



Briefing paper

Is an IDA–IBRD merger worth it?

 IDA Technical Working Group

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October 2026

Key messages

IDA management and deputies considered merging the balance sheets of IDA and IBRD during the IDA18 replenishment round, but instead opted to leverage IDA equity directly.

ADB has shown that a merger can generate financial gains, but the declining need for concessional financing for ADB member countries differs greatly from IDA's situation.

Financial gains from a merger via lower funding costs, portfolio diversification or administrative savings appear modest.

A merger would entail highly complex governance discussions related to shareholding credit to IDA donors and may require statutory reform.

Merging IDA and IBRD could provide institutional clarity and potentially incentivise greater donations from middle-income countries, but appears politically difficult in current circumstances.

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How to cite: Humphrey, C. (2026) Is an IDA-IBRD merger worth it?
ODI Global Briefing paper. London: ODI Global
(www.odi.org/en/publications/is-an-ida-ibrd-merger-worth-it/)

Acknowledgements

The IDA Technical Working Group works to strengthen the International Development Association's financial sustainability and operational effectiveness, by producing evidence-based analysis to inform reforms to its capital and financing framework, allocation model, and operational policies. The Group is hosted by ODI Global.

The author gratefully acknowledges input and comments from the IDA Technical Working Group, particularly Rachel Turner, Victoria Kwakwa, Annalisa Prizzon, Clemence Landers, Karen Mathiasen, and Hans Peter Lankes. The paper also benefited from very helpful input from the staff of the World Bank as well as officials from several shareholders.

This project has been made possible with the generous financial support of the Gates Foundation and Coefficient Giving.

About this publication

All views, errors and omissions in this paper are the sole responsibility of the author and do not represent the members of the IDA Technical Working Group, of ODI Global or of its funders.

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1 Introduction

This briefing analyses a potential merger of the balance sheets of the main public sector lending windows of the World Bank Group: the International Development Association (IDA) for lower-income countries and the International Bank of Reconstruction and Development (IBRD) for middle-income countries.

Merging IDA and IBRD was considered during IDA18, in light of the positive experiences of a similar merger by the Asian Development Bank (ADB) in 2016. IDA deputies instead approved the hybrid model under which IDA now operates. Nonetheless, a merger remains an option when seeking a solution to the financial sustainability challenges facing IDA.

This briefing note responds to three broad questions:

- How would a merger impact concessional and non-concessional lending capacity and what would be the factors driving any change?
- What might be the governance implications of a merger?
- What legal hurdles would a merger need to address?

The reforms undertaken as part of IDA18 placed IDA on a trajectory to gradually use the equity that it has built up over decades. If IDA continues supplying concessional loans and grants at the current pace and donor replenishments continue to taper off, IDA would over time run down its equity and become more like IBRD. IDA's financial planning is designed to prolong this transition and continue providing below-market resources to low-income countries for as long as possible, but the direction of travel is clear. In this context, it is worth considering whether an IDA–IBRD merger might make sense.

2 Summary of main findings

Creating a very large single IDA–IBRD balance sheet seems intuitively to offer potential financial gains. However, it is critical to think carefully about the policy goal it seeks to achieve compared to current arrangements.

A merger is not needed to allow IDA to leverage its equity – it has been doing this since accessing bond markets in 2018 and could do more without a merger, based on its substantial capital adequacy headroom (see Humphrey and Sembene, 2026). It is not evident that IDA's equity could be leveraged more efficiently as part of a merged balance sheet to borrow from markets and make more non-concessional loans compared to current arrangements.

Nor would a merger automatically unlock substantial new concessional financing capacity. Concessional lending by either a stand-alone IDA or a merged IDA–IBRD requires subsidies: fresh replenishments, running down existing equity or allocating net income from non-concessional operations. A merger could generate additional net income through cost savings and improved capital adequacy metrics, but the impact would likely only be modest.

The most realistic financial upside of a merger would be to increase the capacity of the World Bank Group to generate more non-concessional lending available to both IDA and IBRD borrower countries, as occurred at ADB. A merger could also make it easier for the Bank to tailor lending terms by breaking down the rigid IDA/IBRD categories (a process that has already begun to a degree). These potential upsides need to be weighed against diluting IBRD's bond market reputation and requiring a redesigned capital adequacy framework from adding a large portfolio of concessional loans to its balance sheet.

Alternatively, an IDA–IBRD merger could be conceived as part of a more ambitious reform to the entire World Bank Group's sovereign lending operations. IDA and IBRD are already moving closer together following the IDA18 reforms and the One World Bank strategy, and a balance sheet merger could provide greater organisational and operational clarity and flexibility. A merger could also be used to negotiate a new agreement on burden-sharing to incentivise greater contributions to concessional resources on the part of upper-middle income IBRD borrowers. However, reaching such an agreement

between shareholder governments would present considerable political challenges and may not be realistic in the current context.

This briefing note reviews the main issues related to a merger. It does not undertake detailed financial modelling, which is beyond scope and would require confidential data. More rigorous technical analysis using proprietary data done by World Bank staff, similar to what was done during IDA18 but with updated information, would be advisable to provide IDA deputies with the information they need to decide whether to move forward with exploring a merger.

3 What a merger would look like

The likeliest format of a merger would be along the lines of ADB's 2016 reform. IDA would transfer most of its balance sheet to IBRD to create a single combined World Bank Group sovereign lending balance sheet. IDA would continue to function as a grants-only entity, as with the Asian Development Fund.

Going forward, all concessional, blended and non-concessional sovereign lending would come from a single merged World Bank balance sheet. The subsidy required for concessional or blended term loans would come from continued donor replenishments along with net income generated by non-concessional loans and investment income, but from within the single balance sheet instead of transferred from IBRD to IDA as currently. Grant resources would be supplied by donor replenishments directly to the 'rump' IDA, supplemented by net income transfers from the merged balance sheet.

