

Bank Policy

Financial Terms and Conditions of Bank Financing

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Sets out the terms of IBRD and IDA financial products.

Applicable to

IBRD,IDA

Issuer

Vice President, OPSVP

Sponsor

Vice President, DFIVP; Vice President and Treasurer, TREVP

SECTION I – PURPOSE AND APPLICATION

1. The purpose of this Policy is to set out the key financial terms and conditions of (i) IBRD loans and IBRD Guarantees, (ii) IDA Financing, (iii) IBRD Enclave IPF, and (iv) other financial products, including hedging products. This Policy is to be read concurrently with the applicable General Conditions for IBRD or IDA Financing.
2. This Policy applies to the Bank.

SECTION II – DEFINITIONS

1. As used in this Policy, the following capitalized terms and acronyms have the meanings set out below:
 - a. **Above GDI or Above GDI Country:** means a country whose GNI per capita is above GDI as published in the Per Capita Income Guidelines for Operational Purposes.
 - b. **Bank:** means IBRD and IDA.
 - c. **Below GDI or Below GDI Country:** means a country whose GNI per capita is below GDI as published in the Per Capita Income Guidelines for Operational Purposes.
 - d. **Below GDI Discount:** means the maturity premium discount applicable to IBRD loans and IBRD Guarantees benefitting a Below GDI Country.
 - e. **Blend Country:** means a country determined: (a) by IDA to be eligible for IDA Credits; and (b) by IBRD to be creditworthy for borrowing IBRD loans.
 - f. **Blend Terms:** means terms on which IDA makes IDA Credits to Blend and Gap Countries.
 - g. **Board:** means the Executive Directors of IBRD or IDA, or both, as applicable.
 - h. **Borrower:** means the borrower of an IBRD loan.
 - i. **Cat DDO:** means Deferred Drawdown Option for Catastrophic Risks, as defined in Bank Policy, “Development Policy Financing” (formerly OP 8.60).
 - j. **Conversion Guidelines:** means the “Guidelines for Conversion of Loan and Financing Terms” issued from time to time and in effect at the time of the relevant conversion.

- k. **DDO:** means Deferred Drawdown Option, as defined in Bank Policy, “Development Policy Financing” (formerly OP 8.60).
- l. **DPF:** means Development Policy Financing, as defined in Bank Policy, “Development Policy Financing” (formerly OP 8.60).
- m. **Effective Date:** means the date on which an IBRD loan, an IDA Grant or an IDA Credit becomes effective, as defined and specified in the Financing Agreement or Loan Agreement.
- n. **Enclave IPF:** means a type of IBRD IPF described in Section III.4 of this Policy.
- o. **FCS Country:** means a fragile and conflict-affected situations country as appearing in the Harmonized List of Fragile Situations published annually by the World Bank Group.
- p. **Financing Agreement:** means the agreement between IDA and the Recipient providing for an IDA Grant or an IDA Credit.
- q. **Gap Country:** means a member country that is (a) determined by IDA to be eligible for IDA Credits; (b) determined by IDA to have a GNI per capita that has exceeded the operational cut-off for IDA eligibility for more than two consecutive years; and (c) not currently determined by IBRD to be creditworthy to borrow from the IBRD.
- r. **GDI or Graduation Discussion Income:** means the level of GNI per capita of a member country above which graduation from IBRD starts being discussed, as published annually in the Per Capita Income Guidelines for Operational Purposes.
- s. **GNI:** means gross national income.
- t. **Government:** means “Member Country” and “Political Sub-division”, as defined in Bank Policy, “Development Policy Financing” (formerly OP 8.60); or “government”, as defined in Bank Policy, “Investment Project Financing” (formerly OP 10.00), as the case may be.
- u. **Hard Terms:** means terms on which IDA made credits available to Blend Countries (excluding Small Island Economies) prior to July 1, 2017 from IDA’s ‘hard-term’ lending window which was financed through the charge-related portion of the volume discount on IDA Grants.
- v. **Harmonized List of Fragile Situations:** means the list of fragile situations published annually by the World Bank Group.

- w. **HIC or High-Income Member Country:** means a high-income country as published annually in the Per Capita Income Guidelines for Operational Purposes.
- x. **HIC Surcharge:** means the maturity premium surcharge payable in respect of IBRD loans and IBRD Guarantees by a High-Income Member Country.
- y. **IBRD:** means International Bank for Reconstruction and Development.
- z. **IBRD General Conditions:** means the General Conditions, defined in the particular IBRD Loan Agreement as constituting an integral part of such Loan Agreement.
- aa. **IBRD Guarantee:** means a Guarantee provided by IBRD on terms as described in Section III.3.
- bb. **IDA:** means International Development Association.
- cc. **IDA Concessional Core Allocations:** means IDA resource allocations to IDA eligible countries, based on the PBA or through any exceptional allocation regime, as applicable.
- dd. **IDA Credit:** means an IDA Concessional Credit or an IDA Non-concessional Credit, as applicable.
- ee. **IDA Concessional Credit:** means an IDA credit on concessional terms as described in Section III.2.a.
- ff. **IDA Deputies Report:** means the report that synthesizes the formal discussions among IDA Deputies (representatives of countries that contribute to IDA) and representatives of borrower countries regarding the policy directions and commitments for an IDA replenishment.
- gg. **IDA18 Deputies Report:** means the report entitled “Additions to IDA Resources: Eighteenth Replenishment, Towards 2030: Investing in Growth, Resilience and Opportunity”, dated February 8, 2017.
- hh. **IDA Financing:** means an IDA Grant or an IDA Credit or an IDA Guarantee.
- ii. **IDA General Conditions:** means the General Conditions, defined in the particular IDA Financing Agreement as constituting an integral part of such Financing Agreement.

- jj. **IDA Graduate:** means a country mentioned in the IDA Deputies Report of each new replenishment as ceasing to be IDA-eligible from July 1, following the publication of this IDA Deputies Report.
- kk. **IDA Grant:** means financing provided by IDA on the terms described in Section III.2.b.
- ll. **IDA Non-concessional Credit:** means an IDA Credit provided under the Scale-Up Facility or on Transitional Support Terms, on the terms described in Section III.2.c.
- mm. **IDA Guarantee:** means a Guarantee provided by IDA on terms as described in Section III.3.
- nn. **IDA-only Countries:** means (a) member countries that have not exceeded the IDA operational cut-off GNI per capita for more than two consecutive years; and (b) not creditworthy to borrow from IBRD.
- oo. **IFL:** means IBRD Flexible Loan, the type of IBRD loan described in Section III.1 below.
- pp. **IPF:** means Investment Project Financing, as defined in Bank Policy, “Investment Project Financing” (formerly OP 10.00).
- qq. **Loan Agreement:** means the agreement between IBRD and the Borrower providing for an IBRD loan.
- rr. **Management:** means the President or a Manager, or a chief officer whose functions and responsibilities include the authority to issue documents pursuant to the Bank’s policy and procedure framework as set by Management through terms of reference or a delegation of authority, or some or all of these persons, as applicable.
- ss. **Payment Date:** means each date specified in the Loan Agreement or Financing Agreement, as applicable, on which interest, service charges, commitment charges and commitment fees, or other charges, as applicable, are payable under a Loan Agreement, or an IDA Financing Agreement.
- tt. **PBA:** means performance based allocation.
- uu. **Per Capita Income Guidelines for Operational Purposes:** means the document so named and updated annually by the World Bank, that sets out the per capita income of countries borrowing from the Bank.

- vv. **PforR:** means Program-for-Results Financing, as defined in Bank Policy, “Program-for-Results Financing”.
- ww. **President:** means the President of the Bank.
- xx. **Principal Payment Date:** means each date specified in the Loan Agreement or Financing Agreement on which all or any portion of the principal amount of an IBRD loan or an IDA Credit is payable.
- yy. **Recipient:** means the recipient of an IDA Grant or IDA Credit.
- zz. **Regional Program:** means the IDA program for projects that qualify for regional financing per the criteria stipulated in Annex 5 of the IDA18 report entitled “The Demand for IDA18 Resources and the Strategy for their Effective Use”.
- aaa. **Refugee Sub-window:** means the IDA window for projects that qualify for financing per the criteria stipulated in Annex 5 of the IDA18 Deputies Report.
- bbb. **Scale-Up Facility or SUF:** means the scale-up facility for IDA18 referred to in Annex 6 of the IDA18 Deputies Report.
- ccc. **SBL Surcharge:** means the single borrower limit surcharge payable in respect of guarantees; other relevant financial instruments; and loans to, or guaranteed by, a member country with a portfolio representing a significant financial exposure to IBRD.
- ddd. **SDPF:** means Special Development Policy Financing, as described in Bank Policy, “Development Policy Financing” (formerly OP 8.60).
- eee. **SDPG:** means SDPF in the form of an IBRD Guarantee.
- fff. **SDPL:** means SDPF in the form of an IBRD loan.
- ggg. **SDR:** means Special Drawing Rights.
- hhh. **Single Borrower Limit or SBL:** means IBRD’s exposure limit to an individual Borrower as specified in Annex 2 of this Policy.
- iii. **Small Island Economies:** means Small Island states, with a population of less than 1.5 million people, that are eligible for IDA Financing.
- jjj. **Small Island Economies Exception:** means the special treatment that IDA accords small island economies which have per capita incomes above the IDA operational cut-off but have no or very limited creditworthiness which limits or precludes their access to IBRD borrowing.

