IDA20 MID-TERM REVIEW:
IDA ACCESS, TERMS AND GRADUATION PROSPECTS

Development Finance, Corporate IDA & IBRD (DFCII)

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ACRONYMS AND ABBREVIATIONS

Fiscal Year (FY) = July 1 to June 30
All dollar amounts are US dollars

CPF	Country Partnership Framework
CPIA	Country Policy and Institutional Assessment
CRI	Climate Risk Index
CRW	Crisis Response Window
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
DSC	Deployable Strategic Capital
EVI	Economic and Environmental Vulnerability Index
FCV	Fragility, Conflict and Violence
GDI	Graduation Discussion Income
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
LIC	Low-Income Country
LIC-DSA	Low-Income Country Debt Sustainability Analysis
MDRI	Multilateral Debt Relief Initiative
MDTF	Multi-donor Trust Fund
OECS	Organization of Eastern Caribbean States
SDFP	Sustainable Development Finance Policy
SIE	Small Island Economies
SIEE	Small Island Economies Exception
SOE	State-owned Enterprises
SSE	Small States Exception
SUW	Scale-Up Window
UMIC	Upper Middle-Income Country
WHR	Window for Host Communities and Refugees
WRI	World Risk Index

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EXECUTIVE SUMMARY

i. **At the request of IDA Deputies, this paper reviews IDA's policies on graduation and access.** *First*, it provides an overview of IDA eligibility criteria, sets out the objective of IDA's Graduation Policy and describes its key elements. *Second*, it reviews Blend countries' readiness for transition to IBRD-only Borrower status and reviews graduation prospects. *Third*, it examines aspects of IDA access through reverse graduation and reclassification and the Small Island Economies Exception (SIEE, the Exception, hereafter). Given the overlapping crises, rising fiscal and debt vulnerabilities and growing risks from long-term climate change faced by many countries, the paper presents a framework for reverse graduation and reclassification, and proposes an extension of the SIEE to non-island Small States.

ii. **IDA maintains a flexible and holistic multistage graduation process, which relies on careful analysis of country specific conditions.** IDA's multistage approach for graduation provides countries an opportunity to gradually adjust to tighter terms of financing. The different stages of transition from IDA to IBRD include considerations for the design of country programs, the rules for accessing financing, and the terms of this financing. Flexibility in graduation decisions is key as countries may remain vulnerable even after they exceed the per capita income cut-off.

iii. **External and domestic headwinds continue to weigh on Blend countries' readiness for IBRD-only Borrower status.** Many Blend countries emerged from the COVID-19 pandemic with increased fiscal and debt vulnerabilities. Their recovery has been further impacted by Russia's invasion of Ukraine, slowdown in global growth, tightening of international financing markets, and inflation. Together with domestic issues including incidences of increasing fragility, conflict, and political instability, many Blend countries are dealing with multifaceted challenges. The World Bank programs in Blend countries are tailored to address barriers to long-term growth and development and are focused on increasing macroeconomic stability, improving the business environment, State-owned Enterprises (SOE) reform, and human capital development.

iv. **While no IDA-eligible country is recommended for graduation at the end of IDA20, Guyana could be considered at end-IDA21.** At this point, Guyana, currently classified as Gap, presents a confluence of factors, including its low and declining poverty headcount (below 3 percent at the US$2.15 a day poverty line), promising growth prospects as well as the stable overall macro-economic and debt sustainability outlook that indicate that the country is moving in the direction of graduation from IDA. The country, as an emerging oil producer, has experienced strong Gross Domestic Product (GDP) growth and in FY24 became the first high-income country in IDA. With vast commercially recoverable petroleum reserves, it is now in a position to transform its economy, address development needs, and build substantial buffers to absorb shocks. Management proposes to assess Guyana's readiness for graduation at end IDA21. This would follow a positive creditworthiness assessment (to be requested by the Authorities) as well as an engagement with Authorities on the graduation process and its key implications, including on financing terms and the broader range of financing options available to clients in the process.[i]