It would also be possible to close IDA entirely and merge all current IDA functions – concessional lending as well as grants – into a single World Bank sovereign lending window built on IBRD's current balance sheet. However, keeping the grant function in a fully separate entity makes more sense, both to retain conceptual clarity on the purpose of each entity (loans vs. grants) and to ensure the grant-making entity retains a strong identity with donors to encourage sufficient contributions. Whether IDA would need to retain its current governance arrangements if operating as a much smaller entity is an open question.

A key element of a merger would be to encourage greater burden-sharing in relation to concessional lending and grants across the entire membership. The bulk of IDA resources still come from high-income donor countries. Shifting replenishment burden could be promoted by reforming the shareholding formula as part of a merger negotiation or by an agreement to use a higher share of net income generated by non-concessional lending (paid by middle-income IBRD borrowers) to support replenishments.

4 Lessons from ADB's 2016 merger

The innovation of folding a concessional lending window into the main non-concessional balance sheet of an MDB originated with the treasury team of the ADB and became effective as of 1 January 2017. It was replicated by the Inter-American Development Bank (IDB) at the same time, although on a smaller scale.¹ ADB's Asian Development Fund (ADF) was created in 1973 and by 2016 it had been replenished 11 times. In 2016 ADF provided \$2.6 billion in loans and \$500 million in grants (compared to \$14.4 billion in loans and \$1.3 billion in grants by IDA in the same year). Most major ADF borrowers had either already graduated, or received a mix of concessional and non-concessional loans.

By 2016, ADB management and shareholders considered that continued concessional financing could be funded directly from the net income of OCR lending, as long as donors could support ADF's grant funding. That meant that the 'equity' resources of ADF could be transferred to the OCR balance sheet. This provided a massive capital boost to OCR. As of January 2017, \$31.1 billion in ADF assets were transferred to the OCR balance sheet, while ADF retained \$2.5 billion in assets (ADB, 2016: 32).

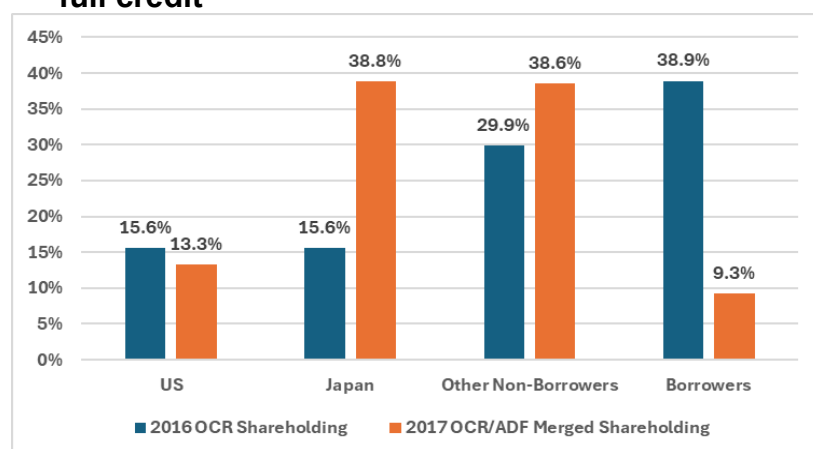
Two important factors facilitated ADB's merger. First, ADF was not a distinct and independent treaty-based institution (unlike IDA and the African Development Fund). As such, the merger was a transfer between two divisions of the same institution. It required approval of the governing board but did not require any changes to ADB's articles of agreement.

Second, ADF donors agreed to relinquish shareholding credit due to the merger. If full shareholding credit for each country's share of the transferred concessional window equity were given in the combined entity, shareholding would have changed dramatically in favour of high-income countries (Figure 1). Not only would this new shareholding have been deeply problematic politically, it would also have gone against ADB's articles mandating that regional members retain a minimum of 60% shareholding (against 55.7%) in a merger

¹ The IDB operation merged the entirety of the \$5.2 billion in equity from the concessional Fund for Special Operations (FSO) into the main Ordinary Capital (OC) balance sheet as of 1 January 2017 (IDB, 2017: 11). FSO was closed down completely, and all sub-market financing is now provided by OC, subsidised by net income from non-concessional loans with no donor contributions. For 2025–2026, only Haiti and Honduras are eligible to receive concessional resources (IDB, 2025).

with full shareholding credit (ADB n.d.: Art. V (1)). Instead, ADF donors decided to forgo shareholding credit entirely.²

Figure 1 Change in shareholding in ADF/OCR merger with full credit

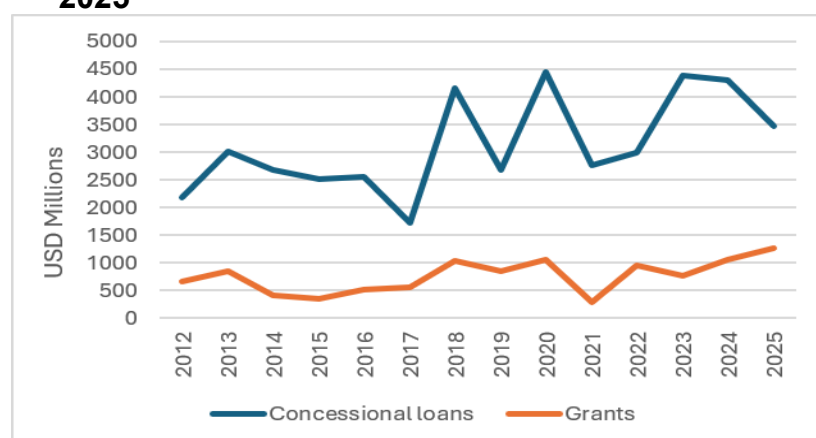


Source: Author calculations based on 2016 and 2017 financial statements.

