A Better Outcome for the Poorest

Finding the Right IDA–IBRD Balance

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Abstract

In a resource-scarce environment coupled with high and growing demand for aid, the multilateral development banks (MDBs) need to direct grants and concessional finance to the countries that need it the most. Nowhere is this principle more important than IDA, the largest global financing facility for low-income countries. Operationalizing this principle requires that the World Bank prioritize allocating grants and concessional loans to the poorest countries whose access to alternative funding sources is extremely limited. But trends have been moving in the opposite direction. Currently, a majority of IDA countries surpass the income threshold, and many enjoy regular access to capital markets, the two criteria for IDA eligibility. These countries—many of which have exceeded IDA's income threshold for years or even decades—are consuming a disproportionate share of concessional resources, crowding out IDA-only countries with the greatest need. At the same time, IBRD funding for lower-middle-income countries has been on the decline since 2018 and IDA transfers have not kept pace with record profits. Both IDA and IBRD need to course correct.

In this paper, we argue that IDA's current financing structure disadvantages the world's poorest countries because an overly flexible graduation process enables better-off countries to remain IDA-eligible for too long. We also make the case that IBRD's creditworthiness assessments are too conservative and that it has the headroom and prudential space to bring more IDA countries onto its balance sheet.

We advance three reforms to address these shortcomings. First, IDA's graduation policy should become more rules-based, with clearer milestones, facilitating transitions rather than leaving them to borrower initiative. Second, IBRD should revise its creditworthiness assessments to better reflect new credit rating agency methodologies and sovereign default and recovery rates. And third, IBRD should introduce a new semi-concessional lending instrument for lower-middle-income countries, funded through its net income, to smooth the graduation transition and expand the overall concessional envelope. Together, these reforms would rebalance burden-sharing between IDA and IBRD and help the most vulnerable countries receive the financing they need as global aid budgets contract, without putting their AAA ratings at risk.

POLICY PAPER 397 • JULY 2026

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The authors are grateful to members of the Sustainable Development Finance team at CGD for their input and feedback, as well as members of the IDA Technical Working Group hosted at ODI Global.

The Center for Global Development is grateful for contributions from the Gates Foundation in support of this work.

Karen Mathiasen, Clemence Landers, and Nico Martinez. 2026. "A Better Outcome for the Poorest: Finding the Right IDA-IBRD Balance." CGD Policy Paper 397. Washington, DC: Center for Global Development.
https://www.cgdev.org/publication/better-outcome-poorest-finding-right-ida-ibrd-balance

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Glossary

ADF	**Asian Development Fund.** The concessional financing arm associated with the Asian Development Bank.
AsDB	**Asian Development Bank.** A multilateral development bank focused on Asia and the Pacific.
Blend country	An IDA-eligible country considered creditworthy enough to borrow from both IDA and IBRD.
Concessional finance	Financing provided on more favorable terms than market borrowing, such as below-market interest rates, longer maturities, grace periods, or grants.
Concentration risk	Risk arising from when a large share of a lender's exposure is concentrated in a relatively small number of borrowers.
CPF	**Country Partnership Framework.** The World Bank's strategy for engagement with a member country.
E/L ratio	**Equity-to-loans ratio.** A key IBRD capital-adequacy measure comparing equity with lending exposure.
Gap country	An IDA country whose per-capita income has remained above IDA's operational cutoff but that is not considered sufficiently creditworthy for IBRD borrowing.
GDI	**Graduation Discussion Income.** The per-capita income level used by IBRD to trigger discussion of whether a borrower should begin graduating from IBRD ($7,855 in FY26). Crossing the threshold does not automatically cause graduation.
GEMs	**Global Emerging Markets Risk Database.** A database pooling credit-risk information from multilateral development banks and other development finance institutions.
GNI per capita	**Gross national income per capita.** A measure of national income divided by population. The World Bank uses GNI per capita, calculated with the Atlas method, in IDA eligibility and income-classification frameworks.
Grace period	The initial period of a loan during which principal repayments are not yet required. A longer grace period makes financing more concessional.
Graduation	The process through which a country transitions out of eligibility for concessional IDA or IBRD financing, towards less concessional sources.
Headroom	The additional lending capacity an institution can use while remaining within its capital, prudential, and credit-rating constraints.

IBRD	**International Bank for Reconstruction and Development.** The World Bank institution that primarily lends to middle-income and creditworthy lower-income countries, generally on less concessional terms than IDA.
IBRD Groups A–D	Borrower pricing categories used in IBRD lending. **Group A** includes blends, small states, countries in fragile and conflict-affected situations, and recent IDA graduates; **Groups B–D** broadly distinguish other borrowers according to income and the GDI threshold.
IDA	**International Development Association.** The World Bank institution that provides grants and concessional financing to the world's poorest and most vulnerable countries.
IDA Deputies	Senior representatives of IDA's donor governments and other participating members who negotiate replenishments and provide strategic direction on IDA financing and policy.
IDA-only country	An IDA-eligible country that lacks sufficient creditworthiness for IBRD borrowing and therefore relies only on IDA rather than borrowing from both institutions.
IDA income threshold	The GNI-per-capita benchmark used as one of the principal criteria for IDA eligibility. Crossing the threshold does not automatically end IDA access because of creditworthiness and other graduation considerations.
IDA replenishment	The periodic process—generally conducted every three years—through which donors and other sources mobilize resources for a new IDA financing cycle. **IDA21**, for example, refers to the 21st replenishment.
Maturity	The period from loan issuance until the final repayment.
MDB	**Multilateral development bank.** An international financial institution that provides financing and other support for global development. Examples include the World Bank and the Asian Development Bank.
Nonaccrual status	A classification when repayment is sufficiently overdue or uncertain that the lender stops recognizing interest as income on an accrual basis.
OCW	**Ordinary Capital Window.** The Asian Development Bank's non-concessional lending window.
PCS	**Preferred creditor status.** The de facto priority multilateral development banks generally receive in sovereign debt repayment and restructuring.
Portfolio guarantee	A guarantee covering part of the credit risk associated with a portfolio of loans or exposures.

Prudential space	The capacity of a financial institution to expand lending or take additional risk while remaining within internal risk limits, capital requirements, and other safeguards.
Recovery rate	The share of amounts owed that a creditor recovers following default.
Reflows	Principal repayments and other cash flows returning to an MDB from previous loans. Reflows can be recycled to finance new operations and are a main source of IDA financing.
Reverse graduation	The process through which a former IDA borrower becomes eligible for IDA financing again after deterioration in its economic or creditworthiness conditions.
Semi-concessional finance	Financing with terms more favorable than ordinary market or IBRD lending but less generous than standard IDA concessional terms. The paper proposes a new IBRD semi-concessional instrument to smooth the transition from IDA to IBRD.
Small economy exception	An exception allowing qualifying small economies to access IDA resources despite per-capita incomes above the normal IDA operational cutoff, reflecting particular vulnerabilities.

Executive summary

The International Development Association (IDA) is the pre-eminent source of official financing for the poorest countries and enabling IDA to meet their financing needs remains a major global imperative. The next replenishment, launching soon, will be among the most consequential multilateral negotiations this decade. Success is vital but not assured. Unfortunately, there are too many funds chasing too few dollars, especially with the United States and other major donors cutting aid budgets.

Well before recent events in the Middle East, the World Bank projected that demand for IDA resources would increase until at least 2034, largely due to limited graduation prospects of current IDA borrowers.[1] This is a surprising prognosis considering that more than half of countries eligible for IDA support are above the operational cutoff (i.e., GNI per capita of $1,325 in FY26). Most of these countries have been above the cutoff for years but have not transitioned to the International Bank for Reconstruction and Development's (IBRD's) balance sheet due to creditworthiness concerns. Small island states—all of which are middle-income countries—also retain IDA access due to their common vulnerabilities. Meanwhile, IBRD has unused lending headroom but in recent years has been shifting resources toward its wealthier borrowers while transfers to IDA—which used to constitute the vast majority of IBRD profits—represented just over a third of the total in FY25.

Demand for IDA financing will likely be revised upward due to the fuel and fertilizer price shocks associated with the war in Iran, especially for the poorest countries. The risk is that higher demand coupled with flat or declining donor support will lead to smaller country allocations. This would disproportionately disadvantage the poorest IDA countries, which remain heavily dependent on IDA resources but currently access only a little more than half of IDA's financing envelope. IDA stakeholders need to address this head-on. With the midterm review looming at the end of the year, any significant changes to IDA's lending and financing models should be deliberated well in advance of IDA22 negotiations. In this paper, we encourage stakeholders to consider the following reforms as potential input into those negotiations:

- First, IDA's graduation process should become more rules-based to help ensure that countries move more consistently through the gap and blend categories. The current process allows for considerable flexibility and lacks mechanisms to move countries toward graduation as they achieve certain major milestones (e.g., market access). IDA also needs to reconcile its eligibility criteria (per capita income and creditworthiness) with the fact that there are multiple criteria for graduation.
- Second, the IBRD should revise its creditworthiness assessments of IDA countries to better capture their financial realities, including durable track records of market access, recent developments in rating agency methodologies and borrowers' repayment and

1 IDA 20 Mid-Term Review: IDA Access, Terms and Graduation Prospects, November 22, 2023. https://documents1.worldbank.org/curated/en/099012624123036908/pdf/BOSIB1cd951f870011b87d1243b7b5be036.pdf.

recovery histories. Relatedly, there should be a more systematic effort to increase the proportion of IBRD funding for blend countries as part of a multiyear graduation transition.

- Third, IBRD should introduce a semi-concessional financing instrument for select lower-middle-income countries (LMICs) funded through IBRD net income. This would expand the concessional resources envelope while moderating the impact of the harder lending terms associated with IBRD loans. It would also be affordable: IBRD's net income has been rising steadily since 2022, and we project it will surpass $3 billion per year by 2030.

These reforms would enable IBRD to boost its support for IDA-eligible countries that are above the IDA income threshold and could be engineered as a win-win scenario for donors and IDA borrowers without undermining IBRD's AAA rating. The end result would be a better burden-sharing arrangement between IDA and IBRD, with the lowest income borrowers on both balance sheets reaping the most benefit.

The challenges

1. IDA cannot respond to higher demand absent more donor support

Demand for IDA resources remains high and, according to World Bank calculations, will likely increase through 2034.[2] Their 2023 model predicts only a few graduates in the near- to medium-term—Guyana and Bangladesh—and possibly some island states. These estimates were made long before the economic shocks associated with the current war in the Middle East. In mid-June, the World Bank revised its global economic growth outlook from 2.9 percent to 2.5 percent for 2026 and noted the preponderance of downside risks in low-income countries (LICs), including the potential spread of the Ebola outbreak.[3] The International Monetary Fund's latest economic outlook cautioned that food insecurity could worsen materially in low-income countries if disruptions in fertilizer and energy markets persist.[4]

At the same time, donors are pulling back. The 21st replenishment (IDA21) hit a record funding target during the December 2024 pledging session, but the donor component stayed flat, and the US administration has asked Congress to further reduce its annual IDA pledge from $1.07 billion to $867 million.[5] Indeed, after peaking in IDA16 more than 15 years ago, donor funding has been declining (see Figure 1).

