



ODI Global

Briefing paper

What is IDA? Unpacking its financial allocation model

 IDA Technical Working Group

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1 Introduction

In the current context of declining Official Development Assistance (ODA) flows and a fracturing consensus within the development finance ecosystem, the role of the International Development Association (IDA) has never been more important. Since its creation in 1960, IDA has had a central role in development finance as the largest source of multilateral concessional resources for lower-income countries. Yet despite its prominence as a development institution, IDA remains one of the less well understood in structural terms.

This briefing note explores IDA's evolution and its strengths and weaknesses as a major source of development finance. It focuses on three interrelated elements: how it raises its resources, how it allocates those resources, and on what financing terms. Two forthcoming companion briefing notes map the role and relative weight of IDA within the global development finance architecture and at the country level.

2 IDA in context

IDA was created in 1960 explicitly as a vehicle for concessional finance. IDA was not part of the original financial architecture envisaged at the Bretton Woods Conference in 1944. Bretton Woods established the International Bank for Reconstruction and Development (IBRD) – IDA’s sister institution – to support the reconstruction of Europe following the Second World War. IBRD was designed to operate as a financial intermediary between global capital markets and developing countries. By the late 1950s, this model was seen to have reached its limits and the need for concessional finance was widely recognised, leading to the creation of IDA (Box 1).

Given its goal of providing concessional resources, IDA was established with its own funding model, requiring regular, recurring replenishments to provide additional capital to lend at below-market terms and to absorb potential losses. These replenishment cycles, unique to IDA, provide donor governments with powerful opportunities to influence its structure, operations and policies.¹ Contributions are voluntary and not tied to membership in IDA (unlike IBRD shares and IMF quotas), requiring repeated efforts to mobilise donor engagement each replenishment cycle.

To ensure that scarce concessional resources are provided to the countries that need them most, IDA has developed and evolved standards governing eligibility and the allocation of resources. IDA’s operational eligibility framework – as it has evolved through World Bank policy rather than as set out in the Articles of Agreement – articulates two criteria: relative poverty (GNI per capita below the annually updated operational cut-off) and lack of creditworthiness for IBRD borrowing (World Bank, n.d.a; n.d.b). Allocation among eligible countries then incorporates country performance through the PBA framework (discussed below), with absorptive capacity entering via the Country Performance Rating.

Box 1 Origins of the IBRD and IDA

The International Bank for Reconstruction and Development (IBRD) was created in 1944 to help fund post-war reconstruction and infrastructure capital expenditure in developing economies. It served

1 A three-year cycle is utilised, with some exceptions. IDA 1 and IDA 2 were for four-year periods, and IDA 3 negotiations were so drawn-out that there was an overlap between IDA 3 and IDA 4 (World Bank Group Archives, 1975). There was a deliberate alteration of the schedule for IDA 19 and IDA 20 during the Covid-19 pandemic, where IDA 19 was shortened to two years to allow surge financing to address significant development needs (World Bank, 2021).

as an intermediary between (mostly US and European) private capital markets and borrowing governments^a. Relying on paid-in and callable capital^b from member governments as an equity base, IBRD mobilised resources by raising bonds on private financial markets. IBRD provided loans at rates tied to its own cost of borrowing, near market rates, and only to credit-worthy borrowers. These ‘near market rate’ or ‘hard’ loans – to use the World Bank’s own parlance from the time^c – excluded many countries from access to development finance. Under this model, while IBRD was responsible to donor governments on its Executive Board, it was not dependent on them for resource mobilisation.

By the beginning of the ‘Development Decade’ of the 1960s, pressure was emerging for a new model for development finance. The poorest countries were unable to afford IBRD’s terms; competing sources of so-called ‘soft loans’ were emerging from the Soviet Union and the United Nations; and new countries were entering the international system with massive development financing needs.

Despite sharing staff, headquarters and even the same President and Board of Governors as IBRD, IDA was established as a separate legal entity with its own balance sheet, membership and borrower-eligibility rules.^d

^a For a more detailed historical account, see *The World Bank: Its First Half Century*, edited by Devesh Kapur, John P. Lewis, and Richard Webb, Brookings Institution Press, 1997

^b Callable capital has recently been rediscovered and received a lot of attention as an underutilised mechanism for adjusting the capital adequacy frameworks of MDBs to increase financial resources and risk tolerance. For example, see Chris Humphrey, Chris McHugh, and Eliot White, [*Making Sense of Hybrid Capital for Multilateral Banks*](#), ODI Emerging Analysis (London: ODI, November 2023)

^c See *The World Bank: Its First Half Century*, edited by Devesh Kapur, John P. Lewis, and Richard Webb, Brookings Institution Press, 1997

^d For the most recent status of these policies, see International Development Association. Management’s Discussion & Analysis and Financial Statements, June 30, 2025. Washington, DC: World Bank, 2025

Finally, IDA was envisioned as a predictable partner to borrowing governments, working in concert with their national planning and public finance processes. IDA’s resources were designed to be deployed through a country-based development model using government systems for implementation (World Bank, 2024a). The regular three-year replenishment model was intended to enhance IDA’s predictability.

Over the decades the scale of IDA has expanded, and its funding sources have diversified. Total resources have grown from the original \$1 billion in IDA 1 (1960) to the nearly \$100 billion envelope in IDA 21 (2025). These resources have come from donor pledges, loan reflows, net income transferred from IBRD and, since IDA 18 (2017), market borrowing (discussed in further detail below). While

overall IDA resources have continued to grow each replenishment cycle, donor contributions² have been essentially flat since IDA 15 (2012) (Landers, 2024).³

Financial support from IDA is meant to be dynamic, shifting in nature and volume as countries develop. By design, as recipient countries' incomes and creditworthiness improve, IDA's policies require that countries follow a pathway out of IDA support. As countries 'graduate' from IDA, this results in changes in the composition of its client countries (Dobronogov et al., 2020). Over the course of its life, 46 countries have graduated from IDA, 11 of which have re-entered IDA eligibility through 'reverse graduation' (International Development Association, n.d.).

IDA's regional focus has also changed over time. For most of its first three decades (from IDA 1 to IDA 9 in 1990), funding went predominantly to large South Asian and South-east Asian economies. Over time, the regional composition of IDA's portfolio shifted, for three reasons. First, allocation policies evolved to limit resources going to any one country based on population size (e.g. India or Pakistan) (see Box 2). Second, many large Asian countries (such as China, the Philippines, South Korea and Thailand) graduated from IDA. Finally, the introduction of dedicated policy windows, such as the Fragility, Conflict and Violence (FCV) envelope (discussed further below), has increased allocations to other regions. The result has been an increased concentration of finances (particularly grant resources) towards Africa. By the end of IDA 20 (2024), almost three-quarters of IDA resources went to African governments (Center for Global Development, 2024).

Box 2 Evolution of IDA country eligibility and country categories

IDA eligibility is based on per capita income and creditworthiness. Initially there was a single threshold for per capita income. However, as resource requirements for low-income countries outgrew IDA's financial envelope over time, a so-called 'operational cutoff' was introduced, lowering the GNI per capita threshold below the 'historical cutoff level'. Countries that meet the criteria of the historical cut-off – the poorest and most in need – are referred to as 'IDA only'. Countries that achieve IBRD creditworthiness but remain below the GNI per capita cut-off are referred to as 'Blend' countries. Countries that achieve GNI per capita above the cut-off (for more than two years) but lack IBRD

² Throughout this note, 'donor contributions' refers to regular grant subscriptions and contributions unless otherwise specified. HIPC compensation contributions (introduced in IDA12), MDRI compensation contributions (introduced in IDA14) and Concessional Partner Loans (introduced in IDA17) are separately calculated tranches within each replenishment and are reported alongside or in addition to the regular contribution figures, not within them (International Development Association, 2024; International Bank for Reconstruction and Development, 2024).

³ In real terms, contributions have declined by about 20% over the last 10 years.

