



Briefing Paper

Making the best use of IDA's balance sheet

 IDA Technical Working Group

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Key messages

IDA's shift to market borrowing in 2018 put it on a trajectory towards gradually using up its equity, due to the mismatch between funding costs and concessional lending.

Reforms to IDA's capital adequacy formula can help stretch equity further without endangering the AAA rating.

Balance sheet innovations such as portfolio guarantees, hybrid capital and contingent capital can provide further support if backed by willing governments at sub-market costs.

IDA has sufficient headroom to increase non-concessional lending to revenue-generating projects or debt refinancing in low-income countries.

Lasting solutions to IDA's concessional lending capacity must be found through increased donations or changes to loan terms and graduation policy, rather than financial engineering.

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All views, errors and omissions in this paper are the sole responsibility of the authors 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

Over the past decade, multilateral development banks (MDBs) have begun experimenting with innovations to optimise their balance sheets, with the support of shareholders and the G20's Independent Review of Multilateral Development Bank Capital Adequacy Frameworks (G20, 2022). These innovations have involved rethinking capital adequacy and new techniques to shift risk off balance sheets or to build additional risk-bearing capacity. At least \$600 billion in new lending capacity has been generated by CAF reforms (G20, 2025).

The relevance of capital adequacy reforms for concessional lending windows like the World Bank's International Development Association (IDA) is less clear, as they were created as funds not banks. The key concessional window innovation in recent years has been to start to borrow from capital markets instead of relying solely on donor contributions. The Asian Development Bank (ADB) and Inter-American Development Bank (IDB) merged concessional and non-concessional windows in 2016, while IDA obtained a rating and began issuing bonds in 2018. The African Development Bank's (AfDB) concessional fund is planning to follow IDA's lead in the near future.

By moving away from being a pure donor-supported fund and raising resources on capital markets – becoming more like a bank – capital adequacy issues become increasingly relevant to IDA. Since the 2018 reform, IDA has been using the equity built up over decades of donor replenishments to help pay for concessional lending. In the absence of further replenishments, this would over time use up the equity IDA has accumulated and, eventually, effectively turn IDA into the World Bank's main bond-funded lending window, the International Bank for Reconstruction and Development (IBRD). The choice facing IDA government deputies is how quickly to use up IDA's equity versus continuing to replenish IDA with donations or seeking other sources of concessional funding.

In this context, and in light of fiscal pressures in donor countries, capital adequacy measures are worth exploring to maximise the ability of IDA to make the best use of its equity (Box 1). This briefing examines options for capital adequacy gains, with a focus on i) potential reforms to IDA's capital adequacy; and ii) financial innovations that can stretch IDA's balance sheet. It also notes that, if deputies so choose, IDA can right now substantially increase non-

concessional lending to IDA countries due to its substantial capital adequacy headroom.

The briefing identifies several areas of potential gains. It is nonetheless clear that these measures cannot reverse the declining willingness of countries to provide donations to support grants and concessional lending. Concessionality has to be paid for by someone, and that cannot be overcome through financial engineering. Capital adequacy reforms can help at the margins, but sustainable long-term solutions must be sought through some combination of greater replenishments, reduced IDA concessionality or modified graduation policies.

Box 1 IDA and equity

One way to understand the options facing IDA deputies is through the lens of IDA's equity capital.

For most of its history, IDA did not have equity – it was given resources periodically from higher-income countries and then lent out at very low rates or gave away those resources to lower-income countries as grants.

As of IDA 18, all outstanding concessional and non-concessional loans (plus some liquid investments) became IDA's assets, and all borrowing (including concessional partner loans, pension obligations and the like) became IDA's liabilities. The difference between liabilities and assets became IDA's equity: the resources that donors had given over the decades, less whatever had been used up.

This accumulated equity is the basis of IDA's capacity to supply concessional resources and grants going forward. IDA deputies have a range of policy options at their disposal to change the pace at which equity is used up or to build new equity.

- Shifting away from grants (a 1:1 loss to equity) towards long-term concessional loans, increasing the pricing on concessional loans and increasing non-concessional lending will slow the rate at which equity is used. Paid by IDA borrower countries.
- Reforming IDA's DSC reduces the amount of equity needed to support IDA's loan book. Equity stays the same, but it works harder. There is no financial cost.
- Replenishments increase IDA equity 1:1. Paid by donor countries.
- Net income allocations from IBRD increase IDA equity 1:1. Paid by IBRD middle-income borrower countries through higher interest charges on their non-concessional loans.

- Portfolio guarantees act as equity by removing loan repayment risk from IDA's balance sheet, so existing equity capital can back up the risk of new loans. Paid by guarantor countries, but only if triggered.
- Officially backed hybrid and contingent capital generate new equity (1:1, assuming the right structure). Hybrids are paid by willing governments while contingent capital is paid by guarantor governments if triggered.
- IDA can generate more net income to be retained as equity reserves by taking higher risk on a portion of its liquid treasury investments. No direct cost but requires IDA government owners to accept higher risk.

2 Understanding Deployable Strategic Capital

IDA uses the Deployable Strategic Capital (DSC) ratio as its core capital adequacy metric. The DSC is a solvency metric in line with Basel capital metrics used across the financial industry,¹ but adapted to the realities of IDA. The metric is designed to ensure that IDA has sufficient risk capital on hand to remain solvent – i.e. able to meet all financial obligations, including to bondholders – and continue operations as a going concern, even in the (highly unlikely) event of severe financial stress.

The DSC is determined by:

Total Resources Available minus Total Resources Required minus Conservation Buffer, expressed as a percentage of Total Resources Available.

- **Total Resources Available (TRA)** represents IDA's available risk capital (equity plus loan loss provisions).
- **Total Resources Required (TRR)** represents the capital needed to cover expected and unexpected losses derived from risks faced by IDA (mainly loan repayment risk).
- **Conservation Buffer (CB)** is an extra protection in the event of extreme circumstances and is calculated as 10% of TRA.