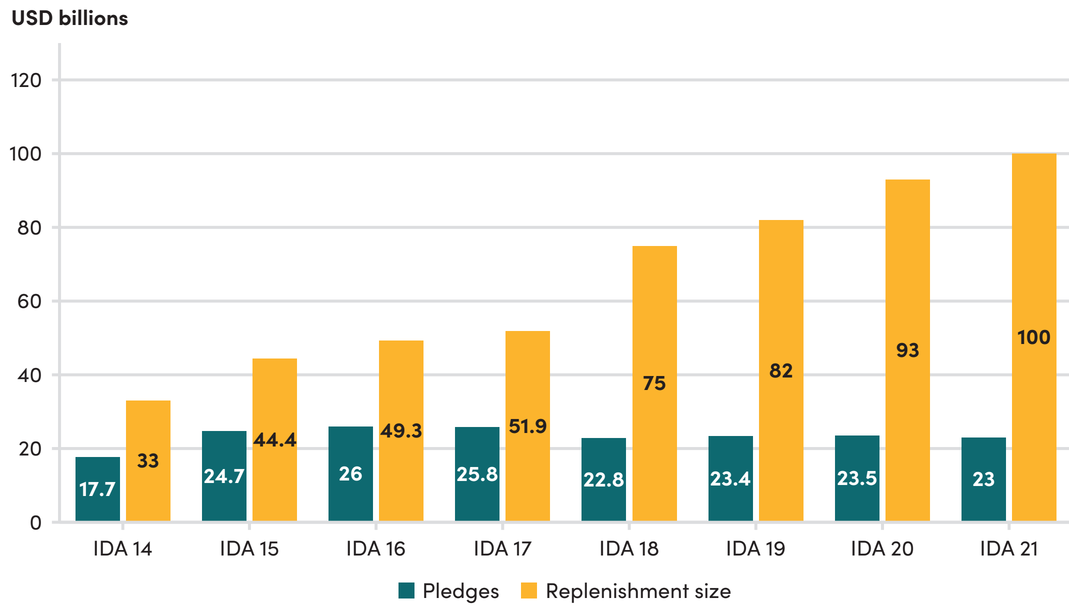
2 IDA20 Mid-Term Review: IDA Access, Terms and Graduation Prospects, November 22, 2023 https://documents1.worldbank.org/curated/en/099012624123036908/pdf/BOSIB1cd951f870011b87d1243b7b5be036.pdf.

3 Global Economic Prospects, A World Bank Group Flagship Report, June 2026. https://www.worldbank.org/en/publication/global-economic-prospects.

4 International Monetary Fund, World Economic Outlook Update, July 2026. https://www.imf.org/en/publications/weo/issues/2026/07/08/world-economic-outlook-update-july-2026?cid=sm-com-fb-WEOET202600&fbclid=IwY2xjawS7OGVleHRuA2FlbQIxMABicmlkETFoTnRRZVRsb0NpN0pRY2dKc3J0YwZhcHBfaWQQMjIyMDM5MTc4ODIwMDg5MgABHoF69L-l1AG3r7FmZMFAQiUyiHtyHli3nsX6Pi31qCDWUWqWcGf25ft3AlEs_aem_HF7m7BY_CM80N-Q-Aqs08Q.

5 International Programs Congressional Budget Justification FY 2027, U.S. Treasury Department. https://home.treasury.gov/system/files/266/150s-FY-2027-CJ.pdf.

FIGURE 1. Donor pledges represent a declining share of IDA funding
IDA 14–21 donor pledges vs. total replenishment size, in USD billions



Source: IDA Deputies Reports.

We expect 2027—when IDA22 will be negotiated—to be another difficult year for fundraising. For context, the Global Fund announced in February that it had raised $12.6 billion[6] for its eighth and latest replenishment, down from $15.7 billion[7] for the seventh and $5.4 billion short of its $18 billion target, despite a surprisingly strong pledge from the United States of $4.6 billion.[8] In 2025, Gavi secured more than $9 billion, $2.5 billion shy of its $11.9 billion fundraising target, with no US pledge.[9] Although the African Development Fund announced a record replenishment number in December 2025 ($11 billion), they included cofinancing agreements, not just core contributions, which declined by about $1 billion.[10] The United States did not pledge.

6 Global Fund Board Welcomes Final Eighth Replenishment Outcome of US$12.64 Billion, February 18, 2026. https://www.theglobalfund.org/en/news/2026/2026-02-18-global-fund-board-welcomes-final-eighth-replenishment-outcome/.

7 Global Fund Board Hails Record-Breaking Seventh Replenishment Final Outcome of US$15.7 Billion, November 18, 2022. https://www.theglobalfund.org/en/news/2022/2022-11-18-global-fund-board-hails-record-breaking-seventh-replenishment-final-outcome-of-usd157-billion/.

8 Friends statement on the U.S. commitment to the Global Fund, November 21, 2025. https://www.theglobalfight.org/friends-statement-on-the-u-s-commitment-to-the-global-fund/.

9 Global Summit: Health & Prosperity through Immunisation, 25 June 2025. https://www.gavi.org/investing-gavi/resource-mobilisation-process/protecting-our-future.

10 African Development Fund mobilises a historic $11 billion, marking a new era of African ownership and investment-led development, December 16, 2025. https://www.afdb.org/en/news-and-events/press-releases/african-development-fund-mobilises-historic-11-billion-marking-new-era-african-ownership-and-investment-led-development-89755.

2. Fewer than half of IDA countries meet IDA's eligibility criteria

Currently, 78 countries have access to IDA support, up from 70 countries in 2020.[11] Under IDA's financing model, there are two primary criteria for eligibility: per-capita income ($1,325 per capita GNI in FY26)[12] and lack of creditworthiness. Countries that meet both criteria are classified as IDA-only. Due to a lack of creditworthiness, many countries remain on the IDA balance sheet for years, regardless of income threshold, under the following special categories:

- *gap countries,* which exceed the income threshold but are deemed not creditworthy and continue to borrow almost exclusively from IDA;
- *blend countries,* which borrow mostly from IDA but are assessed as creditworthy enough for some IBRD borrowing (historically, this group of countries fell below the income threshold, but that is no longer the case); and
- *small economies*—mostly island states—which borrow on special terms (see Table 1).

TABLE 1. IDA country classifications
IDA countries by borrowing category, FY26 classification

Region	IDA Only	Blend Country	Gap Country	Borrowing on Small Economy Terms
Africa	Burkina Faso, Burundi, CAR, Chad, DRC, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sierra Leone, Somalia, South Sudan, Sudan, Tanzania, Togo, Uganda, Zambia	Cameroon, Cabo Verde, Congo (Republic), Cote d'Ivoire, Eswatini, Kenya, Nigeria	Benin, Ghana, Mauritania, Senegal	Cabo Verde, Comoros, Eswatini, Sao Tome and Principe
East Asia	Myanmar	Fiji, Papua New Guinea, Timor-Leste	Cambodia, Laos	Fiji, Kiribati, Marshall Islands, Micronesia, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, Vanuatu
South Asia	Afghanistan	Pakistan	Bangladesh, Nepal, Sri Lanka	Bhutan, Maldives
Europe and Central Asia	Tajikistan	Uzbekistan	Kosovo, Kyrgyzstan	
Latin America and the Caribbean	Haiti	Belize, Dominica, Grenada, St. Lucia, St. Vincent, Suriname	Honduras, Nicaragua	Belize, Dominica, Grenada, Guyana, St. Lucia, St. Vincent, Suriname
MENA	Djibouti, Syria, Yemen			

Source: IDA Borrowing Countries.

11 IDA Borrowing Countries. https://ida.worldbank.org/en/about/borrowing-countries.
12 Fiscal years in this paper run from 1 July to 30 June. For FY27, beginning 1 July 2026, the income threshold will increase to $1,365.

Currently, most IDA-eligible countries exceed the income threshold, especially small economies (see Figure 2).

FIGURE 2. 47 IDA countries sit above IDA's FY26 income threshold, including all blends and gaps

IDA countries by World Bank GNI per capita (Atlas method), in USD. Dot sizes represent average yearly IDA commitments, FY21 to FY25

Note: IDA just announced an increase in the income threshold for FY27 (July 1, 2026–June 30, 2027) to $1,365 which Nigeria will fall below. All other gap and blend countries will remain above it.
Source: IDA Financing, World Bank Databank.

The number of IDA-eligible countries increased over the past five years due to expanded eligibility criteria and reverse graduation. For the current replenishment, IDA agreed to broaden its small island states exception to include small economies.[13] As a result, Belize, Eswatini, and Suriname have gained access to IDA resources under this exception.[14]

The number and severity of exogenous and endogenous shocks have also raised the likelihood of IBRD countries becoming re-eligible for IDA financing (i.e., reverse graduation). For example, Sri Lanka graduated from IDA to become an IBRD-only country in fiscal year 2017 (FY17), but due to their 2022 balance of payments crisis, they lost creditworthiness for any IBRD lending, becoming an IDA-only borrower in December 2022.[15]

13 IDA20 Mid-Term Review: IDA Access, Terms and Graduation Prospects, November 22, 2023. https://documents1.worldbank.org/curated/en/099012624123036908/pdf/BOSIB1cd951f870011b87d1243b7b5be036.pdf.

14 Small States Update, World Bank, April 2025. https://thedocs.worldbank.org/en/doc/773f8552584ad085407766611c9bb058-0290012025/original/WB-Small-States-Newsletter1-apr2025.pdf.

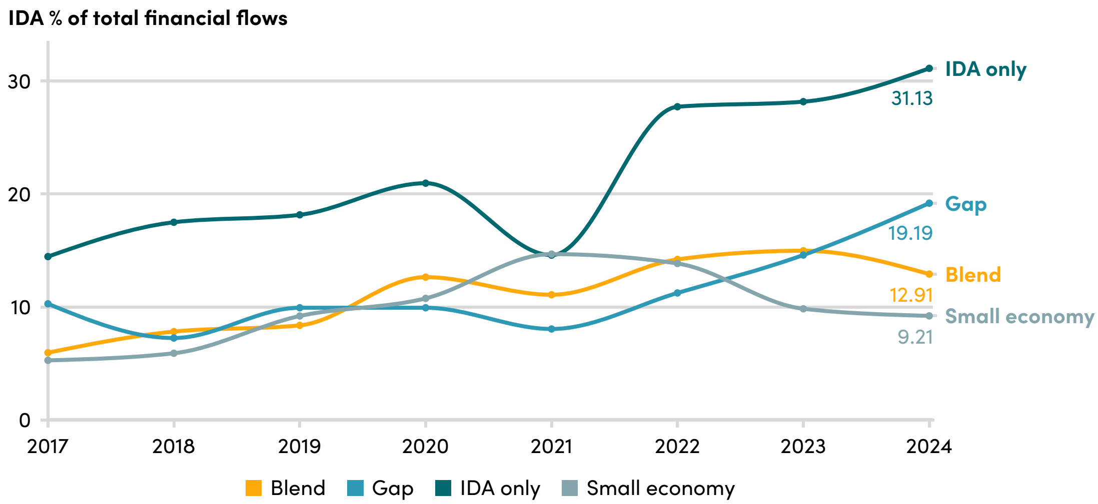
15 IDA Graduates. https://ida.worldbank.org/en/about/borrowing-countries/ida-graduates.