- kkk. **Small State Economy:** means an IDA or IBRD-eligible country with a population of 1.5 million people or less.
- lll. **Small Economy Terms:** means terms on which IDA makes credits to IDA-only Small Island Economies, Small State Economies, and small islands that are granted exceptional access to IDA resources.
- mmm. **Transitional Support Terms:** means terms on which IDA provides financing on an exceptional basis to eligible IDA Graduates.

SECTION III – SCOPE

1. **IBRD Loans.** IBRD offers one loan product for eligible members, known as the IBRD Flexible Loan (IFL), with a wide choice of financial terms that are tailored to the needs of the purpose of the financing or the member country's overall debt management strategy. The standard financial terms for IFLs are set out in Section III.1.a below. Special financial terms, which apply to DDOs, Cat DDOs, and SDPLs are set out in Section III.1.b below. Earlier IBRD loan products, which are no longer offered, are also described in Section III.1.c below.
- a. **Standard Terms.** The standard terms of IFLs are available at <http://treasury.worldbank.org/>.
- i. **Currencies.** IFLs are committed and repayable in the currency or currencies of the loan selected by the Borrower, provided IBRD can efficiently intermediate the currency or currencies requested.
- ii. **Pricing.** This comprises the interest rate, front-end fee and commitment fee.
- A. **Interest.** The interest rate consists of a market-based variable reference rate and a spread. The interest rate is subject to a floor of zero. Interest is paid on the disbursed and outstanding loan amount. The reference rate varies by currency and resets semi-annually on the 1st or 15th of the month and semi-annually thereafter. The Borrower may choose between two kinds of spreads: variable and fixed. The variable spread comprises the following elements: (a) the IBRD's average funding cost; (b) a contractual lending spread; and (c) depending on the Borrower and the average maturity of the loan, a maturity premium. The average funding cost element of the variable spread is recalculated quarterly, and applies to the interest period commencing on the Payment Date falling on, or immediately after such recalculation date. The fixed spread comprises the following elements: (a) IBRD's projected funding cost over the life of the loan; (b) a contractual lending spread; (c) a market risk premium; (d) depending on the Borrower and the average maturity of the loan, a maturity premium; and (e) if the loan is denominated in a currency other than U.S. dollars, a basis swap adjustment. The fixed spread is set for the life of the loan. Interest may be financed out of the loan proceeds. A default interest

rate is charged in lieu of the above interest rate if any payment of principal becomes overdue by thirty (30) days, until the overdue amount is fully paid. IBRD does not charge interest on overdue interest on its loans.

- B. *Front-end Fee.* A one-time front-end fee is charged on the committed loan amount. At the option of the Borrower, the front-end fee may be paid out of the loan proceeds upon loan effectiveness or the Borrower can pay the fee no later than sixty (60) days after the loan effectiveness. Payment of the front-end fee is required before the first withdrawal from the loan.
- C. *Commitment Fee.* A commitment fee, payable semi-annually, is charged on the undisbursed amount of the loan. This fee starts to accrue sixty (60) days after the Loan Agreement is signed and is payable once the loan becomes effective. The commitment fee may be financed out of the loan proceeds. IBRD does not charge a commitment fee for loans that do not become effective.
- D. *SBL Surcharge.* A surcharge may be payable on the loans to a Borrower for certain member countries with portfolios representing a significant financial exposure to IBRD. The surcharge is determined by reference to the excess exposure over a specified threshold. The level of the surcharge and the specified thresholds are determined from time to time by the Board and are specified in Annex 2.
- E. *Board Determination.* The contractual lending spread and maturity premium elements (including any exemption, discount or surcharge) of the lending rate, the front-end fee, the commitment fee, the default interest rate and the SBL surcharge are decided from time to time by the Board. The current levels of these fees are set forth in Annexes 1 and 2.
- F. *Exemptions, Discount and Surcharge Applicable to the Maturity Premium.* When calculating the applicable maturity premium, IBRD uses the relevant country classifications in the Per Capita Income Guidelines for Operational Purposes, the Harmonized List of Fragile Situations and Annex 2 of the Bank Directive “Financial Terms and Conditions of Bank Financing”, as bases for assessing and applying to each eligible Borrower, as appropriate, the relevant exemption, the Below GDI Discount or HIC Surcharge. Effective July 1, 2018, IBRD increased the maturity premium. The maturity premiums effective (a) from July 1, 2018 onwards; and (b) prior to July 1, 2018; are set forth in tables 1 and 2, respectively, in Annex 1. The classification of member countries is updated once a year and effective on July 1 of each year. The country-specific maturity premiums are set forth in Annex 2 of the Bank Directive “Financial Terms and Conditions of Bank Financing”.
 - 1) Member countries falling in the following country classifications are exempt from the maturity premium increase applicable from July 1, 2018:

- (a) Blend Countries;
 - (b) FCS Countries;
 - (c) Small State Economies; and
 - (d) IDA Graduates that have graduated from IDA for a period of six consecutive years or less.
- 2) Below GDI Countries receive the Below GDI Discount on the maturity premium increase applicable from July 1, 2018.
- 3) Subject to Section III 1. a. ii. F. 4) g. below, the HIC Surcharge is applied to HICs.
- 4) The exemptions, the Below GDI Discount and the HIC Surcharge are applied as follows:
- a. If a Borrower is eligible for an exemption and either the Below GDI Discount or the HIC Surcharge, then IBRD applies the exemption and does not apply the discount or the surcharge.
 - b. Subject to Section III 1. a. ii. F. 4) c. and d. below, when IBRD reclassifies a member country into a category with a higher maturity premium, or the member country ceases to be eligible for the Below GDI Discount or an exemption, the higher maturity premium is applied effective July 1 in the calendar year occurring 12 months after such reclassification or change.
 - c. When IBRD reclassifies a member country into a category with a lower maturity premium, or the member country becomes eligible for the Below GDI Discount or an exemption, the lower maturity premium is applied with effect from July 1 of the calendar year of the reclassification.
 - d. When IBRD reclassifies a member country such that it is no longer a Small State Economy and the member country does not fall within another country classification that makes it eligible for the exemption, the exemption ceases to apply from July 1 of the same calendar year of the reclassification.
 - e. Subject to Section III 1. a. ii. F. 4) f. below, IBRD exempts IDA Graduates from the maturity premium increase applicable from July 1, 2018 for a period of 6 consecutive years from July 1 of the calendar year of IDA graduation.
 - f. The following IDA17 and IDA18 graduates are exempt from the maturity premium increase applicable from July 1, 2018 for six (6) consecutive years with effect from July 1, 2018: Angola, Armenia, Bosnia and Herzegovina, Georgia, India, Bolivia, Sri Lanka and Vietnam.

- g. IBRD applies the HIC Surcharge effective July 1 in the calendar year occurring 12 months after the member country becomes a HIC. IBRD stops applying the HIC Surcharge with effect from July 1 in the same calendar year that the member country is reclassified and ceases to be a HIC.

iii. Conversion Provisions. The IFL includes options to change the currency of undisbursed and/or disbursed loan balances, fix and unfix the interest rate or the reference rate, fix the variable spread, and cap or collar the interest rate or the variable reference rate. Borrower requests for conversions are subject to the maximum maturity available in the swap markets for the currency or currencies involved. Currency conversions into local currency at the time of loan disbursement are permitted, provided that IBRD is able to hedge any such conversion by effecting either a currency swap or a back-to-back IBRD bond issuance(s). Pricing of conversions is at market terms. Conversions are subject to transaction fees determined from time to time by Management. Such transaction fees may be either in the form of an annual or a one-time charge for each transaction. Details on the key terms applicable to conversions are set out in the IBRD General Conditions and the Conversion Guidelines. The transaction fees are set forth in Annex 3 of the Bank Directive “Financial Terms and Conditions of Bank Financing”.

iv. Repayment Terms. Subject to Section III.1.b below, Borrowers may configure the repayment schedules of IFLs in any manner consistent with the purpose of the loan, subject to an average maturity limit of up to 20 years and a final maturity limit of up to 35 years. When justified by particular project or program needs, the Board may decide to approve an exception to the average or final maturity limit. The first Principal Payment Date is set to fall six (6) months after the expected date of expiration of the grace period. Payment Dates fall on either the 1st or the 15th day of the month (at the Borrower’s option) and semi-annually thereafter.

A. *Types of Repayment Schedules.* Borrowers may choose between two types of repayment schedules: a commitment-linked schedule or a disbursement-linked schedule.