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[i] In line with the systematic approach to graduation adopted in IDA17, going forward, the Graduation Task Force will provide advice to Guyana on its potential move to Blend and eventually IBRD-only status.

v. **Beyond IDA21, a higher number of countries look poised to graduate from IDA in the medium term.** In Bangladesh, sustained improvements in fundamental development outcomes are expected to keep the country on track to reach the upper middle-income threshold by end IDA22. As a Gap country, Bangladesh's move to Blend status will be initiated under the FY23-27 Country Partnership Framework. Long term graduation prospects also include several small islands that have higher income levels but where readiness currently remains held back by their vulnerability to shocks. In preparation of their eventual graduation, which would occur after IDA22, Management proposes to focus country programs in these Small Island Economies **(**SIEs) more sharply on initiatives to build resilience through improvements in disaster risk management, debt management and sustainability, and enhanced domestic resource mobilization. Despite these expected graduations, demand for IDA's resources is likely to remain high as the total population in IDA countries is expected to remain nearly constant between the IDA21 and IDA23 replenishments.

vi. **At the request of IDA Deputies, the paper puts forward a framework to guide decisions on reverse graduation and proposes to extend this framework to all IBRD countries.** Challenging global macro-economic conditions have raised the likelihood of IBRD countries requesting IDA financing. The parameters of the proposed framework draw from IDA eligibility criteria – creditworthiness and 'relative poverty' – and a broader set of factors including poverty and social indicators, vulnerabilities to shocks, institutional constraints, and commitment to reform. Given the erosion of the operational threshold relative to per capita incomes worldwide, including those of countries currently eligible for IDA resources, a 'relative poverty' threshold for IDA access that is set at the average Gross National Income (GNI) per capita of Gap and Blend Borrowers, excluding Small States, at the time access is requested, is proposed. Like graduation, the framework when applied consistently yet with considerable flexibility, should continue to ensure that IDA resources benefit countries that need them most while maintaining IDA's financial sustainability.

vii. **Recognizing that non-island Small States face challenges similar to SIEs, this paper recommends expanding the SIEE to eligible non-island Small States.** Small States are characterized by unique development challenges and are extremely prone to economic shocks, have limited financing options and are vulnerable to climate change and related events. While IDA has long recognized the special characteristics of SIEs, through the SIEE, other Small States are not eligible for the Exception. Extending the SIEE to non-island Small States, i.e., a broader Small States Exception (SSE) offers a straightforward option for recognizing the higher vulnerability of qualifying Small States. This proposal is also in line with ongoing Evolution discussions. If it is accepted, Belize, Eswatini and Suriname are likely to qualify for access to IDA and gain the Exception. Of the current IDA-eligible non-island Small States, Bhutan, Djibouti, and Timor-Leste will also enter the Exception. Overall, the potential changes of lending terms for all these countries through the extension of the SIEE will reduce IDA FY34 Deployable Strategic Capital (DSC) by US$250-350 million, or 0.2 percent of the DSC ratio.

viii. **In addition, Management recommends recalibrating the financing terms for countries under the SIEE that are above the IBRD Graduation Discussion Income (GDI).** Many SIEs that currently benefit from the exception have high and growing incomes per capita. Given IDA's overall philosophy to focus its concessional resources to the poorest and the most vulnerable countries, it is important to consider whether there is a need to recalibrate the criteria for access to IDA's highly concessional financing terms through the SIEE. This paper recommends that countries under the SIEE (or the proposed SSE) with GNI per capita above the GDI (the level at which IBRD graduation discussions are typically initiated) for two consecutive years receive IDA credits on Blend terms. Prior to the recommended changes to the SIEE coming into effect, IDA Management will hold consultations with countries that will be impacted by them.

ix. Staff welcome the Participants' view on:

a. The expected graduation timeline for Guyana, after due process in considering its readiness for graduation.

b. The structured but flexible approach proposed for analyzing requests from IBRD countries for access to IDA.

c. The proposal to broaden the scope of the SIEE to IDA and IBRD non-island Small States, i.e., a broader Small States Exception (SSE) and a recalibration of the criteria on which IDA concessional resources are provided to countries under the Exception.