3. The poorest countries are heavily reliant on IDA

IDA support is a lifeline for the poorest countries, and reliance by IDA-only countries has been increasing steadily since FY17, when IDA accounted for 15 percent, on average, of gross flows, rising to more than 30 percent of flows by IDA24 (see Figure 3). This dependence is likely to remain at or exceed current levels due to the prevalence of external shocks and debt sustainability challenges among IDA-only countries (see Figure 4).

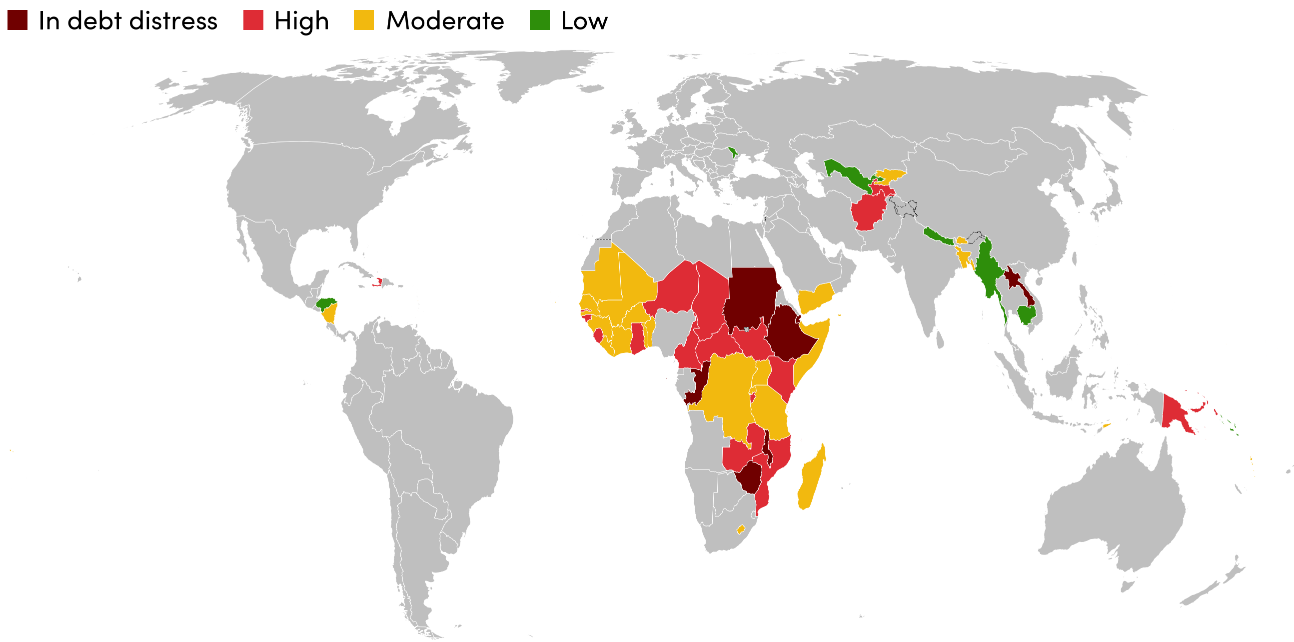
Gap and blend countries' reliance on IDA has been on an upward trajectory as well, with IDA accounting for 19 percent of gross flows to gaps in FY24, compared to only 10 percent in FY17. In FY17, IDA accounted for only 7 percent of external flows in blend countries, rising to 13 percent in FY24.

FIGURE 3. How much of total financial flows does IDA account for, among blends, gaps, IDA only countries, and IDA small economies?
IDA % of total financial flows by lending group, 2017–2024



Source: World Bank International Debt Statistics.

FIGURE 4. More than 30 IDA countries are at high risk or in debt distress
March 2026 LIC DSA ratings for IMF PRGT countries



Note: Some IDA countries are not rated because they are deemed too creditworthy for a LIC DSA rating.
Source: IMF LIC DSAs.

4. IDA's graduation policy is lax

Under IDA's graduation policy, countries are expected to move along the following trajectory,[16] though in practice there is a lot of variation:

- *IDA-only to gap.* Countries that have been above the IDA operational cutoff for more than two years but are not yet deemed creditworthy for IBRD financing are classified as IDA-only "gap" countries.
- *IDA gap to blend*. A positive creditworthiness assessment by IBRD leads to reclassification of a country to blend status (with access to both IDA/IBRD). There is no timeline for this transition, and the borrower must request the creditworthiness assessment. This policy is leading many gap countries to remain as IDA-only borrowers even when they are enjoying market access. Of the 13 gap countries, 10 exceeded the income threshold before 2020, one as early as 2005 (Honduras). Kosovo has never been below the income threshold, and its GNI of $6,910 is more than five times IDA's income threshold (see Table 2).

16 Review of IDA Graduation Policy, 24 October 2012. https://documents1.worldbank.org/curated/en/833691468338981825/pdf/733630BR0IDA0R0Official0Use0Only090.pdf.

TABLE 2. When did gap countries surpass the IDA income threshold?
Year when gap countries surpassed the FY26 IDA income threshold ($1,325) in Atlas method GNI per capita

Gap Country	WB GNI per Capita	GNI Last Below $1325 in	IDA Cycle
Kosovo*	6910		
Sri Lanka	3860	2006	IDA14
Honduras	3020	2005	IDA14
Bangladesh	2820	2015	IDA17
Cambodia	2550	2013	IDA16
Nicaragua	2510	2007	IDA14
Ghana	2310	2010	IDA15
Kyrgyzstan	2190	2021	IDA19
Mauritania	2120	2007	IDA14
Laos	2000	2011	IDA16
Senegal	1680	2017	IDA18
Nepal	1470	2021	IDA19
Benin	1430	2021	IDA19

Note: *Kosovo has never been below the IDA income threshold.
Sources: IDA Borrowing Countries, World Bank DataBank.

- *Blend to IBRD-only*. The IDA graduation process concludes with a reclassification from blend status to IBRD-only borrower. Graduation decisions are made by IDA deputies and are based on an assessment of the country's macroeconomic prospects, risk of debt distress, vulnerability to shocks, institutional constraints, and poverty and social indicators.[17] IDA resources for these countries are intended to be temporary and the country itself is expected to "*undertake adjustment efforts designed to establish or strengthen creditworthiness as rapidly as possible*" (*italics ours*). But in fact, many blend countries have remained on the IDA balance sheet for decades (see Table 3).

TABLE 3. When did blend countries surpass the IDA income threshold?
Year when blend countries surpassed the FY26 IDA income threshold ($1,325) in Atlas method GNI per capita*

Blend	GNI per Capita (2024)	GNI Last Below $1325 in	IDA Cycle
Uzbekistan	3020	2009	IDA15
Papua New Guinea	2900	2007	IDA14
Cote d'Ivoire	2530	2013	IDA16
Congo, Republic	2280	2005	IDA14
Kenya	2090	2015	IDA17
Cameroon	1700	2007	IDA14
Nigeria	1700	pre-2008**	IDA14
Pakistan	1430	2015	IDA17

Notes: *Does not include small economy blends. **World Bank Atlas method GNI figures for Nigeria only go back to 2008; since then, they have exceeded the IDA threshold. IDA just announced an increase in the income threshold for FY27 (July 1, 2026–June 30, 2027) to $1,365, which Nigeria will fall below based on recently released 2025 GNI figures. All other gap and blend countries will remain above it.
Sources: IDA Borrowing Countries, World Bank DataBank.

17 IDA20 Mid-Term Review: IDA Access, Terms and Graduation Prospects, November 22, 2023. https://documents1.worldbank.org/curated/en/099012624123036908/pdf/BOSIB1cd951f870011b87d1243b7b5be036.pdf.

Small economies, mostly island states, have also remained on the IDA balance sheet despite exceeding the income threshold. This reflects their special circumstances—extreme vulnerability to shocks and limited opportunities for growth. However, eight of these countries now meet or exceed the *IBRD graduation threshold* of $7,855 per capita[18]—Guyana, St. Lucia, St. Vincent, Maldives, Grenada, Dominica, Tuvalu, and the Marshall Islands—making continued access to IDA resources harder to justify (see Table 4).

TABLE 4. When did small economies surpass the IDA and IBRD income thresholds?
Year when IDA small economies surpassed the FY26 IDA income threshold ($1,325) and the FY26 IBRD graduation discussion threshold ($7,855) in Atlas method GNI per capita

Small Economy	WB GNI per Capita (USD)	Above IDA Income Threshold ($1,325)	GNI Last Below $1,325 in	IDA Cycle	Above IBRD GDI ($7,855)	GNI Last Below $7,855 in
Guyana	20,140	Yes	2005	IDA14	Yes	2021
St. Lucia*	12,640	Yes	Never	N/A	Yes	2007
Maldives	11,640	Yes	1994	IDA10	Yes	2020
St. Vincent	11,060	Yes	1985	IDA7	Yes	2017
Grenada	10,510	Yes	1983	IDA6	Yes	2015
Dominica	10,230	Yes	1983	IDA6	Yes	2015
Tuvalu	8,770	Yes	1987	IDA7	Yes	2021
Marshall Islands	8,500	Yes	1982	IDA6	Yes	2023
Belize	7,150	Yes	1979	IDA5	No	N/A
Tonga	5,910	Yes	1991	IDA9	No	N/A
Fiji	5,820	Yes	1977	IDA4	No	N/A
Suriname	5,690	Yes	1994	IDA10	No	N/A
Samoa	5,040	Yes	1996	IDA10	No	N/A
Cabo Verde	4,950	Yes	2002	IDA12	No	N/A
Micronesia	4,240	Yes	1985	IDA7	No	N/A
Vanuatu	3,890	Yes	2002	IDA12	No	N/A
Bhutan	3,730	Yes	2005	IDA13	No	N/A
Kiribati	3,660	Yes	2003	IDA13	No	N/A
Eswatini	3,590	Yes	1991	IDA9	No	N/A
Sao Tome and Principe	2,850	Yes	2013	IDA16	No	N/A
Solomon Islands	1,910	Yes	2007	IDA14	No	N/A
Timor-Leste	1,650	Yes	2005	IDA13	No	N/A
Comoros	1,590	Yes	2007	IDA14	No	N/A