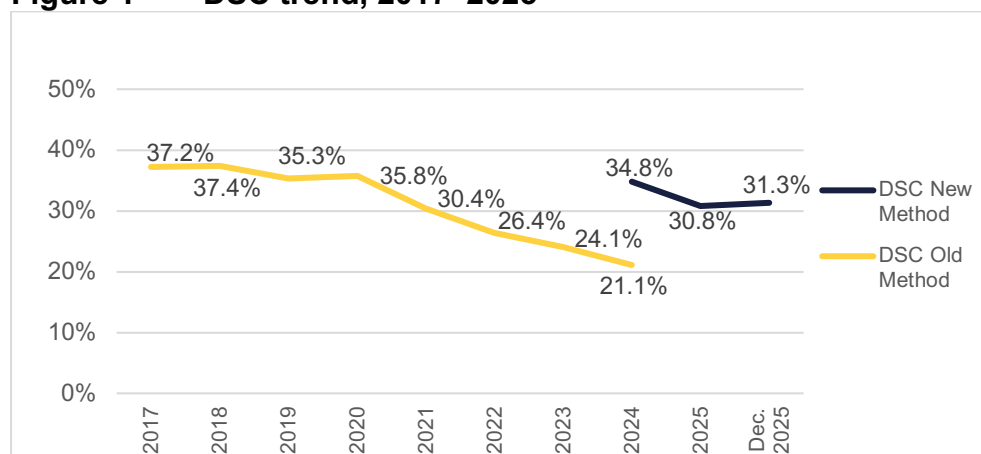
The DSC has been used since 2017, when IDA began its move towards market borrowing. As of end-2025, the DSC was at 31.3% (Figure 1). On current projections, the DSC would cross the 0% threshold at some point in about a decade. That said, IDA recalculates the DSC after every replenishment round, extending available resources for the following 12 years. Hence, reaching 0% is not likely – instead, the concessional resource envelope that IDA stretches over the 12-year period will steadily decline.

What would theoretically happen if the DSC got to 0%? At that point, IDA estimates that it would have only just enough capital to meet financial obligations in a high-stress situation. In line with IDA policy,

¹ Almost all MDBs use some type of solvency metric at the core of their capital adequacy frameworks. The exception is the IBRD, which instead uses an income-based metric.

IDA would be unable to extend any concessional loans unless it received more capital via replenishments (or portfolio guarantees or hybrids, as per below) or until old loans are repaid. Grants could be suspended entirely. More non-concessional lending – i.e. at IBRD terms – would be possible. Hitting 0% DSC would not necessarily imply risking its AAA rating, as discussed below.

Figure 1 DSC trend, 2017–2025



Source: IDA annual financial statements; FinancesOne.WorldBank.Org for December 2025.

Digging deeper into the DSC

The basic conceptual approach of DSC – a ratio of capital on hand compared to capital needed to face risks – is standard. However, the fact that IDA makes concessional loans and grants, rather than loans priced above its own funding costs as at non-concessional MDBs or commercial banks, complicates a standard capital adequacy approach.

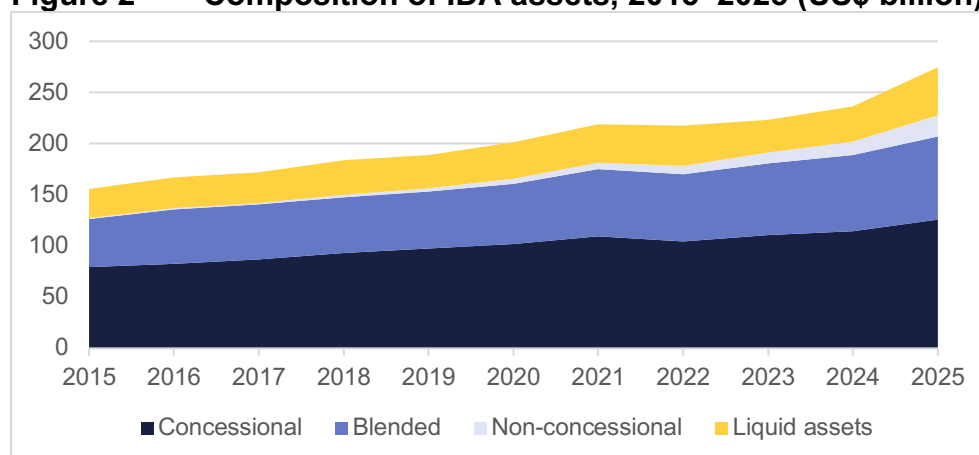
IDA has vastly more equity than liabilities – \$204.2 billion compared to \$76.7 billion, as of June 2025 – because it was for decades purely a donation-supported fund and has only recently started borrowing. This contrasts with non-concessional MDBs, which have far more liabilities that need to be repaid compared to own equity. IBRD, for example, had \$327.5 billion in liabilities (almost all of it bonds) against \$72 billion in equity at June 2025. This large share of equity gives IDA substantially more capital adequacy cushion to face losses than IBRD, all else being equal.

But all else is not equal. IDA invests its donor-funded equity and market borrowings into different assets – mainly loans and treasury investments for liquidity purposes, as well as grants. About 55% of IDA's loans at June 2025 were on concessional terms: zero interest rate² and mostly repaid over 40–50 years (Figure 2). Another 36% were on blend terms well below market rates, while grants generate no return at all (and are booked as an expense, as they are not an

² Some of these loans carry a service charge intended to cover IDA's administrative expenses. See IDA 2025: 30 for details on loan terms.

asset). Only 23% of IDA's assets are non-concessional loans (\$19 billion) and liquid investments (\$47 billion) generating a return at or close to market rates.

Figure 2 Composition of IDA assets, 2015–2025 (US\$ billion)

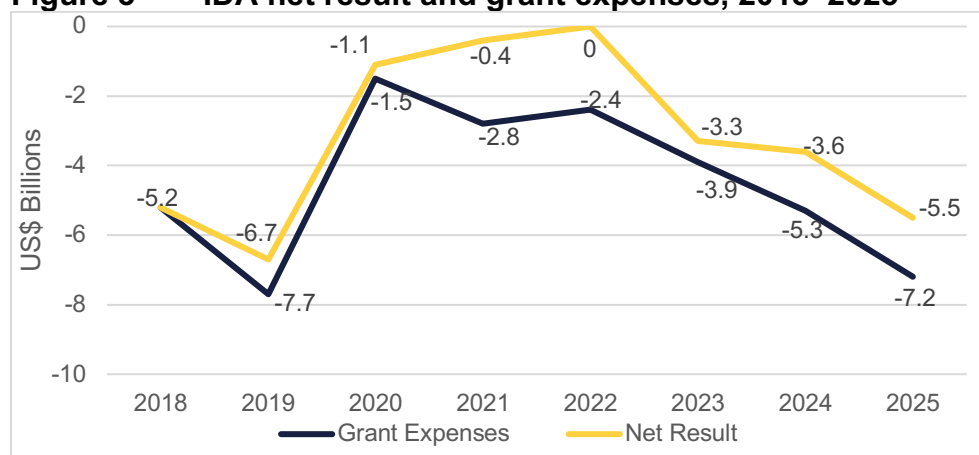


Source: IDA annual financial statements, 2015–2025.