1. For a *commitment-linked* repayment schedule, the timing of the principal repayments is linked to the time of loan commitment. The first Payment Date is not more than six (6) months following the expected date of loan approval. The grace period starts running from the time of expected IBRD loan approval. Principal repayment amounts are linked pro rata to amounts disbursed. Principal repayments billed are determined as a percentage share of the loan amount outstanding. The average repayment maturity for an IFL with a commitment-linked repayment schedule is the weighted average period of time between the expected loan approval and the scheduled repayments.

2. Under a *disbursement-linked* repayment schedule, the timing of principal repayments depends on the timing of actual disbursements. Cumulative disbursements during each interest period (a "Disbursed Amount") are repayable on a schedule that commences at the beginning of the interest period following the interest period in which such Disbursed Amount is withdrawn. The grace period and repayment period selected by the Borrower are the same for all Disbursed Amounts under the loan. For IFLs with a disbursement-linked repayment schedule, there is a limit on the sum of the loan's expected average disbursement period and its average repayment maturity, calculated as follows: the expected average disbursement period is the weighted average period of time between loan approval and expected disbursements; the average repayment maturity is the weighted average period of time between the beginning of the interest period following the interest period in which the Disbursed Amount is withdrawn and the scheduled repayments for each Disbursed Amount.

- B. *Revisions to Approved Repayment Terms.* Borrowers choose the repayment terms at negotiations, and in any event, before the loan is presented to the Board. Repayment terms cannot be changed once IBRD has approved the loan. IBRD normally does not reschedule interest or principal payments on its loans or participate in debt rescheduling agreements with respect to its loans. However, under extraordinary country, project or program circumstances, IBRD loan repayment terms may be amended. For the avoidance of doubt, modification of repayment terms resulting from an authorized conversion is permitted.
- v. ***Prepayment.*** IFLs may be prepaid in full or in part. IBRD may charge a prepayment premium to cover the cost to IBRD of redeploying prepaid funds, if applicable. If a conversion has been effected: (a) the Borrower pays a transaction fee as applicable for any early termination of such conversion; and (ii) the Borrower or IBRD, as the case may be, pays an unwinding amount, if, any, for the early termination of the conversion.¹ Notwithstanding the above, IBRD does not permit a Borrower to prepay, neither in part nor in full, an outstanding loan in connection with which a local currency conversion was effected and hedged by a back-to-back IBRD bond issuance.
- vi. ***Cancellation.*** If a loan is fully cancelled prior to the loan's Effective Date, no front-end fee is charged. If the loan is partially cancelled prior to its Effective Date, the amount of the front-end fee payable is reduced on a pro rata basis and the adjusted front-end fee is payable to the IBRD upon the loan's Effective Date. If the loan is partially or fully cancelled on or after the loan's Effective Date, no refund of the front-end fee is made.

¹ See Annex 4 of the Bank Directive, "Financial Terms and Conditions of Bank Financing".

- vii. Additional Fees for Private Sector Projects.** Initiation fees and processing fees, which are determined from time to time by Management, may be charged by IBRD, as appropriate, for specific private sector projects.

b. Special terms for DDOs, Cat DDOs and SDPLs

- i. DDO.** The DDO allows a Borrower to defer withdrawal of a DPF for an initial period of up to three years from loan effectiveness. Information on the terms and conditions, and pricing of DDOs, which are decided from time to time by the Board, is available at <http://treasury.worldbank.org/>. The financial terms of a DDO are the same as those set out in Section III.1.a. above, with the exception of the following:
- A. *Front-end Fee.* The level of the front-end fee may be different.
 - B. *Standby Fee.* The DDO pricing includes a standby fee paid on the undisbursed amount of the loan accruing from the date of effectiveness. There is no commitment fee.
 - C. *Spread.* The applicable spread to the reference rate is the variable spread or fixed spread in effect at the time of each withdrawal, except that the maturity premium (if any) is determined by reference to the time elapsed between effectiveness of the Loan Agreement and drawdown. However, the maturity premium (if any) applicable to each withdrawal is that in effect at the time of such withdrawal.
 - D. *Renewal of Withdrawal Period.* Deferral of the DDO withdrawal period may be renewed for an additional period of up to three years.
 - E. *Repayment Schedule.* The repayment schedule may, at the Borrower's request, be determined at, and commence from, the date of withdrawal, and each withdrawal may have a different repayment schedule, within the policy limits prevailing at the time of such withdrawal.
- ii. Cat DDO.** The Cat DDO provides a member country with immediately available liquidity following a natural disaster. The Cat DDO includes an initial deferral period for withdrawal of the loan of up to three years from loan effectiveness. The volume of a Cat DDO is limited to 0.25 percent of the country's GDP or USD 500 million, whichever is smaller.² Information on the terms and conditions, and pricing, which are decided from time to time by the Board, is available at <http://treasury.worldbank.org/>. The financial terms of a Cat DDO are the same as those set out in Section III.1.b.i above with the exception of the following:

² The volume limit for small states is considered on a case-by-case basis.

- A. *Front-end Fee*. The level of the front-end fee may be different.
 - B. *Standby Fee and Commitment Fee*. There is no stand-by fee or commitment fee.
 - C. *Renewals of Withdrawal Period*. The Cat DDO may be renewed up to four times, for an additional period of up to three years for each renewal, for a total deferment of 15 years.
 - D. *Renewal Fee*. A renewal fee is payable for each renewal and is based on the amount available for withdrawal at the time of extension.
 - E. *Revolving Feature*. The Cat DDO has a revolving feature, i.e., amounts repaid or prepaid prior to the closing date are available for further drawdown.
- iii. SDPL*. SDPLs are offered on an exceptional basis to eligible IBRD Borrowers that are approaching or are in a crisis with substantial structural and social dimensions, and that have extraordinary and urgent financial needs. Information on the terms and conditions, and pricing are decided from time to time by the Board. The pricing of SDPLs is described at <http://treasury.worldbank.org/>. The financial terms of SDPLs are the same as those set out in Section III.1.a. with the exception of the following:
- A. *Front-end Fee*. A higher front-end fee is charged.
 - B. *Interest*. Interest is charged at a higher fixed spread. The default interest provisions do not apply to SDPLs.
 - C. *Repayment Terms*. The principal amount of the loan is repayable over 5 to 10 years, inclusive of a grace period of 3-5 years.
- c. Withdrawn IBRD Products**. IBRD financial products no longer available to clients include the Fixed-Spread Loan (FSL), the Variable Spread Loan (VSL), the Variable Lending Rate 1989 (VLR89) Currency Pool Loan (CPL), and the Single Currency Pool (SCP) loan, and the Variable Lending Rate 1982 (VLR82) Currency Pool Loan. Information on the terms, the current interest rates, transaction fees, conversions and prepayments on these withdrawn products is available at <http://treasury.worldbank.org/>.
- i. VSLs* may also gain access to currency conversions, interest rate conversions, and interest rate caps and collars while maintaining the variable spread of the loan by amending certain provisions of their Loan Agreements.
 - ii. Partial Waiver of Commitment Fee and Interest*. Borrowers may be eligible for partial waivers of the interest charges and commitment charges on certain loans in the financial year following the approval of such waivers. Eligibility for the waivers is based on whether a Borrower has serviced all of its IBRD loans and has paid all amounts

under IBRD Guarantees and hedging products during the preceding six-month period within thirty (30) calendar days of their due dates.³

iii. Board Determination. The partial waivers of commitment fees and interest are decided by the Board from time to time.

2. IDA Credits and IDA Grants. The terms of IDA financing for each member country vary, based on an annual assessment of the country's GNI per capita, creditworthiness for IBRD borrowing, and risk of debt distress. The majority of IDA resources is offered at highly concessional terms to eligible IDA Recipients in the form of highly concessional loans (known as "IDA Concessional Credits") or IDA grants. Financing terms for IDA Concessional Credits and IDA Grants are set out respectively in Sections III.2.a and III.2.b below.⁴ A portion of IDA resources is offered at non-concessional terms to eligible IDA Recipients. The financing terms for such loans (known as "IDA Non-concessional Credits") are set out in Section III.2.c below.⁵ In addition, IDA offers a deferred drawdown option that provides immediate liquidity to Recipients after a catastrophe (Section III.2.d).⁶

a. IDA Concessional Credits. IDA offers three broad sets of concessional credits on the terms set out below: Regular Terms, Blend Terms, and Small Economy Terms.

i. Eligibility:

A. *Regular Terms.* IDA-only Countries at low or moderate risk of debt-distress that are not classified as a Small Island Economy or Small State Economy.

B. *Blend Terms.* Countries classified as a Gap Country or a Blend Country.

C. *Small Economy Terms.* Countries that meet the definition of a Small Island Economy or a Small State Economy.

ii. Currencies. IDA Concessional Credits are offered in either SDRs or as single currency credits.

A. *Concessional Credits Denominated in SDR.*⁷ Repayments are due in one of five currencies (U.S. dollars, pounds sterling, yen, euros, or Chinese yuan). The

³ Except for any overdue payments that the Vice President and WBG Controller (WFAVP) determines to be minor in nature or beyond the Borrower's control.

