published discount rates for the specific SDR currency, as per the current process. Partners have the option to convert the loan[252] into an eligible non-SDR currency upon signature of the loan agreement.[253]

11. **The conversion option will be allowed only for currencies that the World Bank Treasury is able to hedge through the market for the full life of the loan (25 or 40 years).** The eligible[254] currencies for IDA19 based on this criterion are Canadian Dollars (CAD), Australian

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252 Or a portion of the loan.

253 The CPL loan will remain denominated in SDR currency, but sub-tranches can be disbursed and repaid in non-SDR currencies following conversion.

254 Given the limited liquidity of the CNY market in long tenors, any conversion from a CPL in CNY into another currency would be subject to market availability.

Dollars (AUD) and South African Rands (ZAR). CPL loan agreement for the eligible currencies will include additional legal provisions to enable market-based conversions, applicable market clauses and the flexibility offered in terms of size and timing in effecting conversions.

12. **The terms of such conversions (amount and coupon rate in the selected non-SDR currency) will be based on the hedge IDA can execute at prevailing market rates at the time of conversion with the applicable transaction fees.**[255] The market conversions will be offered in a manner that ensures that they don't entail additional financial risks to IDA.

[255] Transaction fees will be aligned with the WB's methodology for calculating transaction fees to cover for overhead and market counterparty risk.