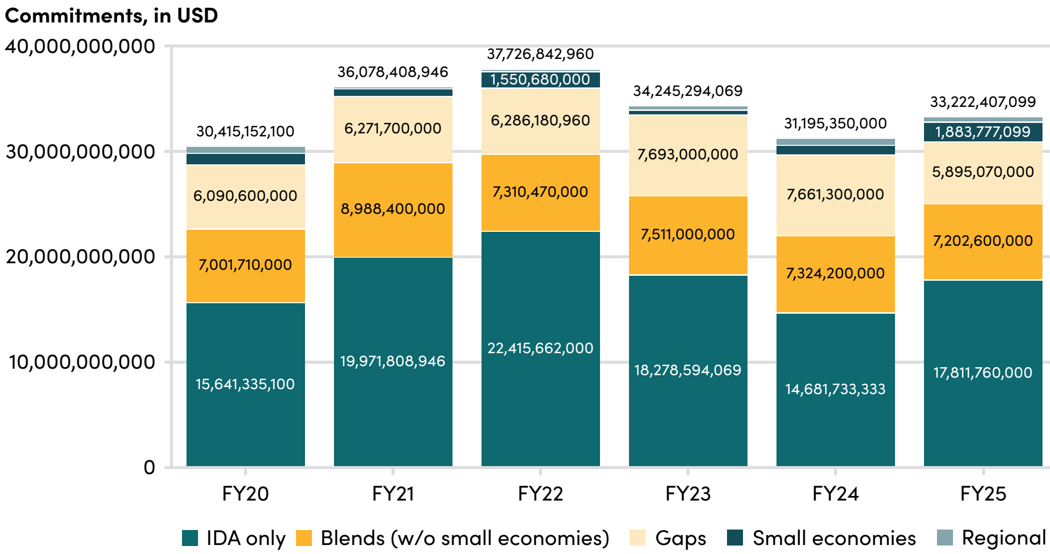
Note: *St. Lucia has never been below the IDA income threshold.
Sources: IDA Borrowing Countries, World Bank DataBank.

18 IBRD FY26 Per Capita Income Guidelines for Operational Purposes, May 27, 2025. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099053025094014420.

5. Gap and blend countries are crowding out the poorest

Although loans to blend and gap countries are a steady source of reflows for IDA, keeping all of those countries on the IDA balance sheet risks crowding out financing for the poorest IDA countries. Between FY20 and FY25, gap and blend countries accessed 42 percent of IDA resources on average, leaving only 54 percent for IDA-only countries[19] (see Figure 5).

FIGURE 5. How much IDA financing goes to blends and gaps?
IDA yearly commitments by lending classification, FY20–FY25, in USD



Source: IDA Borrowing Countries, IDA Financing.

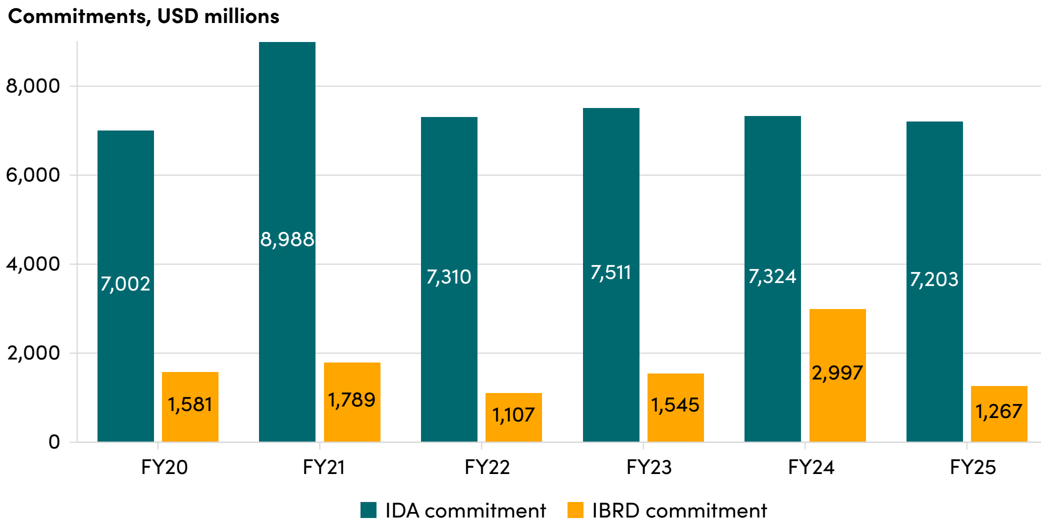
6. IBRD is not adequately supporting blend countries

Blend countries can borrow from both IDA and IBRD, although in practice, they access IBRD at relatively low levels. Between FY20 and FY25, IDA provided on average $7.5 billion in funding to blend countries per year versus only $1.7 billion from IBRD. The proportion of IBRD lending relative to total borrowing was less than 25 percent for all but one year (FY24) (see Figure 6).

For gap countries, IBRD lending has accounted for less than 2 percent of total World Bank lending because they are not considered creditworthy.

19 The remaining 4 percent went to small economies and regional projects.

FIGURE 6. Blend countries do not borrow much from the IBRD
IDA and IBRD yearly commitments to blend countries (excluding small economy blends), FY20 to FY25, in USD millions



Source: IDA Financing, IBRD Commitments and Disbursements.

BOX 1. Borrowing patterns of the biggest blends: Nigeria and Pakistan

Pakistan and Nigeria are two of IDA's biggest borrowers, consuming 13.7 percent of total resources in FY25.[20] As blend countries, they can access financing from IDA and IBRD, but IBRD lending remains a small component of total borrowing. Notably, for three of the last six years, Nigeria borrowed only from IDA while Pakistan's IBRD access has declined sharply since FY21.[21] Under Pakistan's current Country Partnership Framework (CPF), covering FY25-FY34, IBRD is expected to finance only $6 billion out of $20 billion.[22] (Nigeria's CPF is currently under negotiation.)

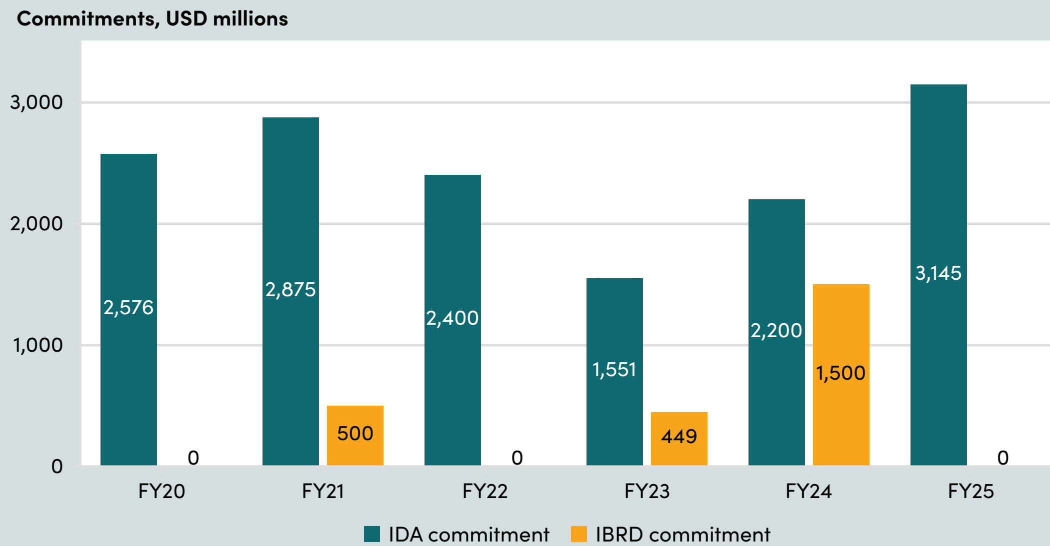
We would like to see a more systematic approach, with IBRD lending steadily increasing once an IDA country has transitioned to blend status.

20 IDA Financing; https://ida.worldbank.org/en/financing.

21 IBRD Commitments and Disbursements—Country/Economy Summary. https://financesone.worldbank.org/ibrd-commitments-and-disbursements-country-economy-summary/DS01556.

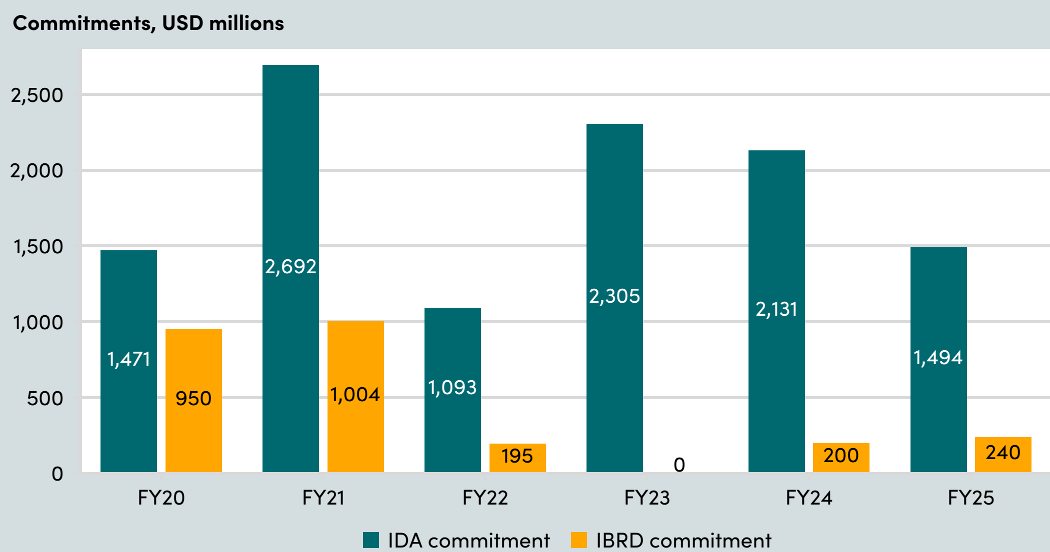
22 Pakistan—Country Partnership Framework for the Period FY26 Up to FY35, January 14, 2025. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099121324161568318.

FIGURE 7. How much does *Nigeria* receive from IDA and IBRD?
IDA and IBRD yearly commitments to Nigeria, FY20 to FY25, in USD, millions



Source: IDA Financing, IBRD Commitments and Disbursements.

FIGURE 8. How much does *Pakistan* receive from IDA and IBRD?
IDA and IBRD yearly commitments to Pakistan, FY20 to FY25, in USD, millions



Source: IDA Financing, IBRD Commitments and Disbursements.

7. IBRD is not using its headroom

Unlike IDA, IBRD is not capital constrained. Its equity-to-loans (E/L) ratio is around 21.4 percent, although the minimum threshold is 18 percent, which translates into headroom of about $100 billion. In other words, IBRD could likely increase its lending by $10 billion a year over the next five years and remain above the 18 percent threshold.

