S&P Global Ratings

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International Development Association

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International Development Association

Stand-alone credit profile	aaa	+	Extraordinary shareholder support	0	+	Holistic approach	0

Enterprise risk profile

Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak

Financial risk profile

Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak

Issuer credit rating
AAA/Stable/A-1+

Outlook

Issuer Credit Rating
Foreign Currency
AAA/Stable/A-1+

The stable outlook on International Development Association (IDA) signals that we do not see risks to its credit quality that represent a greater than one-in-three probability that we would lower our rating in the next two years. We expect IDA to continue to deliver on its mandate while maintaining one of the strongest capital ratios among MLIs.

We could lower the rating if IDA takes on liabilities that would lower its risk-adjusted capital (RAC) ratio after adjustments to below 23%. Additionally, we could consider a downgrade amid unexpected deterioration in its liquidity and funding, or if delays in payments of donor replenishments increase materially. We continue to assume that while IDA is proactive in responding to the global pandemic with grants and concessional lending, members do not have the appetite for a multilateral debt-relief program for borrowers that is not compensated.

Rationale

Founded in 1960, IDA, part of the World Bank Group, is the oldest and biggest multilateral lending institution (MLI) that focuses on providing assistance to the poorest developing countries. IDA has a solid and unparalleled mandate, which directs its activities toward borrowers who are not serviced by private-sector entities or the main lending window of most MLIs--initially at concessional rates and now at a variety of terms. IDA remains at the forefront of multilaterals' response to the COVID-19 pandemic. As part of the World Bank Group package, IDA announced that it could deploy approximately $50 billion-$55 billion over April 2020 to June 2021 to support member countries in their efforts to respond to the COVID-19 pandemic and respond to its immediate health consequences, as well as to address the social and economic effects. This includes some planned capacity from fiscal years 2022 and 2023 that was brought forward to fiscal 2021, the first year of the IDA19 Replenishment. (IDA's fiscal year ends June 30.)

IDA benefits from high-quality governance and strong support from members. It concluded its 19th regular replenishment cycle (IDA19) with a financing package that totals $82 billion for fiscal years 2021-2023. This is a testament to significant ongoing member support since IDA's initial subscriptions of $1 billion in 1960. IDA19 included commitment from 56 countries, including six first-time donor governments: Angola, Azerbaijan, Bahrain, Bulgaria, Ecuador, and Uruguay.

IDA's RAC ratio after MLI adjustments was 76% as of June 30, 2020--one of the highest among MLIs. The bulk of IDA's exposures is to sovereigns within purpose-related or treasury portfolios. Historically, IDA operated on an unleveraged model relying on funding replenishments that occur on a three-year cycle. These replenishments have included equity contributions, transfers from other World Bank institutions (IBRD and IFC), and reflows from previously extended loans.

However, the prior replenishment (IDA18) included a fundamental shift in IDA's approach to mobilizing financing and introduced market debt into its funding mix (in addition to capital contributions from member states). IDA tapped global markets for the first time in April 2018, raising $1.5 billion, and established a short-term bills program in March 2019. IDA increased its issuances in fiscal year 2020, with total borrowings increasing to $12.1 billion (from $3.4 billion the year before). We believe that IDA's funding will further strengthen once it establishes a track record of issuances in international markets. Its liquidity continues to benefit from well-managed liquidity policies.

Environmental, Social, And Governance

IDA has an institutional mandate to eradicate extreme poverty and boost shared prosperity. Its environmental and social focus is therefore at the core of its mandate and underpins member support. The key themes reinforced in the last replenishment (IDA19) include climate change; gender; fragility, conflict, and violence; governance and institutions; jobs; and economic transformation.

Countries eligible for IDA funds are the world's poorest countries. For example, IDA loans to the poorest countries in Africa represent 44% of loans outstanding and 58% of loan commitments and guarantees made in the financial year ended June 2020. South Asia represents the next largest, with 36% of loans outstanding and 23% of loan commitments and guarantees. Based on the level of economic development, these countries tend to have higher environmental risks and social needs. Thus, the credit activities IDA undertakes may be subject to higher ESG opportunities and impact.

