Policy

OP 3.10 - Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits

Bank Access to Information Policy Designation
Public

Catalogue Number

Issued

Effective
April 1, 2007

Retired
May 1, 2017

Content

Applicable to

Issuer
OPCS

Sponsor

Operational Manual

OP 3.10 - Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits

These policies were prepared for use by World Bank staff and are not necessarily a complete treatment of the subject.

OP 3.10
June, 2003

This Operational Policy statement was revised in April 2007 consequent to the issuance of OP/BP 12.00, *Disbursement*. Previously revised in August 2004 to reflect the term "development policy lending" (formerly adjustment lending), in accordance with OP/BP 8.60, issued in August 2004.

Note: OP 3.10 and BP 3.10 replace OP, BP, and GP 3.10, *Loan Charges, Currencies, and Payment Terms of IBRD Loans and IDA Credits* dated January 1995, and the Operational Memoranda *Currency Choice: Existing IBRD Loans,* 6/25/97 and *Currency Choice: New IBRD Loans*, 6/25/97. For guidance, additional information is available at http://www.worldbank.org/fps. Information contained on such web sites is for illustration purposes only and does not constitute World Bank policy.

Questions on IBRD financial products may be referred to the Manager, Financial Products and Services Group (BCFBD). Questions on IDA credits may be referred to the Director, Resource Mobilization Department FRM).

IBRD Loans

1. Access to IBRD loans is determined primarily by a country's per capita income and creditworthiness.[1] For determining repayment terms, countries are assigned by per capita GNI (formerly GNP) to income categories I-V.

2. IBRD offers two loan products for new loan commitments: fixed-spread loans (FSLs, see paras. 3-23), and variable-spread loans (VSLs, formerly known as variable-rate single currency loans or VSCLs, see paras. 24-34).[2] These loan products provide borrowers the flexibility to select terms that are consistent with their debt management strategy and suited for their debt servicing capacity.[3] They are available for all standard IBRD lending operations.[4]

Fixed-Spread Loan (FSL)

Currencies

3. FSLs are committed and repayable in the currency or currencies of the loan selected by the borrower. IBRD offers FSLs in euro, Japanese yen, U.S. dollars, and other currencies that it can efficiently intermediate.[5] Borrowers may decide to contract FSLs in more than one currency tranche.

Pricing

4. *Lending Rate.*[6] The initial interest rate on FSLs consists of (a) *a variable base rate* of six-month LIBOR in respect of each interest period for each loan; and (b) a *spread*, fixed for the life of the loan. The lending rate is expressed and interest accrues on a LIBOR day-count convention on daily principal volumes disbursed and outstanding.[7] Interest continues to accrue on any overdue principal amounts, but IBRD does not charge interest on overdue interest on its loans.

5. The lending rate is reset every six months on the interest payment dates for the loan and applies to the interest period beginning on that date. Semiannual interest payment dates fall on the 1st or 15th day of the month, as specified in the Loan Agreement.

6. *Commitment Charge*. The contractual commitment charge for FSLs is 0.85 percent annually on undisbursed loan amounts for the first four years of the loan's life, and 0.75 percent thereafter. Commitment charges begin accruing 60 days after the Loan Agreement is signed.[8]

7. *Waivers*. In conjunction with the annual review of IBRD's net income, the Board may waive (a) part of the interest charges on its loans in the coming year for all eligible borrowers, and (b) a portion of the commitment

charge to be collected in the coming year for all borrowers. To be eligible for the interest rate waiver, a borrower must have serviced all of its IBRD loans and have paid all amounts under IBRD guarantees and hedging products during the preceding six-month period within 30 calendar days of their due dates.[9] The interest rate and commitment charge waivers apply to all loan products offered by IBRD for standard lending operations. At the beginning of each fiscal year, IBRD notifies each borrower of the interest rate waiver and commitment charge waiver applicable for that fiscal year.[10]