Moreover, based on the Global Emerging Markets Risk Database's (GEMs) data disclosure, Standard & Poor's has estimated that the major multilateral development banks (MDBs), including the World Bank, possess an extra $600–$800 billion in lending capacity that could be deployed over the next ten years without putting their ratings at risk.[23] More recently, Moody's announced a new methodology for rating MDBs that should also give them more lending headroom.[24] Notably, in the new methodology, Moody's will increase sovereign loan ratings based on preferred creditor status, giving five notches for a Caa rating and four for a single B. This should make it easier for IBRD to bring lower-rated countries onto its balance sheet.

In late 2024, Fitch published analysis affirming that 12 MDBs could increase lending by a combined $480 billion before they would risk rating downgrades, based on changes to Fitch's supranationals rating criteria. Among the MDBs, they found that IBRD could increase lending by approximately $117 billion.[25]

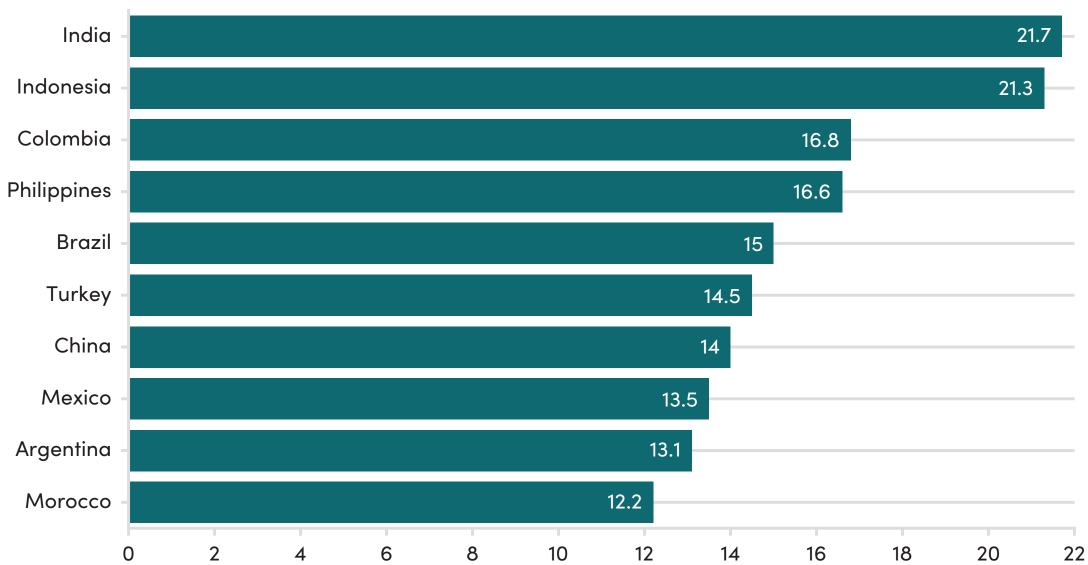
23 Figures are not broken down by MDB. S&P Global Introduction to Supranationals Special Edition 2025, https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/101650656.

24 Moody's new rating criteria could liberate MDBs to expand, March 4, 2026. https://www.globalcapital.com/article/2g29nmig4aoopk6wgl5og/sri/the-sustainable-economy/moodys-new-rating-criteria-could-liberate-mdbs-to-expand.

25 Major MDBs Have Rating Headroom for USD480 Billion in New Lending, October 9, 2024. https://www.fitchratings.com/research/sovereigns/major-mdbs-have-rating-headroom-for-usd480-billion-in-new-lending-09-10-2024.

In addition, by creating a more diversified portfolio, IBRD could address a key obstacle to portfolio growth—concentration risk. Notably, 10 IBRD borrowers accounted for 56 percent of IBRD's total exposure as of December 2025 (see Figure 9).[26] This concentration risk is putting the brakes on IBRD's further portfolio growth in these high-demand countries.

FIGURE 9. Ten borrowers currently account for 56 percent of IBRD's total exposure
IBRD top 10 country exposures (outstanding loans and guarantees), as of 31 Dec. 2025, in USD billions



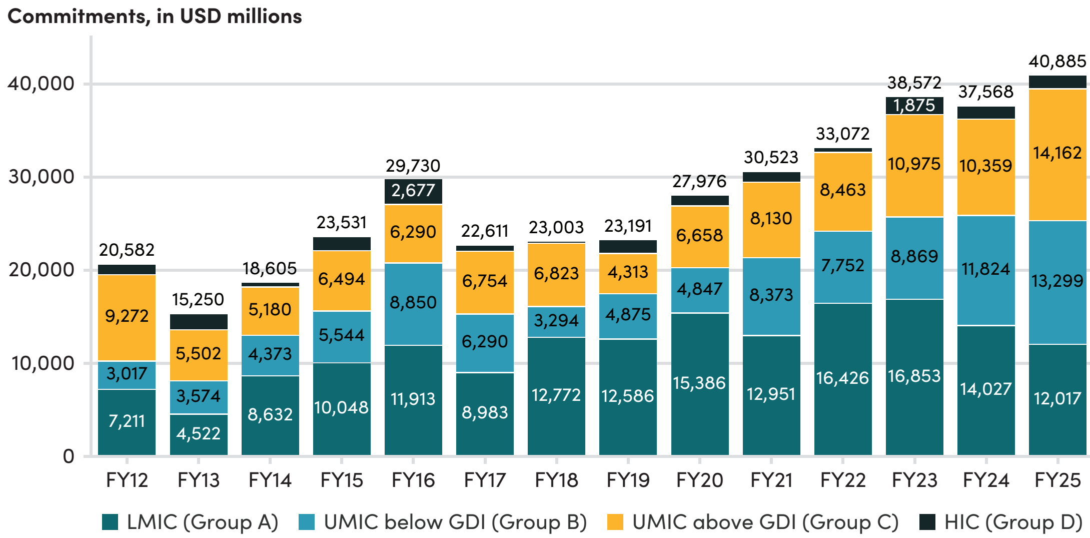
Source: IBRD Financial Statements.

8. IBRD financing for lower-middle income borrowers is decreasing

IBRD is also channeling more lending to countries above its graduation threshold (i.e., the "Graduation Discussion Income" level or GDI), leading to a decline in the share of funding to LMICs since 2018.

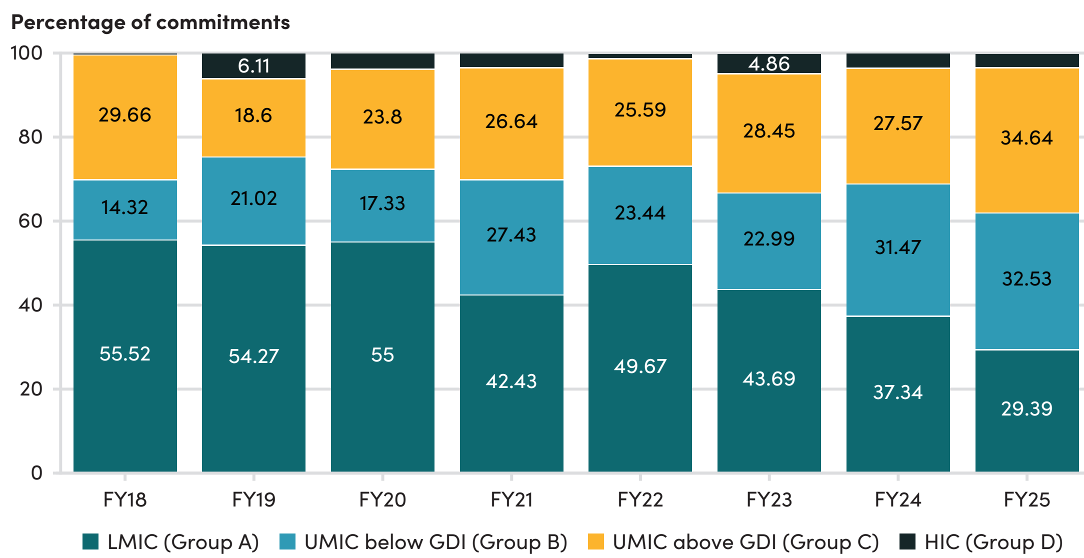
26 IBRD Condensed Quarterly Financial Statements, December 31, 2025. https://thedocs.worldbank.org/en/doc/5e394eaa9f7616b3a5518bd2f4bd9774-0040012025/original/IBRD-Financial-Statements-December-2025.pdf.

FIGURE 10. How much does the IBRD distribute to different income groups?
IBRD commitments to LMICs, UMICs, and HICs, with UMICs disaggregated by whether they are above or below the IBRD Graduation Discussion Income (GDI)



Source: IBRD Commitments and Disbursements.

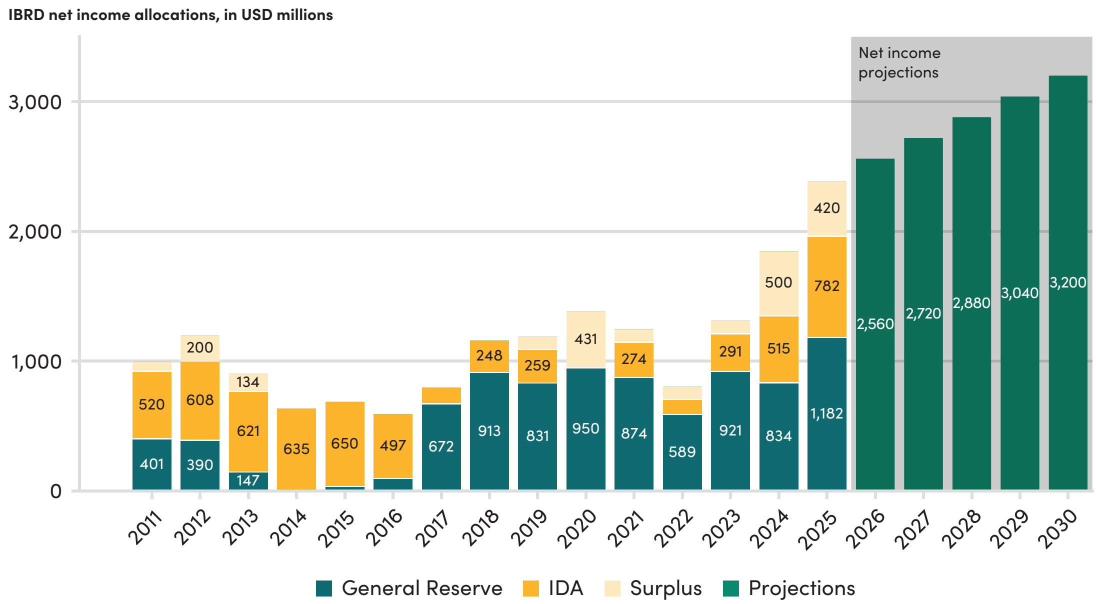
FIGURE 11. The share of IBRD commitments to LMICs has fallen since 2018
IBRD commitments to LMICs, UMICs, and HICs, with UMICs disaggregated by whether they are above or below the IBRD Graduation Discussion Income (GDI)



Source: IBRD Commitments and Disbursements.