Of IDA's portfolio, 72% goes toward financing investment projects across multiple sectors, including capital-intensive, institution-building, agriculture, service delivery credit, and community-based development. Grant delivery is also a key part of its business--77% of its fiscal 2020 grants were provided to countries in Africa, demonstrating its social mission.

The institution shares the same goals and rigorous environmental and social standards as the International Bank for Reconstruction and Development (IBRD). These standards govern the eligibility of projects and include robust environmental and social accountability mechanisms that investigate community complaints of harm with regard to projects financed by IDA, or noncompliance with environmental and social policies and procedures of IBRD and IDA.

IDA has also incorporated various lending programs to support its members as they face climate shocks, including the catastrophic deferred drawdown option to support countries' ability to plan and manage crises, and a crisis response window to support countries' crisis response efforts. These programs complement IDA's lending activities, which follow the World Bank climate change action plans and support climate mitigation and adaption projects.

We view IDA's governance and management as a strength to the rating, given the comparative diversity in its member base and strong governance standards (in line with IBRD). According to external assessments, IDA is perceived as one of the most efficient aid institutions by member countries.

Enterprise Risk Profile: Strong Record Of Fulfilling Its Development-Focused Role

- IDA has a well-defined, development-focused role not easily replaceable by other MLIs or the private sector.
- It has a long record of member support, including the 19th replenishment of resources, and lending throughout economic cycles.
- IDA also has a diverse group of government members and robust risk-management practices.

Policy importance

IDA's policy importance is supported by its mandate, which directs its activities toward borrowers who are not serviced by private-sector entities or the main lending window of most MLIs. We understand that donors generally view IDA as one of the most efficient institutions of its kind. Although IDA is not the only concessional window in the MLI asset class, it exceeds the next-size windows by a considerable multiple. Other institutions could not easily replicate IDA's activities.

IDA offers highly concessional and more differentiated products than those of its sister institution, IBRD. IDA has 173 member countries, and IBRD membership is a precondition. Eligibility to borrow from IDA on the most favorable conditions is based on a sovereign, among other factors:

- Having gross national income per capita below an established threshold and is updated annually (set at US$1,185 for fiscal year 2021), and
- Not being able to access IBRD.

Seventy-four member countries are eligible for funds. Aside from concessional loans, IDA extends some non-concessional loans at rates similar to IBRD; such loans are only given to members IDA deems fiscally sustainable. IDA-only countries that are at risk of becoming fiscally distressed are eligible for partial or full grant funding in place of concessional loans, depending on the World Bank-IMF analysis of their debt sustainability risks.

Capital replenishments generally happen on a three-year cycle--IDA has had 23 replenishments over 60 years, of which 19 have been on a regular three-year cycle. This reflects solid member support. The amount of commitments in every cycle is closely linked to the amount of resources made available to it within a given replenishment. Disbursements are, on average, made on a nine-year cycle. Growth in replenishments has been steady, averaging 10% per year over the past 50 years, although not every donor has contributed at every replenishment stage. We believe these recurring capital injections, which by far outweigh any other MLI, are a sign of strong member commitment. We expect IDA's unique nature to continue offering an attractive developmental proposition for further injections.

In December 2019, IDA partners agreed, and in February 2020, IDA executive directors approved, the IDA19 policy and financing package. The 19th replenishment totals $82 billion, including $23.5 billion in new donor contributions, and continues the fundamental shift in IDA's approach to mobilizing finance that was introduced in IDA18. IDA will allocate the resources from this replenishment primarily based on its performance-based allocation model, with a focus on jobs, climate change, fragile states, gender issues, economic transformation, and public-sector governance.

Besides capital market funding, IDA18 introduced (and IDA19 continued) a private-sector window (PSW) through which IDA will enhance collaboration with World Bank Group members International Finance Corp. (IFC) and Multilateral Investment Guarantee Agency, which is expected to deploy $2.5 billion to support private-sector investment in IDA countries over the IDA19 period. This is in line with the World Bank Group's "Cascade" (Maximizing Finance for Development) initiative.