I. IDA'S GRADUATION POLICY

A. IDA Eligibility

1. **Access to IDA is set out in IDA's Articles of Agreement.** They require that IDA resources further development in the less-developed areas of the world, within the Association's membership.[1] This criterion is determined by 'relative poverty' as measured by per capita income, calculated using the World Bank Atlas Method in relation to Gross National Income (GNI) being below an agreed threshold. The threshold, known as the IDA operational cut-off, is adjusted annually for each fiscal year (July 1- June 30) and for FY24 it is set at US$1,315.[2] IDA's Articles of Agreement also preclude IDA from assisting countries if, in its opinion, financing is available from private sources on terms that are reasonable for the recipient; or could be provided by IBRD.[3] Consequently, creditworthiness considerations have always guided financing from IDA. In general terms, creditworthiness is defined as 'the ability to service new external debt at market interest rates over the longer term.' Conversely, a lack of creditworthiness implies a need for concessional resources as part of a sustainable longer-term financing package for a country's development program.

2. **Currently 75 countries are eligible for IDA resources** (see Annex 1 for a list of countries). Less than half of these countries meet *both* criteria for IDA-eligibility: lack of creditworthiness and a per capita income below the operational cut-off. The remaining IDA-eligible countries have a per capita GNI above the operational cut-off but are not creditworthy (the so-called "Gap countries") or have limited creditworthiness (the so-called "Blend countries" with eligibility for a blend of IDA and IBRD resources). Access to IDA resources for these countries is deemed temporary and the Borrower in question is expected to undertake adjustment efforts designed to establish or strengthen creditworthiness as rapidly as possible. Since 1986, some Small Island Economies (SIE) 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. Section V provides information on the rationale for this exception and the countries currently benefiting from it. Finally, an allocation of IDA resources to middle income countries may be agreed by IDA Donors when special circumstances prevail. Such exceptional support, determined on a case-by-case basis, is rare and has been availed to just six countries over the last 20 years (see Box 1.1).

3. **Changes in eligibility for IDA financing during the IDA20 period (FY23-25) have so far been limited to Sri Lanka's reverse graduation.** Sri Lanka graduated from IDA to become an IBRD-only country in FY17 but experienced sustained deterioration in economic and social conditions, and ultimately lost creditworthiness for any IBRD lending, becoming an IDA-only Borrower on December 5, 2022. Overall, the IDA universe largely comprises low and lower-

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1 IDA Articles of Agreement, September 1960, Article V.

2 The operational threshold is calculated by the World Bank (DEC) and adjusted annually. GNI per capita is calculated in accordance with the Atlas conversion factor methodology designed to maintain the real value of GNI by: (i) taking account of the impact of international inflation in the cross-country comparison of national incomes; and (ii) smoothing out year-on-year fluctuations. GNI per capita does not completely summarize a country's level of development but has proved to be a coherent indicator of 'relative poverty'.

3 IDA Articles of Agreement, September 1960, Article V.

middle-income countries, with the exception of ten countries: Guyana, St Lucia, Maldives, Grenada, St Vincent and the Grenadines, Dominica, Marshall Islands, Tuvalu, Kosovo, and Fiji (see Annex 1). Guyana, which became the first high income IDA country in FY24, is discussed in Section III.

Box 1. 1. Exceptional Temporary Access

Temporary access to IDA resources has been approved on an exceptional basis to support IBRD countries in the past, including to help mitigate the impacts of: (i) the disruption of the oil industry in Iraq in 2003; (ii) the large influx of Syrian refugees in Jordan and Lebanon in 2019; and (iii) COVID-19 in Moldova and Mongolia (both had graduated at the end of FY20), as the pandemic unfolded. More recently, given the extraordinary circumstances brought about by Russia's invasion of Ukraine, exceptional additional resources were made available to: (i) Ukraine to support key institutional and civil service capacity and (ii) Moldova to help address the influx of refugees into the country. These measures help ensure that the hard-won development gains achieved by these countries are not lost and is consistent with IDA's approach to *lean forward* in times of need.