8. *Front-End Fee*. For all loan commitments, IBRD charges a front-end fee of 1 percent of the amount of the loan. At the option of the borrower, the front-end fee can be paid out of the loan proceeds upon loan effectiveness. When the borrower does not finance the front-end fee, the borrower must pay the fee no later than 60 days after the effectiveness date, but before the first withdrawal from the loan. If the loan is partially or fully cancelled on or after effectiveness, no adjustment to the front-end fee is made. This applies equally to loans disbursed in tranches: if a tranche is cancelled after effectiveness, no portion of the front-end fee is refunded to the borrower.[11]

Conversion Provisions[12]

9. *Currency Conversions.* At any time during the life of a loan a borrower may request IBRD to convert all or part of the undisbursed or disbursed balance of an FSL to another currency approved by IBRD. A borrower may request IBRD to convert FSL disbursed and outstanding loan amounts up to the amount relating to local expenditures.[13]

10. *Interest Rate Conversions*. At any time during the life of a loan a borrower may request IBRD to convert the lending rate on all or part of the disbursed balance of an FSL from a variable to a fixed rate, and vice versa. A borrower may exercise this option for all or part of the remaining maturity of the loan. Borrowers may also request IBRD to implement such interest rate conversions automatically (*automatic rate fixings*) by period or by amount.

11. *Interest Rate Caps and Collars.* At any time during the life of the loan a borrower may purchase from IBRD an interest rate cap or collar for all or part of the disbursed amount and for all or part of the remaining maturity of the loan.

12. *Maturities*. Borrower requests for currency conversions, interest rate conversions, interest rate caps, and interest rate collars are subject to the maximum maturity available from time to time in the swap markets for the currency or currencies involved.[14]

13. *Pricing.* Pricing of currency conversions, interest rate conversions, interest rate caps, and interest rate collars is at market terms – usually based on execution terms achieved by IBRD in an offsetting swap with financial intermediaries or, in some cases, on terms calculated using prespecified, widely available screen quotes. In addition, IBRD applies a transaction fee[15] as a one-time charge for each transaction.[16]

Repayment Terms

14. For all FSLs, there is an absolute final maturity of 25 years. Borrowers may choose between two amortization schedules for FSLs: a commitment-linked schedule or a disbursement-linked schedule. In both types of schedules, repayment installments are calculated as a portion of the disbursed and outstanding amount of the loan.

15. *Commitment-linked Amortization Schedule*. Under this schedule, the timing of principal repayments is linked to the time of loan commitment. The grace period starts running from the time of expected IBRD loan approval. The expected first interest payment date is no more than six months from the expected date of loan approval.[17] Repayment installments are due beginning in the semester following the end of the grace period. Borrowers may choose from a number of principal *repayment types*: (a) level repayment; (b) annuity-type repayment; or (c) customized repayment.[18] Borrowers may also trade off terms across other FSLs within the 25-year final maturity limit.[19]

16. For FSLs with a *commitment-linked* repayment schedule, there is a limit on the *average repayment maturity* that varies by country category. Annex D to OP 3.10 shows the applicable average repayment maturities. Borrowers may select any pattern of principal repayments subject to the limits on average repayment maturity and final maturity. "Standard" country terms (which satisfy these limits) are just one of the many options available.[20] The *average repayment maturity* for an FSL with a commitment-linked repayment schedule is defined as the weighted average period of time between expected loan approval and the scheduled repayments.

17. *Disbursement-linked Amortization Schedule.* Under this option, the schedule has a level pattern of repayment, and the timing of principal repayments depends on the timing of actual disbursements. Cumulative disbursements during each interest period (a "Disbursed Amount") are repayable on a schedule that commences at the beginning of the interest period following the date of such disbursement. The grace period and amortization period selected

by the borrower must be the same for all Disbursed Amounts under the loan.