Notes: Does not include other assets totalling 3–4% of total assets per year. 'Hard term loans' (discontinued in 2018) are consolidated into 'non-concessional' loans. Short-maturity and 50-year concessional loans are consolidated into 'concessional' loans, despite differences in maturities and repayment terms.

This financial profile is intentional: IDA is designed to support low-income countries with very low-cost financing. However, it means that (as of June 2025) 74% of IDA's total assets generated no or below-market returns. Due to the time value of money and the very long maturity of most IDA loans, this impacts IDA's future revenue stream and IDA's current equity levels in present value terms.

Figure 3 IDA net result and grant expenses, 2018–2025



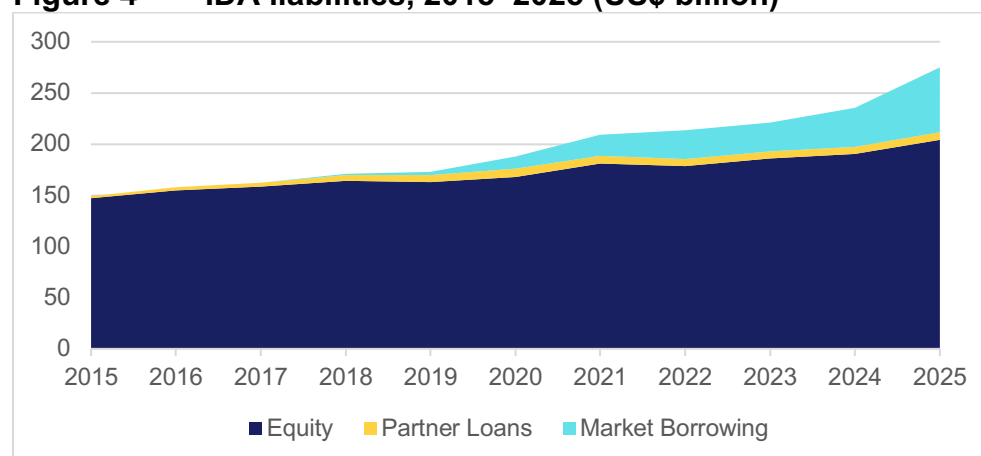
Source: IDA annual financial statements.

Note: Net result is IDA's measure of income excluding the impact of currency movements. IDA uses other metrics to evaluate different aspects of annual performance beyond net result, including adjusted net income (ANI) (a non-GAAP metric used for management purposes) and total comprehensive income.

Rather than building equity through net income, as at most non-concessional MDBs, IDA instead loses equity due to the mismatch between the revenue from its loans and the cost of its market borrowing. Grants, in particular, are financially hard on IDA as they represent a 1:1 depletion of equity. Grants have averaged \$4.5 billion per year since 2018 and have been on a steadily increasing trend since 2020 (Figure 3). IDA has posted a net loss of \$3.2 billion per year on average since 2018 (excluding the impact of currency movements on income). These losses are offset by inflows from donor replenishments over time as well as other income driven largely by currency exchange fluctuations,³ but it means that IDA equity is well below what it would be otherwise due to its concessional lending and grant-making.

As IDA takes on more market-rate debt, the imbalance between the income it receives on concessional loans and the market rate it pays to service its debt will grow. The current high-interest-rate environment accentuates this imbalance even further, since IDA's market borrowings are linked to global interest rates, whereas concessional loan terms are not. IDA had about \$63 billion in market borrowing at June 2025 (Figure 4), compared to a total of \$66 billion in combined non-concessional loans and liquid assets. Hence, IDA is about to pass the point where its non-concessional borrowing is funding assets that generate market returns.⁴

Figure 4 IDA liabilities, 2015–2025 (US\$ billion)



Source: IDA annual financial statements, 2015–2025.

Note: Excludes various other liabilities accounting for about 1–1.5% of total liabilities.

When projecting capital adequacy dynamics into the future, IDA has chosen to take the present value implications of its loan book into

³ Notably, IDA's balance sheet has benefited from the fact that the SDR – IDA's unit of account – has appreciated substantially against the US dollar – the currency for IDA's balance sheet as well as most of its assets, liabilities and expenses. In FY 2025, IDA gained \$7.5 billion in additional income due mainly to currency gains, offsetting the net loss of \$5.5 billion that year. Combined with other donor and IBRD net income inflows, IDA equity rose by \$13.9 billion in FY 2025.

⁴ IDA also had about \$7.6 billion in loans from development partners at concessional rates as of June 2025 (see Box 3).

account in the DSC formula. IDA does so by subtracting a given amount of available equity in the DSC. As of June 2025, this resulted in a TRA of \$165.5 billion, 21% below the \$208.8 billion in equity and loan provisions reported on its balance sheet. According to IDA, this deduction represents 'the present value adjustment of IDA's concessional loan portfolio based on the prevailing interest rates', as well as approved but not yet disbursed grants (IDA, 2025: 45).

Box 2 The 2024 reform to DSC

In 2024, IDA implemented the first revision of the DSC formula since it was created in 2017. The revision was motivated by the broader efforts to reform MDB capital adequacy triggered by the G20 CAF panel, as well as a recognition that IDA is firmly established as a AAA issuer and has more leeway than when it first went to the markets in 2018.

The revision had three main components:

- The present value adjustment for concessional loans and the value of undisbursed grants was shifted from an addition to TRR to a subtraction from TRA. The magnitude of the adjustment did not materially change. However, the shift mechanically lowered the CB, as the CB is calculated as a percentage of TRA.
- TRA now incorporates expected donor inflows for IDA's three-year risk horizon.
- The capital charge for IDA's Private Sector Window was reduced from the previous 100%, based on accumulated track record of loan performance.

As a result of the changes, the DSC ratio jumped from 21.1% to 34.8%, unlocking an additional \$10.6 billion in DSC.

	New DSC (June 2024)	Old DSC
TRA	149.5	195.9
TRR	82.5	134.9
CB	15.0	19.6
DSC (TRA-TRR-CB)	52.0	41.4
DSC as % of TRA	34.8%	21.1%

Source: IDA 2024 Management Discussion and Analysis, p. 42.

This conservative approach was understandable when IDA designed the DSC as part of IDA 18. IDA had undertaken a major structural reform to its financial model and sought to reassure credit rating agencies (CRAs) and bond market actors. ADB faced a similar situation as part of its 2016 concessional window merger and also

took a conservative approach to capital adequacy, which it subsequently eased. IDA followed the same pattern, building a highly conservative DSC initially (IDA 18–20) and then revising it in 2024 with a view to easing off following several years of good performance and bond market acceptance (Box 2).