B. IDA Graduation Process

4. **IDA maintains a flexible and holistic multistage graduation process, which relies on careful analysis of country specific conditions.** IDA's multistage approach for graduation provides countries with an opportunity to gradually adjust to tighter terms of financing as they move through different stages of the transition. Flexibility in graduation decisions is key, particularly as countries may remain vulnerable even once they exceed the per capita income cut-off.

5. **The transition process from IDA to IBRD financing is gradual and covers three aspects**: (i) the design of the country programs, (ii) the rules for accessing financing, and (iii) the terms of this financing. It usually proceeds as follows:

a. **IDA-only to Gap.** Countries above the IDA operational cut-off for over two years but not yet deemed creditworthy for IBRD financing are classified as 'Gap'.

b. **IDA-only or Gap to Blend.** A positive creditworthiness assessment by IBRD leads to reclassification of a country from IDA-only or Gap status to Blend status (IDA/IBRD). The assessment needs to be requested by the country.

c. **Blend to IBRD-only.** The IDA graduation process concludes with the country no longer being eligible for IDA borrowing and therefore becoming an IBRD-only Borrower. The decision to graduate a country to IBRD-only status typically includes an assessment of country specific factors that would contribute to successful and sustained graduation from IDA.

6. **The volatility and fragility of economic and political progress in many IDA countries warrant careful case-by-case evaluation of a country's capacity to sustain the move from concessional to market-based sources of financing**. Consequently, there is no mechanical formula that sets a timetable for graduation from IDA and dictates the length of the transition

phase. It depends on several factors including individual country circumstances and access to financing from other bilateral and multilateral sources. However, the aim is for relatively richer IDA countries to exit from IDA in a timely manner so as to release IDA resources for the other poorer IDA countries. The expectation is that countries will transition from Blend status to IBRD-only Borrower within a reasonable timeframe. Previous IDA graduates remained in Blend status for approximately two IDA Replenishment cycles. Graduation is usually set to occur at the end of an IDA Replenishment period.

7. **In exceptional circumstances, countries may graduate from IDA before their per capita income reaches the operational cut-off,** provided they are assessed as creditworthy and can meet their financing needs from IBRD and commercial sources. Such countries would normally have strong export earnings and large international reserves, a good credit rating, and a demonstrated track record of borrowing in international capital markets. Countries have also graduated from IDA on an accelerated basis because of factors that favorably impacted the assessment of their creditworthiness, often in conjunction with a rapid rise in their national income levels. Equatorial Guinea graduated from IDA in FY99, after the discovery of substantial petroleum reserves significantly improved the country's debt servicing capacity and pushed up GNI and GNI per capita sharply, the latter aided by the very small size of the country's population.

8. **Financial terms are adjusted as countries progress through stages of the transition.** IDA has a longstanding approach of gradual price differentiation for financing provided to client countries. Grants, or no interest 38–50-year maturity credits are available to IDA-only countries depending on their risk of debt distress; low fixed interest rate and slightly shorter maturity credits for Gaps and Blends; and non-concessional terms (IBRD terms) for countries accessing additional financing under the Scale-Up Window (SUW).