18. For FSLs with a *disbursement-linked* repayment schedule, there is a limit on the *sum of the loan's expected average disbursement period and its average repayment maturity*. This limit varies by country category and applies to the repayment schedule for each Disbursed Amount. Annex D to OP 3.10 shows the policy limits for this type of repayment schedule. The expected average disbursement period[21] for a loan, which is defined as the weighted average period of time between loan approval and expected disbursements, is based on a reasonable estimate determined jointly by IBRD and the borrower.[22] Also, for an FSL with a disbursement-linked repayment schedule, the *average repayment maturity* is defined as the weighted average period of time between the date of disbursement and the scheduled repayments for each Disbursed Amount.[23]

19. *Amendment of Approved Terms.* Borrowers must choose the repayment terms before IBRD approves the loan. Repayment terms cannot be changed once IBRD has approved the loan. Also, IBRD normally does not reschedule interest or principal payments on its loans or participate in debt rescheduling agreements with respect to its loans. However, under extraordinary country or project circumstances, IBRD loan repayment terms may be amended (see BP 3.10, para. 10 (b) for procedures).

Prepayment

20. FSLs may be prepaid in full or in part. IBRD may charge a prepayment premium to cover the cost to IBRD of redeploying prepaid funds. The prepayment premium charged is based on the difference between the fixed spread payable on the prepaid loan and the fixed spread in effect for FSLs in the relevant currency at the date of prepayment (see para. 1 (a) of Annex B to OP 3.10).

21. *Prepayment during Currency Substitution*. If IBRD is unable to fund itself in a particular currency, it may provide the borrower with a substitute currency. No prepayment premium is charged on an FSL if the loan is prepaid while a substitute currency is outstanding.

22. *Prepayment during Conversion*. In the event of prepayment of any amount that has been converted under an FSL, the prepayment premium includes the components described in para. 1 (b) of Annex B to this OP 3.10.

23. *Partial Prepayment*. Borrowers may prepay the principal amount of one or more maturities of the loan. The borrower may specify which loan maturities are to be prepaid. If the borrower does not so specify, any such prepayment is applied as follows: (a) if the Loan Agreement provides for the separate amortization of Disbursed Amounts (as defined in para. 17), the prepayment is applied in the inverse order of such Disbursed Amounts, with the Disbursed Amount that had been withdrawn last being prepaid first and with the latest maturity of such Disbursed Amount being prepaid first; and (b) in all other cases, the prepayment is applied in the inverse order of maturity of the loan, with the latest maturity being repaid first.

Variable Spread Loan (VSL)[24]

Currencies

24. Same as for FSLs (see para. 3). VSLs or VSL tranches committed in Deutsche mark, French francs, or Netherlands guilders before the introduction of the euro on January 1, 1999, were redenominated by IBRD in euro on December 1, 2001.

Pricing

25. *Lending Rate*.[25] The lending rate on VSLs consists of: (a) a *variable base rate* of six-month LIBOR in respect of each interest period for each loan; and (b) a *variable spread.*

26. The lending rate is reset every six months, on each interest payment date, and applies to the interest period beginning on that date. All VSL interest payment dates fall on the 15th of the month. The lending rate is expressed and interest accrues on a LIBOR day-count convention on daily principal volumes disbursed and outstanding.[26] Interest continues to accrue on any overdue principal, but IBRD does not charge interest on overdue interest on its loans.

27. *Commitment Charge*. The contractual commitment charge for a VSL is 0.75 percent annually on the undisbursed amount of the loan. Commitment charges begin accruing 60 days after the Loan Agreement is signed.[27]

28. *Waivers*. VSLs for which the invitation to negotiate was issued on or after July 31, 1998, are subject to the

same interest and commitment charge waivers as FSLs (see para. 7).[28]

29. *Front-End Fee*. Same as for FSLs (see para. 8).

Repayment Terms

30. *Standard Repayment Terms*. Annex C and Annex D to OP 3.10 set out the standard country terms for VSLs for each country category.

31. *Determination of Terms*. The amortization, grace period, and final maturity of the loan are set at the time of IBRD approval of the loan. Grace periods and final maturities are expressed in periods of six or 12 months, with the first and final principal repayment dates identified as follows:

(a) The first principal repayment date generally occurs six months after the expiration of the grace period.[29]

(b) The final principal repayment date is calculated as the first interest payment date plus the number of years to final maturity, less six months.

32. *Flexibility in Setting Terms*. If justified by the Region on the grounds of project or country needs, the standard terms may be modified as follows:[30]

(a) For countries in all income categories, the grace period may be extended if the final maturity of the loan is shortened from the standard terms to compensate for any such extension (at the rate of one year of final maturity for every six months of grace).