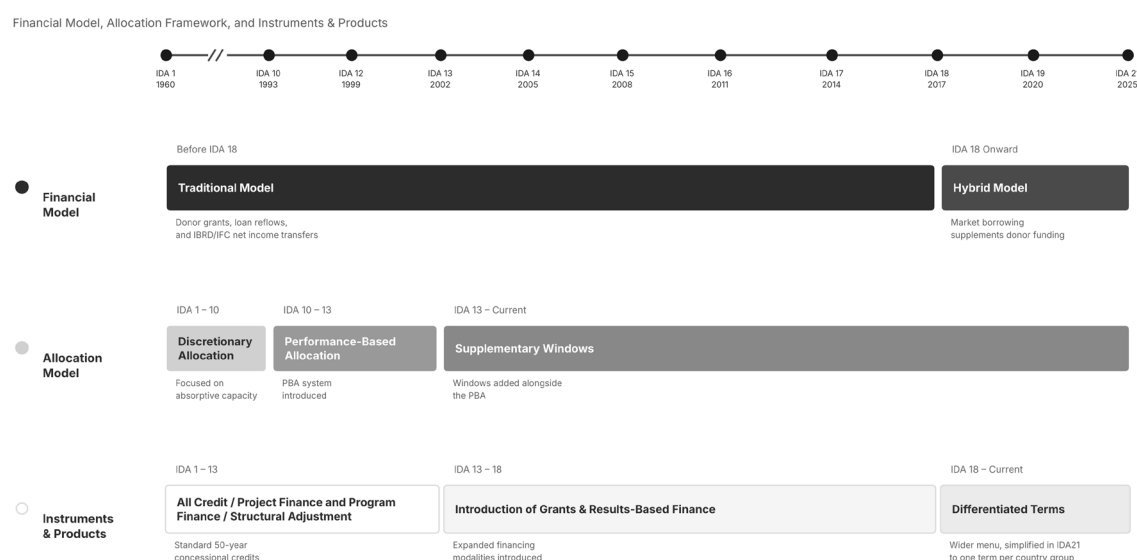
creditworthiness are referred to as ‘Gap’ countries. Countries that exceed both criteria become ‘IBRD-only’ countries.

Graduation from IDA is neither a unidirectional nor a purely technical exercise. Given the potential benefits of access to IDA resources, many political economy factors have influenced the process. For instance, donors have introduced caps on IDA resource shares to compress the ‘blend’ periods for large countries with access to IBRD resources, as was the case for China, India, Indonesia and Pakistan during their transitions. In addition, graduations have often occurred as part of IDA replenishment cycles – as was the case with IDA 15 and IDA 17 – demonstrating a tendency to use graduation as a negotiating lever to manage the financing envelope and align with donor demands for progress in poverty alleviation. IDA graduation has often served as a signal of access-worthiness to other concessional resources. For these and other reasons, many recipient countries resist rapid graduation. A Small States Exception allows a number of small states to remain IDA-eligible even when their GNI per capita exceeds the operational cut-off.

a See Kenny, C. What Does It Mean to Be Low Income? Center for Global Development. Blog. 27 July 2011.

Figure 1 illustrates the key turning points in IDA's financial model, its allocation model and its instruments and modalities, each discussed in the sections that follow.

Figure 1 Key inflection points in IDA's Financial Model, Allocation Model, and Instrument Mix



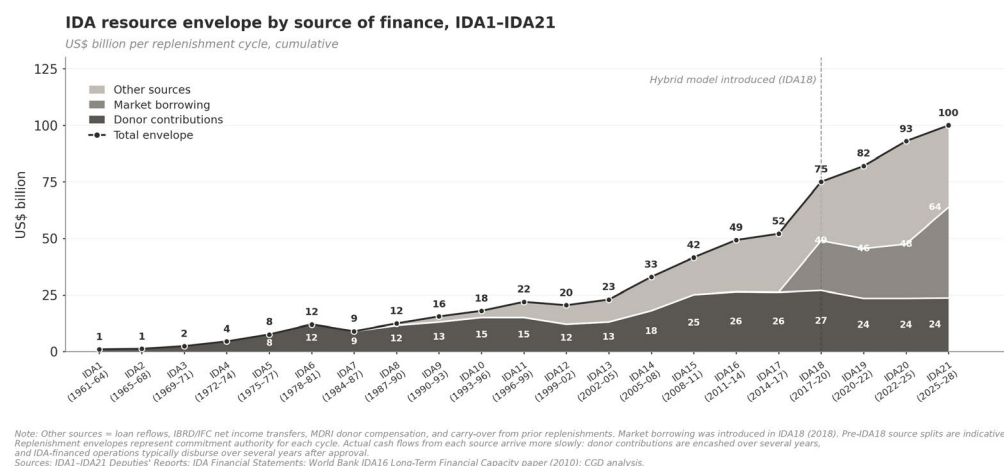
Source: Author's compilation from IDA Deputies' Reports.

3 How IDA raises resources: its financial model

Like its sister institution, the IBRD, IDA has always been an intermediary vehicle in the development finance ecosystem. Over its many decades of operation, IDA has shifted the mechanics of its resource mobilisation model to reflect donor preferences, recipient-country needs and changes in the development ecosystem (Appendix 1 elaborates on the three main phases). These changes have enabled consistent expansion of the IDA financial envelope and of the modalities of support by donor governments. At the same time, evolution in the IDA financial model has also introduced forces and dynamics that impact its risk tolerance and the level of concessionality it provides to recipient governments (discussed in subsequent sections).

IDA utilises four sources of financing: funding from sovereign donors, reflows, market borrowing and transfers from other World Bank Group entities.

Figure 2 IDA resource envelope by source of finance, IDA1-IDA21



3.1 Funding from sovereign donors

For most of IDA's existence, its financial model relied primarily on donor grant contributions. IDA was designed from the outset to provide concessional financing, requiring recurring infusions of additional capital to accommodate below-market interest rate loans. To achieve these resource infusions, IDA relies on (usually) triennial replenishment cycles. These consist of 'Deputies' negotiations', where senior officials from donor governments (designated as their country's Deputy) and representatives from borrower countries convene over a 12–18-month period to agree on policy priorities, results frameworks, the overall financing envelope, relative donor shares, policy conditions and any changes to financial/allocation terms that need to be introduced. Through these negotiations, individual donors make formal contribution pledges for the cycle, which become legally binding through Instruments of Commitment (IOCs). Only once donor commitments reach a threshold can IDA make new lending commitments under the replenishment cycle. Donor commitments are drawn down over time through an encashment schedule. A Mid-Term Review (MTR) occurs roughly halfway through the cycle as a formal accountability checkpoint to assess progress and flag any issues that might require adjustment (World Bank, n.d.e).

Donor pledges have grown over time – from \$1 billion in IDA 1 (nearly 100% of the financing envelope due to lack of credit reflows during the period) to \$23.7 billion in IDA 21 (around 24% of the envelope). Donor pledges have remained essentially at the same level, in nominal terms, since IDA 15 (between \$20–25 billion) (Landers, 2024).

IDA's donor base has evolved structurally in ways that change both the political economy of replenishments and the influence of individual donors. Original subscriptions were concentrated among 17 Western industrialised economies and Japan, with the United States accounting for 32% of subscriptions (International Development Association, 1960, Schedule A). Over the next six decades, the donor pool expanded to 59 countries. This growth reflects IDA's graduate-to-donor pipeline (for example, South Korea, Chile, Turkey, India and China), post oil-shock expansion (Saudi Arabia and Kuwait became contributors from the late 1970s, with Saudi Arabia now among IDA's larger non-G7 donors), and the expansion of European participation (the Baltics and Eastern Europe began contributing after the dissolution of the Soviet Union) (Center for Global Development, 2024). Incentives for new donors to begin contributing were reinforced by the 2010 IBRD Voice Reform, which for the first time embedded IDA contributions in the IBRD shareholding formula and converted IDA pledges into a direct route to greater voting power at the Bank's main lending arm (Development Committee, 2010).

In the context of IDA replenishments, donors also contribute to the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) Initiative. Since the HIPC Initiative was launched in 1996 (enhanced in 1999), donors have compensated IDA for the loss of credit reflows caused by forgiven principal and interest payments, formalised as a separate replenishment tranche from IDA12 (FY2003–05) onwards (World Bank, 2009). In 2005, the HIPC Initiative was supplemented by the MDRI, which provided 100% relief on eligible debts owed to IDA, resulting in \$37.4 billion in IDA debt forgiven across more than 30 HIPC-completion-point countries. Donor compensation for the MDRI cost has been calculated and tracked as a separate tranche from the IDA14 replenishment onwards, with commitments running through 2054 to match the maturity of the original credits forgiven (World Bank, 2009).