Avenues to explore DSC reforms

Was the 2024 DSC reform too cautious? Could IDA loosen the model further to gain more concessional lending capacity over a longer timeframe than currently projected? The detailed technical analysis of the DSC formula required to answer these questions is beyond the scope of this briefing. Nonetheless, three points are worth highlighting as potential avenues to improve IDA lending capacity.

First, the way IDA accounts for credit risk could be re-examined. Due to the nature of IDA's borrower countries, loan repayment risk is obviously significant. In 2024, IDA had a lower non-performing loan ratio than IBRD (0.4% vs. 0.5%), although IDA's ratio was as high as 2.8% in 2012 (Moody's, 2025). In the rare event of a borrower going into arrears, IDA is much more likely to be eventually repaid as IDA loans are excluded from restructuring, due to preferred creditor status (PCS). The assumptions made by IDA management on probability of default and loss given default in calculating credit risk are not publicly available, but would have a major impact on the capital needs in TRR, particularly in light of recent changes by S&P and Moody's in how they account for PCS in their MDB methodologies.⁵

It is critical that IDA base its calculations on the demonstrated track record of its borrowers. One external study (Risk Control, 2024) found that PCS is even stronger at lower borrower rating levels, which stands to reason considering how important MDB lending is for lower-rated borrower governments. The study found that MDB exposures in the CCC+ to B+ range – which matches well with IDA's borrower profile – have a four to 18 times lower probability of default than commercial loans to the same borrower than exposures further up the rating scale. This calculation does not consider loss given default, which is far lower for MDBs compared to commercial lenders.

Greater recognition of PCS was a key recommendation of the G20 CAF report (G20, 2022) as MDBs have in the past been overly conservative in taking it into account. Refining credit risk calculations in line with empirical evidence could have a significant positive impact on the DSC and should be closely investigated by IDA deputies.

Second, the necessity for and level of the CB component of the DSC is not obvious. The CB is designed to set aside sufficient capital to absorb the default of IDA's largest concessional borrower or the combined defaults of the second- and third-largest borrowers without

⁵ Fitch published a review draft of a new MDB methodology in September 2026. Although not yet finalised, it offers greater credit to PCS than the previous version.

impacting IDA's overall financial stability or lending capacity. Is such a buffer essential for IDA's business model, in light of the already conservative assumptions built into the other components of the DSC?

Ultimately this is a question of risk tolerance for IDA deputies to decide, but they may wish to push management further to justify the need for the CB, based on scenario analysis of the impact of defaults, particularly as the DSC includes a substantial buffer to protect its AAA rating (see next section). The DSC already factors in the default risk meant to be covered by the CB, and the assumption of zero (instead of at least partial) recoveries with immediate impact on the balance sheet (rather than over many years as per repayment schedule) appears excessively conservative. Eliminating the CB would immediately boost the DSC from 30.8% to 40.8%, based on June 2025 numbers.

Third, the capital allocation to protect against risks of loans in the Private Sector Window (PSW) was reduced from the previously punitive 100% as part of the 2024 DSC reforms, but it may still be overly conservative in light of the PSW's demonstrated track record. It may be worthwhile to question how IDA assesses PSW exposure risk. However, this is a very small component of TRR and is unlikely to have a significant impact on overall IDA capacity.

As a last point, it is imperative that IDA give deputies sufficiently detailed information on how DSC is calculated and the basis of the assumptions underneath it. Deputies of several donor governments consulted for this study feel that they do not have sufficient understanding to make informed decisions. Greater transparency is needed. This is not always easy due to the complexity of the issues and the varying capacity among government deputies. But it is incumbent on the IDA team to explain the underpinnings of the DSC in detail to IDA deputies so they can take informed decisions on their risk appetite. It would be helpful for IDA to benchmark the DSC against the approaches taken by other MDBs with mixed concessional and non-concessional balance sheets, including the International Fund for Agricultural Development (IFAD), the OPEC Fund and ADB.

3 Relationship between the DSC and IDA's AAA rating

It might be assumed that a central reason for the strict parameters built into the DSC is to ensure that IDA retains a AAA rating. That is not the case according to current CRA criteria. IDA solicits ratings from Standard and Poor's (S&P) and Moody's. Neither S&P nor Moody's factors in the present value adjustment of IDA's loan portfolio into their capital adequacy metrics.⁶ Hence, the methodologies of the two CRAs indicate that IDA has substantially more capital adequacy headroom than IDA's own DSC would suggest.

In the case of S&P, IDA had a risk-adjusted capital (RAC) ratio of 60% as of June 2024 (S&P, 2025b). This is far above the 23% required to reach the top capital adequacy rating in S&P's methodology. Targeting IDA's capital adequacy to the minimum level needed (with a buffer – so about 25% RAC) to retain a AAA rating, IDA could have taken on an additional \$150 billion in loans at the same risk profile as its existing portfolio.⁷ That headroom has increased by about a third – with an IDA RAC of 90% in February 2026 (S&P, 2026) – under S&P's new MDB methodology announced last year, bringing headroom under an S&P AAA closer to \$200 billion.⁸

The implications of the new Moody's methodology are harder to assess due to its more subjective nature compared to S&P, but it would seem to offer upside benefits, albeit not at the same scale (Moody's, 2026). Even under the old methodology, Moody's appeared to offer the most IDA headroom while still retaining a AAA rating, according to one credible external study – 300% potential

⁶ IDA does not solicit a rating from Fitch, which does incorporate present value calculations in its methodology, unlike S&P and Moody's. Neither IBRD nor IFC solicits ratings from Fitch. Fitch does nonetheless rate IBRD on an unsolicited basis, although it does not rate either IFC or IDA.

⁷ This calculation uses data from S&P 2025b (IDA data as of June 2024) to determine the level of S&P risk-weighted assets that would result in a 25.5% RAC ratio (23% for the top level, plus a 10% buffer). The resulting risk-weighted asset number is converted to nominal values based on the same ratio between S&P risk-weighted assets and IDA's reported loan portfolio from 2024. A further 25% is subtracted from the final amount to account for increased liquidity needs to back the larger projected loan portfolio.

⁸ The main changes in the new S&P methodology related to increased benefit to PCS and reduced penalty for loan portfolio concentration risk (see S&P, 2025a). It is not possible to make the same calculation as above with S&P's new methodology until S&P releases its new assessment of risk-weighted assets for IDA.

headroom increase based on 2022 numbers, compared to 208% for S&P (Risk Control, 2023). In light of the greater benefit given for PCS under the proposed new methodology, Moody's is certain to show substantial headroom under a AAA rating.

Is it appropriate for IDA to model capital adequacy in its DSC model in a substantially more conservative fashion than either of the two CRAs rating it? The answer to this question is influenced by two considerations.