⁴ Also see Annex 3.

⁵ Also see Annex 3.

⁶ The financing terms for the IDA Private Sector Window are based on the financing terms of International Finance Corporation and Multilateral Investment Guarantee Agency, hence not included in this Policy.

⁷ Further information on the SDR is available at <http://www.imf.org>.

Recipient bears the foreign exchange risk between the currency of payment and the SDR.⁸

- B. *Single Currency Concessional Credits*. IDA offers single currency credits that may be denominated in U.S. dollars, pounds sterling, yen, or euros.
- iii. **Service Charges**. For every IDA Concessional Credit, a service charge is payable semi-annually on the principal amount withdrawn and outstanding. For single currency concessional credits, Management adjusts the service charges each quarter to account for the differences in notional interest rates between the relevant currency and the SDR, subject to a floor of 0.75 percent.
- iv. **Commitment Charges**. For every IDA Concessional Credit, a commitment charge is payable semi-annually on the undisbursed amount, and starts to accrue sixty (60) days after the Financing Agreement is signed. The Board determines the commitment charges applicable for each fiscal year (from 0% up to a maximum of 0.50% per annum).
- v. **Interest Charges:**
 - A. *Regular Terms*. No interest charges.
 - B. *Blend Terms*. A fixed interest charge (in addition to the service and commitment charges described in Sections III.2.a.iii and III.2.a.iv) is payable semi-annually on the principal amount withdrawn and outstanding. The interest rate for SDR-denominated credits is approved by the Board for each IDA replenishment and is fixed for the duration of the IDA Concessional Credits. The interest charge for single currency credits is based on the SDR-denominated rate; it is adjusted each quarter to account for the differences in notional interest rates between the relevant currency and the SDR, subject to a floor of 0 percent.
 - C. *Small Economy Terms*. No interest charges.
- vi. **Repayment:**⁹ The repayment schedules (including the grace period) for IDA Concessional Credits are as follows. Principal repayments are payable semi-annually.

⁸ Before August 1, 1980, IDA Credits were denominated in current U.S. dollars and were repayable in amounts equivalent, at their repayment dates, to the value at the time of disbursements of the currencies disbursed in terms of 1960 U.S. dollars.

⁹ These terms are effective as of July 1, 2017. IDA lending terms for IDA Non-concessional Credits are updated quarterly and are available on IDA's website at <http://www.worldbank.org/ida/financing.html>

- A. *Regular Terms.* 38 years' amortization with a grace period of 6 years; principal to be repaid at 3.125 percent of the total principal per annum for years 7-38.
 - B. *Blend Terms.* 30 years' amortization with a grace period of 5 years; principal to be repaid at 3.3 percent of the total principal per annum for years 6-25 and 6.8 percent of the total principal per annum for years 26-30.
 - C. *Small Economy Terms.* 40 years' amortization with a grace period of 10 years; principal to be repaid at 2 percent of the total principal per annum for years 11-20 and 4 percent of the total principal per annum for years 21-40.
- vii. Accelerated Repayment.** IDA may modify the terms of an outstanding IDA Concessional Credit in accordance with the provisions of the Financing Agreement if all of the following conditions are met: (A) the country's annual GNI per capita has exceeded for three (3) consecutive years the level established annually by IDA for determining eligibility to access IDA's resources,¹⁰ (B) the Bank considers the country creditworthy for IBRD borrowing; and (C) after due consideration of the development of the country's economy, the IDA Board has reviewed and approved such modification. When these conditions have been met, IDA requires the Recipient to repay twice the amount of each principal installment not yet due, until the credit is fully repaid, subject to a minimum grace period of five (5) years. Alternatively, the Recipient may request that IDA substitute an interest charge for some or all of the higher principal repayments, or develop a customized repayment schedule that meets the Recipient's budgetary needs, provided that in IDA's opinion, the new terms have a present value equivalent to that resulting from doubling of the principal payments alone. If IDA determines that a Recipient's economic condition has deteriorated significantly after the terms have been so adjusted, IDA may, if the Recipient requests, revert to the original repayment schedule.
- viii. Prepayment.** All IDA Concessional Credits may be prepaid in full or in part. IDA Graduates are encouraged to prepay their outstanding IDA Concessional Credits beyond their contractual obligation so that the funds can be directed to current IDA Recipients. IDA may provide a discount on the principal amount prepaid in order to incentivize voluntary prepayments to a Recipient that: (A) elects to voluntarily prepay all its outstanding IDA Credits in full, or (B) provides a partial prepayment for IDA to apply to the latest maturities of its IDA Credits, as determined by IDA. A discount is not available for prepayments of individual credits specified by a Recipient. The

¹⁰ For credits approved between June 30, 1987 and August 1, 1996, the applicable threshold is that the recipient's GNI per capita has exceeded the historical cut-off for five consecutive years.

amount of any discount is determined by IDA, based on IDA's funding cost and the prepayment terms proposed by the Recipient.¹¹

ix. Additional Fees for Private Sector Projects. Initiation fees and processing fees, which are determined from time to time by Management, may be charged by IDA, as appropriate, for specific private sector projects.

b. IDA Grants. IDA may provide financial assistance in the form of grants based on certain eligibility criteria.¹²

i. Eligibility:

A. IDA-only Countries and countries classified as IDA-only Countries under the Small Island Economies Exception, assessed to be in debt distress or at high or moderate risk of debt distress, are eligible to receive some or all of their IDA Financing¹³ in the form of grants as follows, provided that they have not lost eligibility for grants as a result of the application of a disincentive under IDA's Non-Concessional Borrowing Policy:

1. Countries in debt distress or at a high risk of debt distress are eligible to receive 100 percent of financing as grants.
2. Countries at moderate risk of debt distress are eligible to receive 50 percent of financing as grants and the remaining 50 percent as credits.

B. All IDA eligible countries (including Blend Countries and Gap Countries) that meet the criteria to be considered as a "refugee host country" in accordance with the IDA Regional Program, are eligible for grants through the Refugee Sub-window as follows:

1. Host countries at high risk of debt distress are eligible to receive 100 percent of funding as grants;

¹¹ With respect to prepayments of floating rate credits approved on Hard Terms or Transitional Support Terms before July 1, 2017, the costs or gains from the swap terminations are passed on to the Recipient.

¹² The Bank provides grants from the following main sources: (a) the IBRD administrative budget, (b) IBRD net income, and (c) IDA resources. Refer to OP 8.45, *Grants*, for the policy on grants financed out of the IBRD administrative budget and IBRD net income.

¹³ Refers to all IDA Concessional Credits and IDA Grants, except financing from the Refugee Sub-window. Eligibility conditions for receiving grants from the Refugee Sub-window are set out in Section III.2.b.B of this Policy.

2. Host countries at moderate or low risk of debt distress are eligible to receive 50 percent of funding as grants and 50 percent as credits; and
3. Host countries at moderate or low risk of debt distress are eligible to receive 100 percent of financing as grants if the project being financed will benefit only the refugees and not the host communities.

C. *Regional Organizations.* Certain regional organizations may be eligible to directly receive grants from the IDA Regional Program if they meet all of the following criteria:¹⁴

1. The organization is a bona fide regional organization that has the legal status and fiduciary capacity to receive grant funding and the legal authority to carry out the activities financed.
2. The organization does not meet eligibility requirements to receive an IDA Credit.
3. The costs and benefits of the activity to be financed with an IDA Grant are not easily allocated to national programs.
4. The activities to be financed with an IDA Grant are related to regional infrastructure development, institutional cooperation for economic integration, and coordinated interventions to provide regional public goods.
5. Grant co-financing for the activity is not readily available from other development partners.
6. The regional entity is associated with an IDA-funded regional operation involving some of the participating member states or otherwise supports IDA's strategic regional priorities.

ii. Currency. Grants are denominated in SDRs.

iii. Service Charges. None.

iv. Commitment Charges. Grants are subject to a commitment charge, payable on the same terms as applicable to IDA Concessional Credits (Section III 2.a.iv above).