During fiscal 2020, IDA approved $792 million of instruments under the PSW, bringing the total to $1.37 billion as of June 30, 2020. Of this, $389 million has been utilized. We believe this initiative supports IDA's enterprise risk profile because it comes from members, although we see this as on the margins, with IDA's main products remaining its concessional lending products to sovereign members.

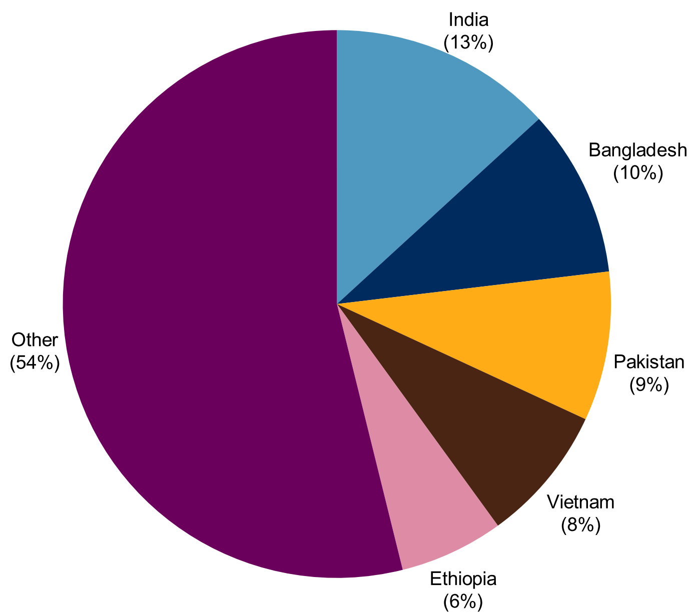
Within a broader context of international debt relief initiatives, IDA engages in two debt write-off programs: the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). MDRI was funded by a dedicated dollar-for-dollar equity replenishment outside the three-year cycle, while HIPC is funded within the cycles.

The write-offs were conditional on program criteria. To be eligible for relief, borrowers must be in good standing with respect to all eligible debt repayments. That said, their size was significant; cumulative write-offs represent almost one-quarter of IDA's total exposures. To address the risk that sovereigns could see similar debt problems reemerging, they receive their assistance wholly or mainly in the form of grants if they are deemed at risk of fiscal distress. Grants, like debt write-offs, are funded by new IDA donor contributions.

Last year, the World Bank Group and IMF had announced that Somalia became eligible for assistance under the Enhanced HIPC Initiative. On March 5, 2020, Somalia cleared its arrears with IDA, which led to a $284 million release of HIPC and loan loss provisions. We calculate IDA's arrears ratio at 1.6% as of June 2020, consistent with strong preferred creditor treatment (PCT). Borrowers currently in nonaccrual with IDA include Eritrea, Sudan, Syria, and Zimbabwe, while Myanmar cleared its arrears in 2012.

Chart 1

IDA--Five Largest Countries Purpose-Related Exposures
As a percentage of gross purpose-related assets plus guarantees



Source: S&P Global Ratings.

Governance and management expertise

As with other World Bank Group institutions, IDA has an article of agreement that we view as equivalent to a treaty, and IDA enjoys the same tax exemptions as IBRD. No members have withdrawn from IDA, and members' payments of replenishments have generally been timely and in full. (IDA was partly established to help Europe recover from the devastation of World War II and strengthen those client countries, which could align themselves with Cuba and former Eastern Bloc countries that withdrew from IBRD.)