First, it is possible that, as IDA uses up its 'spare' capital adequacy in future years and gets closer to ratios similar to other MDBs, S&P and Moody's could change their methodologies to incorporate present value, as Fitch does currently. The likelihood of that risk materialising is impossible to determine, but in light of the direction of travel of CRA methodologies since the G20 CAF report and the very slow process of CRA methodology revision, the probability seems low and any change would be signalled well ahead of time. The fact that S&P did initially incorporate present value calculations in the first year it rated IDA, and then chose to eliminate that component, makes it seem particularly unlikely in the case of S&P (Moody's has never included it).⁹

Second, IDA may wish to have its own capital adequacy approach independent of CRA methodologies. This may be particularly the case due to IDA's mission of providing concessional financing, which is not captured in CRA methodologies. IDA deputies and management may decide that CRA methodologies are insufficiently rigorous to ensure that IDA has enough capital to face all expected and unexpected risks posed by its balance sheet, and to safeguard IDA equity to support concessional financing into the future. These considerations should be balanced against the very conservative limits already in place in the DSC, even apart from the equity haircut imposed for its concessional loan book. It is up to IDA's owners to evaluate their own risk appetite against lending capacity considerations.

The above discussion highlights the reality that the AAA rating target is not currently the binding constraint to IDA's lending capacity – rather, it is the DSC itself. Even if the DSC were to run down to 0%, IDA would have further lending capacity under a AAA rating level due to the DSC's highly conservative approach. As such, any consideration of lowering IDA's credit rating target to generate more lending capacity would be a second-order reform priority to modifying the DSC, and in particular DSC's present value calculation (in the TRA) and credit risk assessment (in the TRR).

Even if the DSC were calibrated to the AAA threshold based on S&P and Moody's methodologies, IDA would still have considerable

⁹ It could be possible, for example, that S&P takes concessionality more into account in the 'Risk Position' assessment, which is used to make adjustments to the RAC ratio based on risk factors that the RAC does not capture.

headroom within a AAA rating level, so any discussion of a lower rating is not relevant for years to come. But it is worth putting the issue on the agenda now, in light of the working group's mandate to consider IDA's long-term trajectory. Accepting a AA+/Aa1 rating would open up substantial lending headroom capacity under the methodologies of S&P and Moody's (about \$300 billion in the case of S&P). That said, a downgrade would unquestionably reduce IDA's ability to offer concessional loans and grants, although by how much is an open question.¹⁰ The disjunction between funding costs and loan income would widen, which in turn would accelerate the use of IDA's donor-funded equity.

In the view of the authors, any move to consider a lower rating target for IDA is not appropriate. The priority should be bringing the DSC more in line with rating agency metrics, followed by financial innovations (discussed below) and consideration of changing loan pricing and graduation policies for IDA countries. Only once all those options have been thoroughly explored would it make sense to consider in detail the trade-offs implicit in a lower rating.

¹⁰ One study evaluating the impact of MDB rating downgrades on MDB bond spreads found minimal reactions, although the sample may be too small to draw meaningful conclusions (Kolasa et al., 2024).

4 MDB balance sheet innovation instruments for IDA¹¹

MDBs are increasingly experimenting with financial instruments that can either i) reduce the risks posed by the asset side of their balance sheets; or ii) increase available risk capital on the liability side. Most of these instruments were pioneered by commercial financial institutions and are only recently being adopted by MDBs, while some are unique to MDBs. Most prominent have been securitisations and credit portfolio insurance to recycle MDB loan portfolios more quickly and hybrid capital instruments to build MDB equity capital (see Humphrey and McHugh, 2026). IDA has also made use of concessional partner loans (CPLs) starting in IDA 17, although uptake has been limited (see Box 3).

A key distinction with all of these innovations is between those backed by commercial investors and those backed by governments or philanthropies. This is due to the financial implications. The market-rate compensation required to attract commercial investors can outweigh the benefits, depending on the policy purpose of the innovation. While this can still make sense for non-concessional MDBs operating closer to market terms, it is more problematic for IDA's concessional lending and grant model.

Box 3 IDA concessional partner loans (CPLs)

IDA began leveraging its balance sheet through borrowing in IDA 17, when for the first time it opened the possibility of loans directly from partner governments to IDA. The concept is to offer governments the option of providing low-interest, long-term loans to IDA along with regular replenishments.

CPLs are not nearly as beneficial to IDA's financial capacity as replenishment donations, since they are liabilities that need to be repaid rather than equity. However, they are superior to market-rate bond funding due to their sub-market terms. CPLs are offered at long maturities (25, 40 or 50 years) and carry an all-in SDR-

¹¹ This section focuses on IDA's use of innovative instruments to manage its own balance sheet. See Clarke and Mustapha (2026) for an exploration of IDA risk-focused instruments including the Crisis Response Window and the Catastrophe Deferred Drawdown.

equivalent coupon of up to about 1% – above concessional IDA lending terms, but well below IDA's current market borrowing costs (IDA 2025b: Annex 13).

Governments providing CPLs have no special rights to orient how the financing is used by IDA, but they do receive IDA voting rights based on the grant element of the loan (as with IDA portfolio guarantees and hybrid capital).

Stock of outstanding concessional partner loans



Source: IDA financial statements.

Despite the benefits of CPLs for IDA as well as the voting rights and repayments granted to lender governments, uptake has been modest. After rising initially, CPLs have plateaued at \$7–8 billion total stock, or about 10% of total IDA borrowing.

As a result, the focus of innovative instruments for IDA should be governments, other MDBs or philanthropies willing to accept no or below-market returns, rather than innovations with commercial counterparties. This limits the potential scale, as concessional counterparties are far fewer and have less financial firepower than commercial market actors. It could also raise governance issues, as the counterparties may wish to see resources used by IDA in sectors or geographies aligned with their own interests.

Substitution risk for government counterparties is also a key consideration. Untied donations to IDA as part of regular replenishments are by far the most valuable financial support to IDA. If a government supports a financial innovation but subtracts that support from its regular IDA replenishment contribution, that is a net loss for IDA's concessional lending capacity. Assuming a desire to preserve concessional lending capacity, it is critical that any support for innovative IDA financial instruments should be additional to regular replenishments.

Portfolio guarantees

MDBs and their shareholder governments began experimenting with portfolio guarantees starting in 2016 with a pioneering transaction

between the Swedish International Development Cooperation Agency and the ADB, and they have since scaled up across the MDB system. The World Bank announced its IBRD Portfolio Guarantee Platform (PGP) in July 2023 (World Bank, 2023) and had a total of \$1.1 billion in guarantees committed as of June 2025 (World Bank, 2025: 45).