Note: ADF/FSO equity merged in 2017 is divided based on each country's historical cumulative share of total ADF/FSO contributions. This was added to 2016 OCR/OC paid-in capital.

Following the merger, annual concessional loan and grant approvals were volatile but on an upward trend (Figure 2), averaging \$2.6 billion and \$560 million respectively each year in 2012–2016, against \$3.4 billion and \$870 million in 2017–2025. For comparison, IDA averaged \$22.4 billion in loans and \$8 billion in grants per year in 2017–2025. As of 2026, 12 countries are eligible to receive ADF resources and another 17 concessional or blend OCR lending (ADB, 2025).

Figure 2 ADB concessional loan and grant approvals, 2012–2025



Source: Annual summary loan commitment statements.

² Donors retain legal rights to their share of merged concessional resources and could claim them if the ADB were to be liquidated or if a country withdrew from ADB membership.

Notes: ADF grants only. Concessional loan terms have changed over the period.

How can ADB's OCR balance sheet pay for the subsidy required to provide concessional support to low-income countries? First, keeping grants in a donor-supported ADF helps substantially reduce the impact on equity, as grants represent a 1:1 depletion of equity. Second, ADB charges 1–1.5% for concessional-only countries, compared to zero interest rate for regular IDA concessional loans, hence requiring a smaller subsidy. Third, mainly as a result of the merger, OCR has increased revenue from a larger loan and investment book, allowing it to more easily absorb the lower revenue from concessional loans.³

ADB management projected in 2014 that donor contributions required for ADF would drop from \$18.4 billion to \$8.8 billion by 2032, while total concessional and grant resources would remain the same (ADB, 2014). Actual donor contributions have been roughly in line with these projections, even though total ADF replenishments have been substantially higher than projected in 2014 (Table 1). The difference was made up mainly via higher-than-expected transfers from OCR net income as well as investment income and repurposed resources set aside in previous ADF rounds.

Table 1 ADF projections from 2014 vs. actual (US\$ billion)

	Donor contributions		OCR net income transfers		Other resources	Total replenishment	
	<i>Projected</i>	<i>Actual</i>	<i>Projected</i>	<i>Actual</i>		<i>Projected</i>	<i>Actual</i>
ADF XII	1.9	2.5	0.7	1.0	0.2	2.6	3.8
ADF XIII	2.1	2.3	0.8	1.2	0.6	2.9	4.1
ADF XIV	2.3	2.6	0.8	1.6	0.9	3.1	5.0

Source: Projected numbers from ADB 2014; actual numbers from ADF XII, XIII and XIV donor reports.

Note: 'Other resources' includes investment income and cancelled/repurposed resources from previous ADF rounds. These were not included in 2014 projections.

The ADF merger has had little impact on the profile of donors. Contributions from current ADB borrower countries continued slowly rising from about \$200 million in ADF 10 to \$336 million in ADF 14. China has continued to steadily increase its contributions, from \$35 million in ADF 10 to \$138 million in ADF 14, while India has become a new donor since ADF 12, contributing about \$50 million in each of the last three rounds. South Korea, by contrast, has cut its

³ Even with support to concessional loans, OCR net income rose from an average of \$300 million per year in 2012–2016 to \$1.3 billion in 2017–2025. Roughly \$400–500 million per year is transferred to ADF and another trust fund for grants, while the remainder is retained as equity reserves.

contributions following the merger, dropping from \$168 million in ADF 11 to \$80–90 million in the subsequent three rounds.

It is worth noting important differences between IDA and ADB:

- IDA has more recipients: 78 countries are eligible to receive grants, concessional loans or blended term loans, compared to 29 for ADB.⁴
- IDA supplies far more annual financing: \$35.1 billion concessional loans on average in 2023–25 and another \$7.9 billion in grants, compared to \$4 billion in concessional loans and \$1 billion in grants for ADB.
- IDA gives concessional loans at zero interest rate, compared to 1–1.5% for ADB. This allows ADB to stretch concessional resources further.
- IDA has \$204 billion in equity as of 2025, much more than the \$30 billion transferred by ADB's merger. A full merger would combine \$72 billion in existing IBRD equity with \$204 billion from IDA, giving the combined entity a vastly increased capital base.
- IDA and IBRD were created by separate international treaties, while ADB and ADF are governed by the same treaty.

⁴ The country groups eligible for grants, concessional and blend loans are clearer at ADB compared to the more complex system at IDA.

5 Finances of an IDA–IBRD merger

At last report, IBRD had an equity-to-loans ratio of 21.4% (March 2026): usable equity of \$58.6 billion and loan exposure of \$273.2 billion. Adding IDA equity not currently used to support its loan book (\$59.3 billion) would bring a merged E/L ratio up to 43.2%. That would give a merged IDA–IBRD balance sheet enough headroom to more than double its non-concessional loan book, from \$273.2 to \$655 billion, while still staying above the 18% policy floor E/L ratio. This is a simplistic calculation meant only for illustrative purposes, but it gives a sense of the scale of what could be possible with a merger.

Thinking more precisely, the question is: how would a merger impact IDA financial capacity compared to the current model, in terms of i) concessional finance; ii) access of IDA countries to non-concessional or blended finance; and iii) access of IBRD countries to non-concessional finance?

This section begins with a review of the discussions around a merger during IDA18 and then considers the present context.

5.1 IDA18 merger discussions

IDA deputies and management began discussing options for leveraging IDA's equity in 2015. World Bank management proposed to either obtain a bond rating for IDA (the hybrid model eventually chosen by deputies) or merge the majority of IDA assets into the IBRD balance sheet, similar to ADB's approach.⁵

The goal of both proposals was to make use of IDA's equity to raise resources on the markets and on-lend to IDA countries on non-concessional terms. This was perceived as a benefit to IDA countries with manageable debt loads and the ability to deploy the additional resources effectively. Neither of the leveraging options proposed in IDA 18 were intended to raise additional concessional resources, nor were they intended to have any impact on IBRD borrowers. Grants and concessional lending would still be supported by donor contributions, reflows from IDA loan repayments and net income transfers from IBRD.