Donors also make non-grant contributions through Concessional Partner Loans (CPLs). Starting in IDA 17 (2014), CPLs provide below-market-rate loans from donor governments. The gap between market and concessional rates is converted into a grant element of the CPL, which is included in the donor contribution for the cycle. This form of contribution has been used by a relatively small group of donors – including France, Japan and the United Kingdom, as well as Belgium, Canada, China and Finland – often for domestic institutional and budgetary reasons. To protect against CPLs crowding out grant contributions from donors, a Minimum Grant Contribution Requirement stipulates that 80% of donor contributions be in the form of basic grants (World Bank, 2024b). While not widely utilised by IDA donors⁴, the introduction of CPLs presaged deeper changes to the IDA financial model. First, it set a precedent for counting non-grant contributions, with voting rights proportional to the grant element. Second, it expanded IDA's balance sheet to include debt instruments.

Finally, donors can provide hybrid capital and portfolio guarantees. As of IDA 21, donors are allowed to make contributions in the form of hybrid capital, a perpetual subordinated loan to IDA that serves as a risk-absorbing instrument in the case of financial stress (similar to Additional Tier 1 – AT1 – capital in commercial banking). Hybrid capital is treated as equity by rating agencies, unlike CPLs, which are treated as senior debt (World Bank, 2024b). To date, no donor has contributed hybrid capital to IDA, likely due to unresolved accounting treatment of these instruments and limited donor benefits in providing them (International Development Association, 2025a). In addition, IDA 21 created avenues for donors to provide portfolio guarantees. These bilateral guarantees provide

⁴ The lack of uptake of CPLs by donor governments is likely due to institutional and budgetary reasons. Making concessional loans to multilateral organisations requires specific statutory authorities as well as aid bureaucracies with the capability and comfort to manage those instruments. Moreover, IDA governance and DAC accounting only credit donor governments for the grant element of their contribution, not the face value of the loan.

no new capital, but commit donors to make payments to IDA in the case of borrower non-payment, which reduces the capital IDA must hold against that risk. For instance, France made a \$325 million guarantee, providing it with \$78 million in voting rights and allowing IDA to expand its lending capacity by around \$300 million, all without any capital changing hands (International Development Association, 2025a).

Hence, over time, IDA has expanded the instruments through which donors can make financial contributions beyond pure grants and has allocated governance recognition (in the form of voting rights) based on the grant-equivalent value of those contributions.

3.2 Reflows/repayments

Reflows and repayments played a key role in the growth of IDA resources from around IDA10 onwards and constitute approximately one-third of the financing in IDA21 (International Development Association, 2025a). Since lending is a core source of resource provision for IDA, credit reflows – where recipient governments repay their debt commitments, albeit at concessionary rates – recycle resources into the next envelope. Reflows were a major source of IDA commitment authority for decades before market borrowing began (described in detail below), providing roughly a quarter of IDA's total resources by the early 2000s and growing further as the portfolio matured. Their cumulative balance constitutes the bulk of IDA's equity base – the foundation against which IDA has pursued market borrowing (Bretton Woods Project, 2007).

The reflow base grew slowly through IDA's first two decades because the original credits carried a 10-year grace period, growing meaningfully only as the IDA1 through IDA5 portfolio entered full amortization in the 1980s and 1990s (International Development Association, 2010). The 1996 HIPC Initiative and 2005 MDRI partially interrupted this trajectory by forgiving approximately \$37.4 billion in outstanding IDA credits. In more recent cycles, shorter maturities (from 50 years down to 38) are leading to an acceleration of reflows.

3.3 Market borrowing

Market borrowing (introduced in the IDA 18 cycle) accounts for about one-third of financing in IDA21. IDA's financial model has undergone a structural shift with the introduction of market borrowing against its equity base, comprising donor contributions, retained earnings and reflows. IDA managers and donors increasingly felt that IDA's increasing equity base – currently around \$176 billion – was being underutilised. Accordingly, it was agreed to use the equity base in a model similar to IBRD's market borrowing.

IDA sought and was issued a AAA public credit rating in 2016 (World Bank, 2016). This rating was enabled by IDA's preferred creditor status on the reflows, the implicit and explicit support of donor

governments and accumulated equity. This hybrid financial model enabled IDA to increase its commitment authority without a proportional increase in donor contributions, thereby greatly expanding its capacity. IDA can now commit around \$3–4 for every \$1 in donor contributions.

3.4 Transfers from other World Bank Group entities

Transfers made periodically from IBRD and IFC from their own balance sheets to IDA, via the allocation of their net income, are an additional source (2.7%) of funding in IDA21. The amounts transferred have shifted over time. They peaked in IDA15 at \$3.9 billion, or 9.3% of funding, and have since declined steadily. In 2018, as part of a World Bank Group Capital Package, IBRD shifted from a discretionary to a formula-based process, leading to lower transfer levels. At the same time, IFC suspended net income transfers while agreeing to deploy more of its capital in IDA eligible markets (World Bank Group, 2018).

3.5 IDA's Capital adequacy framework

The introduction of market borrowing and the need to maintain its AAA rating have led to changes to IDA's Capital Adequacy Framework. Even as market borrowing increases IDA's financial capacity, the need to maintain creditor confidence through regular repayment of interest and principal introduces a set of risk-management considerations that, at times, can run counter to its purpose as a vehicle for concessional financing. Maintaining financial and risk policies consistent with the AAA rating can influence not only financial management policies but also key financing levers, such as the level of concessionality for recipient countries and the share of support that could take the form of grants. Relying on market borrowing required adopting market-based financial realities that exist in tension with IDA's foundational purpose as a below-market source of finance.

IDA reports its Deployable Strategic Capital (DSC), which is calculated as the Total Resources Available (TRA) (equity and loan loss reserve) less Total Resources Required (TRR – the minimum capital required to cover expected and unexpected losses associated with existing operations and assets⁵) and a Conservation Buffer of 10% of TRA. Activities such as increasing lending to countries with higher credit risks, the concessionality of loans or the grant share of assistance will reduce DSC. IDA's current Board Policy requires the organisation to maintain DSC at or above 0% (World Bank, 2024b). Instruments such as portfolio guarantees, which substitute IDA's credit exposure with that of highly rated donors, can reduce the capital IDA must set aside for non-payment risk and so increase DSC without additional equity, but they have had limited use to date

⁵ For instance, interest rate risk, credit risk, operational risk and capital required for grants and other exposures.

(World Bank, 2024b). Finally, as donor contributions continue to represent a smaller share of IDA replenishments, DSC will continue to face downward pressure, reducing IDA's ability to increase lending to higher credit risk countries, increase concessionality or increase grant shares (which also reduce DSC).

4 How IDA allocates resources: channels and mechanisms

The original concept for IDA as a window of concessional finance was simple: aggregate donor commitments and provide resources to borrowers in the form of a single, 50-year concessional credit. Over time, IDA has introduced additional logic and mechanisms into how it channels its resources, developing additional procedures for deciding how countries receive resources and on what financing terms.

To explain these procedures, this note makes a distinction between (a) allocation channels – the mechanisms that determine which countries or institutions receive financial resources; and (b) financial instruments – the forms and terms of support to recipient countries.

4.1 The country-allocable envelope – performance-based allocation (PBA) and targeted envelopes

Country allocations represent 67.2% of the IDA 21 financing envelope – the largest share of IDA resources. Country allocations utilise a formula that incorporates performance and needs measures (International Development Association, 2025a). They comprise the Performance-Based Allocation (PBA) (\$58.1 billion, or 58.1% of the envelope, including the \$5.8 billion SDFP Incentive), the Fragility, Conflict and Violence (FCV) Envelope (\$8.8 billion) and the new Grant Facility for Project Preparation (GFPP) Envelope (\$0.3 billion). The PBA utilises a formula that incorporates performance and needs measures (International Development Association, 2025a, Table 5.1 and para. 66). Over IDA's existence, country allocations have been made using increasingly systematic approaches (Box 3).

