ANNEX 5

Eligibility for the Small Island Economies Exception

1. Country-eligibility for exceptional treatment from IDA pursuant to the Small Island Economies Exception is determined by Management as follows:

   a. An IBRD-only Small Island Economy is eligible to be reclassified as a Blend Country or an IDA-only Country if all of the following four conditions are satisfied (membership in IDA is a pre-condition):

      i. its per capita income is at or below the Graduation Discussion Income (GDI);

      ii. it is highly vulnerable to natural disasters or long-term impact of climate change;

      iii. it has limited creditworthiness for accessing commercial credit; and

      iv. its access to IBRD resources is constrained by creditworthiness or affordability\(^1\) considerations.

   b. A Small Island Economy that meets the definition of a Gap Country or a Blend Country is eligible (or continue to be eligible) for the Small Island Economies Exception if:

      i. its GNI per capita has not been at or above the High-Income Threshold for three consecutive years; or

      ii. its GNI per capita has been at or above the High-Income Threshold for three consecutive years, but

         A. it is in debt distress or at high or moderate risk of debt distress;

         B. its debt distress is high owing to exogeneous shocks or the high costs of adaptation and preparedness to natural disasters or climate change; and

         C. its debt reporting practices and NCBP compliance are adequate.

   c. A Gap Country that is eligible for the Small Island Economies Exception is granted the status of an IDA-only Country, and may be eligible for IDA Grants as set out in Section III, paragraph 2.b of this Policy.

   d. A Small Island Economy that is not eligible for continuation of special treatment under the Small Island Economies Exception and not ready for graduation from IDA:

      i. is classified as a Gap Country or a Blend Country, as appropriate;\(^2\)

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\(^1\) Affordability means a country’s ability to borrow non-concessional resources sustainably, as informed by a World Bank-IMF Debt Sustainability Analysis.

\(^2\) A country that immediately graduates from IDA is re-classified as an IBRD-only borrower and will be subject to the appropriate IBRD terms.
ii. receives IDA Concessional Credits on blend terms; and

iii. is not eligible for IDA Grants (except possibly through the RSW).

e. All IDA-eligible Small Island Economies (regardless of their eligibility for the Small Island Economies Exception) are subject to IDA’s Graduation Policy.