⁵ A third proposal, quickly set aside, was for IDA to provide guarantees to IBRD, such that IBRD can extend non-concessional lending to IDA recipient countries.

The proposal envisioned the transfer of the majority of IDA assets (and, hence, equity) to IBRD. The transfer would effectively be a 'gift' of resources received by IBRD as extraordinary revenue in the annual income statement, which would then be allocated to IBRD reserves. These additional equity reserves would be ring-fenced for use only to support concessional and non-concessional lending to IDA client countries. IBRD's existing equity would be ring-fenced to support lending in IBRD countries.⁶ IDA would still exist as an independent entity for making grants, which would be funded entirely by donor contributions.

A merger was seen in 2016 as having two main financial advantages over the hybrid model:

- The loan book of the merged entity would be more diversified compared to the two separate loan portfolios, which could bring financial benefits in relation to capital adequacy constraints and rating agency criteria.
- Funding costs were projected to be lower, as bonds would be based on IBRD's well-established reputation rather than trying to build a reputation for IDA as a new and untested issuer.

The two main disadvantages of a merger were seen as:

- It could dilute the IDA 'brand' with donors, which could reduce replenishment volumes.
- The politics would be extremely complex, particularly in relation to shareholding in the merged entity.

In the end, World Bank management and deputies considered that the potential financial benefits of a merger were outweighed by the complexity and uncertainty of the operation. The hybrid option was instead chosen in IDA18, although deputies agreed that a merger would remain an option for future discussion (IDA, 2017: 58).

5.2 Have changing conditions since IDA18 made a merger more financially viable?

The possibility of a merger remains of interest for some stakeholders for three main reasons: i) financing needs among IDA recipient countries remain high; ii) IDA concessional financing capacity is likely to be on a downward trajectory over the medium term; and iii) future prospects for IDA donations are constrained.

Does a merger now make financial sense for IDA, and if so, what has changed since IDA18? To answer those questions, it is worth considering the channels by which a merged balance sheet could increase financial capacity compared to the current situation. Gains can be generated in two ways: reducing costs and generating more

⁶ It is not technically possible to ring-fence equity capital, which is by definition meant to absorb losses across the entire balance sheet. However, ring-fencing can be used as a rule of thumb to orient annual lending envelopes.

net income (through lower funding costs, administrative efficiencies or greater loan revenue); or improved capital adequacy metrics (portfolio diversification).

A merger could also bring with it financial disadvantages. The most important would be potential negative impact on IBRD's capital adequacy framework and its reputation with investors. This is addressed at the end of the section.

5.2.1 IDA funding costs

Improved funding cost was the main reason why World Bank management considered the merger proposal to be advantageous over the hybrid IDA model. Because IDA was a fund for risky low-income countries with no callable capital and no bond market track record, its funding costs could be well above those of IBRD.

However, these concerns would seem to have been unfounded. IDA was given an initial AAA/Aaa rating by S&P and Moody's in September 2016 (World Bank, 2016). IDA's first bond issue, a \$1.5 billion issue with a five-year maturity on 24 April 2018, was priced at 2.75%, 8 basis points below the US Treasury five-year bond coupon for the same date (World Bank, n.d.a; US Treasury, n.d.). IDA had issued a total of 44 bonds in seven different currencies as of December 2025, with a total of \$66.8 billion in market debt on its balance sheet at March 2026 (IDA, 2026).

Precise, direct comparisons of IDA funding costs with IBRD are beyond the scope of this paper. However, a simplistic comparison of US dollar IDA bond coupon rates to US Treasury yields suggests that, if anything, IDA has had slightly lower funding costs compared to IBRD. Since 2018 IDA has issued 13 US dollar bonds with an average coupon 133 basis points over the yield of US Treasuries for the same maturity on the same date. The same calculation for the coupon of 13 IBRD US dollar bonds issued as close as possible to the same issue date as IDA bonds shows an average difference of 189 basis points over the yield of US Treasuries for the same maturity (World Bank n.d.b; US Treasury, n.d.).

While the above numbers are not conclusive, they suggest that IDA very quickly established itself as a trusted issuer among a similar set of bond buyers as IBRD and the other major AAA-rated MDBs. A merged entity's funding costs would not be substantially less than IDA's standalone costs. Funding costs do not appear to be a meaningful benefit from a merger.

5.2.2 Administrative efficiency savings

Further financial gains could come from reduced administrative expenses because of the elimination of overlapping functions between IDA and IBRD following a merger. This would mainly be focused on back office functions, as most operations staff are already shared across IBRD and IDA.

The financial impact of these efficiencies on reducing IDA's \$2.7 billion administrative budget (in FY 2025) would likely be limited. Comparisons with ADB are suggestive of potential gains, but not definitive. Combined ADB/ADF administrative expenses in 2013/14 were about 5.2% of annual commitments, which dropped to 3.4% after the merger in 2024/25. However, some of ADB's administrative savings may have come from consolidations to treasury, human resources, IT, legal and research functions that are already under way at the World Bank as part of President Banga's reorganisation announced in October 2025 (Devex, 2025). A 'rump' IDA would still exist to manage grant functions, as is the case with ADB and ADF, which would require a modicum of continued independent administration and board expenses.