(b) For countries in income categories I and II, the grace period and final maturity of a loan may be modified as long as the loan's average life[31] remains within the standard set for borrowers in that category.

(c) For countries in all income categories, the grace periods and final maturities on particular loans may be extended, provided that compensating reductions are made in the grace periods and final maturities of other loans made to or guaranteed by the country in the same fiscal year. The weighted average grace period and final maturity for all loans committed to a country in the same fiscal year must remain within the country limit.

33. *Amendment of Approved Terms.* Borrowers must choose the repayment terms before IBRD approval; repayment terms cannot be changed once IBRD has approved the loan. Also, IBRD normally does not reschedule interest or principal payments on its loans or participate in debt rescheduling agreements with respect to its loans. However, IBRD may amend existing repayment terms under extraordinary country or project circumstances or when the principal disbursed and outstanding is less than the scheduled principal repayment (see BP 3.10, para. 10(b) for procedures).

Prepayment

34. IBRD charges a prepayment premium based on the cost of redeploying the amount to be prepaid from the date of prepayment to the maturity date. The amount of the prepayment premium is based on the difference between the contractual lending spread of the prepaid loan and the contractual lending spread in effect for VSLs in the currency of the prepaid loan at the date of prepayment. Prepaid amounts are applied to the latest amortization payments due under the loan (see para. 3 of Annex B).[32]

IBRD Hedging Products

35. Hedging products are intended to provide borrowers with the tools to protect themselves from financial risk over the life of the loan. IBRD offers the following hedging products in connection with IBRD loans: interest rate swaps, interest rate caps and collars, currency swaps, and, on a case-by-case basis, commodity swaps. FSL hedges (currency conversions, interest rate conversions, swaps, caps, and collars) are embedded in the Loan Agreement. Before entering into a hedging transaction with the IBRD with respect to IBRD loan products that are not FSLs, borrowers must enter into a Master Derivatives Agreement (MDA) with IBRD.[33] [34]
, Transaction fees are charged in
connection with these hedging products.

IDA Credits

Currencies

36. IDA credits approved by the World Bank on or after August 1, 1980, are denominated in Special Drawing Rights (SDRs). Also denominated in SDRs are the amounts disbursed, service and commitment charges, and repayments. Principal payments and service/commitment charges are due in the currency (U.S. dollars, pounds sterling, or euros) specified in the Development Credit Agreement in an amount equivalent to the SDRs required under the Agreement.[35]

Credit Charges

37. *Interest and Service Charges*. No interest is charged on credits, but a service charge is levied at the rate of 0.75 percent per annum on the principal amount withdrawn and outstanding.

38. *Commitment Charge*. In 1982, the Executive Directors approved the introduction of a commitment charge, payable on the undisbursed amount of the credit and beginning to accrue 60 days after the Development Credit Agreement is signed. Each year, the Board approves the commitment charge that will apply for that fiscal year (from 0 to and including 0.50 percent). At the beginning of each fiscal year, IDA notifies each borrower of the commitment charge applicable for that year. The service and commitment charges are payable on the semiannual payment dates specified in the Development Credit Agreement.

Repayment Terms

39. IDA credits approved by the Board through June 30, 1987, have a final maturity of 50 years. IDA credits approved after that date have three different final maturities and repayment schedules (for the countries' current maturities and repayment schedules, see Annex D):

(a) For IDA-only countries or countries classified as least developed by the United Nations (LDCs), credits are repayable over 40 years, with principal repayment at the rate of two percent of the credit amount per year from the 11th to the 20th year, and four percent per year thereafter. (See Annex D for IDA-only and LDC classifications.)

(b) For other IDA-eligible countries, credits are repayable over 35 years, with repayments of 2.5 percent of the credit amount per year from the 11th to the 20th year, and 5 percent per year thereafter.

(c) For credits approved after June 30, 2002, for IDA-eligible countries with a GNI per capita, that has been above the operational cut off for IDA eligibility for more than two consecutive years, credits are repayable over 20 years, with principal repayment at the rate of 10 percent per year from the 11th to the 20th year.

