

# Frequently Asked Questions - on the October 15, 2024, Changes to IBRD Flexible Loan (IFL) Pricing Structure

*Disclaimer. This FAQ is to help the staff and clients to understand the implementation changes to IFL pricing structure, which became effective October 15, 2024. The FAQ will be updated, as new questions come up. Questions on the loan portfolios of specific borrowers should be addressed to the relevant CMUs and/or the contacts stated at the end of the FAQ.*

## **1. What are the changes/enhancements to IFL pricing structure?**

On October 15, 2024, IBRD's Executive Directors approved the following proposals:

- Introduction of a grace period of 4 years on commitment fees for IPFs and PforRs;
- Removal of the prepayment premium for all IFLs;
- Introduction of a short maturity loans (SMLs) with a final maturity of 7 years, with 20 bps discount on the loan spread; and,
- All CRDC-eligible IBRD Small State Borrowers are included in pricing Group A, irrespective of their per-capita income.

The above IFL pricing changes will also apply to IDA non-concessional financings, which are offered on the same terms as IFLs.

## **2. What's the rationale behind these changes?**

IBRD loan pricing reform is a key part of the package of measures to deliver on the World Bank Group's (WBG) new vision and mission, which can only be achieved through stronger engagements with all clients, including middle-income countries, and is critical to the global effort to end extreme poverty and promote shared prosperity on a livable planet.

## **3. When will these changes come into effect, and which loans will be affected?**

These changes are effective October 15<sup>th</sup>, 2024 for all new loans. The removal of the prepayment premium will apply to all, new and existing, loans of IBRD. For the existing loans, IBRD will exercise a waiver of the application of the prepayment premium in case of future prepayments.

In addition, to balance the need for efficient implementation (to avoid delays in operations and mitigate the risk of project cancelation) and intent to expand the benefit to the current projects pipeline, the following loans will be eligible to benefit from the grace period on the commitment fee and application of Group A pricing to CRDC-eligible countries:

- all financings approved by the Executive Directors in FY25, regardless of the signing status of the loan agreement and
- all financings approved by the Executive Directors between January 1, 2024, and June 30, 2024, provided the loan agreement for such loans remains unsigned on August 29, 2024 (the date when the IBRD pricing proposal was first distributed to the Executive Directors).

## **4. What are the benefits to clients of these reforms?**

The approved reforms aim to address client concerns about the debt's cost while extending the suite of IFL features to better position the WBG to respond to all clients' development challenges across the income spectrum.

**5. Will projects be delayed because of these changes?**

The transition arrangement described in response to Question 3 above is developed to avoid project disruption and delays.

**6. What is the grace period approved on the commitment fee?**

The commitment fee reform for IPFs and PforRs is approved with a four-year grace period from the project's World Bank Board approval date.

**7. Does the commitment fee on DPFs also have a grace period?**

There is no change to the current application of commitment fee for DPFs, as they typically are disbursed promptly after signing and do not require preparation timeline as IPFs and PforRs. The commitment fee will start accruing 60 days from the loan agreement signing and is payable once the loan becomes effective.

**8. Does the grace period on the commitment fee also apply to IPF DDO?**

No, the grace period on the commitment fee does not apply to IPF DDOs, due to the nature of the IPF DDO where the standby fee is to cover the availability of funds for a product that inherently has deferred disbursements, if at all

**9. Does the removal of the prepayment premium apply to all loans?**

The removal of the prepayment premium applies to all IFLs. For new loans, the loan documentation will reflect the removal of the prepayment premium (either through the loan agreement or the revised General Conditions). For existing loans, IBRD will implement the removal of the prepayment premium through the exercise of a waiver of the prepayment premium in case of future prepayments.

**10. Does the removal of prepayment fee apply to Variable Spread IFLs only?**

No. The removal of the prepayment fee will benefit all existing and future IBRD loans and IDA non-concessional financing credits that have the same terms as IFLs.

**11. What are the terms of the SML?**

The SML has a final maturity of 7 years, with a 20-bps discount as part of the loan spread component of the loan interest rate.

**12. Which instruments can use the SML?**

There is no restriction on the type of instruments. DPLs, IPFs and PforRs can use the SML loan based on borrowers' assessment of the terms of the loans.

**13. Do these measures affect IDA non-concessional financing under the IFL terms?**

The approved measures apply to IDA non-concessional financing terms as well, because they are offered on the same terms as IFLs.

**14. What to do if you have financings approved in FY25 or in FY24, to benefit from the grace period on the commitment fee or the new pricing application for CRDC-eligible countries?**

Teams should identify *the financings that have been approved by the Board (i) in FY25, or (ii) between January 1, 2024, and June 30, 2024 (provided the loan agreement for such loans remained unsigned on August 29, 2024)* and inform, and discuss with, the affected borrowers these IFL pricing changes. If the loan agreements for these eligible loans are unsigned, the relevant revisions may be included in the loan agreements prior to signing. If the loan agreements have already been signed, the relevant pricing changes may be implemented via amendments to the loan agreements, or waivers, where appropriate and feasible. Borrowers' internal approvals and authorizations will have to be taken into account in this process. Contact your affected clients immediately to inform them of the possibility of amending the loan agreement and benefiting from the new terms and coordinate with the country lawyers.

**15. Who in the Bank can be contacted for more information regarding the approved measures?**

DFI, OPCS, TRE and WFA are the contact points for further questions/clarification (see below for details). They will consult other units as needed to ensure a timely response to the CMU and CDs. DFI – Elaine Su ([esu@worldbank.org](mailto:esu@worldbank.org)), OPCS – Evgenij Najdov ([enajdov@worldbank.org](mailto:enajdov@worldbank.org)) and TRE – Ghislain Yanou ([gyanou@worldbank.org](mailto:gyanou@worldbank.org)). WFA - Sridharan Srinivasan [ssrinivasan2@worldbank.org](mailto:ssrinivasan2@worldbank.org), Victor Ordonez, [vconde@worldbank.org](mailto:vconde@worldbank.org).