5.2.3 Net income from loan revenue

Currently a substantial portion of IDA's equity is not deployed in lending but rather invested in treasury assets with a view to using that equity to support concessional lending in the future. This is IDA's Deployable Strategic Capital (Humphrey and Sembene, 2026). One might imagine that, if this equity could instead be deployed by making non-concessional loans, more net income might be generated, which could support more concessional lending. However, this does not appear to be a good rationale for a merger, for two reasons:

- 1 IDA can already deploy its equity in more non-concessional lending on its own balance sheet (as it has already started to do) – a merger is not necessary.
- 2 The net income from non-concessional loans does not appear to be substantially higher – if at all – than what is generated from treasury investments. The 2024 and 2025 financial results of IBRD and IDB both show very small differences in the interest revenue generated by non-concessional loans vs. interest revenue from treasury investments. Administrative costs to support lending operations are higher compared to treasury investments, which defrays net income further.

5.2.4 Improved portfolio diversification versus lower credit quality

Reducing loan portfolio concentration of both IBRD and IDA was the second factor flagged by World Bank management as a potential financial upside to a merger compared to the hybrid model. Sovereign-focused MDBs like IBRD and IDA lend to a small number of borrowers. All else equal, a concentrated loan portfolio is riskier than a more diversified one. Credit rating agency methodologies as well as internal MDB capital adequacy models require MDBs to set aside additional risk capital to cover concentration risk.

A merged World Bank sovereign balance sheet would have a total of 140 borrowers as of June 2025, compared to 97 for IDA and 78 for

IBRD.⁷ The top borrower would be India with about 7% of the combined portfolio. The top IDA borrower now is Bangladesh with 10% of the portfolio, while India is IBRD's top borrower with 8% of the portfolio. The top 10 borrowers (a metric used by Moody's) would account for 38% of the combined portfolio versus 61% currently for IDA and 56% for IBRD.

World Bank management was cautious about the scale of potential benefit to portfolio diversification during IDA 18 discussions, and the benefit is likely to be lower now. Portfolio concentration is a minor factor in the methodologies of Moody's and Fitch, and a merger would likely have minimal impact on headroom. The concentration penalty assessed by S&P was formerly substantial, but has eased significantly in the 2025 methodology revision, thus reducing diversification benefits from a merger in terms of headroom under a AAA rating.

Portfolio diversification benefits would be partly offset by the negative impact of a merger on IBRD's portfolio credit quality and how rating agencies assess preferred creditor status (PCS). In Moody's assessment from 2024, IDA had an average weighted borrower rating of Caa1 compared to B2 for IBRD (two notches higher). A merged balance sheet would likely result in IBRD's average borrower rating coming down by one notch, which adds downward pressure on the rating (although not likely to the point of impacting IBRD's final issuer rating). Non-performing loans were similar for both institutions in 2025, but historically IDA has faced more difficulties, averaging 1.5% of the portfolio in non-accrual between 2012 and 2024 compared to 0.3% for IBRD (Moody's, 2025).

In summary, the benefits from portfolio diversification are likely to be modest and would be partly offset by lower credit quality of a merged portfolio. While this paper cannot estimate the scale of gains, IDA deputies could request more detailed modelling from World Bank management on the impact of diversification on internal capital adequacy and CRA metrics.

5.2.5 Potential negative impact on IBRD capital adequacy and investor reputation

The financial upside of a merger must also be balanced against potential negative impacts on how IBRD manages its capital and how it is perceived by investors.

IDA uses the Deployable Strategic Capital (DSC) ratio to evaluate capital adequacy. Unlike IBRD's capital adequacy framework (CAF), the DSC discounts IDA equity due to the large share of concessional loans on the balance sheet generating less income compared to IBRD's non-concessional loans (Humphrey and Sembene, 2026). The DSC's discount for concessional lending is not used by the two

⁷ As of June 2025, 35 countries had outstanding loans from both IDA and IBRD.

agencies rating IDA (S&P and Moody's), but IDA management considers it a prudent approach.

Merging IDA and IBRD would mean that the new balance sheet would need some type of DSC capital metric, rather than following the previous IBRD CAF, which could result in restricting non-concessional lending across the entire portfolio. ADB has been able to avoid this due to the very low level of concessional loans – it issues \$4–5 billion concessional loans per year, a level projected to stay flat at \$4.1 billion from 2027, compared to over \$20 billion in non-concessional lending (ADB, 2025: 10).⁸ IDA, by contrast, issued \$31.7 billion in loans in 2025 against \$40.8 billion for IBRD. Hence, concessional lending would be a much larger share of the merged IDA–IBRD portfolio compared to ADB. If World Bank management were to use a similar DSC metric with a merged IDA–IBRD, this could limit non-concessional lending.

A further concern would be dilution of IBRD's standing in global capital markets. IBRD is a self-sustaining financial cooperative: once capitalised, it does not require budgetary support from member countries. IDA, by contrast, depends on regular replenishment donations to subsidise grants and concessional loans. Merging the two windows could weaken the perception of investors that IBRD is a financially self-sustaining institution subject to market rigour.⁹ The fact that IDA quickly received a AAA rating and appears to have strong bond market access may indicate that this is a minor concern, but it should be taken into account by IBRD shareholders.

5.2.6 Summing up the financial potential of an IDA–IBRD merger

Looking at the causal drivers of potential financial gains suggests modest upside benefits:

- Funding and administrative cost gains would seem to be minor, nor does it appear that greater non-concessional lending would generate substantially more net income. Overall, a merger does not seem likely to have significant positive impact on income compared to current arrangements.
- Capital adequacy headroom gains for CRA methodologies and internal CAF metrics are more promising, notably through loan

⁸ Fitch, which does apply a capital discount for concessional lending, states that it no longer does so for ADB because of its 'positive net cash flow business model and sustained ability to build up capital via retained earnings' (Fitch, 2026: 4). In other words, concessional lending does not pose a substantial drain on ADB's net income. By contrast, Fitch applies the discount to the International Fund for Agricultural Development (IFAD), which has a much larger concessional portfolio, reflecting 'the opportunity cost incurred by the MDB for extending loans at a rate below the "risk-free" rate (the rate of non-concessional loans) for an equivalent maturity' (Fitch, 2025: 4).