9. **Upon graduation, countries are subject to accelerated repayment of eligible outstanding credits.** Under the presumption that countries' ability to repay debt improves as they develop, IDA credit agreements have included an Accelerated Repayment clause since 1987. The clause was amended in 1996, and now applies to Borrowers that have a GNI per capita above the IDA operational cut-off for three consecutive years and are creditworthy for IBRD.[4] The clause stipulates that principal repayments on outstanding credits to a particular Borrower would be doubled provided that a five-year grace period had elapsed. Instead of doubling the principal repayments, the Borrower may request a modification to the repayment schedule under the principal option to include an interest charge in substitution of some or all of the higher principal repayments, provided the new terms preserve the net present value from the doubling of principal payments alone. Graduate countries can also request to combine both options. Contractual accelerated repayments were implemented for the first time as part of the IDA16 replenishment and have since also contributed to subsequent replenishments. There are currently eighteen countries whose eligible IDA credits have been accelerated since the clause was first triggered.[5] The clause has never been implemented for a country which has not yet graduated from IDA.

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[4] Credits approved before 1987 and credits on hardened terms (which were made available from IDA13 to IDA15 for Gap countries with a 20-year maturity) do not include an accelerated repayment clause.

[5] Contractual acceleration for one of the 18 countries – Sri Lanka – was cancelled in 2022 as part of the country's reverse graduation back into IDA.

II. BLEND COUNTRIES: CHARACTERISTICS AND DEVELOPMENT CHALLENGES

10. **As countries with access to IBRD financing and GNI per capita above the IDA-operational cut-off, Blend countries are best placed candidates for graduation.** This section outlines Blend countries' characteristics, development challenges and outlines how the World Bank's country programs in these countries are structured to address their development challenges, thus preparing them for a successful graduation from IDA.

11. **IDA's Blend countries consist of a diverse group.** Fourteen active IDA countries are classified as 'Blend' as of July 2023 (Table 2.1), seven of which are classified as Small States.[6, 7] Their GNI per capita (Atlas method, for 2022) ranges from US$1,580 (Pakistan) to as high as US$11,160 (St. Lucia), while their estimated 2022 poverty headcount rate at the US$2.15 a day poverty line ranges from 0.9 (Fiji) to 52.6 (Republic of Congo).[8] All Blend countries have GNI per capita above the IDA-operational cut-off for FY24 and for four countries, all SIEs,[9] it also exceeds the FY24 GDI (US$7,805) (Figure 2.1). The time for which they have been classified as 'Blend' ranges from less than four years (Fiji) to decades (Dominica, Grenada, Pakistan, Papua New Guinea, St. Lucia, St. Vincent and the Grenadines, and Uzbekistan).

12. **Development challenges impeding countries' readiness for graduation vary across the fourteen Blend countries.** Based on their key characteristics, Blend countries can be classified as resource-rich, federal countries, small countries, countries with fragility or countries in transition to a market economy (Table 2.2). Given their diversity, the development challenges they face differ. Small countries often have highly concentrated economic structures, which leaves them exposed to external shocks. They are also highly vulnerable to climate related shocks. Resource-rich countries are vulnerable to commodity price volatility and susceptible to global macroeconomic uncertainty. Fragility and conflict situations contribute to macroeconomic instability and discourage private investment. However, poor governance, weak institutions and capacity issues are common across most Blend countries.

13. **Blend countries have been impacted by ongoing global economic challenges**. The COVID-19 pandemic and the ensuing output contractions in 2020 negatively impacted GNI per capita in Blend countries and they faced an average 7.8 percent reduction in income levels. However, most countries have since recovered with GNI per capita exceeding pre-COVID levels in 2022 in all Blend countries barring Fiji and Timor-Leste (Figure 2.1). However, with regards to poverty, most countries have experienced an increase in poverty compared to pre-pandemic levels, with Timor-Leste seeing the largest increase (Figure 2.2). Russia's invasion of Ukraine and the resulting slowdown in global growth, tightening of international financing markets, and inflation have impacted growth in Blend countries, particularly those that are net importers of fuel and other

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6 The World Bank defines a Small State as a country with a population of 1.5 million persons or less.

7 Zimbabwe, a Blend country, is not discussed in this section as the World Bank's lending program in Zimbabwe has been inactive since 2000 due to arrears. The WBG's engagement in Zimbabwe is currently limited to technical assistance and analytical work through Trust Funds.