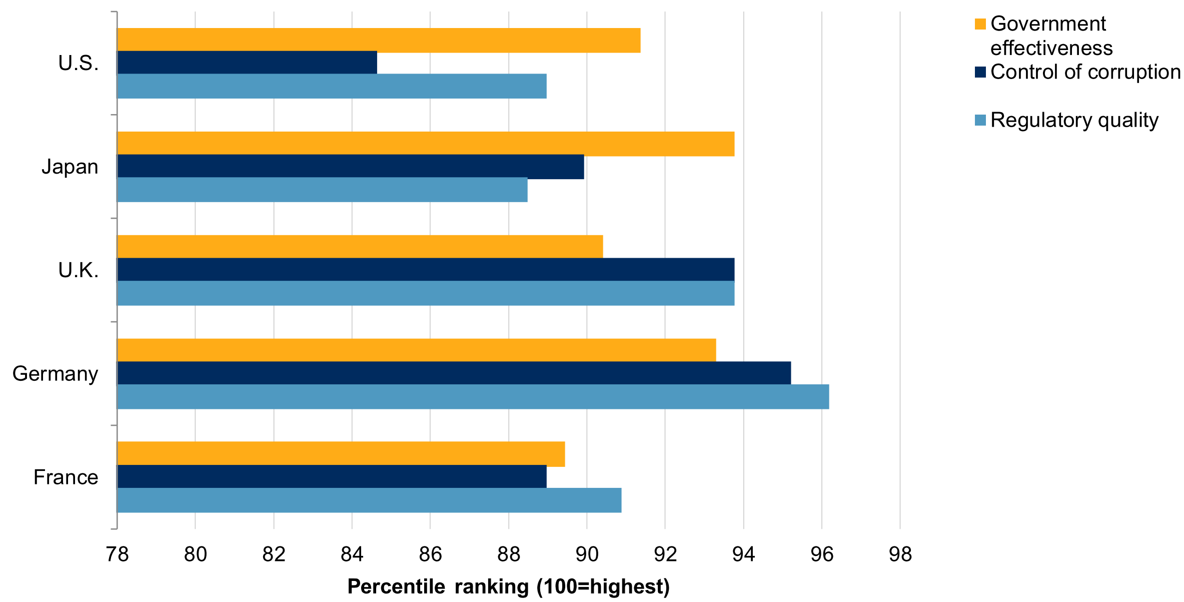
IDA shares its governance and management with IBRD to a significant extent with a structure we believe has very high standards and will underpin sound decision-making. The top-five member countries account for 34.5% of the total voting power:

- The U.S. (10.2%),
- Japan (8.4%),
- The U.K. (6.7%),
- Germany (5.4%), and
- France (3.8%).

The U.S. has less voting power than it has in IBRD (15.8% at the end of June 2020).

Chart 2

IDA--Five Largest Shareholders
Selected World Bank Governance Indicators



Source: S&P Global Ratings.

We view IDA's financial and risk management policies as robust and conservative. It revised key policies following the shift in its funding model during IDA18. This included updating its capital adequacy framework and liquidity policy, as well as introducing single borrow limits in its lending activities.

During fiscal year 2019, the World Bank Group saw a change of leadership. David Malpass was appointed president of the World Bank Group effective April 9, 2019. In July 2019, Anshula Kant was appointed the new managing director and CFO. Jingdong Hua was appointed the new vice president and treasurer. These changes have not (and were not expected to) affected the association's operational activities given the depth of experience of IDA's management and long track record.

Financial Risk Profile: Extremely Strong Capitalization Supported By Ongoing Replenishments

- Solid capitalization benefits from a very significant equity buffer that offsets the average credit quality of its diversified loan exposures.
- Our funding assessment reflects IDA's current lack of track record in capital markets.

- Well-managed policies support a strong liquidity buffer.

Capital adequacy

IDA has solid capitalization. As of fiscal year 2020, the RAC ratio after adjustments was 76%--extremely high compared with both banks and other MLIs. The RAC calculation incorporates all parameters as of Jan. 29, 2020. The main adjustment in IDA's RAC is its single-name exposure, which is essentially offset by the benefit that accrues from PCT. Capitalization is supported by very high levels of equity, as IDA still has very little debt and receives regular equity replenishments.

The RAC ratio as of fiscal year 2020 was lower than 82% the prior fiscal year and mainly reflects the increase in commitments and disbursements. The RAC calculation does not take into account the deficit in World Bank's pension schemes, part of which is attributed to IDA.

The bulk of IDA's exposures is to sovereigns within purpose-related or treasury portfolios. The association lends largely in Africa, which accounts for 44% of its outstanding loans, followed by South Asia (36%), and East Asia and Pacific (12%). Europe and Central Asia, Latin America and the Caribbean, and the Middle East and North Africa account for the remainder. IDA has comparatively low nonaccruals.