⁹ This consideration led IBRD management to support the initial creation of IDA, as noted by Kapur et al. (1997). As longtime IBRD treasurer Eugene Rotberg stated, IDA is 'more of a safety valve to permit economic and financial support to countries which are not credit-worthy but, if it were not available, would probably get some Bank lending at the margin and, in so doing, I believe jeopardize the financial credibility of the Bank' (cited in Humphrey, 2016).

portfolio diversification. Nonetheless, gains would likely be modest.

- Gains must be weighed against potential negative financial impacts, including the need to restructure a merged entity's capital adequacy framework to account for a large concessional loan portfolio and the dilution of IBRD's reputation among bond market investors.

Without substantial net income or capital adequacy improvements, a merger is unlikely to bolster the ability of the World Bank to offer concessional loans or grants compared to current arrangements.

Offering IDA borrowers more non-concessional lending would be a potentially important and useful policy shift, particularly to support sovereign debt swaps or fund high-impact infrastructure projects. However, this can be done by IDA currently and does not require a merger.

Using IDA equity to support greater non-concessional lending to IBRD borrower countries has clear potential upside from a merger. Transferred IDA equity resources could be used by all World Bank Group sovereign borrowers, as was done at ADB, rather than ring-fencing them for IDA borrowers as per the IDA 18 proposal. This could be accompanied by governance reforms to encourage greater burden-sharing for concessional loan and grants donations from IBRD countries (see below). Such an ambitious change would face important political challenges.

More detailed modelling with proprietary World Bank data would help spell this out with more precision, both for internal capital adequacy limits and CRA criteria. Based on discussions with donor governments, IDA did this sort of modelling during the IDA 18 discussions but has not provided updated numbers based on the changing situation in the intervening decade.

6 Governance and legal aspects of an IDA–IBRD merger

This section considers whether a merger might offer an opportunity to restructure governance arrangements and incentivise greater burden-sharing across World Bank membership to support low-income countries, thus adding a new potential benefit. The section also considers legal implications of a merger.

6.1 Governance implications

The central governance issue for a merger is how it would impact relative shareholding and voting power at the merged entity. IDA equity was donated over decades by a group of high-income countries. If that equity is deployed as capital to the merged IBRD balance sheet, donor countries may expect shareholding credit. This issue was finessed at the ADB and IDB mergers, as donors explicitly relinquished any demand on shareholding in the merged balance sheets.

Two fundamental issues would need to be addressed.

First is the question of each member country's shareholding (and therefore voting power) in the merged entity. Full shareholding credit for historic IDA donations would dramatically unbalance relative power among shareholders. In addition, the formulae for calculating shareholding and voting power at IBRD and for calculating voting power at IDA are complex and highly politicised,¹⁰ and very different between the two institutions. All of this would make the shareholding implications of merging IDA assets into IBRD's balance sheet extremely challenging.

Second is to consider what impact the merger would have on the ability of IBRD/IDA to continue to attract the level of donor contributions needed to continue concessional and grant financing for lower-income countries. Incentives embedded in shareholding and voting power formulae can play a key role, not only to encourage continued support from existing donors but also greater contributions from former 'Part II' countries with adequate fiscal capacity. Changes

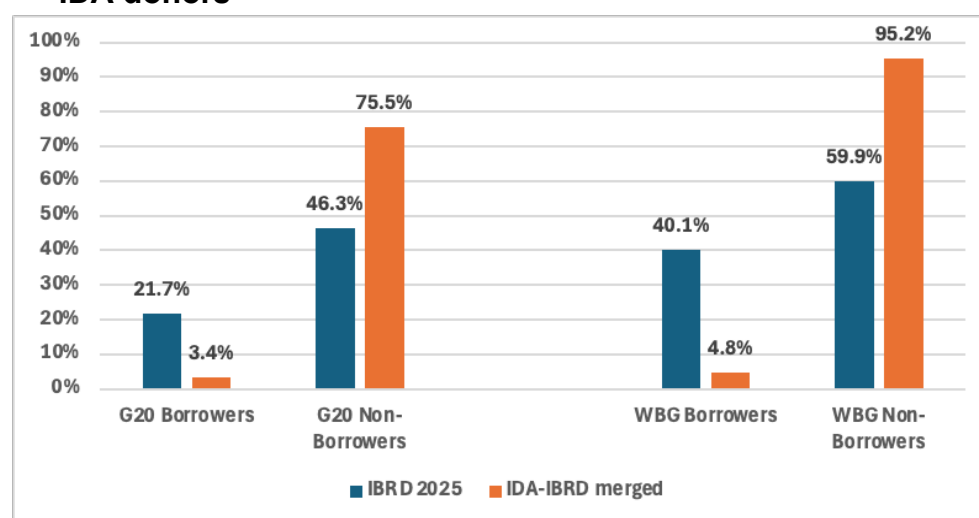
¹⁰ The lack of progress during the 2025 IBRD shareholding review – following the similarly unsuccessful 2020 round – makes clear the complexity of this issue (see World Bank, 2026).

to shareholding formulae to create these incentives could be part of a merger negotiation.

6.2 IDA equity and merged balance sheet shareholding

Merging the IDA and IBRD balance sheets with full shareholding credit to IDA donor countries for their share would massively reshape the shareholding proportions of the new merged institution (Figure 3). Non-borrower shareholders would see their shareholding increase from roughly 60% in 2025 to 95%, while borrower shareholding would fall from about 40% to 5%. Such a radical shift in shareholding at IBRD would threaten the legitimacy of the Bank and is untenable.

Figure 3 IDA–IBRD merger with full shareholding credit to IDA donors



Source: Author calculations based on IBRD and IDA 2025 financial statements.

Note: IDA–IBRD equity is divided based on each country's historical cumulative share of total IDA contributions. This was added to 2025 IBRD paid-in capital.