8 World Bank estimates.

9 Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines.

commodities. Together with domestic issues including incidences of increased fragility, conflict, and political instability, many Blend countries are dealing with both domestic and external challenges.

14. **Growing fiscal vulnerabilities, exposure to climate change, and higher debt levels have increased risks in Blend countries**. For most Blend countries, repeated macroeconomic crises have elevated debt vulnerabilities and reduced the fiscal and external buffers needed to respond to shocks. Damage from climate related natural events has exacerbated these issues. Seven of the fourteen Blend countries rank in the top two quintiles of the Climate Risk Index (2021) based on losses from weather related events over 2000-2019. For example, Pakistan faced devastating floods in 2022 that resulted in economic losses of 2.2 percent of Gross Domestic Product (GDP).[10] As of end-June 2023, of the 10 Blend countries subject to the Low-Income Country Debt Sustainability Analysis (LIC-DSA),[11] three are in debt distress, four have high risk of external debt distress, two have moderate risk of external debt distress and only one country (Uzbekistan) has low risk of external debt distress (Figure 2.3). These developments, along with the reduced fiscal space to absorb shocks, have resulted in a deterioration in sovereign risk ratings. All Blend countries, where data are available, have below investment grade ratings from all three credit rating agencies (Fitch, Moody's and Standard and Poor's). A comparison of the latest country credit ratings versus those before 2020 shows downgrades for Cabo Verde, Cameroon, Fiji, Kenya, Nigeria, and Pakistan whereas Uzbekistan and Republic of Congo have registered improvements. In particular, Cameroon witnessed the sharpest decline as S&P downgraded the country's rating to the partial default category in August 2023, due to delays in settling of bilateral debt.[12]

15. **World Bank programs in Blend countries focus on addressing their development challenges to prepare them for a successful graduation from IDA.** In resource-rich countries, that often face macroeconomic volatility, have weak institutions and poor performance in poverty and social indicators due to high levels of inequality, the Bank support is focused on fostering macroeconomic resilience, economic diversification, and institutional strengthening. This includes advancing policy reforms to improve fiscal and debt management and structural reforms for private sector led non-resource driven growth. In countries with a federal structure that are fiscally decentralized, such as Nigeria and Pakistan, the Bank programs focus on revenue mobilization, expenditure rationalization and increased coordination between the provincial and federal governments on fiscal planning and targets. In the Organization of Eastern Caribbean States (OECS) countries, high vulnerability to exogenous shocks and exposure to climate change are key impediments to development and countries' ability to transition out of IDA. In recent years, support in these countries has been ramped up for enhancing development finance, developing innovative disaster and climate financing mechanisms, fostering private investment and diversification, and strengthening government capacity. In countries with pockets of fragility, Bank support is targeted on providing public services in fragile areas, protecting human capital, and strengthening institutions.

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[10] Pakistan Floods 2022 – Post-Disaster Needs Assessment. Ministry of Planning Development and Special Initiatives, Government of Pakistan (October 2022).

[11] Fiji, Pakistan, Nigeria, and St. Lucia prepare a MAC-DSA. They are subject to IDA's Sustainable Development Finance Policy (SDFP) and are required to prepare Performance and Policy Actions (PPAs) in areas of fiscal sustainability, debt sustainability and debt management each FY. Under the SDFP, only countries with limited debt vulnerabilities (as determined by WB Management) are exempt from preparing PPAs, upon request.

[12] Standard and Poor's downgraded Cameroon's long- and short-term foreign currency sovereign rating by six notches in August 2023, from B- (highly speculative) to the SD (partial default) category.

However, in addition to fragility and conflict, these countries also face increasing risks from food insecurity, climate change, rising inequality, and demographic change. Lastly, for countries in transition to a market economy, such as Uzbekistan, the Bank is supporting the country in increasing private sector employment, improving human capital, and building resilience through greener growth (see Annex 2 for a detailed discussion).[13]

[13] Based on ongoing Country Partnership Frameworks (CPFs) in Blend countries and World Bank Support to Small States (From Crisis to Resilience, October 2023).