Box 3 The evolution of IDA's country allocation mechanisms

There were no formal allocation mechanisms in IDA's early years. Absorptive capacity played an outsized role in early allocation decisions – countries received as much as they could credibly 'program', judged by staff-level consideration of the quality of projects in preparation.^a Consequently, India and Pakistan received an outsized share of IDA credits in the first few cycles.^b

During the 1960s and 1970s at the World Bank, the institution shifted towards country programming, formalising allocation rules.^c As part of IDA 5 (1977), two changes were introduced that influenced allocation. First, population size was articulated as a key allocation criterion, alongside GNI per capita. Second, the World Bank introduced evaluations of country performance that were the forerunners of today's Country Policy and Institutional Assessments (CPIA).^d While the CPIAs were not a formal part of allocation mechanisms, Bank staff increasingly assessed recipient governments' policy environment as part of Country Assistance Strategies (CAS) and considered how these environments should influence aid decisions.

Another key turning point occurred during IDA 10 (1992), when the emerging informal and discretionary allocation system was converted into a formal, documented one. CPIA scores were explicitly incorporated into a published formula, and the 'performance-based allocation' (PBA) became an explicit part of IDA's financial planning and replenishment process. During IDA 12 (1998), the CPIA was altered into 20 equally weighted criteria focused on economic management, structural policies, politics for social inclusion and public sector management/institutions.^e Since IDA 13 (2002), **a three-component structural formula has emerged** (elaborated in the main text).

a See Devesh Kapur, John P. Lewis and Richard Webb (eds) *The World Bank: Its First Half Century*. Brookings Institution Press, 1997.

b This dynamic led to an often-repeated joke at the time that IDA stood for the Indian Development Association.

c See Devesh Kapur, John P. Lewis and Richard Webb (eds) *The World Bank: Its First Half Century*. Brookings Institution Press, 1997.

d Ibid.

e See Eccles, Stephen *Review of the Performance-Based Allocation System, IDA10–12*. OED IDA Review Background Paper. Washington DC: World Bank Operations Evaluation Department, 2001.

Over the last 25 years, **a three-component structural formula has been used, focusing on performance (the country performance rating (CPR) – consisting of the CPIA and portfolio performance rating (World Bank, n.d.c)) and need (country population and GNI per capita).** Country Policy and Institutional Assessments (CPIA) are conducted annually for all its borrowing countries to assess the status of all key factors that foster pro-poor growth and poverty alleviation. There are 16 criteria grouped into four clusters: economic management; structural policies; policies for social inclusion and equity; and public sector management and institutions. The Portfolio Performance Rating (PPR) is a calculation of the percentage of ongoing IDA projects assessed as problematic. The relative importance of the CPR reflected the growing consensus at the time that aid was effective in promoting economic growth in

developing countries with sound fiscal, monetary and trade policies, and relatively ineffective in poor policy environments (Burnside and Dollar, 2000).⁶

In the most recent IDA 21, the PBA calculation was (International Development Association, 2025a, Annex 4):

$$IDAPBA = [CPR^3 * Population^1] / GNIpercapita^{125},$$

The allocation calculated using the formula is subject to several adjustments, penalties and inducements to reflect current policy or structural priorities (Box 4).

Box 4 Beyond the PBA formula

Four key adjustments are made to country allocations determined using the PBA formula:

- 1 Minimum/base IDA allocation – All IDA eligible countries are entitled to a baseline level of resources in the PBA of SDR 15 million per year in IDA 21 (about \$20 million). This baseline is most often relevant for small island developing states.
- 2 Country cap – No single recipient government can claim a share higher than the country cap, defined as 7% of the total country allocable envelope in the IDA 21 replenishment cycle. The cap was introduced to protect against performance-related criteria that could prevent poor, lower-performing countries from accessing IDA resources. This cap is most often binding for more populous ‘blend’ countries (e.g. India, Pakistan and Bangladesh).
- 3 Grant ‘haircut’ – IDA’s hybrid model sits in tension with the provision of grant resources. Grants are not repaid and thus must be funded through donor grant contributions rather than debt instruments such as market borrowing. When donor grant contributions are used for this purpose, they cannot also contribute to IDA’s equity base against which it borrows. Accordingly, every dollar provided to recipients as grants reduces IDA’s borrowing capacity and its leverage ratio. Accordingly, IDA 21 reintroduced a 10% volume reduction, applied directly to the PBA, for all grant-eligible countries before they receive their allocation. Small States, countries eligible for RECA allocations and countries subject to the annual grant cap are exempt (International Development Association, 2025a, para. 69). This 10% is redistributed rateably to all IDA countries through their PBAs. The haircut is a choice for some borrowers. A constrained subset of grant-eligible countries (specifically, eligible red-light

⁶ The most influential of the literature at the time.

recipients that are at high debt-distress risk but not already in debt distress) may elect 60-year concessional credits in lieu of grants and thereby retain their full PBA volume.^a

- 4 Sustainable Development Finance Policy (SDFP) incentive – Debt sustainability is becoming increasingly salient across IDA countries as their debt profiles have worsened over recent years. The SDFP was introduced as a behavioural mechanism for countries to address debt management and fiscal transparency problems that pose this risk. The Policy has a Debt Sustainability Enhancement Program that supports country-specific, time-bound and negotiated reforms (Performance and Policy Actions – PPAs). In IDA 21, the SDFP operates as an incentive, with countries that implement their PPAs receiving an additional 10% on top of their baseline PBA.^b In the IDA21 envelope, the SDFP Incentive (\$5.8 billion) is counted within the PBA total but is treated as a distinct component of country allocations (International Development Association, 2025a, Table 5.1, para. 66).

^a See International Development Association ‘Additions to Resources: Twenty-First Replenishment – Ending Poverty on a Livable Planet: Delivering Impact with Urgency and Ambition’. Report from the IDA Deputies. Washington DC: World Bank, 20 February 2025 (modified 17 March 2025).

^b See Annex 5 International Development Association ‘Additions to Resources: Twenty-First Replenishment – Ending Poverty on a Livable Planet: Delivering Impact with Urgency and Ambition’. Report from the IDA Deputies. Washington DC: World Bank, 20 February 2025 (modified 17 March 2025).

Alongside the PBA and its SDFP Incentive, two further envelopes make up the country-allocable envelope: the FCV Envelope and the Grant Facility for Project Preparation (GFPP) Envelope.

- The FCV Envelope, \$8.8 billion (9%) of IDA 21, was introduced in IDA19 (2020) to provide resources, in addition to the PBA, for countries facing specific risks of fragility, conflict and violence. Rather than compensating for low CPIA scores, it complements the PBA by rewarding a different kind of performance – government commitment to addressing the drivers of FCV. It does so through three allocations: the Prevention and Resilience Allocation (PRA), for countries at risk of conflict onset or escalation; the Remaining Engaged during Conflict Allocation (RECA), which maintains a baseline for countries in high-intensity conflict with limited government capacity; and the Turn-Around Allocation (TAA), for countries emerging from conflict or crisis with a window for reform (International Development Association, 2025a, para. 73 and Annex 6).
- IDA borrowing countries have often been reluctant to borrow for technical activities required to prepare well-structured projects for IDA funding – including feasibility studies, engineering designs, environmental and social assessments, institutional analyses,

procurement preparation and the establishment of project management units. IDA 21 introduced a new GFPP Envelope to provide dedicated, non-reimbursable (grant) resources specifically for project preparation activities, available across all sectors and instrument types. While these funds support projects, they are allocated regionally to each of the World Bank's operating Regions, which then select suitable projects based on a variety of priorities (International Development Association, 2025a, Annex 7).

The PBA, including the SDFP Incentive, provides predictable, formula-driven allocations that a country can plan against in its budgeting processes at the beginning of the year, and is intended to be embedded in recipient governments' public financial planning. The FCV Envelope and GFPP Envelope are also part of country allocations, but access depends on meeting eligibility criteria (FCV Envelope) or on project selection by the Bank's Regions (GFPP).