¹⁴ Also see Bank Policy on the IDA Regional Program and the associated Bank Directive (forthcoming).

c. **IDA Non-concessional Credits.** A portion of IDA resources is offered at non-concessional terms (i) for operations financed by the IDA Scale-Up Facility, and (ii) on an exceptional basis, to the most recent IDA Graduates to help ensure a smooth transition from IDA (“Transitional Support”). The terms of such IDA Non-concessional Credits are as follows.

i. Eligibility:

A. *For Operations Financed by the SUF.* All IDA countries assessed to be at low or moderate risk of debt distress.

B. *For Transitional Support (on an exceptional basis).* Graduates of the most recently concluded IDA cycle.

ii. Currency. Offered only in single currency denominations: in U.S. dollars, pounds sterling, yen, or euros.

iii. Pricing, Conversion Options, Repayment Terms, and Prepayments. Same as for current IBRD Flexible Loans as set out in Section III.1.a and the IBRD special terms as set out under Section III.1.b as applicable. In addition to the countries falling in the country classifications listed in Section III.1.a.ii.F.1), IDA-only Countries and Gap Countries are exempt from the maturity premium increase applicable from July 1, 2018. The country-specific maturity premiums are set forth in Annex 2 of the Bank Directive “Financial Terms and Conditions of Bank Financing”.

d. **Cat DDO.** IDA offers a deferred drawdown option that provides immediate liquidity to countries after a natural catastrophe.¹⁵ The volume of a Cat DDO financed by IDA is limited to 0.5 percent of the country’s GDP or USD 250 million, whichever is lower. If 0.5 percent of a country’s GDP falls below USD 20 million, the country may request Cat DDO financing up to a maximum of USD 20 million. Three funding options are available for financing a Cat DDO: IDA Concessional Core Allocations, the country’s undisbursed IDA balances, and the SUF (for countries eligible for SUF). The financing terms of a Cat DDO financed by IDA are as follows:

i. Currency: Same as for IDA Concessional Credits or IDA Grants, as applicable to the country, except if financed by the SUF, in which case same as for other financing from the SUF.

ii. Commitment Charges: None.

¹⁵ This policy is set out in Bank Policy, “Development Policy Financing” (formerly OP 8.60).

- iii. Front-end and Renewal Fees:* Subject to periodic review,¹⁶ except if financed by the SUF, in which case same as for IBRD Cat DDOs.
 - iv. Pricing Upon Drawdown; Repayment:* Same as for IDA Concessional Credits, as applicable to the country, except if financed by the SUF, in which case same as for IDA Non-concessional Credits.
 - v. Renewal.* The Cat DDO may be renewed once, for a maximum of six years in total.
- 3. IBRD and IDA Guarantees.** IBRD¹⁷ and IDA offer project-based guarantees as IPF and policy-based guarantees as DPF. IDA provides guarantees on concessional terms to IDA-only Countries. In addition, where IBRD resources are not available, IDA may provide guarantees on concessional terms to Blend Countries.¹⁸ IDA also provides guarantees on Non-concessional terms to countries eligible for IDA Non-concessional Credits, using the same eligibility criteria set out in Section 2.c.i of this Policy.
- a. Project-Based Guarantees**
- i. General.* Project-based Bank guarantees support projects with defined development objectives, activities, and results in accordance with the Bank Policy, “Investment Project Financing” (formerly OP 10.00). A project-based Bank guarantee may be structured to combine multiple guarantees, as appropriate for the project supported. In providing guarantee coverage, the Bank assesses the appropriateness of the Government undertakings, taking into account country, market and project circumstances. All project-based Bank guarantees require an adequate dispute resolution framework so as to avoid entangling the Bank in the substance of any dispute between the parties, including any dispute between two Governments. Bank guarantees do not support bilateral debt or debt extended by publicly owned entities that operate under public law for public policy purposes (e.g., bilateral financiers, Government-owned-policy banks and export/import agencies). Bank guaranteed debt itself is ineligible for any kind of debt restructuring without the consent of the Bank. The Bank does not provide guarantees for sovereign international borrowings for public sector projects in countries undergoing external debt restructuring until the country completes a debt restructuring agreement with commercial lenders and has in place a macroeconomic framework acceptable to the Bank.

¹⁶ See www.IDA.org for the latest Cat DDO fees for IDA.

¹⁷ IBRD Guarantees count towards the calculation of the exposure in relation to which any SBL Surcharge is levied.

¹⁸ IBRD Guarantees to Blend Countries are reflected on the IBRD balance sheet except in the case of Blend Countries where IBRD resources are not available, in which case, IDA Guarantees may be available to these countries.

- ii. Types.** Project-based Bank guarantees may be of the following types:
- A. **Loan Guarantees.** These guarantees cover loan-related debt service defaults caused by Government failure to meet specific payment and/or performance obligations arising from contract, law or regulation, in relation to a project. Loan guarantees include coverage for debt service defaults on: (i) commercial debt,¹⁹ normally for a private sector project where the cause of debt service default is specifically covered by the Bank's guarantee; and (ii) a specified portion of commercial debt irrespective of the cause of such default, normally for a public sector project.
 - B. **Payment Guarantees.** These guarantees cover defaults on non-loan related Government payment obligations, to private entities and foreign public entities arising from contract, law or regulation.
- iii. Special Requirements for IDA Loan Guarantees in Support of Commercial Debt Owed by Governments for Public Sector Projects.** Commercial debt owed by Governments and guaranteed by IDA in support of public sector projects are required to comply with the Bank policies relating to non-concessional borrowing. IDA makes available such loan guarantees in IDA countries at low or moderate risk of debt distress. IDA may also consider providing such loan guarantees in other IDA countries, provided that: (i) the project is expected to generate revenues that are strong and sufficiently robust to withstand economy-wide shocks; and (ii) expected project revenues are anticipated to be at all times sufficient for debt service and if necessary, arrangements for setting aside revenues for that purpose are adequate.
- iv. Special Requirements for Payment Guarantees.** Payment guarantees may not be offered if the payment obligations are owed to a member country that is under payment arrears to the Bank.
- v. Trust-funded Guarantees.** Guarantees backed by trust fund resources are subject to Bank policies and procedures applicable to Bank guarantees, except that, on a case-by-case basis and to the extent expressly permitted by a trust fund's constituent documents: (a) the specific financial terms of guarantees backed by trust fund resources, including the fee regime, maturity limits and accelerability provisions, may differ from the terms specified in this Policy; and (b) as appropriate for the purpose of assisting member countries to mobilize financing, the financial structure of guarantees may differ from the structure(s) contemplated in this Policy. In all cases of (a) and (b) above: (i) the relevant trust fund's donors, through the trust fund's constituent

¹⁹ Commercial debt means debt provided by a lender that is wholly or predominantly privately owned, or a lender that is publicly owned but is an autonomous entity established and operating under commercial law for the purposes of pursuing profit (such as a state-owned commercial bank).

documents, agree that the trust fund bears any associated financial and/or credit risks resulting from deviations from the financial terms and structures contemplated in this Policy; and (ii) where a different fee regime is proposed, the principle of full cost recovery for the Bank applies.²⁰

b. Policy-Based Guarantees

- i. **General.*** Policy-based guarantees cover debt service defaults, irrespective of the cause of such default, on a specified portion of commercial debt owed by Government and associated with the supported Government's program of policy and institutional actions, in accordance with the Bank Policy, "Development Policy Financing" (formerly OP 8.60). In providing guarantee coverage, the Bank assesses the appropriateness of the Government undertakings, taking into account country, market and program circumstances. Policy-based guarantees do not support bilateral debt or debt extended by publicly owned entities that operate under public law for public policy purposes (e.g., bilateral financiers, government owned-policy banks and export/import agencies).
- ii. **Special Requirements for IDA Policy-based Guarantees.*** IDA only provides policy-based guarantees for IDA countries at low or moderate risk of debt distress, provided they comply with Bank policies relating to non-concessional borrowing.

c. Financial Terms of Bank Guarantees

- i. **Maturity Limits.*** Guarantee maturity calculations are determined, based on the type and structure of the guarantee, and are subject to the following overall limitations:
 - A. **IBRD Guarantees.*** Except as provided in sub-paragraph D below, IBRD's financial exposure under IBRD Guarantees is subject to the same average and final maturity limits as those applicable to IBRD Flexible Loans. When justified by particular project or program needs, the Board may decide to approve an exception to the average or final maturity limits.
 - B. **IDA Guarantees Provided on Concessional Terms.*** IDA's financial exposure under these guarantees is subject to the same maximum allowable final maturity limits as those applicable to IDA Concessional Credits as set out under Section III.2.a.vi, as applicable to the member country.

²⁰ The Bank's legal agreements and/or the guarantee structure include appropriate risk mitigation measures; and limit the payment obligation of the Bank in the event of a call on the guarantee to the amount of funds made available to the Bank in the relevant trust fund.

- C. *IDA Guarantees Provided on Non-concessional Terms.* IDA's financial exposure under these guarantees is subject to the same average and final maturity limits as those applicable to IDA Non-concessional Credits as set out under Section III.2.c.iii.
- D. *SDPGs.* IBRD's financial exposure under SDPGs is subject to the same maturity limits as those applicable to SDPLs.
- ii. **Pricing.** The pricing of IBRD Guarantees and IDA Guarantees includes several fees, and is determined based on the concept of loan equivalency with IBRD loans and IDA Credits, respectively.²¹ These fees are generally paid by the implementing entity in the case of project-based guarantees, and by the Government in the case of policy based guarantees. The currently applicable Bank guarantee-related fee levels are available at <http://treasury.worldbank.org/>. Once the Bank guarantee-related fees are fixed for a specific guarantee, they remain unchanged for the life of that guarantee.
- A. *IBRD Guarantee Pricing.* IBRD guarantee pricing comprises three components: a guarantee fee, standby fee and a front-end fee.
1. *Guarantee Fee.* IBRD Guarantee fees are determined from time to time by the Board. The guarantee fee is set at the same level as the contractual lending spread for IBRD loans, and may include, as applicable, a maturity premium. The IBRD guarantee fee is charged on that portion of the guaranteed amount that IBRD has contractually committed and for which IBRD has financial exposure under the guarantee.
 2. *Standby Fee.* IBRD standby fees are determined from time to time by the Board. The standby fee is set at the same level as the commitment fee on IBRD loans. The standby fee is calculated periodically and applied to that portion of the guaranteed amount that IBRD has contractually committed and for which IBRD does not yet have financial exposure under the guarantee. The IBRD standby fee is normally charged semi-annually and accrues sixty (60) days after the date of signing of the agreement providing for IBRD's guarantee. The IBRD standby fee is payable no later than the effective date of the guarantee. IBRD does not charge a standby fee in respect of an IBRD guarantee that does not become effective.
 3. *Front-End Fee.* The IBRD front-end fee is a one-time fee set at the same level as the front-end fee on IBRD loans and is charged up-front on the maximum amount of the IBRD guarantee.

