

IDA Single Currency Pilot Program

IDA offers three main financial instruments: grants, credits, and guarantees. Terms such as charges and interest rates, maturity structure, grace period and repayment profile vary according to type of instrument and eligible recipient. IDA's currency of commitment is the Special Drawing Right (SDR), given that the currency composition of its primary source of funding (partner contributions) closely reflects the composition of the SDR basket. The SDR is not itself a currency that can be bought and sold in the financial markets. Its value is linked to that of a basket of currencies, currently US dollar, euro, pound sterling, Japanese yen and Chinese yuan. This means when IDA recipients take IDA credits in SDR, they are effectively borrowing in five different currencies.

While the SDR as a basket of currencies is less volatile than its individual components, for many IDA countries SDR credits create extra currency risk and challenges in managing the liabilities. This was supported by Bank surveys of treasury and debt management officials in IDA countries. In response to client requests, IDA introduced the Single Currency Lending pilot program in 2012. The program allows IDA recipients to denominate new credits in the current SDR constituent currencies, which are US dollar, euro, pound sterling and Japanese yen. The program was extended for three more years beginning April 2015 after the expiry of the initial pilot period in December 2014.

Eligibility

All IDA countries that receive IDA credits are eligible for single-currency credits up to the equivalent of SDR 500 million per project, on a first-come, first-served basis. The pilot program is available for three years or until SDR 10 billion equivalent is reached, whichever comes first.

Key Features

Single currency denominated credits are similar to SDR-denominated IDA credits in almost all aspects. The key differences are in the *currency of commitment/repayment*, and the *pricing*.

Currency of commitment/repayment

For credits denominated in a single currency, when IDA borrowers choose the SDR constituent currency they want to denominate their credit in (commitment currency), they will automatically be obligated to repay IDA in the same currency (payment currency). This is a change from the current practice in which recipients

At a Glance

- IDA is offering Single Currency Lending on a pilot basis. The program allows IDA recipients to denominate new credits in the SDR constituent currencies, currently US dollar, euro, pound sterling and Japanese yen.
- The pilot program is available for three years (from April 2015) or until SDR 3 billion equivalent is reached, whichever comes first.
- The key differences between regular IDA credits and credits denominated in single currency are a) currency of commitment/repayment; and b) pricing.

choose a payment currency during negotiation, and are informed by the Bank of the payment due (depending on prevailing exchange rates) on each billing date.

Pricing

Pricing of single currency denominated credits is set on a financial equivalence basis; i.e. at the time of the setting of pricing, the recipient of a credit and IDA would be financially indifferent to the denomination of the credit, whether it be SDR or any of the single currency options offered. As a result, the nominal level of service charges (and interest charges for countries on blend terms) for a single currency denominated credit may differ from a traditional SDR credit, and may also differ between currencies. The difference between the traditional SDR credit service charge and a service charge denominated in single currency is called the basis adjustment. The basis adjustment will vary depending on prevailing foreign exchange, interest rates, and type of credit. Hard-term and transitional support credits are available in floating, as well as fixed rates.

For the fixed rate products, the basis adjustments and the resulting service and interest charges for each currency in the Single-Currency Lending program are calculated and published every quarter (see <http://treasury.worldbank.org/bdm/htm/IDACreditPricing.html>). The service and fixed interest charges are fixed for the life of each credit based on the prevailing published figures at the time of credit approval by the Board of Executive Directors.

- f) Simplify and strengthen the financial management of debt portfolios.

Benefits

Borrowing in a single currency as opposed to a basket of currencies can:

- a) Reduce currency exposure (particularly for countries with revenues in one foreign currency or countries with local currencies pegged to one of the SDR composite currencies);
- b) Provide an opportunity to better match the currency of revenues with debt;
- c) Offer the opportunity to benefit from currency diversification;
- d) Create opportunities to hedge currency exposure (the liability stream of credit repayments on SDR credits is difficult to hedge to a single currency because the SDR composition is reset every five years by the IMF);
- e) Provide better matching of credit terms with project expenditures (for SDR credits, project costs in disbursement currencies may exceed the IDA-approved SDR credit volume due to fluctuations in exchange rates over the up to 10-year disbursement horizon on IDA credits); and

Process

There is no separate process to request a credit in single currency. The borrower should indicate the currency selected at loan negotiation.

The introduction of single-currency lending makes IDA products more flexible and customer oriented, providing risk mitigation benefits and contributing to the building of a client country toolkit of instruments and options.

For Information:

Miguel Navarro-Martin, Head of Banking Products, mnavarromartin@worldbank.org, +1 (202) 458-4722

Hubertus de Leede, Manager, IDA Resource Mobilization, hdeleede@worldbank.org, +1 (202) 473-3298