Box 5 The FCV Envelope – channelling resources to fragile and conflict-affected states

The FCV Envelope is IDA's principal mechanism for directing additional resources to countries affected by fragility, conflict and violence beyond what the standard PBA formula generates. The instrument was introduced in IDA 19 (2020), consolidating earlier targeted mechanisms into a single structured framework.^a Eligibility for the FCV Envelope is not determined by the Bank's annual list of Fragile and Conflict-affected Situations (FCS). Of the roughly 33 IDA countries on the FCS list, only around 10 receive FCV Envelope allocations, and two recipients are not on the FCS list at all. Eligibility is instead assessed country by country against a mix of quantitative criteria (such as thresholds for conflict-related deaths or homicides) and qualitative criteria, including evidence of government commitment to address the drivers of fragility, conflict and violence, a portfolio recalibrated towards those drivers, and progress against agreed milestones. Eligibility notes are discussed by the Board and reviewed annually (International Development Association, 2025a, Annex 6). In this sense the FCV Envelope complements the PBA by measuring a different kind of performance: government commitment to tackling FCV drivers. Even so, most IDA financing to FCS still flows through the PBA; FCS receive more than half (51%) of all country allocations (International Development Association, 2025a, para. 72).

In stable settings, IDA financing flows directly to government counterparts via standard project and policy lending modalities. Where direct government engagement is constrained, IDA delivers through alternative implementation channels, including UN agencies (such as UNICEF, UNDP, WFP, UNHCR and OCHA), international NGOs (such as the ICRC, IRC, NRC and Save the Children), and

Bank-administered multi-donor trust funds.^b IDA 21 makes this channel explicit. The Bank may convert RECA-eligible country allocations from credits to grants where required to enable direct grant financing to UN agencies or international NGOs in contexts where the WBG cannot engage through the government (International Development Association, 2025a, Annex 6, para. 7). The mechanism has been operationalised in Afghanistan, Yemen and the West Bank and Gaza.

^a World Bank (2020) IDA19 special theme: Fragility, conflict and violence – Prevention and recovery focus area note.

^b Independent Evaluation Group (2025) An evaluation of the World Bank Group strategy for fragility, conflict, and violence, 2020–25. World Bank.

4.2 IDA windows – dedicated mechanisms and new priorities

Beyond PBA allocations, there is a supplemental architecture through which countries can access additional resources beyond their country allocations. Windows account for \$32.8 billion (32.8%) of the IDA21 envelope (see Table 1), broadly the same share as in IDA20, and are additional to, rather than carved out of, the PBA. In IDA21, PBA contributions are no longer required for window financing, freeing at least \$4.2 billion of PBA resources for unearmarked use (International Development Association, 2025a, para. 67). Since IDA15, these windows have played an increasingly important role in the allocation dynamics of IDA.

Windows are designed to incentivise behaviours and investments that might otherwise go unfunded in the global aid architecture (such as regional and cross-border public goods, support for refugee-hosting communities and private investment in difficult markets) or to offer additional volume, over and above the PBA, for particular situations (such as severe crises or transformational investments in creditworthy countries). They emerged alongside similar trends in the broader development ecosystem, as donors sought dedicated resources for new policy priorities, and they follow an allocation logic that differs from the PBA:

- Supplemental, not automatic – windows can increase, but not replace, PBA funds.
- Thematically dedicated – windows target specific purposes, with limited fungibility.
- Accessed through application – recipient governments must demonstrate eligibility and submit specific project proposals.

Table 1 IDA21 resource allocation architecture: country allocations and windows

Mechanism	Introduced	IDA21 envelope	Entitlement-based	Application-required	Thematically restricted
Country allocations \$67.2 billion (67.2% of total IDA21 envelope)					
Performance-based allocation (PBA) inc. SDFP Incentive (\$5.8B conditional top-up)	IDA10 (FY1994)	\$58.1B 58.1% of total	Yes Formula-driven; automatically allocated each FY based on CPR, population and GNI per capita	No Allocation is automatic; SDFP Incentive is conditional on PPA performance, not application-based	No Fully unearmarked; countries determine sectoral use
Fragility, conflict and violence (FCV) envelope PRA TAA RECA	IDA19 (FY2020)	\$8.8B 8.8% of total	Conditional Countries must meet quantitative and qualitative eligibility criteria (not FCS-list status), including demonstrated commitment to address FCV drivers, and recalibrate their IDA portfolio towards FCV priorities; subject to annual review.	Yes Eligibility confirmed through annual review process; portfolio recalibration required as condition of access	Yes Countries meeting FCV Envelope criteria; portfolio must address drivers of fragility, conflict or violence
Grant facility for project preparation (GFPP)	IDA21 (FY2026)	\$0.3B 0.3% of total	No Allocated regionally; WB Regional units select projects	Yes Project-level selection by WB Regional units against preparation readiness criteria	Yes Project preparation activities only (feasibility, design, environmental/social assessments, PMU establishment)
Windows \$32.8 billion (32.8% of total IDA21 envelope)					

Global and Regional Opportunities Window (GROW) inc. WHR sub-window (\$2.4B) Replaces Regional Window (IDA13) + WHR (IDA18)	IDA21 (FY2026)	\$15.9B 15.9% of total	No Supplemental ; no formula-based entitlement	Yes Operations vetted against eligibility criteria; cross-border externality or climate adaptation rationale required for most financing	Yes Regional integration, global challenges with cross-border externalities, climate adaptation, refugee hosting only
Scale-Up Window (SUW)	IDA18 (FY2018)	\$10.0B 10.0% of total	No Supplemental to PBA; no entitlement formula	Yes Countries must demonstrate transformational impact and creditworthiness; Blend country access subject to case-by-case Management review	Partial Broad eligibility ('transformational, high-impact investments'); GCP alignment encouraged but not mandatory. Regular SUW (\$7.0B) on non-concessional terms equivalent to IBRD Group A pricing; SUW Shorter Maturity Loans (\$3.0B) on concessional terms.
Crisis Response Window (CRW)	IDA15 (FY2009)	\$3.7B 3.7% of total	No Supplemental ; no entitlement	Yes Crisis must be declared; Board approval required; last-resort instrument	Yes Crisis response only –disasters, public health emergencies, economic shocks
Private Sector Window (PSW) BFF RMF MGF LCF	IDA18 (FY2018)	\$3.2B 3.2% of total	No Deal-by-deal basis via IFC/MIGA transaction pipeline; not offered to governments	Yes Accessed through IFC/MIGA transaction pipeline; approved by IFC/MIGA Boards (IDA Board approves envelope only under IDA21 governance)	Yes Private sector development in IDA eligible and FCS markets only; focus on access to finance, energy access, food security, digitalisation, local value chains

The largest of these windows is the **Global and Regional Opportunities Window (GROW)**, introduced in IDA 21, which replaces the Regional Window (from IDA 13) and integrates the Window for Host Communities and Refugees (from IDA 18). Qualifying projects are meant to support regional integration, global challenges with cross-border externalities (e.g. energy access and pandemic preparedness), climate adaptation and support for refugees (International Development Association, 2025a, Annex 8).

The **next largest pocket of resources, the Scale-Up Window (SUW), was introduced in IDA 18 (2018)**. The SUW is a volume mechanism. Most of it (\$7.0 billion) provides non-concessional resources, on terms equivalent to IBRD Group A pricing, where a creditworthy IDA country might have project opportunities with returns that justify the higher borrowing costs. A further \$3.0 billion is offered as concessional Shorter Maturity Loans (SMLs) (International Development Association, 2025a, Table 5.1 and para. 102). In addition, qualified regional organisations can access some of these resources (International Development Association, 2025a, Annex 10).

The original window, the **Crisis Response Window (CRW)**, was introduced in IDA 15 (2009) as a resource for countries hit by severe hazard-related disasters, health emergencies and economic shocks. Eligibility and access mechanisms have been adjusted in subsequent replenishments, including during the Ebola and COVID-19 responses. The CRW is designed as a last-resort vehicle within the international architecture for severe crises. Country allocations remain the primary source of crisis financing. The CRW supplements them once other avenues (including the PBA and its crisis flexibilities) have been exhausted and needs for response and resilience building remain. Access requires that alternative sources of funding are insufficient and that IDA is participating in a concerted international response, and is subject to Board approval. Through its Early Response Financing, the CRW can also act earlier on slower-onset crises such as disease outbreaks and food insecurity (International Development Association, 2025a, para. 92 and Annex 9).