Table 2. 1. Key Indicators (Blend Countries)

Country	Fiscal Year of Becoming Blend	Population (millions) 2022	GNI Per Capita (2022), Atlas Method current US$)	Estimated Poverty Headcount Rate at US$ 2.15 (2022)	Average Annual World Bank Lending during IDA19 (percentage of GDP)	Average Annual IDA Lending during IDA19 (percentage of GDP)	Average Annual IDA Lending during IDA19 (US$, millions)	Average Annual IBRD Lending during IDA19 (percentage of GDP)	Average Annual IBRD Lending during IDA19 (US$, millions)	Total Natural Resources Rents (percentage of GDP, 2021)	Tax Revenue (percentage of GDP, latest available)	Year of latest Available Tax Revenue (percentage of GDP)	Overall CPIA Rating, 2022	HCI Score, 2020[a]
Cameroon	FY14	27.9	1,660	23.1	2.1	1.8	809.7	0.2	101.2	5.5	10.9	2020	3.3	0.40
Congo, Rep.	FY14	6.0	2,060	52.6	1.0	0.7	99.8	0.3	50.0	37.7	6.9	2022	2.8	0.42
Kenya	FY18	54.0	2,170	22.3	1.7	1.6	1815.0	0.1	115.0	1.2	13.3	2021	3.8	0.55
Nigeria	FY14	218.5	2,140	31.5	0.6	0.6	2637.5	0.1	250.0	8.6	6.9	2022	3.2	0.36
Pakistan	Before FY00	235.8	1,580	3.4	0.7	0.5	1892.7	0.2	599.5	1.4	9.2	2022	3.2	0.41
Papua New Guinea	FY03	10.1	2,730	32.1	0.6	0.5	142.3	0.1	40.0	27.4	11.9	2020	2.9	0.43
Uzbekistan	FY02	35.6	2,190	25.0	1.3	0.9	730.0	0.4	292.6	20.5	14.8	2020	3.8	0.62
Small States														
Cabo Verde	FY09	0.6	4,140	3.2	4.0	3.9	89.8	0.1	1.8	17.7	17.8	2017	3.9	—
Dominica	Before FY00	0.1	8,460	4.4	6.1	6.1	37.5	—	—	0.03	—	—	3.7	0.54
Fiji	FY20	0.9	5,270	0.9	3.6	2.7	134.5	0.8	37.5	2.3	15.9	2021	3.5	0.51
Grenada	Before FY00	0.1	9,340	4.4	3.5	3.5	44.0	—	—	—	—	—	3.7	0.57
St. Lucia	Before FY00	0.2	11,160	6.2	1.4	1.4	29.9	—	—	0.01	18.2	2017	3.7	0.60
St. Vincent and the Grenadines	Before FY00	0.1	9,110	4.4	5.9	5.9	55.5	—	—	0.02	23.8	2017	3.7	0.53
Timor-Leste	FY13	1.3	1,970	34.2	1.9	1.9	60.5	—	—	34.7	8.6	2022	2.8	0.45

Source: World Development Indicators and World Bank Staff Estimates, Fiscal Operations 2022-2023 (Ministry of Finance, Government of Pakistan), Nigeria Development Update June 2023 (Total Revenue, percent of GDP), Macro-Poverty Outlook (Annual Meetings, 2023). 2023 Budget Rectification (Timor-Leste)