In addition, IBRD's transfers to IDA are not keeping pace with record profits. From 2011–2017, IDA transfers averaged $522 million per year, or 65 percent of net income. This compares to $311 million per year, or 20 percent, between 2018–2025 (although FY25 represented a significant uptick, with transfers closer to a third of total profits).[27] We project profits will continue to grow, boosting IBRD's equity levels and further enabling an expansion in lending.

FIGURE 12. IBRD support for IDA has not kept pace with rising profits
IBRD annual net income allocations 2011–2025, CGD projections 2026–2030 (in USD millions)



Source: IBRD Financial Statements, CGD staff calculations.

The response

These challenges underscore that both IDA and IBRD need to do more to increase and shift resources to the poorest countries. We offer three reforms to accomplish this objective:

Reform 1: Make the IDA graduation process more rules-based

The first fix is to make the graduation process a more consistent, rigorous, rules-based process. A priority should be to address a glaring inconsistency in IDA's graduation policy, which is that there are two criteria for IDA eligibility (per capita income and creditworthiness), but numerous criteria for graduation.

IDA's Articles of Agreement explicitly state that IDA "shall not provide financing if in its opinion such financing is available from private sources on terms which are reasonable for the recipient or could be provided by a loan of the type made by the Bank."[28] However, IDA considers multiple factors when assessing graduation readiness, including GNI per capita, time since a country has exceeded the

27 IBRD Financial Results. https://financesone.worldbank.org/summaryinfo/ibrd.
28 IDA Articles of Agreement, September 24, 1960. https://thedocs.worldbank.org/en/doc/2a209939e876fdcd0d957036daebff6e-0410011960/ida-articles-of-agreement.

income threshold, creditworthiness, poverty headcount, population, exports/GDP, life expectancy, urbanization, fragility, institutional development, and resource rents.[29] The latest mid-term review overview of IDA graduation also includes a summary rationale for why each blend country is unable to graduate. Factors include vulnerabilities to climate and external shocks as well as institutional weakness. The implication is that if a country exceeds the IDA cutoff and is creditworthy, there are numerous other factors that justify continued access to IDA funding. This, in turn, implies that IDA eligibility is much more complex than an income threshold and creditworthiness determination. The paper also claims that "only small island states have been granted exceptional access to IDA resources even though they have a per capita GNI above the operational cut-off and—in some cases—have access to IBRD or other market-based sources of financing." But as we have shown in this paper, this is simply not the case; moreover, the exception has been broadened to include small economies. To us, this points to institutional drift away from IDA's core mandate.

Next, IDA needs to formalize the transition from gap to blend status, which is currently borrower-driven, by developing and operationalizing criteria that determine when countries move from one category to the other.

Finally, IDA and IBRD need to engage jointly and proactively with blend countries to enable IDA graduation, identifying reform priorities developed through this engagement that are then included and assessed in their Country Partnership Framework (CPFs). From what we could discern, CPFs do not include any explicit discussion of graduation trajectories. We assessed the CPFs of all current blend countries and found that with one exception—Pakistan—no CPF included a reference to IDA graduation. Moreover, the Pakistan CPF, which spans nearly ten years (FY26–FY35) predicts that the country will *not* graduate during this period.[30] If this holds, Pakistan will have remained a blend country for 20 years. This forecast is illustrative of the fact that blend country access to IDA is temporary in theory but not in practice.

Reform 2: The IBRD should revise its creditworthiness assessments

Second, the IBRD should revise its creditworthiness assessments of IDA countries to better capture their financial realities, including borrowers' repayment and recovery histories and durable track records of market access. The process for determining creditworthiness is not public, but we know the broad components: political risk, external debt and liquidity, fiscal policy and public debt burden, balance-of-payments risks, economic structure and growth prospects, monetary and exchange rate policy, financial sector risks, and corporate sector debt.

29 IDA20 Mid-Term Review: IDA Access, Terms and Graduation Prospects, November 22, 2023. https://documents1.worldbank.org/curated/en/099012624123036908/pdf/BOSIB1cd951f870011b87d1243b7b5be036.pdf.

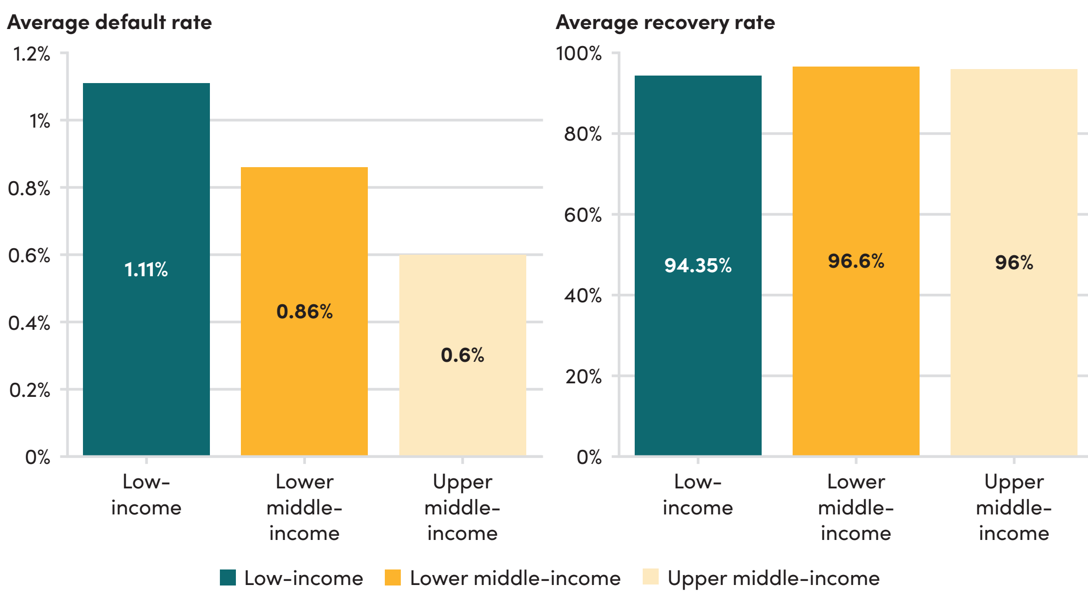
30 Pakistan—Country Partnership Framework for the Period FY26 Up to FY35. January 14, 2025. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099121324161568318.

Unfortunately, it is not clear to what extent these criteria take into account the historical repayment and recovery rates for sovereign creditors. In late 2025, the GEMs Consortium of development financial institutions, which includes the World Bank, released 40 years of data on sovereign default and recoveries. The data show that loan repayments have been consistently near or at 100 percent, with average default rates of only 0.77 percent (see Figure 13). High repayment rates are to be expected—the MDBs benefit from preferred creditor status, and once a country defaults to an MDB, access to capital markets is usually cut off. As of December 31, 2025, IBRD had $285 billion of loans outstanding, of which 0.5 percent were in nonaccrual status, all related to Zimbabwe and Belarus. Notably, both were IBRD- not IDA- borrowers at the time of default.

Restoring credibility as a borrower requires making good on these payments, which is why recovery rates are also very high, at 95 percent on average. So far, *all* defaults covered by the GEMs database have ended with the MDB recovering all overdue principal and interest amounts on a nominal basis, resulting only in losses from the cost of funding overdue interest amounts.

FIGURE 13. What can GEMs tell us about MDB lending risk in IDA-only, blend and gap countries?

Average default and recovery rates in low, lower middle-income, and upper middle-income countries, 1984–2024



Notes: All LIC countries except for DPRK are categorized as IDA-only (24 countries). 36 of 50 LMICs are IDA eligible, of which 4 are IDA-only, 9 are small economies, and 23 are blends and gaps.
Source: Global Emerging Markets Risk Database.

Second, the World Bank's creditworthiness decisions should better reflect market access. For example, we found that seven gap countries, which are deemed not creditworthy, have had some degree of market access, as have nine blend countries (deemed partially creditworthy) (see Table 5). Given the multiple issues that factor into creditworthiness, we recognize that the ability to issue bonds in international capital markets is a crude proxy. Nevertheless, a couple of countries stand out: Benin and Honduras. Although both are classified as not creditworthy, Benin has issued five Eurobonds since 2020, and Honduras, which has a per capita GNI double the income threshold, has issued two bonds in the last five years. Both countries have composite ratings of B+.

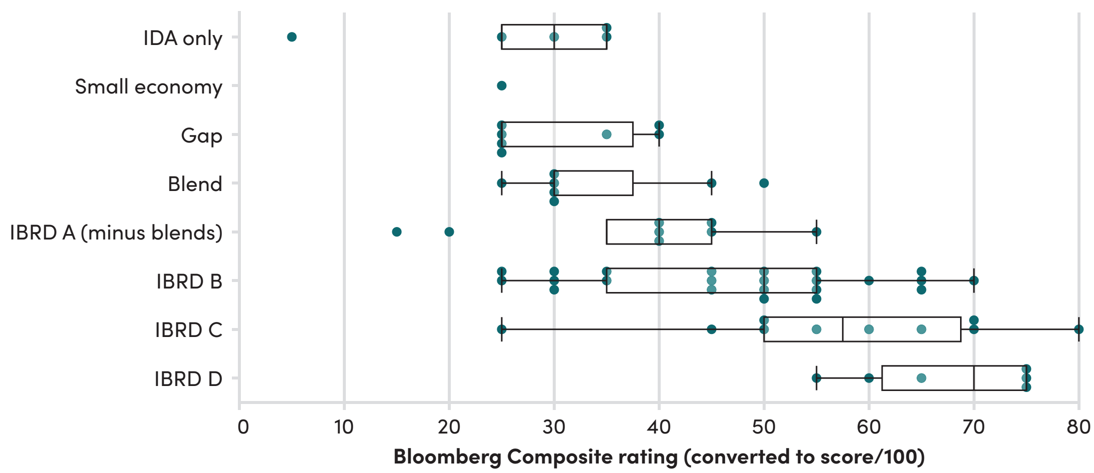
TABLE 5. Blends and gaps with market access
IDA blend and gap countries which have issued Eurobonds since 2020