²¹ See Annex 4 of this Policy.

4. *Pricing of SDPGs.* SDPGs are offered on an exceptional basis to eligible IBRD member countries that are approaching or are in a crisis with substantial structural and social dimensions, and that have extraordinary and urgent financial needs. The pricing of SDPGs is decided from time to time by the Board, and is described at <http://treasury.worldbank.org/>. A higher guarantee fee and front-end fee are charged in respect of SDPGs than under normal policy-based guarantees. The IBRD standby fee is applied to SDPGs.
- B. *Pricing of IDA Guarantees Provided on Concessional Terms.* The pricing of IDA Guarantees comprises two components, a guarantee fee and a stand-by fee.
 1. *Guarantee Fee.* The guarantee fee is set at the same level as the service charge on IDA Credits. The guarantee fee is charged on that portion of the guaranteed amount that IDA has contractually committed and for which IDA has financial exposure under the guarantee.
 2. *Standby Fee.* The IDA standby fee is set at the same level as the commitment charge for IDA Concessional Credits. The IDA Standby fee is charged on that portion of the guaranteed amount that IDA has contractually committed and for which IDA does not yet have financial exposure under the guarantee. The IDA standby fee is normally charged semi-annually and accrues sixty (60) days after the date of signing of the agreement providing for IDA's guarantee. The IDA standby fee is payable no later than the effective date of the guarantee.
 - C. *Pricing of IDA Guarantees Provided on Non-concessional Terms.* Same as for current IBRD Guarantees as set out in Section III.3.c.ii.A.
 - D. *Payment of Fees.* Guarantee fees and standby fees are payable in advance; either charged and collected in advance of each fee period, or charged in a single lump sum amount upfront calculated on a present value basis. The IBRD front-end fee is payable as a condition to effectiveness of the specific guarantee.
 - E. *Refund of Guarantee Fee.* If, during the life of a Bank guarantee, the Bank's financial exposure under its guarantee is reduced or canceled, the Bank may, in its discretion, refund to the paying party a portion of any guarantee fee that the Bank has already received in advance, commensurate with the reduction in exposure.
 - F. *Additional Fees for Private Sector Projects.* Initiation fees and processing fees, which are determined from time to time by Management, may be charged by the Bank, as appropriate, for specific private sector projects.
- iii. ***Accelerability.*** Accelerability of guarantees is applied as follows:
 - A. Subject to B below, IBRD project-based guarantees may be accelerable;

B. Enclave IPF guarantees and IBRD policy-based guarantees may be accelerable only under exceptional circumstances;²² and

C. IDA Guarantees are non-accelerable.

If an IBRD Guarantee is accelerable, the unpaid balance of the guarantee may be payable by IBRD: (1) if the underlying debt guaranteed by IBRD is accelerated and becomes due and payable; and (2) upon call of the guarantee during a guarantee callable period. If a Bank guarantee is not accelerable, the Bank's payment obligations to the lenders (including bond holders) are limited to the principal and interest obligations in accordance with the original schedule of the guaranteed debt.

iv. Allocations. When extending an IDA Guarantee, IDA reduces the IDA country's available allocation by a minimum of 25 percent of the face value of the guarantee.

4. IBRD Enclave IPF. IBRD extends IPF in the form of loans and guarantees for projects in IDA-only Countries, subject to credit enhancement features that adequately mitigate IBRD's credit risk, on the following terms and conditions:

a. Requirements. IBRD provides Enclave IPF subject to credit enhancement that adequately mitigates IBRD's credit risk: (i) for projects that are expected to generate large economic benefits with significant developmental impact in the member country; and (ii) for projects that cannot be fully financed out of the country's own resources, IDA resources, and other concessional financing resources. IBRD provides Enclave IPF only for an IDA-only Country which will have the resources necessary to meet its repayment obligations to IBRD, including sufficient foreign exchange to cover the country's foreign exchange related payment obligations to IBRD under the Enclave IPF. Consequently, Enclave IPF may be provided in the following circumstances: (a) in an IDA-only Country at low or moderate risk of debt distress, for a project that does not itself generate foreign exchange, but has clear economic and financial benefits with strong financial flows in local currency and the IDA-only Country has sufficient alternative non project related foreign exchange to cover the country's obligations to IBRD under the Enclave IPF; or (b) in any IDA-only Country, for a foreign-exchange-earning project that generates sufficient foreign exchange to cover the country's obligations to IBRD under the Enclave IPF.

b. Pricing. Pricing of Enclave IPF is based on the pricing of IBRD IPF. In certain cases, pricing of Enclave IPF may be higher than IBRD IPF pricing as Enclave IPF is provided for IDA-only Countries, which have a higher credit risk for IBRD.

²² Requiring the approval of the Managing Director in charge of operations.

5. Other Financial Products

- a. **IBRD Hedges.** IBRD offers the following stand-alone hedging products for IBRD loans, to help Borrowers manage their financial risks: interest rate swaps, interest rate caps and collars, currency swaps, and on a case-by-case basis, commodity swaps.²³ Borrowers have the option to execute interest rate swaps and/or currency swaps with or without a floor on the floating leg of the swap.
- b. **Non-IBRD Hedges.** IBRD also offers intermediation of hedges on currencies, interest rates, commodities and indices that are of a type that has been, is presently or in the future becomes the subject of dealings in the financial markets, in connection with clients' non-IBRD debt. These products may be used for sovereign liability management, as well as for asset and liability management. Clients eligible to use these products are member countries and sub-national entities²⁴ that are in good standing with respect to debt service obligations to the Bank, if any, or are otherwise eligible for new IBRD financing.²⁵ The availability of hedges relating to non-IBRD debt is subject to an overall program limit decided by the Board, currently USD equivalent 18 billion of hedges on currencies, commodities and indices and USD equivalent 50 billion of interest rate swaps, as well as country specific limits and the country's position in the risk classification system as decided by Management.
- c. **Disaster Risk Management Products.** The Bank offers intermediation of disaster risk management products to hedge the following natural disaster risks: (1) those derived from meteorological or geological events, including, without limitation, earthquakes and tsunami, and (2) pandemics, epidemics and other events affecting health issues like morbidity, mortality and longevity. In addition to derivatives, IBRD and IDA may offer the following products: (a) insurance and reinsurance contracts with clients; (b) collateralized bonds linked to disasters (catastrophe bonds) issued by (as the case may be) client countries, their sub-national entities and regional and international organizations, and purchased by the Bank; and (c) any mechanism to make premium payments to the Bank which, through the above instruments, enables clients to receive protection from certain disaster risks, with an equivalent function and risk profile as the instruments listed above that receives the required Management-level finance and risk approvals. These products

²³ IFL and FSL (Fixed-Spread Loans – see Section III.1.a. iii above) risk management options (currency conversions, interest rate conversions, caps and collars) are embedded in the Loan Agreement.

²⁴ Hedges on IBRD Borrowers' non-IBRD debt may be offered to sub-national entities subject to the transaction being structured such that IBRD is not exposed to any subnational credit risk (e.g., through a sovereign guarantee, upfront premium payments, etc.)

²⁵ An existing loan portfolio with IBRD is not a pre-requisite for this product offering.

are available for IBRD and IDA member countries eligible to receive Bank financing, their sub-national entities, and regional and international organizations.²⁶

- d. Transactions for the above hedging products are documented through standard derivatives agreements. Transactions for the disaster risk management may also be documented through insurance/reinsurance and other similar contracts. Management determines the transaction fees charged in connection with these hedging products. The transaction fees are set forth in Annex 3 of Bank Directive “Financial Terms and Conditions of Bank Financing”. Information on the terms and conditions, and transaction fees of hedging products, is also available at <http://treasury.worldbank.org/>.