IDA strives to ensure basic financial sustainability. Concessional loans and grant disbursements are funded by equity increases, concessional loans from members, IBRD and IFC transfers, and loan reflows. Any distributions that are accounted for as expenses (debt write-offs and grants) are matched by increases in equity, rather than income, which partly explains the consistent accounting net losses. The revenue from guarantee fees, service, and interest charges is intended to cover operating expenses--and can be raised if it does not. The net loss was lower in 2020, primarily driven by the decrease in development grant expenses, owing to the timing of recognition of the grant expenses as a result of the implementation of a new accounting standard.

IBRD management and the board initially proposed to hold a $331 million transfer to IDA from fiscal year 2020 allocable income pending financial performance amid the pandemic. Comfortable with the bank's financial metrics, management recommended the transfer to IDA in December 2020, which was subsequently approved by the board of governors in January 2021. The transfer was made to IDA on Feb. 1, 2021.

Table 1

IDA--RACF (Risk-Adjusted Capital Framework) Data: June 2020

(Mil. US$)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	223,288	236,092	106
Institutions	12,947	2,839	22
Corporate			
Retail			
Securitization	628	183	29
Other assets	960	1,142	119
Total credit risk	237,823	240,256	101
Credit valuation adjustment			

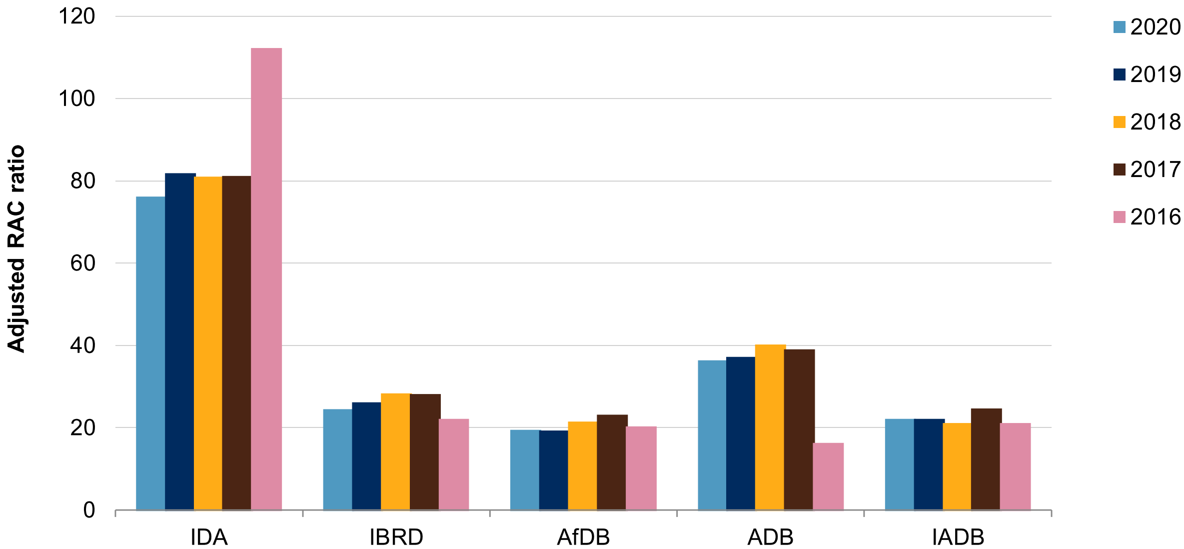
Table 1

IDA--RACF (Risk-Adjusted Capital Framework) Data: June 2020 (cont.)		
Total credit valuation adjustment		
Market risk		
Equity in the banking book		
Trading book market risk		
Total market risk		
Operational risk		
Total operational risk	5,522	
Risk transfer mechanisms		
Risk transfer mechanisms RWA		
RWA before MLI adjustments	245,778	100
MLI adjustments		
Single name (on corporate exposures)	0	0
Sector (on corporate portfolio)	0	0
Geographic	(17,624)	(7)
Preferred creditor treatment (on sovereign exposures)	(101,182)	(43)
Preferential treatment (on FI and corporate exposures)	(158)	(6)
Single name (on sovereign exposures)	94,049	40
Total MLI adjustments	(24,916)	(10)
RWA after MLI adjustments	220,862	90
	Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments	167,849	68.3
Capital ratio after adjustments	167,849	76.0

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets.