40. The first amortization payment on a credit is due on the semiannual payment date immediately following the 10th anniversary of the date the credit was approved by IDA. For credits approved through June 30, 1987, the last amortization payment is due on the semiannual payment date immediately preceding the 50th anniversary. For credits approved after that date, the last amortization payment is due on the semiannual payment date immediately preceding the 20th, 35th or 40th anniversary, as the case may be.

41. *Modifying Terms*. For Development Credit Agreements approved after June 30, 1987, the terms of outstanding credits extended to a particular borrower are modified if both the following conditions are met:

(a) the annual per capita GNI of the borrower has remained above the historical ceiling[36] for five consecutive years, and

(b) the borrower has achieved creditworthiness for IBRD borrowing.

42. For Development Credit Agreements for which invitations to negotiate were issued on or after August 1, 1996, subject to the Board's review and approval, the terms of outstanding credits extended to a particular borrower are modified if both the following conditions are met:

(a) the annual per capita GNI of the borrower has remained above the operational per capita income cutoff[37] for three consecutive years, and

(b) the borrower has achieved creditworthiness for IBRD borrowing.

43. When the two conditions for adjusting terms (under paras. 41 or 42 above) have been met, IDA may, subject to the Board's review and approval, require the borrower to repay twice the amount of each principal installment not yet due, until the credit is fully repaid. Alternatively, the borrower may request that IDA substitute an interest charge for some or all of the higher principal repayments, provided the new terms have a grant element equivalent

to that resulting from doubling of the principal payments alone. If a borrower's economic condition deteriorates significantly after terms have been adjusted, IDA may, if the borrower request's, revert to the original repayment schedule.