It would also be possible to make no change to the shareholding of IBRD as a result of the merger of IDA equity, as at ADB and IDB. IDA equity of \$204.2 billion (June 2025) is nearly 10 times the level of IBRD paid-in capital at the same date (\$22.9 billion). The scale of resources may make major IDA donors reluctant to relinquish all shareholding credit. However, four points are worth noting.

- IDA donors already receive credit for their donations in the IBRD shareholding formula, even though IDA and IBRD are separate treaty organisations.
- Donors donated these resources with no expectation of seeing them again, and budgeted accordingly in their fiscal accounts. The expenditure was done because governments felt that it was in their national interests to support IDA. It is not clear that they should have any expectation of receiving additional benefit from these resources.

- The net income of IBRD has been used for decades to support both IDA through transfers (over \$18 billion and counting) and IBRD equity (\$42 billion, or 60% of total equity, is retained income). That net income is generated at the margins by charging borrower governments more for their loans than is strictly necessary, yet those borrower governments have received no shareholding or voting recognition at either IBRD or IDA.
- The precedent of giving up shareholding credit for concessional replenishments at ADB and IDB shows that this is feasible technically and politically.

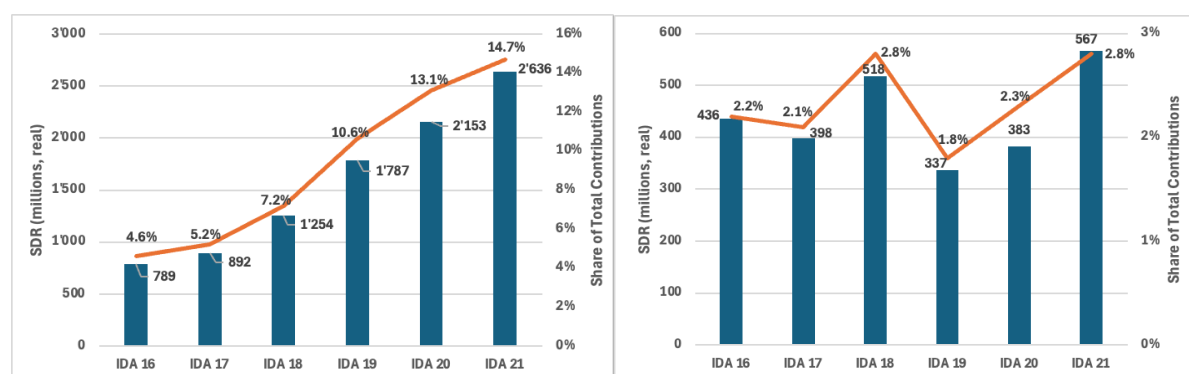
Agreeing to forgo most or all shareholding credit for past IDA donations could be used as a bargaining chip in negotiations to reshape the burden-sharing of future IDA replenishments. Historic IDA donors would retain legal rights to their share of merged IDA equity in the event of a World Bank shutdown or member withdrawal, as was the case at ADB and IDB. One way to formalise this might be to create a subordinated, non-voting B share class to clarify the legal status of past IDA donations in the merged entity's equity.

6.3 Use IDA–IBRD merger to incentivise greater replenishment burden-sharing

Contributions of former Part II countries have risen over the past six replenishment rounds, from 789 million SDR in IDA 16 to 2.6 billion SDR in IDA 21, and from about 5% of donor contributions to about 15% (Figure 4, left graph). However, almost all of the increase has been from three donors, China, South Korea and Saudi Arabia. Excluding those three, Part II country donations have remained flat over the period, averaging 1.8–2.8% of each replenishment (Figure 4, right graph). Encouraging more support from well-performing emerging economies to IDA is a reasonable policy objective, and negotiations as part of a merger would be an opportunity to pursue it.

The goal would be to use the governance and shareholding aspects of a merger as an opportunity to build a new consensus on burden-sharing across the World Bank membership on how to fund concessional loans and grants to low-income countries. This could be accomplished through negotiating a new shareholding formula for the merged entity that incentivises future replenishment donations. Alternatively, the shareholding formula could be disconnected from replenishments entirely, and IBRD borrower countries would commit to substantially increase replenishment support, either via higher non-concessional loan prices and net income transfers or via direct replenishments in future IDA rounds.

Figure 4 IDA contributions from IBRD borrower countries (left) and excluding China, Saudi Arabia and South Korea (right)



Source: IDA donor reports, IDA 16-21.

Note: Total of 31 countries all formerly classified as Part II, with the inclusion also of Russia and South Africa. Put into 2025 SDRs using SDR deflator from World Bank Data Help Desk.

6.4 Legal aspects of a merger

IDA and IBRD are legally separate institutions, each created by their own international treaty. By contrast, the concessional windows of ADB and IDB were formally integrated into the same overarching treaties. As such, merging IDA and IBRD raises legal questions.