Chart 3

IDA--Risk-Adjusted Capital Ratio Peer Comparison



Note: Fiscal-year end for IDA and IBRD is June. Source: S&P Global Ratings.

Funding and liquidity

Funding. Our calculated funding ratios are less meaningful for IDA given its limited market issuance to date. The hybrid financing model, which includes market debt along with capital contributions from the members, was introduced as part of IDA18. In April 2018, IDA issued its inaugural U.S. dollar-denominated global bond of $1.5 billion; the five-year fixed-rate bond was well-received. IDA also established its short-term bills program in 2019, and as of June 30, 2020, borrowings totaled $12.1 billion ($3.4 billion as of June 30, 2019). IDA bills will be issued with a maximum maturity of 364 days and in a variety of currencies, including the Chinese renminbi, euro, Japanese yen, and pound.

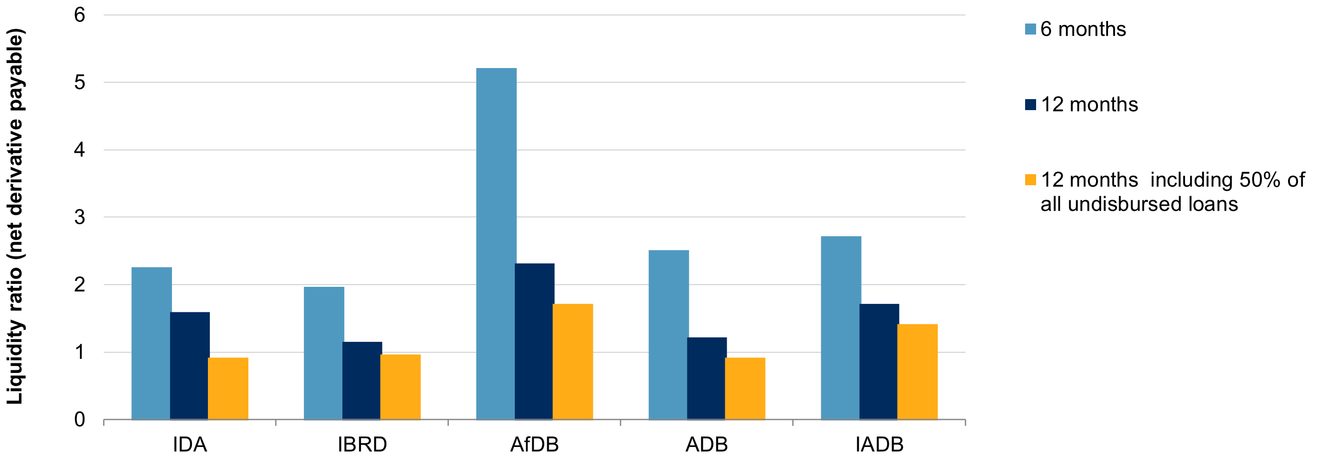
With the fundamental shift in its financing model, we expect capital market funding to finance either liquidity or loans on non-concessional terms, the income from which would be sufficient to recover IDA's borrowing cost. We expect that continued debt issuance by IDA would not affect our assessment of its financial risk profile.

Liquidity. IDA's liquidity policy is to hold minimum liquidity equal to 80% of projected outflows over the coming 24 months. Our calculation of IDA's liquidity incorporates stressed market conditions and assumes no market access. Under these conditions, we conclude that IDA's liquid assets are sufficient to service its limited borrowing and maintain operations through the next year without slowing the pace of planned disbursements.

According to our calculations, IDA's liquidity ratio assuming scheduled disbursements was 2.24x at the six-month horizon and 1.58x at the one-year horizon as of June 30, 2020. However, under this same stress scenario, IDA may need to spread out an unforeseen increase in potential disbursements while meeting other obligations.

Chart 4

IDA--Liquidity Stress Test Ratios Peer Comparison



Data for June 30, 2020. Source: S&P Global Ratings.