Country	GNI per Capita, USD (Atlas Method)	Eurobond	Issuances Since 2020	IDA Lending Group (FY26)	BBG Composite Rating	Amount Issued (USD)	Coupon (Weighted Average)
Benin	1,430	Benin Government International Bond	5	Gap	B+	3,400,250,000	6.61
Cameroon	1,700	Republic of Cameroon International Bond	3	Blend	B-, NR	2,108,300,000	7.92
Congo	2,280	Congolese International Bond	3	Blend	NR	2,480,000,000	9.66
Cote d'Ivoire	2,530	Ivory Coast Government International Bond	4	Blend (Gap before FY26)	BB	7,577,200,000	7
DRC	670	DRC International Bond	2	IDA only	B-	1,250,000,000	9.14
Ghana	2,310	Ghana Government International Bond	5	Gap	CCC+	9,401,821,387	3.91
Honduras	3,020	Honduras Government International Bond	2	Gap	B+	1,500,000,000	7.43
Kenya	2,090	Republic of Kenya Government International Bond	8	Blend	B-	8,250,000,000	8.56
Kyrgyzstan	2,190	Kyrgyz Republic International Bond	1	Gap	B	700,000,000	7.75
Laos	2,000	Laos Government International Bond	1	Gap	CCC+	300,000,000	11.25
Nigeria	1,700	Nigeria Government International Bond	8	Blend	B-	9,797,465,000	8.43
Pakistan	1,430	Pakistan Government International Bond	4	Blend	CCC+	3,950,000,000	7.74
Rwanda	1,040	Rwanda International Government Bond	1	IDA only	B	620,000,000	5.5
Senegal	1,680	Senegal Government International Bond	2	Gap	CCC+	1,993,795,000	6.63
Sri Lanka	3,860	Sri Lanka Government International Bond	7	Gap	CCC+, NR	10,431,344,940	3.33
Suriname	5,690	Suriname Government International Bond	3	Small economy	CCC+	2,154,553,000	8.39
Uzbekistan	3,020	Republic of Uzbekistan International Bond	7	Blend	BB, BB-	4,124,060,000	5.7
Zambia	1,220	Zambia Government International Bond	2	IDA only (Gap before FY25)	CCC+	3,083,268,867	3.43

Source: Bloomberg LP, World Bank DataBank.

In addition, there is meaningful overlap between gap, blend and IBRD borrowers at the lower classification levels in terms of their creditworthiness (Groups A and B) (see Figure 14).

FIGURE 14. How do credit ratings compare between the IDA and IBRD lending categories?
Most recent Bloomberg Composite (BBG) sovereign credit ratings for IDA and IBRD borrowing groups



Notes: BBG composite ratings have been converted into a score/100. AAA = 100, A = 80, BBB = 65, BB = 50, B = 35, CCC = 20, c = 5, and default = 0. Boxes show rating percentiles 25–75 within a lending category: the middle line of the box shows the median rating. Whiskers extend to countries within 1.5 standard deviations of tbe box.

Source: Bloomberg L.P., IBRD lending rates and fees, IDA borrowing countries.

BOX 2. IBRD groups

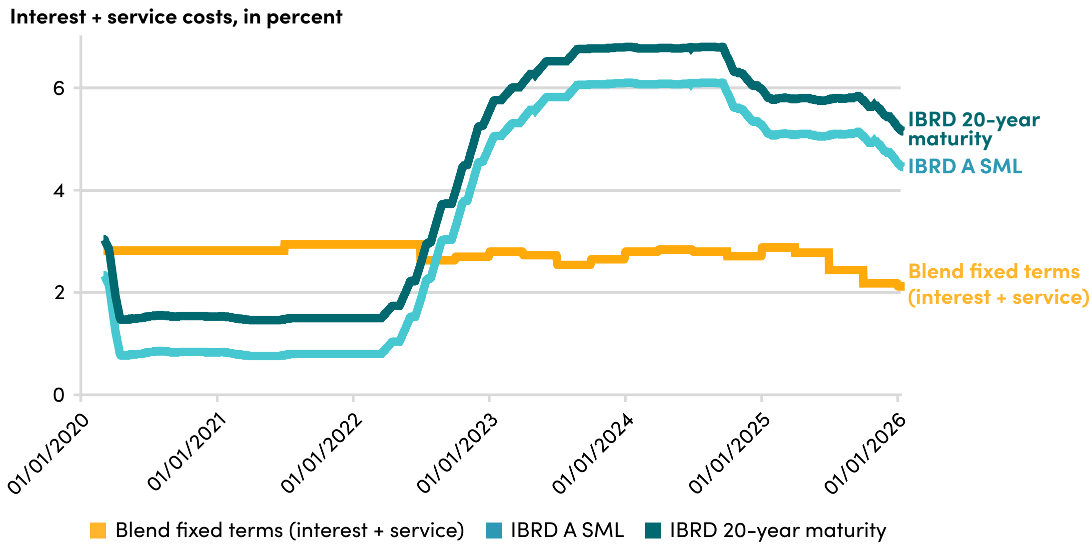
- **Group A:** Blends, small states, countries in fragile and conflict-affected situations, and recent IDA graduates. These countries are exempt from the maturity premium increase regardless of their income levels.
- **Group B:** Countries below IBRD's "Graduation Discussion Income" (GDI) threshold of $7,855 that do not qualify for an exemption listed in Group A.
- **Group C:** Countries above the GDI, but below high-income country (HIC) status of $13,935 and that do not qualify for an exemption listed in Group A.
- **Group D:** HICs that do not qualify for an exemption listed in Group A.

Reform 3: IBRD should create a new concessional instrument

As countries migrate to the IBRD balance sheet, terms become significantly steeper (see Table 8). We do not want to imperil any country's development trajectory and debt sustainability by reducing access to affordable sources of finance, especially as the spread between IDA and IBRD lending terms has increased significantly since 2022 (see Figure 15). This is not an apples-to-apples comparison because IDA rates are fixed and IBRD rates are floating, but it does suggest that there is too much volatility during the graduation phase.[31] Therefore, a critical component of our proposal is that IBRD introduce a new instrument that is less concessional than IDA but significantly more generous than what is currently available. For example, a new instrument could feature a 3 percent interest rate with a 20-year maturity and five-year grace period.

FIGURE 15. There is significant volatility between IBRD A and IDA fixed-rate blend terms

IDA blend and IBRD group A financing costs, inclusive of service fees, 2020–2026



Sources: New York Fed, IBRD lending rates and fees, IDA financing.

The 3 percent interest rate is higher than the 2.1 percent rate that IDA currently offers, and the 20-year maturity is five years shorter than the current 25-year blend terms.[32] However, the 3 percent interest rate is lower than the current IBRD A terms, and is fixed, not variable, while the 20-year maturity is equal to the longest-maturity loans the IBRD regularly offers.

31 IDA introduced a floating rate option for blend countries in IDA21.

32 IDA Lending Terms, 1 April 2026 https://thedocs.worldbank.org/en/doc/45848f4b32bdefb1317a37feb9aba4c1-0410012026/original/IDA21-Terms-effective-04-01-2026.pdf.

TABLE 6. IBRD should create a new semi-concessional instrument
IDA and IBRD borrowing terms, as of April 2026

Cohort	Interest	Maturity (Years)	Grace Period (Years)	Grant Element
IDA grants	N/A	N/A	N/A	**100%**
IDA 40-year credits	0%	40	11	**69.47%**
IDA regular (31-year credits)	1.28%	31	6	**43.26%**
IDA small economy terms	1.25%	40	10	**51.33%**
IDA blend terms (fixed rate)	2.11%	25	5	**30.00%**
IDA blend terms (floating rate)	SOFR + (0.48 to 1.18%) (max rate 5%)	25	5	**1.5–13%**
Our proposed IBRD semi-concessional terms	3.00%	20	5	**19.13%**
IBRD group A	SOFR + (0.73 to 1.43%)	5–20 years	depends	**3.5–6%**
IBRD group B	SOFR + (0.73 to 1.63%)	5–20 years	depends	**1.5–6%**
IBRD group C	SOFR + (0.73 to 1.83%)	5–20 years	depends	**0–6%**
IBRD group D	SOFR + (0.78 to 2.08%)	5–20 years	depends	**–2–5.5%**

Note: 5-year average SOFR rate is 3.31%.

Source: IDA Borrowing Countries, IBRD lending rates and fees, Federal Reserve Bank of St. Louis. IDA and IBRD terms represent the cost to borrow in USD. IBRD grace period depends on specific loan; our grant element calculations assume a maximum 5 year grace period. Our calculations use a 5-year average SOFR rate (3.31%). Grant element calculations assume a 5% discount rate. Scale up facility terms not included here as they vary significantly by borrower. IDA blend floating rate loans come with a possible 15% volume increase compared with fixed rate terms.

We estimate that the cost to IBRD would be around $1.1 billion per year in net income to mobilize $10–13 billion in IBRD lending, including around $8 billion in IBRD's new semi-concessional instrument (see Table 9). IBRD concessional loans could also be directed to social sectors where funding tends to decline once countries graduate from IDA, while standard IBRD terms would apply to projects expected to generate more immediate returns, such as infrastructure.

TABLE 7. Our proposal would add ~$9–11 billion per year to IBRD's balance sheet, an increase of ~25 percent

Country Cohort	FY23–25 Average (USD Millions)	IBRD Semi-Concessional Terms	IBRD A Terms
50/50 IDA/IBRD split	4,188	3,141	1,047
Moved to IBRD semi-concessional	5,094	3,820	1,273
Moved to IBRD A	968	0	968
Sum of proposed new additions	10,250	6,961	3,289
Estimated cost to IBRD	1,000		

Source: World Bank Finances One, IDA Financing, CGD staff calculations.

Funding for the new instrument could come from IBRD's net income, which reached a record $2.4 billion in FY25.[33] On average, just over 20 percent of IBRD profits has been transferred to IDA since FY 2018, making a significant portion of net income available for other uses. In fact, a portion of net income is already set aside to enable the IBRD to offer concessional lending for global challenges (e.g., for climate-related initiatives or pandemic preparedness). The size of that account could be boosted to accommodate the new countries on IBRD's balance sheet with uses expanded to all sectors or tailored more narrowly to human capital. Alternatively, IDA itself could create the new semi-concessional instrument on its balance sheet. However, a key principle of our approach is that IBRD needs to assume additional risk while doing more for the poorest.

Finally, we believe the addition of lending targets could help limit institutional drift away from the poorest. Those would be aspirational, not binding, and could be approved and reviewed by IDA deputies.

There is precedent for this approach. In 2015, the Asian Development Bank (AsDB) combined its ordinary capital window (OCW) with its concessional arm, making it significantly more efficient. The grant-only eligible countries were put into their own facility—the Asian Development Fund (ADF)—which continues to rely on donor contributions but at much reduced levels. Concessional lending is subsidized by the AsDB through its profits, and ADF deputies approve country group lending targets. Countries like Pakistan and Bangladesh currently on IDA's balance sheet borrow from the OCW, not the grant arm (the Asian Development Fund), and the AsDB remains AAA.

We are not proposing a balance sheet merger, only that IBRD take on more of the borrowing currently done by IDA, including on concessional terms. The ideal course would be for IDA and the World Bank to run a range of scenarios designed to maximize concessional borrowing envelopes and direct funding to the neediest borrowers, without putting the AAA ratings at risk.