SECTION IV – EXCEPTIONS

Management adjusts the IBRD/IDA financing terms set out in Annex 2 of the Directive, “Financial Terms and Conditions of Bank Financing”, in the following circumstances:

- (i) On July 1 of each year, to reflect changes arising from the annual assessments carried out in accordance with this Policy; and
- (ii) At any point in time: (a) to reflect remedies under the Non-concessional Borrowing Policy; (b) to reflect any changes in IBRD or IDA eligibility; and (c) for countries exposed to severe natural disasters leading to significant damage and losses of over a third of their GDP in the aftermath of a crisis, based on an updated debt sustainability analysis.

SECTION V – WAIVER

A Waiver of any provision of this Policy may be granted only in accordance with the provisions of Bank Policy “Operational Policy Waivers” and the Bank Procedure “Operational Policy Waivers and Waivers of Operational Requirements”.

SECTION VI – TRANSITIONAL PROVISIONS

The revised maturity premium levels set forth in Annex 1 do not apply to loans that meet both the following conditions: (i) the invitation to negotiate is issued on or before June 30, 2018; and (ii) the Board approves the loan on or before September 30, 2018. For those loans, the maturity premium is the one in force on June 30, 2018.

²⁶ IDA intermediates index-based weather derivatives for IDA-only Countries, and IBRD intermediates index-based weather derivatives for all member countries for whom such transactions would not otherwise be intermediated by IDA.

The revised maturity premium levels set forth in Annex 4 do not apply to Bank guarantees approved by the Board on or before September 30, 2018. For those Bank guarantees, the applicable maturity premium is the one in force on June 30, 2018.

The Single Borrower Limits and Standard Exposure Limits set forth in Annex 2 do not apply to borrowers that no longer meet the definition of “SBL-eligible Borrowers”. For those Borrowers, the applicable Single Borrower Limit, SBL Surcharge and Standard Exposure Limit are the ones in force prior to their ceasing to meet such definition.

SECTION VII – EFFECTIVE DATE

This Policy is effective as of the date on its cover page.

SECTION VIII – ISSUER

The Issuer of this Policy is the Vice President – Operations Policy and Country Services.

SECTION IX – SPONSOR

The Sponsors of this Policy are the Vice President and Treasurer and the Vice President, Development Finance. The Sponsor – Vice President and Treasurer – is responsible for the day-to-day management of this Policy as it relates to IBRD, and the Sponsor – Vice President, Development Finance – is responsible for the day-to-day management of this Policy as it relates to IDA.

SECTION X – RELATED DOCUMENTS

Bank Directive, “Financial Terms and Conditions of Bank Financing”

Bank Policy, “Investment Project Financing” (formerly OP 10.00)

Bank Policy, “Development Policy Financing” (formerly OP 8.60)

Bank Policy, “Program-for-Results Financing”

Guidelines for Conversion of Loan and Financing Terms

Guidelines for Using Hedging Products

OP 8.45 – Grants

OP 3.10 – Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits (archived)

OP 14.25 – Guarantees, December 2005 (archived)

R2018- 0163 “IBRD FY19 Single Borrower Limit: Analysis and Recommendation”, June 26, 2018 [Confidential]

R2018-0128 “Implementation of IBRD Pricing Measures included in 2018 Capital Package”, May 31, 2018 [Official Use Only]

DC2018-0002/P “Sustainable Financing for Sustainable Development”, April 21, 2018.

SecM2018-0182 – “IDA/SecM2018-0102 - Per Capita Income Guidelines for Operational Purposes”. May 25, 2018, [Official Use Only]

SecM2017-0174 – “IDA/SecM2017-0081 - Per Capita Income Guidelines for Operational Purposes”. June 2, 2017, [Official Use Only]

IDA/SecM2017-0024/1 “Additions to IDA Resources: Eighteenth Replenishment, Towards 2030: Investing in Growth, Resilience and Opportunity”. (IDA 18 Deputies Report), February 8, 2017.

R2017-0034/1 “Increasing the Frequency of Variable Spread Reset for IBRD IFL, March 8, 2017 [Official Use Only]

R2016-0185 “Technical Amendment to Risk Management Practices in the Provision of Conversions and Hedges”, September 20, 2016 [Official Use Only]

IDA/R2016-0141 “The Demand for IDA18 Resources and the Strategy for their Effective Use”, May 31, 2016

R2016-0019/1 “Enhancing IDA’s Financial Support in IDA17”, March 2, 2016

IDA/R2015-0176 “IDA Commitment Charge for FY16”, June 12, 2015 [Official Use Only]

R2015-0111 “Allocation of FY15 Net Income and Waivers of Loan Charges for FY16”, June 3, 2015

IDA/R2015-0085 “Extension of the IDA Single-Currency Lending Pilot Program”, April 13, 2015 [Official Use Only]

R2015-0015/1, IDA/R2015-0010/1 “Proposal to Extend Intermediation of Disaster Risk Management Products to Include New Instruments and Perils”, March 17, 2015 [Official Use Only]

R2015-0016 "Proposal to Expand the Offering of Hedging Products to IBRD Clients", February 3, 2015 [Official Use Only]

IDA/R2014-0077/1 "Additions to IDA Resources: Seventeenth Replenishment, Maximizing Development Impact", March 27, 2014

R2014-0012/1 "Improving Margins for Manoeuvre", February 4, 2014 [Confidential]

R2013-0206 "Enhancing the World Bank's Operational Policy Framework on Guarantees", November 20, 2013 [Official Use Only]

R2012-0194 "Proposal to Extend Intermediation of Natural Disaster Risk Management Products", September 14, 2012 [Official Use Only]

IDA/R2012-0140 "IDA Single-Currency Lending Pilot Program", May 16, 2012 [Official Use Only]

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R94-145 “Mainstreaming of Guarantees as an Operational Tool of the World Bank”, July 14, 1994.

R87-6 “Financial Aspects of Guarantees”, January 13, 1987

R84-252, “Statement on Graduation”, submitted for consideration by the Board on September 11, 1984.

R82-I - Memorandum to the Executive Directors: Graduation from the Bank

Questions regarding this Policy should be addressed to the Sponsor.

ANNEX 1

Board-approved Pricing Elements of IBRD Loan Products

As of July 1, 2018

Figures in basis points (bps) per annum, unless otherwise noted

Table 1

IBRD Flexible Loan (IFL) ¹	Average Maturity					
	8 years and below	Greater than 8 and up to 10 years	Greater and 10 and up to 12 years	Greater than 12 and up to 15 years	Greater than 15 and up to 18 years	Greater than 18 and up to 20 years
Commitment Fee	25	25	25	25	25	25
Front-end Fee ²	25	25	25	25	25	25
Contractual Spread	50	50	50	50	50	50
Maturity Premium ³ ⁴	0	10	30	50	70	90
Default Interest Rate	50	50	50	50	50	50

¹ Excludes the surcharge on excess exposure (see Annex 2)

² One-time fee

³ These maturity premiums do not apply to loans that:

- meet both the following conditions: (i) the invitation to negotiate is issued on or before June 30, 2018; and (ii) the Board approves the loan on or before September 30, 2018. For those loans, the maturity premium is the one in force on June 30, 2018;

- are extended to FCS Countries; Blend Countries; Small State Economies; and IDA Graduates (for a period of six consecutive years beginning from July 1 of the calendar year of IDA graduation; and for the following IDA17 and IDA18 graduates for six consecutive years beginning from July 1, 2018: Angola, Armenia, Bosnia and Herzegovina, Georgia, India, Bolivia, Sri Lanka and Vietnam).

For such loans, the maturity premiums that apply are set forth in Table 2 of this Annex.

⁴ The country-specific maturity premiums are set forth in Annex 2 of the Bank Directive, "Financial Terms and Conditions of Bank Financing".

Table 2: Maturity Premiums on June 30, 2018

	Average Maturity					
	Up to 8 years	8+ to 10 years	10+ to 12 yrs	12+ to 15 yrs	15+ to 18 yrs	18+ to 20 yrs
Maturity Premium	0	10	20	30	40	50

Table 3: Discount and Surcharge relative to Maturity Premium^a

Average Maturity	Below GDI Discount ^{b, c}	HIC Surcharge ^d
8 years and below	0	+5
Greater than 8 and up to 10 years	0	+5
Greater and 10 and up to 12 years	-5	+10
Greater than 12 and up to 15 years	-10	+15
Greater than 15 and up to 18 years	-15	+20
Greater than 18 and up to 20 years	-20	+25

^a If a Borrower is exempt from the maturity premium increase applicable from July 1, 2018, then IBRD applies the exemption, and does not apply the Below GDI Discount nor HIC Surcharge even if the member country also meets the conditions for such discount or surcharge.

^b When IBRD reclassifies a member country into a category with a higher maturity premium, or the member country ceases to be eligible for the Below GDI Discount or an exemption (with the exception of Small State Economies as per Section III 1. a. ii. F. 4. d. of the Policy), the higher maturity premium is applied effective July 1 in the calendar year occurring 12 months after such reclassification or change.