The smallest of the windows, and the most distinctive in its structure, is the Private Sector Window (PSW), introduced in IDA 18 (2018). The PSW does not provide funds to recipient governments, but rather supports the balance sheets of two private sector-focused sister organisations, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The PSW was intended to increase investment by IFC and MIGA in the poorest and most fragile IDA countries. It does so through four facilities:

- The Blended Finance Facility (BFF) blends IDA concessional capital with IFC equity to reduce the cost of finance for private sector projects.
- The Risk Mitigation Facility (RMF) provides guarantees with sovereign indemnity to crowd private capital into infrastructure and public–private partnerships.
- The MIGA Guarantee Facility (MGF) expands MIGA guarantee coverage by providing first-loss and risk participation using IDA concessional capital.
- The Local Currency Facility (LCF) facilitates IFC’s local-currency investments where market solutions do not exist (International Development Association, 2025a, Annex 11).

PSW funds are managed by IFC and MIGA, deployed on a deal-by-deal basis consistent with PSW policy. In IDA 21, IFC agreed to contribute \$500 million from its own balance sheet in a Concessional Capital Window (CCW) to supplement PSW funds (International Development Association, 2025a, Annex 11).

5 How IDA provides resources – financing terms for borrowing countries

For much of IDA's earlier years – from IDA 1 to IDA 12 – the organisation offered a single financial product to borrowing countries. All eligible countries were offered IDA loans (referred to as credits), originally with 50-year maturity (later 35- or 40-year terms were introduced), 10-year grace periods and zero per cent interest rates (though various service and commitment charges were levied on borrowers) (World Bank, 1969).

Today, the picture is much more differentiated. IDA provides a menu of financial products to eligible countries, with terms that are determined by a borrower's country group (IDA-only, Gap or Blend), whether it is a Small State and its risk of debt distress.

5.1 The grant framework

Grants were introduced alongside credits as IDA financial products in IDA 13 (2002). This major structural shift was the result of the confluence of a variety of forces: debt sustainability concerns, new development challenges (such as the HIV/AIDS crisis) affecting social spending, and a broader shift towards predominantly grant financing for development assistance for the poorest countries in bilateral assistance channels (Sanford, 2002). Eligibility for grant support was originally determined across multiple criteria, including per capita income, HIPC status, post-conflict status and debt service burden.

The level of grants is material for IDA's operations and financial sustainability. The total grant share has doubled from 13% in IDA 17 (2014) to 26% in IDA 20 (2024), and measures have been introduced to manage the overall level of grants (International Development Association, 2025a, paras. 69, 98).

The grant framework in IDA 21 is based on external debt sustainability (see Box 5). The cap is \$650 million per year. A country that qualifies for grants but exceeds the cap sees the surplus converted into IDA credits (International Development Association, 2025a, para. 70, Annex 4 para. 6a). Moreover, IDA 21 introduced a long-tenor credit as an opt-in alternative to grants. The 60-year credit

(20-year grace period, zero interest and no service charge) offers near-grant concessionality, and eligible red-light recipients who select it retain their full PBA volume and avoid the 10% grant volume discount (International Development Association, 2025a, paras. 98–100). The borrower-level trade-off is therefore between two near-equivalent flows of concessionality on different terms: grants with no repayment obligation but a 10% allocation cut, or 60-year credits with full allocation but a multi-decade liability.

Box 6 Determining country eligibility for grants

The assessment that drives grant eligibility is produced through the Low-Income Country Debt Sustainability Framework (LIC-DSF), a joint IMF–World Bank tool introduced in 2005 and most recently comprehensively updated in 2017. The process classifies countries by their assessed debt-carrying capacity, estimates threshold levels for selected debt burden indicators, evaluates baseline projections and stress-test scenarios relative to these thresholds, and then combines indicative rules and staff judgment to assign risk ratings for debt distress. Given the role of institutional capacity (and related CPIA scores) in this analysis, the assessment is not purely technical or quantitative. The result is a mapping of each IDA only country into a debt distress risk level.^a

- Red – countries in debt distress or at high risk of distress. These countries receive their allocation as grants (100% concessionality), subject to the 10% grant volume discount. Eligible countries at high risk of, but not in, debt distress may instead opt for 60-year credits and keep their full allocation.
- Yellow – countries at moderate risk of distress. These countries receive IDA-only yellow-light credits: 40-year maturity, 11-year grace period and no interest or service charge (69% concessionality).
- Green – countries at low risk of distress. These countries receive IDA-only green-light credits: 31-year maturity, 6-year grace period and a 0.75% SDR service charge (49% concessionality).

Since IDA20, yellow-light countries other than Small States no longer receive a combination of grants and credits. The 50/50 split now applies only to yellow-light Small States (see Table 2).

Gap and blend countries are evaluated under a different debt sustainability framework (the MAC-SRDSF for market access countries) and receive credits regardless of debt distress status, though on terms that vary with their debt distress profile.

As discussed in Box 4, IDA21 reintroduced a 10% volume discount on the PBA of grant recipients, applied before countries receive their allocation. Small States, RECA-eligible countries and countries

subject to the annual grant cap are exempt. Eligible red-light countries at high (but not actual) risk of debt distress can avoid the discount by opting for 60-year credits.

a See World Bank Independent Evaluation Group The World Bank's Role in and Use of the Low-Income Country Debt Sustainability Framework: An Independent Evaluation. Washington DC: World Bank, 26 April 2023.

5.2 Credit term differentiation and diversifying instrument mix

Beyond debt sustainability, **IDA considers other country characteristics in determining financing terms.** Determinations of per capita income growth and IBRD creditworthiness, and corresponding designations of 'gap' and 'blend', have previously been discussed. These country group designations determine financing terms, with gap/blend countries receiving less concessional, shorter-term credits.

Moreover, **small states have long received IDA's most concessional treatment, in recognition that per capita income is a poor proxy for vulnerability in economies with small populations, narrow productive bases, structural reliance on remittances and elevated per-unit costs of service delivery** (Dimond, 2023). IDA's 'Small Economy Terms' are its most concessional credit terms. Under the Small States Exception, several small states (such as Guyana and Belize) remain eligible for IDA even though their incomes exceed the operational cut-off. IDA-only red-light Small States receive full grants and are exempt from the grant volume discount, along with a number of other exemptions; yellow-light Small States receive 50% grants and 50% credits on Small Economy Terms (80% concessional); and green-light IDA-only Small States, as well as all Gap and Blend Small States, borrow on Small Economy Terms (61% concessional).

These arrangements pre-date recent advocacy on climate vulnerability – including the Bridgetown Initiative, the Antigua and Barbuda Agenda for SIDS (2024–2034) and the UN General Assembly's 2024 adoption of the Multidimensional Vulnerability Index (MVI). In IDA21, Small States retained their Small Economy Terms and the IDA20 grant allocation framework, making their financing slightly more concessional than in IDA20 (International Development Association, 2025a, paras. 68 and 99).

The result is a differentiated landscape of grant eligibility and credit terms offered by IDA (Table 2). Since IDA17, each replenishment has modified IDA's financing term architecture – introducing shorter-maturity loan components in IDA20, progressively concentrating grant eligibility on high-distress borrowers, and reintroducing the grant volume discount in IDA21 (International Development Association, 2025a, paras. 68–70, 98–101; World Bank, 2022b).