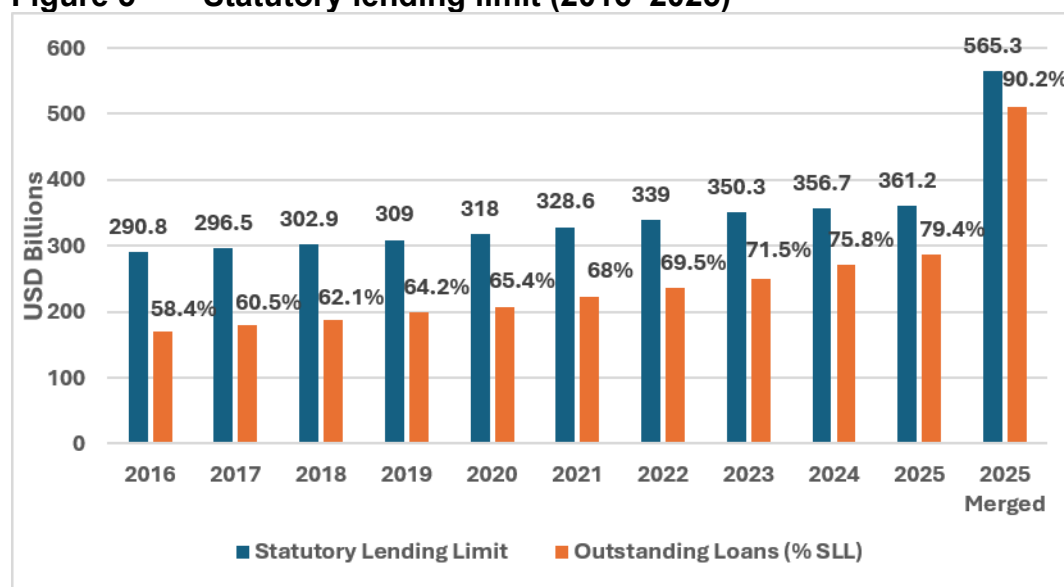
During IDA 18, the World Bank management position was that a merger would not require reforming the statutes of either IDA or IBRD, according to donor government officials consulted for this briefing. This was a key point, as statutory reform requires a special super-majority vote and ratification by the legislatures of three-fifths of member countries with minimum 85% of total voting power. Instead, the merger was proposed as a free transfer of a (large) portion of resources from IDA to IBRD, which was within the framework of permitted actions by IDA and IBRD. A simple majority approval of the Boards of Directors was considered legally sufficient.

Regardless of the strictly legal conclusion, the scale of the merger and its relevance to changing the overall structure, governance and operations of the World Bank Group suggest that further political approval would be prudent. At a minimum, the IDA and IBRD Boards of Governors should discuss and approve the proposal. The legislatures of IDA donor countries may also be consulted, as the resources they had approved for past replenishment rounds would be channelled through a different institution than originally conceived, even if funding is still ring-fenced for IDA countries.

One statutory complication that could arise relates to IBRD's Statutory Lending Limit (SLL), which states that 'total loans outstanding, including participations in loans and callable guarantees,

may not exceed the sum of unimpaired subscribed capital, reserves and surplus' (World Bank, 2025: 48). IBRD's Board of Governors has approved the elimination of the SLL as part of the G20 Capital Adequacy Framework agenda, but the reform has yet to be ratified by sufficient member governments to take effect. As of June 2025, IBRD was at 79% of the SLL. Combined with IDA's equity and loans, this would rise to 90.2% (Figure 5),¹¹ which would make it urgent to complete the SLL elimination or undertake a capital increase.

Figure 5 Statutory lending limit (2016–2025)



Source: SLL limits and usage 2016–2025 taken from IBRD financial statement. 2025 Merged adds IDA equity and loans taken from IDA 2025 financial statement to 2025 IBRD numbers.

Note: A portion of IDA equity would likely remain on a separate IDA balance sheet to support grants following a merger. Hence the 2025 Merged SLL usage number would likely be higher.

A final point to note is that IDA had issued 44 bonds on international markets as of end-2025. These bonds have their own legal status, and (depending on the terms) may not necessarily be repayable in advance of contractual maturity. As such, it may be necessary for IDA to retain sufficient resources to service those bonds until full maturity or to reach an agreement on swapping them with investors for equivalent bonds from the merged entity.

¹¹ Part of the reason that the ratio would deteriorate is that IDA does not have callable capital, which is included in the SLL. IBRD had \$303.9 billion in callable capital as of June 2025.

7 Summary and conclusions

An IDA–IBRD merger was discussed during the IDA 18 replenishment round, but IDA deputies opted instead to leverage IDA’s equity via the hybrid model now in operation. Financial pressures facing IDA combined with fiscal challenges to future replenishment rounds have led to continued questions about the potential benefits of a merger. The success of ADB’s \$31 billion merger in 2016 and the scale of a potential IDA merger involving over \$200 billion in equity give the idea an intuitive appeal.

An examination of the financial variables involved suggests that a merger would likely have positive but limited financial benefits compared to the IDA hybrid model currently in operation. The hybrid model is already leveraging IDA’s equity, which was the main goal of IDA 18 reform. Additional benefits to a merger in terms of bond funding costs, portfolio diversification (and hence capital adequacy headroom) and administrative efficiencies appear to be modest.

A merger would not significantly change the ability of the World Bank to supply concessional loans or grants to low-income borrowers – this would still depend mainly on the generosity of donors. The high volume of concessional and grant financing by IDA to nearly 80 countries cannot realistically be funded purely by net income, as is the case with the much smaller concessional lending at ADB.

The one potentially significant near-term financial upside of a merger would be to support greater non-concessional lending to all World Bank Group sovereign borrowers, not just for IDA countries as proposed during IDA 18. This is the model followed by ADB. IDA countries would be no worse off than in the current hybrid model, donors would need to contribute similar (or possibly slightly less) to support concessional lending and grants and non-concessional lending for IBRD and IDA countries could be scaled up substantially. However, such a model may face political hurdles, particularly among donor countries.

A more ambitious approach would be to use a merger to restructure World Bank sovereign lending to provide greater institutional clarity for the future. A merged balance sheet could allow the World Bank to set aside the rigid IDA and IBRD country categories and build more flexible policies and practices on concessionality better adapted to the reality of the coming years. This could simplify and clarify the

governance, administration and operations of the World Bank's sovereign operations. It could also be an opportunity to reach agreement on incentives for middle-income countries to increase their contributions to concessional resources. However, the negotiations for a merger would be highly complex and may not be realistic in the current context.

Governments consulted for this project have indicated that they do not feel that IDA management has provided sufficiently clear and detailed modelling data for them to take an informed decision on the issue. Such modelling was provided to deputies during the IDA 18 discussions and could be updated with current rating agency metrics and more recent data.

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