Extraordinary Shareholder Support

IDA has no callable capital, so the long-term issuer credit rating reflects our assessment of IDA's stand-alone credit profile at 'aaa'.

Table 2

IDA--Selected Indicators					
	2020	**2019**	**2018**	**2017**	**2016**
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. $)	167,743	158,759	151,847	143,381	137,816
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	100.0	100.0	100.0	100.0	100.0
Private-sector loans/purpose-related exposures (%)	0.0	0.0	0.0	0.0	0.0
Gross loan growth (%)	5.6	4.3	5.5	4.0	4.5
Preferred creditor treatment ratio (%)	1.6	1.9	1.9	N.A.	N.A.
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	15.4	28.0	28.0	28.0	28.0
Concentration of top two shareholders (%)	18.6	18.5	18.5	18.7	18.8
Eligible callable capital (mil. curr)	N.A.	N.A.	N.A	N.A.	N.A.
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	76.0	81.7	80.8	81.0	112.0

Table 2

IDA--Selected Indicators (cont.)

	2020	2019	2018	2017	2016
Net interest income/average net loans (%)	1.2	1.1	1.2	1.1	1.1
Net income/average shareholders' equity (%)	(0.7)	(4.1)	(3.2)	(1.5)	0.3
Impaired loans and advances/total loans (%)	1.3	1.6	1.7	1.8	1.9
Liquidity ratios					
Liquid assets/adjusted total assets (%)	17.7	17.5	17.7	16.5	17.8
Liquid assets/gross debt (%)	178.8	322.6	501.0	888.4	1,106.9
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	2.2	3.0	3.8	2.0	10.1
12 months (net derivate payables) (x)	1.6	2.0	2.6	1.3	10.0
12 months (net derivate payables) including 50% of all undisbursed loans (x)	0.9	0.9	1.0	0.8	1.9
Funding ratios					
Gross debt/adjusted total assets (%)	9.9	5.4	3.5	1.9	1.6
Short-term debt (by remaining maturity)/gross debt (%)	29.6	18.8	N.M.	N.M.	N.M.
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	2.7	2.6	2.8	2.5	2.5
SUMMARY BALANCE SHEET					
Total assets (mil. $)	199,472	188,553	206,330	197,041	180,475
Total liabilities (mil. $)	31,301	25,571	42,385	38,565	25,775
Shareholders' equity (mil. $)	168,171	162,982	163,945	158,476	154,700

Source: S&P Global Ratings.

Table 3

IDA--Peer Comparison

	The International Development Association	International Bank for Reconstruction and Development	African Development Bank	Asian Development Bank	Inter-American Development Bank
Issuer credit ratings	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+
Total purpose-related exposure (mil. $)	167,743	211,129	31,384	121,417	97,221
Preferred creditor treatment ratio (%)	1.59	0.24	1.7	0.13	2.2
Risk adjusted capital ratio (%)	76	24.3	19.3	36.2	21.9
Liquidity ratio 12 months (net derivative payables; %)	1.58	1.14	2.3	1.2	1.66
Funding gap 12 months (net derivative payables; %)	2.69	1.25	2.7	1.06	1.57

Source: S&P Global Ratings.

Ratings Score Snapshot

Enterprise Risk Profile	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Policy Importance	**Very strong**	Strong	Adequate	Moderate	Weak		
Governance and Management	**Strong**	Adequate	Weak				
Financial Risk Profile	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak	

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Supranationals Special Edition 2020 Says Multilateral Lenders Are Addressing Challenges From COVID-19, Oct. 20, 2020
- Supranationals Edition 2020: Comparative Data For Multilateral Lending Institutions, Oct. 20, 2020
- Introduction To Supranationals Special Edition 2020, Oct. 20, 2020

Ratings Detail (As Of February 25, 2021)*	
International Development Association	
Issuer Credit Rating	
Foreign Currency	AAA/Stable/A-1+
Commercial Paper	
Foreign Currency	A-1+
Senior Unsecured	A-1+
Senior Unsecured	AAA

Ratings Detail (As Of February 25, 2021)*(cont.)		
Issuer Credit Ratings History		
21-Sep-2016	*Foreign Currency*	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.