Table 2 IDA21 financing terms by country type and debt distress status⁷

Lending group	Debt distress risk	Instrument	Maturity	Grace period	Rate / charge	Concessionality
IDA-only countries (non-Small States)						
IDA-only	High risk or in debt distress (red)	Grants (10% volume discount; exemptions apply)	N/A	N/A	None	100%
IDA-only	High risk, not in debt distress (red, eligible countries)	60-year credit (optional alternative to grants; no volume discount)	60 years	20 years	0% interest; no service charge	—
IDA-only	Moderate risk (yellow)	IDA-only yellow-light credit	40 years	11 years	0% interest; no service charge	69%
IDA-only	Low risk (green)	IDA-only green-light credit	31 years	6 years	0.75% SDR service charge	49%
Small States						
IDA-only Small States	High risk or in debt distress (red)	Grants (no volume discount)	N/A	N/A	None	100%
IDA-only Small States	Moderate risk (yellow)	50% grants + 50% credit on Small Economy Terms	40 years (credit portion)	10 years (credit portion)	0.75% SDR service charge (credit portion)	80%
IDA-only Small States	Low risk (green)	Credit on Small Economy Terms	40 years	10 years	0.75% SDR service charge	61%
Gap and Blend Small States	All	Credit on Small Economy Terms	40 years	10 years	0.75% SDR service charge	61%
Gap and Blend countries (non-Small States)						

⁷ Debt distress risk classifications are derived from the joint IMF–World Bank Low-Income Country Debt Sustainability Framework (LIC-DSF), updated annually. The 10% volume discount on grants (grant haircut) applies to all red-light IDA only non-Small State grant recipients, excluding RECA-eligible countries and countries subject to the annual \$650 million grant cap. The 60-year credit option is available only to eligible IDA only red-light countries at high risk of debt distress (not in debt distress); countries actually in debt distress and certain conflict-affected countries are not offered this choice. Gap and Blend countries choosing fixed-rate credits rather than the default floating-rate terms receive a 15% discount on their PBA allocation volume. Small States retain IDA20 grant allocation framework terms; the 10% volume discount does not apply to Small States. These terms apply to PBA and FCV Envelope financing; CRW, GROW and other window-specific terms may vary (see IDA21 Deputies' Report, relevant annexes).

Gap/Blend	High risk or in debt distress (red)	Blend-terms fixed-rate credit	25 years	5 years	1.5% fixed SDR rate (service charge and interest combined)	35%
Gap/Blend	Moderate or low risk (yellow/green)	Blend-terms floating-rate credit (default)	25 years	5 years	IBRD Group A pricing minus 2.5% (cap 5%, floor 0.75%)	35%
Gap/Blend	Moderate or low risk (yellow/green)	Blend-terms fixed-rate credit (elective; 15% PBA volume discount)	25 years	5 years	1.5% fixed SDR rate	35%

Sources: International Development Association (2025a), paras. 69–70 and 98–102, Figure 5.1 and footnotes 50–51 and 54; World Bank IDA21 terms presentation. Terms apply to PBA and FCV Envelope financing; service charges and interest are expressed in SDR terms.

Beyond debt and grants, IDA is increasingly providing new financial and risk management products to recipient countries, particularly for commercial borrowing and projects with private-sector investment. IDA offers a suite of sovereign guarantee products – including partial risk guarantees, partial credit guarantees and policy-based guarantees – that are country demand-driven and specific to particular transactions. The goal is to provide credit enhancement for supported projects based on IDA’s AAA rating (World Bank, n.d.d). Moreover, as the previous discussion of the PSW makes clear, portions of IDA resources now provide support to other World Bank institutions (IFC and MIGA) that facilitate the provision of their respective products in private sector transactions in IDA countries.

Although the overall menu of IDA terms reflects several dimensions (country group, Small State status and debt distress risk) each country receives a single set of terms for its country allocation, and the same terms apply to most GROW financing; CRW and SUW terms differ slightly. IDA21 simplified the architecture. The IDA20 split between regular PBA terms and Shorter Maturity Loans was replaced with a single 'composite' term for each country group, set at the weighted-average grant element of the IDA20 combination so that terms are at least as concessional as before. This responded directly to feedback from IDA countries that administering country allocations on split terms was complex (International Development Association, 2025a, para. 68).

5.3 Modalities

Borrowing countries engage with IDA through lending modalities that are shaped by wider World Bank Group operational policies. Currently, IDA supports its clients through four main modalities:

- **Investment Project Financing (IPF), also known as Investment Lending, is designed to finance specific projects.** Disbursements are made against eligible expenditures as they occur. IDA applies a common set of World Bank standards to IPF projects, including the Environmental and Social Framework (ESF), fiduciary requirements covering financial management and procurement and the Anti-Corruption Guidelines for IPF (World Bank, 2018).
- **Development Policy Financing (DPF) conditions disbursement on prior actions (policy reforms and institutional actions) rather than expenditures, and funds are provided directly to the borrower's Treasury.** This modality provides fast-disbursing funds with more flexibility for borrowers to determine how to spend them (World Bank, 2017a). This modality is often referred to as 'policy-based lending' or 'budget support'.
- **Program for Results (P4R) loans are meant to support government-defined programmes rather than Bank-designed projects, utilising the government's own implementation systems.** Disbursements are provided at the programme level and connected to Disbursement-Linked measures, results of supported projects (World Bank, 2017b). This modality is often utilised for well-defined government programmes with measurable outcomes (such as for health, energy reform or education).
- **Catastrophe Draw Down Options (Cat DDO) were introduced as a contingent revolving credit line, similar in structure to a DPF but with different disbursement characteristics.** Cat DDOs arrange financing ahead of potential disasters, so a government can draw them down quickly without seeking further approval. Like traditional DPFs, Cat DDOs require a satisfactory macroeconomic environment and prior actions at the time of approval (International Development Association, 2025a). This modality has become increasingly important for climate-vulnerable states.

Table 3 IDA lending modalities

Modality	Introduced	Disbursement Trigger	Bank Procurement Rules?	Typical Disbursement Speed	Best Use Case
IPF (formerly Investment Lending)	1950s (consolidated 2013)	Eligible expenditures (inputs)	Yes	Slow (multi-year)	Capital investment, service delivery projects
DPF/DPO (formerly SAL)	1980 (SAL); current form 2004	Policy prior actions	No	Fast (1–2 tranches/year)	Fiscal adjustment, sector policy reform, budget support
PforR	2012	Verified results (DLIs)	No (uses government systems)	Medium	Government programmes with measurable outcomes
Cat DDO	2008 (IBRD); extended to IDA	Disaster/emergency declaration	No	Immediate upon trigger	Contingent disaster liquidity

Sources: World Bank, 'Investment Project Financing'. Bank Policy OPS5.03-POL.110 (effective 2 October 2018); World Bank, 'Development Policy Financing'. Bank Policy OPS5.02-POL.105 (effective 13 July 2017); World Bank, 'Program-for-Results Financing'. Bank Policy OPS5.04-POL.107 (effective 11 November 2017); World Bank, Additions to IDA Resources: Twenty-First Replenishment (Washington DC: IDA, 17 March 2025) [Cat DDO terms]

IDA's lending today flows through three primary modalities: IPF, DPF and PforR. In FY24, IPF accounted for approximately 69% of IDA's \$31.2 billion in net commitments (\$21.6 billion), DPF accounted for 20% (\$6.2 billion) and PforR accounted for the remaining 11% (\$3.4 billion) (International Development Association, 2024). The composition has been broadly stable, with IPF retaining a dominant share throughout IDA's history, though with DPFs growing since their introduction in the 1980s. The two principal historical inflection points are both crisis-driven: a temporary surge in DPF following the 2008–2009 global financial crisis and a more pronounced surge during the COVID-19 pandemic, when DPF's share of IDA commitments rose to 24% in FY20 – roughly double the 12% annual average for FY11–FY15 – before partially reverting (World Bank, 2022a). The post-pandemic equilibrium DPF share (around 20% in FY24) is higher than the pre-pandemic baseline.

The IDA modality mix differs structurally from IBRD's, which in FY24 ran roughly 39% IPF, 42% DPF and 19% PforR – meaning **IDA relies on project-based lending nearly twice as heavily as IBRD does, while IBRD relies on policy-based budget support roughly twice as heavily as IDA does** (International Development Association, 2024; International Bank for Reconstruction and Development, 2024). This asymmetry reflects deeper differences in client context. DPF's reliance on a satisfactory macroeconomic environment and credible prior-actions reform programmes has historically constrained its use in IDA, particularly in fragile and conflict-affected states with weaker macro-fiscal frameworks. Evaluations have found that DPF outcomes in IDA contexts consistently lag those in IBRD contexts, and that DPF operations in IDA are most effective when they reflect sustained mutual commitment to reforms but lose effectiveness when treated as guaranteed budget support (Independent Evaluation Group, 2018). PforR's growth in IDA represents a partial response to this constraint – disbursing against pre-defined results indicators rather than ex ante reform commitments offers a more flexible instrument better matched to many IDA contexts.