---

1. Exceptionally, other factors (such as size, for certain small island economies) may determine access to IBRD loans. For further information by country, see Annexes C and D.
2. A comparison of FSLs and VSLs can be found in the Frequently Asked Questions (FAQs) section of the BCFBD website: http://www.worldbank.org/fps.
3. Annex A of this OP 3.10 discusses the financial products IBRD offered in the past.
4. These loans products are not available for special development policy loans which carry a five-year final maturity, with a three-year grace period, a spread over LIBOR of at least 4 percent, a 1percent front-end fee, and a 0.75 percent commitment fee, and are not eligible for loan charge waivers that IBRD may grant on other loans on an annual basis.
5. If IBRD is unable to obtain a loan currency, it retains the right to substitute another currency or currencies until access to the desired currency is restored.
6. Prevailing lending rates, loan charges, and waivers are available at http://www.worldbank.org/fps.
7. LIBOR is used in markets in which it is the recognized commercial bank reference for floating rate instruments. Where appropriate, different reference rates may be used. The LIBOR day-count conventions are actual/360 days for U.S. dollars, Japanese yen, and euro.
8. Although commitment charges begin to accrue 60 days after signing, the Bank does not charge commitment charges for loans that do not become effective.
9. Except for any overdue payments that the Vice President and Controller (CTRVP), on the advice of Loan Client and Financial Services Division (ACTCF), determines to be minor in nature or beyond the borrower's control.
10. Commitment charges, lending rate waivers, and commitment charge waivers are expressed and accrued on an actual/365-366 day-count convention. The BCFBD website sets out these waivers.
11. The Bank does not charge a front-end fee for loans that do not become effective. If the Bank is advised of a partial cancellation by the borrower before effectiveness, the front-end fee is reduced on a pro-rata basis.
12. Detailed information on the FSL's conversion provisions is provided in *Guidelines for Conversion of Loan Terms for Fixed-Spread Loans*, available at the BCFBD website.
13. See *IBRD General Conditions for Loans* (July 1, 2005), *Appendix*, for a definition of local expenditures.
14. If a borrower requests a currency conversion for a period less than the full maturity of the loan, information on the implications of a partial maturity conversion should be obtained from BCFBD.
15. Current transaction fees are available at the BCFBD web site. IBRD may revise these fees from time to time, and any change applies to conversions implemented after such a revision.
16. Except that transaction fees are not payable in connection with interest-rate fixings up to the full loan amount and up to the full maturity of the loan.
17. In the event the actual loan approval date is significantly advanced or delayed from the date expected at negotiations, the grace period provided may no longer be in accordance with these terms. In that case, the first and final principal repayment dates must be changed to comply with these terms.
18. With level repayment, the principal is repaid in equal installments over time; with annuity-type repayment, the sum of principal and interest of each installment is the same assuming interest rates do not change over the life of the loan (the share of principal of each installment increases through time); with customized repayment, principal is paid using a schedule tailored to the borrower's needs.
19. For example, to obtain a longer maturity on a new loan not exceeding 25 years, the terms of the new loan may be offset against a loan (with a shorter maturity) signed within the previous 12 months, such that the weighted average repayment maturity of all FSLs to the country within that 12-month period is not increased beyond the country limit. Trade-offs of repayment terms across FSLs exclude special development policy loans.
20. For example, loans for countries in income categories I or II may have level repayment of principal with a grace period of 8 years and overall repayment period of 20 years.
21. The expected average disbursement period is based on the estimated disbursement profile specified in the Project Appraisal Document.
22. For example, a loan expected to disburse evenly over a 6-year period would have an expected average disbursement period of three years.
23. For example, if each disbursed amount is scheduled to be repaid with a four-year grace period and 12-year final maturity on the basis of level repayment of principal, the average repayment maturity is eight years.
24. The VSL was formerly known as Variable-Rate Single Currency Loan or VSCL. A comparison of the FSL and VSL can be found in the Frequently Asked Questions (FAQs) section at the BCFBD website.
25. Prevailing lending rates, loan charges, and waivers are available at http://www.worldbank.org/fps.
26. The LIBOR day-count conventions are actual/360 days for U.S. dollars, Japanese yen, and euro, and actual/365 days for pounds sterling.
27. However, the Bank does not charge commitment charges for loans that do not become effective.
28. The waivers applicable to VSLs for which the invitation to negotiate was issued before that date are listed in the BCFBD website (http://www.worldbank.org/fps).
29. The first principal repayment date is the semiannual interest payment date agreed upon by IBRD and the borrower at negotiations, such that the interval from the expected date of Board approval of the loan to the first principal repayment date is three to nine months longer than the grace period. If the actual loan approval date is significantly earlier or later than the date expected at negotiations, the grace period provided may no longer be in accordance with these terms. In that case, the first and final principal repayment dates are be changed to comply with these terms.
30. See BP 3.10, para. 7, for clearances needed.

Average loan life is a measure of the period during which the borrower has use of the loan proceeds, and is calculated as the sum

31.
of the annual loan balances divided by the face value of the loan.

32. If a borrower fully prepays a VSL with an undisbursed balance remaining, amortization payments will be due immediately after the grace period on any future disbursements. Thus the borrower may prefer to cancel any undisbursed balance on a loan for which the disbursed balance would be prepaid in full.

33. Detailed information about which IBRD hedging products can be used with different IBRD loans and about the process for submitting hedge requests is included in the Guidelines for Using IBRD Hedging Products, the Hedging Products brochure, and the BCFBD set of Frequently Asked Questions (FAQs), all of which can be found at http://www.worldbank.org/fps.

34. IBRD offers free-standing currency swaps to transform disbursed and outstanding loan balances related to local expenditures under IBRD loans into a borrower's local currency, subject to the availability of liquid swap markets in the local currency.

35. Before August 1, 1980, IDA credits were denominated in current U.S. dollars and were repayable in amounts equivalent, at their repayment dates, to the value at the time of disbursements of the currencies disbursed in terms of 1960 U.S. dollars.

36. See the front notes to Annex D to this OP 3.10 for the current equivalent of the historical per capita income ceiling figure.

37. See the front notes and footnote 2 to Annex D to this OP 3.10 for the current equivalent of the operational cutoff figure and exceptions to the cutoff.

Annex A - Past Loans of IBRD

Annex B - Prepayment of IBRD Loans

Annex C - Countries Ranked by Per Capita Income

Annex D - IBRD/IDA and Blend Countries: Per Capita Incomes, Lending Eligibility, and Repayment Terms