The PGP was included in IDA 21 as an option for donors beyond normal contributions. To date only France has agreed to support the instrument, with a \$325 million portfolio guarantee (IDA, 2025b: 140).¹² Under the terms of the agreement, France will make good revenue shortfalls occasioned by any IDA loans going into non-accrual up to the face value of the guarantee.¹³ The maturity of the IDA guarantee product is a minimum of 50 years to align with IDA loan maturities. Investing governments receive voting rights for the hybrid, but only for the grant element of the resources actually transferred to IDA if and when the guarantee is called (Ibid.: Annex 15).

Why have more governments not offered portfolio guarantees? Several explanations are possible.

- Some highly rated governments (including AAA-rated Germany and Switzerland) are constrained by budget rules on contingent liabilities, while others may have a limited envelope of guarantees and competing priorities.
- The risk of triggering the guarantee is relatively high, since it covers all loan income across the entire IDA portfolio. This can run up against budgetary provisioning rules in some governments.
- The PGP does not pay any fee, which could be a disincentive for some governments.
- Because IDA's guarantee is a first loss across the entire portfolio, potential guarantor governments are not able to prioritise support to sectors or geographies in line with their own development agendas.

Should these obstacles be overcome, portfolio guarantees could be a useful contribution to IDA's financial capacity. Because they are a first loss across the entire portfolio, guarantees are functionally almost equivalent to new equity capital. IDA management assesses a roughly 25% haircut on the nominal value,¹⁴ and the remainder acts as fresh capital to be added to the TRA component of DSC. For IDA, this translates to 1.5–2 times the nominal amount of the guarantee in

¹² The instrument had yet to become effective as of spring 2026.

¹³ Excluded from the guarantee are i) loans already in non-accrual when the guarantee became effective; and ii) all PSW exposures. It includes all future loans made after the guarantee is effective. The guarantee covers principal, interest and all other charges (including default interest for late payments). See IDA (2025b: Annex 15).

¹⁴ The haircut likely relates to some combination of the fact that the guarantee does not cover the entire asset side of the balance sheet as well as counterparty risk of the guarantor not complying with a call. Deputies could question the rationale and size of the haircut.

additional IDA loan portfolio capacity for the life of the guarantee, according to author calculations.

While the new lending leverage of a portfolio guarantee is effectively the same as with replenishments, the differences are that i) guarantees are time-limited while replenishments are permanent; and ii) guarantees are contingent and hence may be viewed by market actors as not fully equivalent to paid-in replenishment equity.

Exposure exchange agreements (EEAs)

Sovereign-focused MDB loan portfolios are highly concentrated in a small number of borrowers. Concentration risk requires additional risk capital, above and beyond the individual credit risk posed by each borrower. It is a component in all MDB capital adequacy models as well as in CRA methodologies.

In 2015, the IBRD, IDB and AfDB piloted the first EEA (World Bank, 2015). EEAs shift the repayment risk of a designated share of an MDB's sovereign loan portfolio to another MDB, and receive the repayment risk of a share of the other MDB's loan portfolio in return. While the risk rating and nominal amounts of the exchanged loan portfolios are closely matched, the country borrowers are different, thus reducing the portfolio concentration of both MDBs. EEAs have become a standard part of the MDB risk management toolkit.

IDA had 97 total borrowers as of June 2025. Ten countries account for 61% of IDA's outstanding loans, which is above IBRD (56%), similar to AfDB (62%) but well below ADB (85%) and IDB (76%).¹⁵ S&P's single-name concentration penalty increased its estimate of IDA risk-weighted assets by 32% (S&P, 2025b).¹⁶ IDA's DSC also takes portfolio concentration into account, although the impact on capital usage is not publicly disclosed.

Easing portfolio concentration would unlock more risk capital currently used to cover concentration risk in the DSC and CRA metrics, although the impact would be modest. To give a sense of scale, ADB has put considerable effort into EEAs to reduce the impact of its portfolio concentration, executing five separate transactions since 2020 for a total of \$6 billion, which resulted in an additional \$1 billion in (non-concessional) lending capacity per year for 10 years (ADB, 2025). Achieving even this level of impact for IDA would be challenging, for practical reasons.

It may be difficult for IDA to find loan portfolios of equal ratings but to different borrower countries at other MDBs, due to the low overall rating of IDA's portfolio. This is accentuated by the fact that MDBs limit their use of EEAs to avoid becoming excessively exposed to

¹⁵ Numbers taken from 2025 financial statements (ADB, 2025; AfDB, 2025; IDA, 2025; IDB, 2025c; World Bank, 2025).

¹⁶ This penalty will ease with S&P's new methodology, which changes the way S&P assesses concentration for MDBs. The degree of the change for IDA is uncertain until S&P's next IDA review is completed.

non-member governments, meaning scope for EEAs across other AAA-rated MDBs is constrained. A further complication is that IDA lends in SDRs while other MDBs lend in US dollars or euros. Any EEA beyond five years is problematic as the IMF reviews the SDR currency basket every five years, which could change IDA loan valuations. One solution being considered by IDA is to undertake an EEA with IBRD. This could avoid problems related to membership, but constructing portfolios with weighted matching ratings will be a challenge, with modest gains.

In summary, while EEAs are worth pursuing for IDA, upside benefits will be marginal even if transactions can be executed successfully.

Hybrid capital

Hybrid capital is a specialised type of debt instrument issued by an MDB (Humphrey, McHugh and White, 2026). Unlike normal senior bonds, hybrid capital has contractual clauses that would trigger investor losses in specific (highly unlikely) circumstances of financial stress. When designed in line with CRA criteria, hybrids can be counted partly or entirely as MDB equity. To date, five MDBs¹⁷ have issued a total of \$2.85 billion in hybrid capital to commercial investors (Ibid.), while IBRD has \$1.1 billion investment from several governments in its hybrid capital instrument and the West African Development Bank issued a €100 million hybrid to the Italian government (Humphrey, 2025). Commercial hybrids offer a coupon above the cost of regular MDB senior debt to compensate for increased investor risk, while the coupon of IBRD's official hybrid is flat with its senior debt.

IDA offered a hybrid option to donors in IDA 21, alongside concessional partner loans (offered since 2015) and portfolio guarantees, as discussed above. No government chose to invest in the hybrid in IDA 21, although uptake may come in IDA 22 as governments become more familiar with the instrument. The IDA hybrid would pay government investors a concessional coupon below its senior debt cost, on the order of 1%, although some governments would anyway not be able to accept coupon payments due to their own fiscal rules. IDA's hybrid ensures that the equity created by the hybrid is replaced if the hybrid is cancelled for any reason. Coupon and write-down triggers are clearly defined with financial ratios, although IDA also reserves the right to halt coupon payments for any reason following Board of Directors' approval (IDA, 2025b: Annex 14).