^c When IBRD reclassifies a member country into a category with a lower maturity premium, or the member country becomes eligible for the Below GDI Discount or an exemption, the lower

maturity premium is applied with effect from July 1 of the calendar year of the reclassification.
^d IBRD applies the HIC Surcharge effective July 1 in the calendar year occurring 12 months after the member country becomes a HIC. The HIC Surcharge stops applying with effect on July 1, in the same calendar year that the member country is reclassified and ceases to be a HIC.

Table 4: Fees and Spreads of DDOs, Cat DDOs and SDPLs

Development Policy Loan with Deferred Drawdown Option (DPL DDO)	
Front-end Fee *	25
Standby Fee	50

Development Policy Loan with Catastrophe Deferred Drawdown Option (Cat DDO)	
Front-end Fee *	50
Renewal Fee **	25

Special Development Policy Loan (SDPL)	
Front-end Fee *	100
Commitment Fee	25
Fixed Spread Over LIBOR	min. 200

* One-time fee.

** Payable upon each renewal.

Note: This table excludes pricing elements which are approved by Management. Please refer to <http://www.treasury.worldbank.org/> for current IBRD loan pricing.

ANNEX 2

Single Borrower Limits and Surcharge on Excess Exposure

1. **Single Borrower Limit.** US\$21 billion for SBL-eligible Borrowers that are Below GDI and US\$19.5 billion for SBL-eligible Borrowers that are Above GDI.
2. **SBL Surcharge.** 0.50 percent per annum on exposure in excess of the Standard Exposure Limit.
3. **Definitions.** For purposes of this Annex 2:

“SBL-eligible Borrowers” means those highly creditworthy Borrowers to which IBRD has the highest exposure.

“Standard Exposure Limit” means US\$18.5 billion for SBL-eligible Borrowers that are Below GDI and US\$17 billion for SBL-eligible Borrowers that are Above GDI.
4. The Single Borrower Limit, SBL Surcharge and Standard Exposure Limit are determined by the Board.

ANNEX 3

Terms of IDA Financing in the Form of a Grant or a Credit (effective as of July 1, 2018)

	Maturity ^{b/}	Grace Period	Principal Repayments		Acceleration Clause ^{c/}	Service Charge for Credits (SDR) ^{d/e/}	Interest Rate (SDR) ^{i/}
Grants ^{a/}	NA	NA	NA		NA	NA	NA
Regular ^{h/}	38	6	3.125% for yrs. 7-38		Yes	0.75%	NA
Small Economy Terms ^{f/}	40	10	2% for yrs. 11- 20	4% for yrs. 21-40	Yes	0.75%	NA
Blend ^{g/h/}	30	5	3.3% for yrs. 6-25	6.8% for yrs. 26-30	Yes	0.75%	1.25%
Non- Concessio- nal Credits ^{j/}	Up to 35 yrs. maximum; up to 20 yrs. average maturity		Flexible		NA	NA	LIBOR + IBRD fixed or variable spread with an option to fix the rates

Notes:

a/ Eligibility to grants is determined under the Scope of the Policy, in section III, 2.b.

b/ The maturity of all IDA Credits approved by the Board through June 30, 1987 is 50 years. The maturity of IDA Credits approved by the Board between June 30, 1987 and June 30, 2011 are 35 or 40 years. The maturity of credits approved between July 1, 2011 and June 30, 2014 are 25 or 40 years.

c/ IDA Concessional Credits include an acceleration clause, providing for doubling of principal payments from creditworthy borrowers where per capita income remains above eligibility thresholds. IDA Credits on hardened terms (approved during IDA13-IDA15) are exempt from the accelerated repayment provisions.

d/ All IDA Concessional Credits and IDA Grants excluding those financing a Cat DDO are subject to a commitment charge. IDA's commitment charge is a variable charge set within a range of 0-

0.5 percent of the undisbursed balance of IDA's credits and grants. The Board reviews and approves the level of the commitment charge annually.

e/ To ensure that IDA covers its administrative expenses and to prevent a negative interest charge, IDA applies a floor of 0.75 percent for the service charge and a floor of 0 percent for the interest charge for all currencies. The service charge is applied as a percentage of the disbursed and outstanding credit balance.

f/ Eligibility for Small Economy Terms is limited to countries that meet the definition of a Small Island Economy or a Small State Economy per Section II of this Policy.

g/ Blend terms apply to Blend Countries and Gap Countries.

h/ The rates for single currency credits are set quarterly. Credits approved in each quarter are subject to the rates published in the beginning of that quarter.

i/ The up-to-date interest rate information and IDA lending terms are published at <http://www.worldbank.org/ida/financing.html> and <http://treasury.worldbank.org/bdm/htm/IDACreditPricing.html>.

j/ IDA Non-concessional Credits are subject to a one-time front-end fee of 0.25 percent and a commitment fee of 0.25 percent. The front-end fee is charged on the committed amount. The commitment fee is charged on the undisbursed balances.

ANNEX 4

IBRD and IDA Guarantee Pricing

The pricing of IBRD and IDA guarantees includes several fees, and is determined based on the concept of loan equivalency with IBRD loans and IDA credits, respectively. The following table presents IBRD and IDA guarantee pricing as of July 1, 2018.

Charge	Fee	IBRD Guarantees and IDA Guarantees on Non-concessional Terms ¹		IDA Guarantees on Concessional Terms	
		Private Projects	Public Projects (Project or Policy Based)	Private Projects	Public Projects (Project or Policy Based)
Up-Front	Front-End	25 bps of guarantee amount		N.A.	
(One-time)	Initiation	Greater of 15 bps of guarantee amount or USD100,000	N.A.	Greater of 15 bps of guarantee amount or USD100,000	N.A.
	Processing ²	Up to 50 bps of guarantee amount	N.A.	Up to 50 bps of guarantee amount	N.A.
Recurring	Standby ³	25 bps		0 bps	
	Guarantee ⁴	50 bps (+ premium as applicable) ^{5, 6}		75 bps	

Note: This table includes pricing elements – initiation and processing fees – which are determined by Management. The information in this table is intended to provide readers with a comprehensive picture of all fees applicable to IBRD and IDA Guarantees.

1. Includes IBRD Enclave Guarantees for IDA countries. Excludes the surcharge on excess exposure (see Annex 2).
2. Determined on a case by case basis. In exceptional cases, projects can be charged over 50 bps of the guarantee amount.
3. Set at the same level as the commitment charge on IBRD loans and IDA Credits, respectively.
4. The guarantee fee is charged on Bank's financial exposure under the guarantee, i.e., the present value of the guarantee (which is typically equal to outstanding guarantee amount during a callable period).
5. Guarantee maturity calculations are determined based on the type and structure of a guarantee. For IBRD, the maximum final maturity is 35 years, and fees include an annual premium based on average maturity and member country classification, as follows:

Average Maturity	Maturity Premium ^a	Below GDI Discount ^b on Maturity Premium	HIC Surcharge ^c
8 years and below	0	0	+5
Greater than 8 and up to 10 years	10	0	+5
Greater than 10 and up to 12 years	30	-5	+10
Greater than 12 and up to 15 years	50	-10	+15
Greater than 15 and up to 18 years	70	-15	+20
Greater than 18 and up to 20 years	90	-20	+25

^a This maturity premium does not apply to

- Bank guarantees approved by the Board on or before September 30, 2018. For those Bank guarantees, the applicable maturity premium is the one in force on June 30, 2018.
- Bank Guarantees to FCS Countries, Blend Countries, Small State Economies, and IDA Graduates (for a period of six consecutive years beginning from July 1 of the calendar year of IDA graduation; and for the following IDA17 and IDA18 graduates for six consecutive years beginning from July 1, 2018: Angola, Armenia, Bosnia and Herzegovina, Georgia, India, Bolivia, Sri Lanka and Vietnam). For these guarantees and countries, the maturity premium that applies is set forth in the following table:

	Average Maturity					
	Up to 8 years	8+ to 10 years	10+ to 12 yrs	12+ to 15 yrs	15+ to 18 yrs	18+ to 20 yrs
Maturity Premium (in basis points)	0	10	20	30	40	50

^b If a member country is exempt from the maturity premium increase applicable from July 1, 2018, then IBRD applies the exemption and does not apply the Below GDI Discount nor the HIC Surcharge even if the member country also meets the conditions for such discount or surcharge. When IBRD reclassifies a member country into a category with a higher maturity premium, or the member country ceases to be eligible for the Below GDI Discount or an exemption (with the exception of Small State Economies as per Section III 1. a. ii. F. 4. d. of the Policy), the higher maturity premium is applied effective July 1 in the calendar year occurring 12 months after such reclassification or change. When IBRD reclassifies a member country into a category with a lower maturity premium, or the member country becomes eligible for the Below GDI Discount or an exemption, the lower maturity premium is applied with effect from July 1 of the calendar year of the reclassification.

^c IBRD applies the HIC Surcharge effective July 1 in the calendar year occurring twelve months after the member country becomes a HIC. The HIC Surcharge stops applying with effect on July 1 in the same calendar year that the member country is reclassified and ceases to be an HIC.

6. In certain cases, IBRD enclave guarantees for IDA-only Countries may have higher pricing than the above IBRD prices.