6 Implications and conclusions

As we can see, over its almost seven decades of operations, IDA has transformed itself from an intermediary for the provision of soft loans into an increasingly flexible and complex financial institution serving the varied needs of borrowing countries.

The core of IDA's value proposition – made clear by its triennial need to market itself during replenishment cycles – derives from its leverage, scale and embeddedness in country systems. In particular, IDA positions itself as a country-led, cross-sectoral model that provides better consistency for borrowing countries' financial planning and reduces transaction costs compared to fragmented vertical or bilateral funding sources. The continued evolution of IDA's financial model, allocation mechanism and product mix has often allowed the organisation to further those aims. Simultaneously, changes have introduced tensions that need to be acknowledged and addressed.

For donor governments, IDA's ability to leverage its resources has made it an attractive investment of scarce concessional resources. Yet the collision of IDA's hybrid financial model with a macroeconomic environment of high debt distress is placing increasing stress on IDA's leverage mechanics. Deteriorating macro circumstances, often driven by global and climate shocks and protracted crises facing IDA countries, are leading to a much higher grant share than IDA has historically experienced. IDA grants must be financed by donor grant contributions, not market borrowing. At the same time, a dollar of donor grant contributions flowing to IDA grant provision cannot also serve to increase IDA's equity base, limiting its contribution to further market borrowing. We are already seeing manifestations of these tensions in donors' explicit rationing of grants within IDA 21: the 10% volume discount on grant-eligible countries' PBA, the reduction of the annual grant cap from \$1 billion to \$650 million, and the introduction of 60-year concessional credits as an opt-in alternative to grants – all measures designed to constrain grant volumes within a constrained envelope. If these trends continue, we are likely to see reduced ability to increase IDA replenishment envelopes through market borrowing, and therefore a decrease in the leverage of donor grant contributions in future cycles.

For borrowing governments, IDA's ability to supplement and support government fiscal systems is a valuable attribute. IDA designs its programmes to align with a country's fiscal processes, integrate into government systems and further government capacity. For borrowing governments, IDA's ability to supplement and support government fiscal systems is a valuable attribute. IDA designs its programmes to align with a country's fiscal processes, integrate into government systems and further government capacity. In particular, IDA's multi-year planning structure is designed to enable governments to plan for predictable financial flows. On a dollar basis, IDA remains far simpler for borrowers to navigate than the fragmented landscape of vertical funds. At the same time, a wider range of resources now sits in windows and envelopes with their own eligibility criteria, applications and approvals. This has made IDA more flexible (able to respond better to shocks and refugee flows, and to recognise the specific challenges of operating in fragile states) while asking more of borrowers and country teams in identifying and accessing the right resources. As the window architecture evolves, IDA's stakeholders will need to keep under review whether new windows continue to add to, rather than compete with, the predictable, country-led core, a question the independent assessment of IDA's Country Allocation system planned for the IDA21 Mid-Term Review is well placed to address (International Development Association, 2025a, para. 66).

For the development finance ecosystem, IDA has always served as a counterbalance to the many forces increasing fragmentation in the aid architecture. Recent decades have seen a growing share of concessional resources channelled through thematically earmarked vertical funds, trust funds and bilateral modalities rather than through pooled, country-programmable instruments. The result is a landscape where overall aid volumes are now in historic decline (DAC ODA fell 6.1% in 2024 and a record 23.1% in 2025, with a further 5.8% drop projected for 2026 (OECD, 2025)) and in which a long-running compositional shift has eroded the share of remaining finance that aligns with recipient countries' priorities, systems and planning cycles. Over the past two decades, contributions to the five largest thematic vertical funds (the Global Fund, Gavi, GCF, GPE and GEF) have surged by 95% in nominal terms, while contributions to the three largest MDB concessional arms (IDA, AfDF and AsDF) have fallen by 15% (Nishio, 2024). IDA's pooled resources and embeddedness in government systems provided one avenue to address the fragmentation challenges flowing from this shift.

In a world of declining ODA, heightened geoeconomic competition and reduced fiscal space, IDA will increasingly be called upon as the largest source of multilateral concessional resources for lower-income countries. IDA's evolution is, in many ways, a reflection of the challenges it has been called upon to address over the years. To ensure that IDA is fit for purpose for the next phase of development finance, stakeholders must understand, acknowledge and begin to resolve these tensions.

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Appendix 1 The evolution of the IDA funding model

Phase 1: The traditional funding model – IDA1–IDA17 (1960–2017)

IDA's initial financial model relied on donor grant contributions.

These donor pledges operate differently from the paid-in or callable capital that countries provide to IBRD. For IBRD, all member countries (both developed and developing) contribute capital in proportion to their share subscriptions. The capital provided is intended to serve as equity for the organisation and is managed accordingly. IBRD relies on retained earnings and market borrowing (against its equity base) to adjust its resources and manage its balance sheet. General capital increases are infrequent, event-driven processes – the last one was in 2018.

IDA's financial model is quite different. It was designed from the outset to provide concessional financing, requiring recurring infusions of additional capital to accommodate below-market interest rates and grants.

In addition to donor pledges, the traditional model used other sources of capital. Since lending is a core source of resource provision for IDA, credit reflows – where recipient governments repay their debt commitments, albeit at concessionary rates – recycle resources into the next envelope. IBRD and IFC periodically transferred resources from their own balance sheets to IDA through their net income.

Towards the end of this period, a new modality of donor support was introduced. The introduction of CPLs, while not widely utilised by IDA donors, presaged bigger changes to the IDA financial model. Most importantly, it expanded IDA's balance sheet to include debt instruments, a trend continued in subsequent cycles.

Phase 2: The hybrid model – IDA18–IDA20 (2017–2024)

As donor willingness to increase grant commitments declined and recipient country demand continued to grow, **the IDA 18 cycle introduced a pivotal structural shift to IDA's financial model – the 'hybrid model'.** In this approach, IDA turned to market borrowing against its equity base of donor contributions and retained earnings. IDA managers and donors increasingly felt that IDA's

increasing equity base – currently around \$176 billion – was being underutilised. Accordingly, they agreed to use the equity base in a model similar to IBRD's market borrowing.

This hybrid financial model enabled IDA to increase its commitment authority without a proportional increase in donor contributions, greatly expanding the financial resources at its disposal. As the hybrid model increases IDA's financial capacity, it also introduces a set of related influences on risk management that, at times, can be seen to run counter to IDA's purpose as a vehicle for concessional financing. With the introduction of market borrowing, IDA committed to regular repayment of its interest and principal. Moreover, given the model's reliance on IDA's high credit rating, creditor confidence became another influence on IDA's operations.

Phase 3: Diversifying modalities – IDA21 and beyond (2025–)

The most recent replenishment cycle saw continued expansion of flexibility in non-grant modalities available to donors, building on the logic of CPLs and increasingly relying on financial engineering. These new modalities follow the same design principle as CPLs – allowing donors to provide different forms of financial contributions other than pure grants and allocating governance recognition (in the form of voting rights) based on the grant-equivalent value of those contributions.

First, **IDA 21 allowed contributions in the form of hybrid capital, a perpetual subordinated loan to IDA that serves as a risk-absorbing instrument in the case of financial stress** (similar to Additional Tier 1 – AT1 – capital in commercial bank lending). Hybrid capital is treated as equity by rating agencies, unlike CPLs, which are treated as a form of senior debt (World Bank, 2024b). To date, no donor has contributed hybrid capital to IDA, likely due to unresolved accounting treatment of these instruments and limited donor benefits in providing them (International Development Association, 2025a).

In addition, **IDA 21 created avenues for donors to provide portfolio guarantees. These bilateral guarantees provide no additional capital to IDA but commit to make payments to IDA in the case of borrower non-payment.** By substituting IDA's credit exposure with that of highly rated donors, IDA can reduce the capital set aside for non-payment risk, thereby increasing its Deployable Strategic Capital without the need for additional equity (World Bank, 2024b). For instance, France made a \$325 million guarantee, providing it with \$78 million in voting rights and allowing IDA to expand its lending capacity by around \$300 million, all without any capital actually changing hands (International Development Association, 2025).