Investor governments receive additional credit for hybrids in their IDA shareholding (equivalent to the grant component of the hybrid price) and they can stipulate 'preferencing' of how resources would be used. This is a sensitive point: investor governments want some voice in resource use in return for the concessional investment, but

¹⁷ AfDB, Development Bank of Latin America (CAF), West African Development Bank, Trade and Development Bank and African Finance Corporation.

IDA is highly attuned to ensure that these 'preferences' do not bypass IDA's normal governance and decision-making.

One obstacle facing some potential investor governments is budgetary and administrative. Many of the government agencies directly responsible for supporting IDA are set up to make budgetary outlays, not to make investments that receive reflows. In the case of IDA's partner loans, for example, this is mainly done by the donor country's development bank, not by its ministry. A similar arrangement would likely be required for IDA hybrids.

Official hybrids are a similar instrument to IDA partner loans but have the added benefit of being counted as equity as well as offering low-cost financing. Partner loans have totalled around \$6–8 billion outstanding on the balance sheet since 2018. They carry a sub-market interest rate, which in 2025 was reported as averaging 1.9% compared to 3.6% for market borrowing (IDA, 2025: 40). All else being equal, if these partner loans had instead been hybrid investments – a realistic proxy for potential donor appetite for hybrids – the DSC would have risen from 30.8% at June 2025 to 33.4%, according to author calculations.

It could be possible to open the door for major philanthropies to invest in IDA hybrid capital, although this may require overcoming reluctance from some deputies, particularly related to issues around preferencing. Another possibility would be for philanthropies to provide concessional partner loans, similar to the terms offered by donor governments since IDA 17. Potential scale of philanthropic investments would require exploration.¹⁸

Contingent capital

IDA does not have callable capital, unlike IBRD and many other MDBs. Due to its ambiguities, callable capital receives widely varying benefit across the major CRAs. MDBs themselves account for it only minimally if at all in capital adequacy frameworks, despite its very high nominal value (Humphrey et al., 2024). Hence, recreating traditional callable capital at IDA would have limited financial benefit.

A more realistic prospect would be a new type of contingent capital with greater clarity on how it would be triggered, such that MDBs could count it as equity capital in their capital adequacy calculations and CRAs would factor it more generously into their methodologies. The basic idea is that one or more willing governments contractually commit to providing specific amounts of additional capital in the event that certain thresholds of financial stress are reached in a highly unlikely shock scenario (see Humphrey, McHugh and White, 2026 for more details on contingent capital). At least two models could be used to design such a facility at IDA.

¹⁸ A separate paper in this working group series addresses the potential role of philanthropies in IDA.

The World Bank's IBRD designed an 'Enhanced Callable Capital' initiative to repurpose a share of existing IBRD callable capital in a way that would permit IBRD to use the resources as equity capital. To date only one country – New Zealand – has signed on. While the facility would clearly be effective as capital, the instrument was designed around the specific context of IBRD's existing callable capital and cannot be replicated at IDA.

Another model is the Contingent Capital Facility (CCF) being designed in collaboration with the Caribbean Development Bank (McHugh and White, 2025). Highly rated governments would legally commit to purchase MDB capital in the event of a pre-defined, low-probability financial stress event that could endanger the MDB's financial stability. Because it is in line with current financial market expectations and Basel guidelines, the nominal value of the CCF would qualify as Tier 2 capital under CRA criteria, boosting MDB lending capacity to the same degree as regular equity capital.¹⁹ It would have a similar impact to IDA's first-loss portfolio guarantee discussed above, but may be more reassuring to bond market actors as a standardised capital instrument able to absorb losses arising from anywhere on the balance sheet.

Liquidity policy reform

IDA carries what it estimates to be 80% of 24 months of liquidity requirements (IDA 2025: 38), which is highly conservative and compares to only 12 months for IBRD. IDA is considering reducing the amount of liquidity it carries to 12 months, although that could run up against Moody's criteria, which looks for 18 months' coverage to achieve the top liquidity rating. Another possibility proposed by Powell (2024) would be to create an SDR-backed liquidity facility to allow IDA (or any participating MDB) to reduce liquidity holdings. This is in line with the G20 CAF report recommendation to explore liquidity facilities for MDBs.

Reducing liquidity holdings could unlock more space to take on additional loans and reduce IDA debt costs, although these benefits would likely be marginal. Liquid assets earn a market-linked return, and the difference with IDA funding costs (and hence revenue gains) would be minimal. Nor would IDA gain much asset space on the balance sheet to carry additional concessional lending. Liquid assets are highly rated and hence require very little risk capital to back them up, whereas IDA loans are much riskier and require substantially more risk capital. In all, liquidity changes will not make a meaningful difference in IDA lending capacity.

IDA could also consider using liquid investments more proactively to generate revenue that can contribute to IDA equity through net income. Almost 80% of IDA's \$47.3 billion in liquid reserves were held in AA or above investments at June 2025 (IDA, 2025: 9) – \$26.4

¹⁹ This is true for S&P and Moody's. Fitch, which does not rate IDA, proposed in September 2026 new MDB criteria that would take a different approach to valuing CCFs.

billion in government, agency or corporate exposures (mainly highly rated bonds); \$20.6 billion in cash deposits; and the remaining \$200 million undefined (Ibid.: 22). This resulted in \$1.6 billion in revenue (Ibid.: 18), a 3.4% return.

IDA could consider using a portion of its liquid investments to seek higher returns. For example, IDA's highly conservative minimum liquidity level in 2025 was \$29.5 billion, meaning \$17.8 billion in liquidity was not required to meet this level. It would seem reasonable to consider using at least a portion of those resources to invest in higher-return assets. This could be done with a developmental lens by investing in assets from developing countries, rather than from OECD markets as is mainly the case currently. This would not only serve the treasury function of maintaining liquid assets, but could also help build markets in emerging and developing country economies.

While higher-return investments pose a degree of additional risk, it is not unprecedented in the World Bank Group. In 2008, IBRD shareholders agreed to allocate \$1 billion to the 'Long-Term Investment Portfolio', specifically to generate more net income (World Bank, 2012: 4) compared to normal liquidity investments. The fund was closed after four years, despite generating \$400 million in returns, when the Bank ramped up lending in the wake of the global financial crisis. Undertaking a similar strategy with a ring-fenced portion of IDA liquid assets could generate a meaningful contribution to equity on a yearly basis.