Our proposals in action

As an example, we have modeled one scenario demonstrating what these reforms could mean in practice based on how countries score against the following criteria:

1. Per-capita GNI double the IDA income threshold over two cycles (ending in FY2028)
2. Debt sustainability rating of low or moderate
3. Market access as defined by IMF[34] (see Table 8)

33 IBRD Financial Results. https://financesone.worldbank.org/summaryinfo/ibrd.

34 IMF Policy Paper: 2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing—Reform Proposals (See Annex IX), October 2024. https://www.imf.org/-/media/files/publications/pp/2024/english/ppea2024047.pdf.

TABLE 8. Which countries should move to IBRD?

Country	IDA Lending Group	Conditions Met	Double IDA Threshold Since: (5+ Years by FY28)	Risk of Debt Distress (LIC DSF)	Market Access, as Defined by IMF
Bangladesh	Gap	2/3	2022	Moderate	No
Belize	Small economy	2/3	1989	Moderate*	No
Benin	Gap	2/3	Never	Moderate	Yes
Bhutan	Small economy	2/3	2014	Moderate	No
Cabo Verde	Small economy	2/3	2006	Moderate	No
Cote d'Ivoire	Blend	2/3	Never	Moderate	Yes
Dominica	Small economy	2/3	1990	Moderate	No
Eswatini	Small economy	2/3	2005	Moderate*	No
Fiji	Small economy	2/3	2004	Moderate*	No
Guyana	Small economy	2/3	2008	Low	No
Honduras	Gap	2/3	2022	Low	No
Kosovo	Gap	3/3	2010	Low*	Yes
Samoa	Small economy	2/3	2007	Moderate	No
Suriname	Small economy	2/3	2004	Moderate*	No
Uzbekistan	Blend	3/3	2023	Low	Yes
Vanuatu	Small economy	2/3	2011	Moderate	No

Note: *Debt Sustainability Analysis taken from IMF Article IV documents.

Specifically, we recommend the following:

- Countries that meet *all three criteria* should graduate to IBRD and borrow on Group A terms. This would include Kosovo and Uzbekistan. As an aside, we found the latest rationale for Uzbekistan's continued access to IDA to be weak. It stated that "the country faces institutional vulnerabilities, a poverty headcount rate of 25.0 percent, and requires substantial concessional financing to support its complete transition to a market economy."[35] But multiple middle-income countries have large poverty headcounts and there is no compelling rationale for why concessional financing is needed to support Uzbekistan's transition at this point in its development. Kosovo, an upper-middle-income country, has been given exceptional status since independence due to the lack of formal recognition by two of its neighbors. After 18 years of regional stability, it is time for that status to end. Additionally, we propose that high-income gaps, blends, and small economies graduate to IBRD Group A. Currently, only Guyana meets this criterion, but some small island states will likely reach this milestone soon.

35 IDA20 Mid-Term Review: IDA Access, Terms and Graduation Prospects, November 22, 2023. https://documents1.worldbank.org/curated/en/099012624123036908/pdf/BOSIB1cd951f870011b87d1243b7b5be036.pdf.

- Countries meeting *two of the three* criteria should move to the IBRD balance sheet and borrow on Group A and semi-concessional terms with the exact split determined on a case-by-case basis. As there are several small states in this category, we would also propose that they retain access to the IDA crisis response window.
- Countries meeting *one of the three* criteria should remain on IDA's balance sheet and have access to IBRD regular and semi-concessional resources.

Based on this model, countries would move to the following categories, as shown in Table 9.

TABLE 9. Which countries would move to which lending groups?
How current IDA countries would land in our proposed new categories: IDA-only, 50/50 IDA/IBRD split, IBRD semi-concessional, and IBRD A

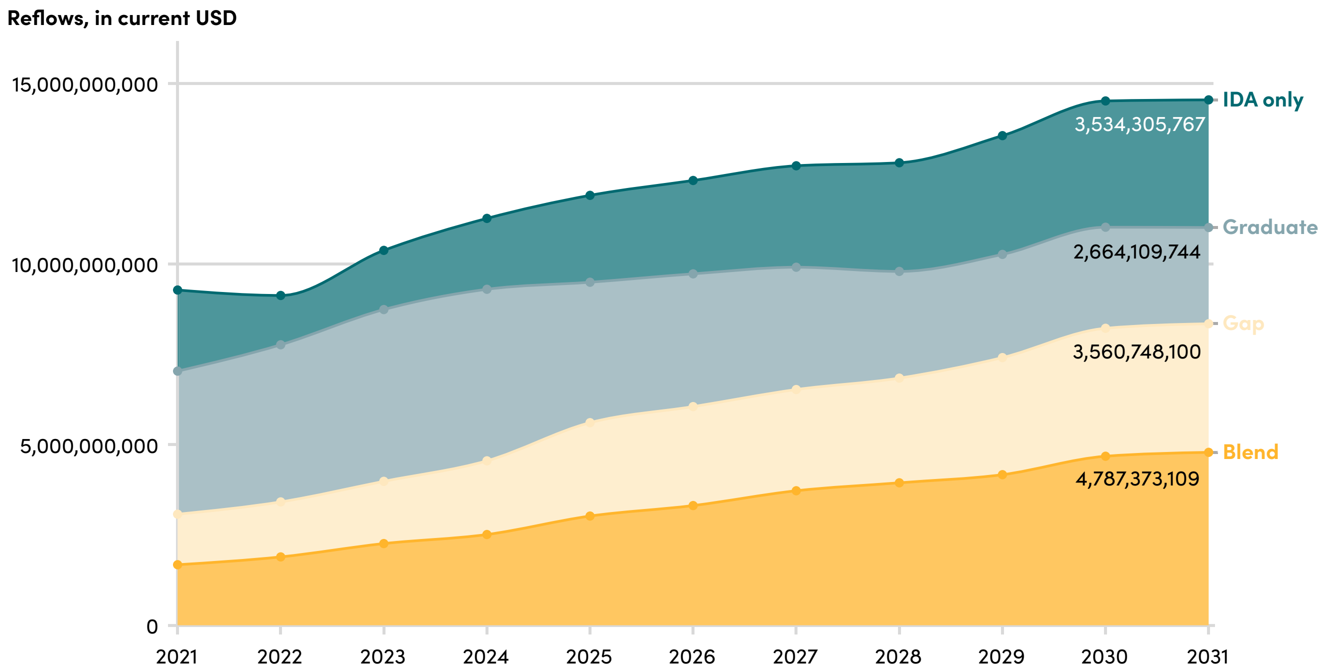
Region	IDA-Only	Receives Higher IBRD Lending Volumes	Moves to New IBRD Semi-Concessional Category	Moves to IBRD Group A
Africa	Burkina Faso, Burundi, CAR, Chad, Comoros, DAC, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Lesotho, Liberia, Madagascar, Mali, Mozambique, Rwanda, Sao Tome and Principe, Senegal, Somalia, Tanzania, Togo, Uganda, Zambia	Cameroon, Congo Rep., Kenya, Mauritania, Nigeria	Benin, Cape Verde, Cote d'Ivoire, Eswatini	
East Asia	Kiribati, Laos, Marshall Islands, Micronesia, Solomon Island, Tonga, Tuvalu	Cambodia, Papua New Guinea, Timor Leste	Fiji, Samoa, Vanuatu	
South Asia	Maldives, Myanmar	Nepal, Pakistan, Sri Lanka	Bangladesh, Bhutan	
Europe and Central Asia	Tajikistan	Kyrgyzstan		Kosovo, Uzbekistan
Latin America and the Caribbean	Grenada, Haiti, St. Lucia, St. Vincent and the Grenadines	Nicaragua	Belize, Dominica, Honduras, Suriname	Guyana
MENA	Syria, Yemen			

This is only one of many possible scenarios; we are not aiming to be overly prescriptive because we recognize that the implications of moving countries between balance sheets are complex. Moving IDA's more creditworthy borrowers to IBRD's balance sheet would free up lending for the poorest but also lead to a decline in credit quality and reflows. This, in turn, would have an impact on IDA's market borrowing program. IBRD's credit quality would decline as well, and the potential need for extra provisioning to accommodate higher risk countries could eat up IBRD's headroom more quickly.

On the upside, the addition of new borrowers would create a more diversified portfolio, potentially enabling more lending to the biggest borrowers. Higher IBRD reflows would further increase profits which could be used to support IDA directly (through transfers) or the new semi-concessional lending instrument.

Significant balance sheet shifts would also have implications for IDA's sustainability given the contribution of reflows from blend countries to its capital base (see Figure 16). Reflows from blend countries account for a third of the total, and those would diminish as countries transitioned to IBRD. It would take two IDA cycles for this scenario to negatively affect reflows.

FIGURE 16. How much IDA reflows come from blends versus everyone else?
Reflows from IDA blends and non-blends, 2020–2032, in current USD



Notes: This projection assumes countries will keep their current lending group classification through 2031, including that there will be no new IDA graduations.
Source: World Bank International Debt Statistics.

What is clear is that IDA's and IBRD's balance sheets can no longer be considered in isolation, and each institution should redouble its focus on the poorest countries with the least access to other sources of finance. For IDA, that is LICs and vulnerable LMICs; for IBRD that is LMICs with demonstrated market access (or a reasonable proxy).

Our assessment is that IBRD could assume these obligations without putting its AAA rating at risk. But there is an alternative: IBRD could give donors the option of providing portfolio guarantees as they are doing for Ukraine. As of December 31, 2025, IBRD's loans and guarantees outstanding to Ukraine stood at $17.4 billion, but its net exposure was only $5.9 billion because third parties (i.e., IBRD shareholders) have provided $11.5 billion in portfolio guarantees to reduce the risk for IBRD.

The ideal course would be for IDA and the World Bank to run a range of scenarios designed to maximize concessional borrowing envelopes and direct funding to the neediest borrowers, without putting the AAA ratings at risk.

Conclusion

Development initiatives–regardless of track record or merit–are facing a major reckoning in the context of increasing need, declining donor resources and a retreat from multilateralism. Both IDA and the IBRD need to rethink how to increase and better direct resources to the poorest countries that are the most reliant on official development finance.

For IDA, this means a more rigorous application of its graduation policy so that blend and gap countries with other sources of financing do not consume valuable IDA resources. For IBRD, it means accelerating the transition of countries from IDA to IBRD, boosting support for IDA blend countries, and offering them funding on semi-concessional terms. Getting the balance right will require that the World Bank and IDA model alternative scenarios aimed at maximizing concessionality while minimizing risk.

The risk of inaction is that demand will grow while resources shrink and that IDA funds will not be directed where they are needed most. We urge donors to be proactive and IBRD/IDA management to be responsive. The ingredients of a win-win proposal exist. What is needed now is leadership, initiative, and ambition.

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