Currency reform

A further possible reform would be to change the accounting currency for IDA from the SDR to US dollars, as the vast majority of IDA loans, liabilities and expenses are denominated in dollars. The goal would not necessarily be to achieve financial gains but rather to simplify IDA accounting, both in terms of the DSC and financial capacity as well as in replenishment discussions. It would also reduce the cost implicit in the currency hedging undertaken by IDA. However, the current volatility of the US dollar as well as the politics that would surround such a change make it unlikely to be a worthwhile recommendation to pursue at this stage.

5 Conclusions and policy options

This briefing note has reviewed the applicability to IDA's lending capacity of different aspects of the MDB capital adequacy reform agenda that has evolved over the past decade, and in particular following the G20 CAF Panel in 2022.

The note focused on i) adjustments to the Deployable Strategic Capital (DSC) ratio used by IDA as its core capital adequacy metric; and ii) balance sheet innovations to either reduce risk on IDA's balance sheet or increase available capital to support those risks.

Key issues for the DSC

- IDA management should provide greater transparency on the mechanics of the DSC, the assumptions underpinning key components (notably credit risk), its interface with CRA methodologies and a realistic assessment of risks and gains for potential changes. This is essential for IDA deputies to make informed strategic decisions on how their equity should be most effectively deployed for development goals. Benchmarking the DSC against other MDBs with mixed concessional balance sheets would be helpful.
- IDA deputies can consider whether DSC should continue to use the present value discount on its loan portfolio, even though neither of the CRAs evaluating IDA does. This adjustment represents a significant amount of capital that could be deployed for lending with no impact on IDA's AAA.
 - *Eliminating the present value discount would increase DSC from 30.8% to 43.1% based on 2025 data*
- Three other adjustments could be explored by IDA deputies:
 - Ensure that management is not being overly conservative in how it calculates credit risk in relation to both probability of default and loss given default.
 - *Cannot be estimated but could be substantial as credit risk is by far the largest share of Total Resources Required (TRR) in the DSC.*

- Reduce or eliminate the Conservation Buffer (CB), which is calculated at 10% of Total Resources Available. In light of the conservative assumptions built into the DSC already, the CB may be redundant.
 - *Eliminating CB would increase the DSC from 30.8% to 40.8% based on 2025 data; reducing CB would result in lower but still significant gains.*
- Verify that the risk capital allocated to the Private Sector Window portfolio is not overly conservative, even in the wake of the 2024 DSC reform.
 - *Minor improvement at best.*

None of these changes would pose an immediate threat to IDA's rating, since the DSC is substantially more conservative than the capital adequacy metrics used by either S&P or Moody's. However, it would mean that IDA could come under rating pressure in the highly unlikely event that it were to face a major shock of several major borrowers simultaneously going into arrears for an extended period.

IDA has very considerable capital adequacy headroom, particularly following methodology revisions by S&P in 2025 and Moody's in 2026 – up to \$200 billion under a AAA according to S&P. IDA has not used this capacity because by policy it seeks to maximise concessional financing over time. IDA could right now begin a much more substantial programme of non-concessional lending to IDA borrowers for certain types of projects, such as sovereign debt reprofiling or high-impact infrastructure.

Key considerations for innovative instruments

The financial innovations considered here have one of two main goals: i) shifting risks off IDA's balance sheet (portfolio guarantees or exposure exchanges); or ii) increasing available equity (hybrid or contingent capital). Both approaches are equally valuable in supporting IDA's equity. Portfolio guarantees and contingent capital may be particularly promising for some governments as they do not require actual cash and hence may be easier to approve.

One central principle is that these innovations are most useful with governments or philanthropic counterparties. Commercial investors require market-linked compensation that would outweigh potential benefits to IDA's ability to offer concessional financing. Commercial risk transfers (securitisations or portfolio insurance) or hybrid capital could become more viable if lending volume becomes a greater priority compared to concessionality, although this could have pricing implications for IDA loans.

Another key concern is substitution risk. Governments should not substitute regular replenishment donations with support for (less

financially valuable) innovations. That would be a net loss to IDA concessional financing capacity.

Portfolio guarantees

Thus far only France has committed to support IDA's new portfolio guarantee instrument, first offered in IDA 21. The guarantee comes at no cost to IDA and, because it is a first-loss instrument across the entire portfolio, it is almost as good as fresh replenishment donations in terms of IDA lending capacity.

- *Greater uptake of the portfolio guarantee would be highly beneficial for IDA and should be pursued energetically. IDA should quantify the risk of a guarantee trigger to help governments determine budgetary implications.*

MDB exposure exchange agreements (EEAs)

EEAs can help reduce the concentrated nature of IDA's loan portfolio, which would in turn reduce capital needs according to both the DSC and CRA methodologies. However, practical obstacles limit the viability and scale of EEAs for IDA.

- *Pursuing an initial EEA with IBRD should be encouraged to demonstrate proof of concept, with a view to scaling with other MDBs in the medium term. However, upside benefit to IDA lending capacity is limited.*

Hybrid capital

Hybrid capital backed by donor governments builds IDA equity. It provides more financial benefit than IDA partner loans at the same cost to governments. No government has yet invested in an IDA hybrid, partly due to fiscal restrictions of potential investor governments. Substitution risk with regular replenishments is a concern.

- *IDA should prioritise hybrid investments over partner loans and seek to address constraints facing potential government investors. IDA should actively seek non-traditional government investors as well as, potentially, philanthropies. Upside potential is substantial.*

Contingent capital

IDA could create a new type of contingent capital facility building on the pilot being designed with the Caribbean Development Bank. Willing governments commit to support the MDB in pre-defined, low-probability stress circumstances, which can be counted as equity and grow lending capacity.

- *Contingent capital has substantial upside potential and should be explored by IDA, although scale is limited by the appetite and ability of highly rated governments to provide contingent support.*

Liquidity

IDA carries substantial liquidity in its treasury portfolio, most of it in highly rated assets generating low returns. It would be possible to repurpose a portion of that equity to take on higher-risk assets that can generate higher returns, thus helping build IDA equity. The surplus of \$17.8 billion in liquid assets above IDA's minimum threshold (as of June 2025) could safely take on a degree of additional risk to bolster IDA net income. This strategy could have additional value if oriented to assets from emerging markets, to increase the development impact of IDA's treasury function.

Final reflections

The reforms launched in IDA 18 have increased concessional lending volumes even though donor contributions have remained basically flat. The trade-off is that IDA is gradually using up its equity base. The capital adequacy reforms and innovative financial instruments discussed above can and should be brought to bear to leverage IDA equity to the maximum extent.

That said, these reforms are not a solution to the long-term trend embedded in the IDA 18 reforms of gradually using up IDA's stockpiled equity through increased market borrowing. IDA deputies and the international community should be under no illusions: continued IDA provision of concessional loans and grants at scale requires replenishment donations.

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