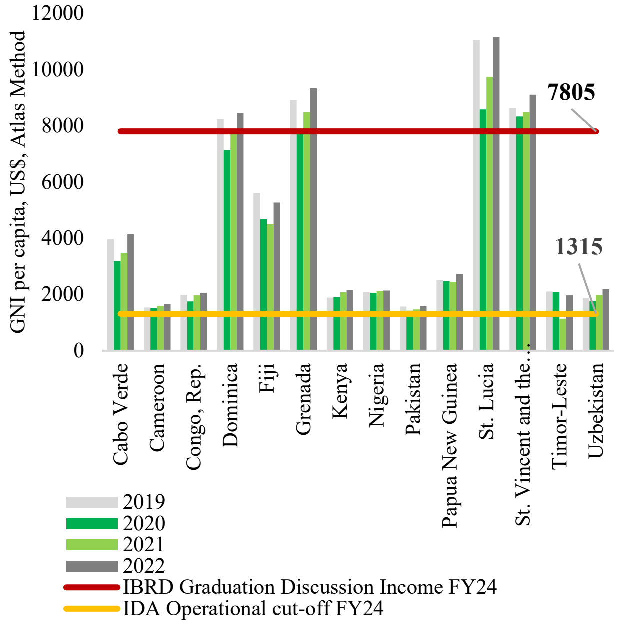
Note: (a) The Human Capital Index (HCI), ranging between 0 and 1 measures the human capital of the next generation, defined as the amount of human capital that a child born today can expect to achieve in view of the risks of poor health and poor education currently prevailing in the country where that child lives. If a country's score is 0.5, then its GDP per worker would be twice as high if the country reached the benchmark of complete education and full health.

Table 2. 2. Categorization of Blend Countries

Type of Country	Cameroon	Cabo Verde	Congo, Rep.	Dominica	Fiji	Grenada	Kenya	Nigeria	Pakistan	Papua New Guinea	St. Lucia	St. Vincent and the Grenadines	Timor-Leste	Uzbekistan
Resource-rich countries	√		√					√		√			√	√
Federal countries								√	√					
Small countries		√		√	√	√					√	√	√	
Countries with pockets of fragility	√		√				√	√	√	√			√	
Countries in transition to a market economy														√
High debt vulnerabilities[a]	√		√	√	-	√	√	-	-	√	-	√		
Vulnerable to climate change and natural disasters[b]				√	√	√	√		√		√	√		

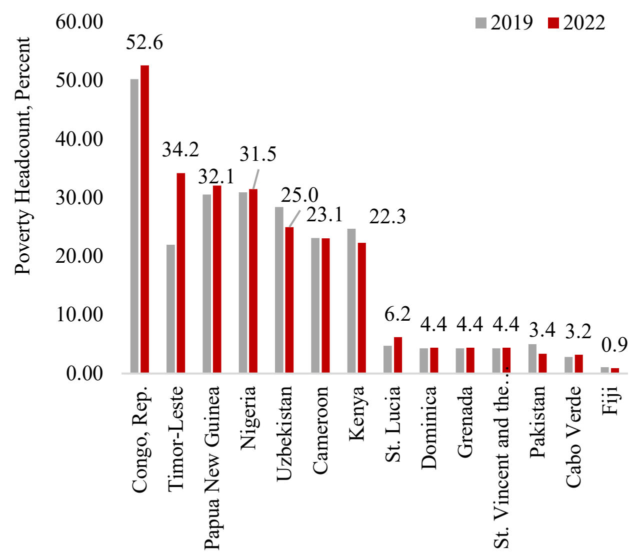
Source: World Bank Staff
Note: (a) Aggregate ratings for risk of debt distress exist only for the countries for which low-income country debt sustainability analysis is performed but not for the countries for which market access country debt sustainability analysis (MAC-DSA) is performed. St Lucia, Pakistan, Fiji, and Nigeria are subject to a MAC-DSA. (b) If a country falls in the highest or second-highest quintile of vulnerability as measured by the Climate Risk Index (CRI) over 2000-2019. The CRI takes into account only weather-related events and excludes geological incidents such as earthquakes, volcanic eruptions, or tsunamis as they do not depend on the weather and therefore are not possibly related to climate change.

Figure 2. 1. GNI per capita for Blend Countries 2022 vs 2019 (US$, Atlas method)



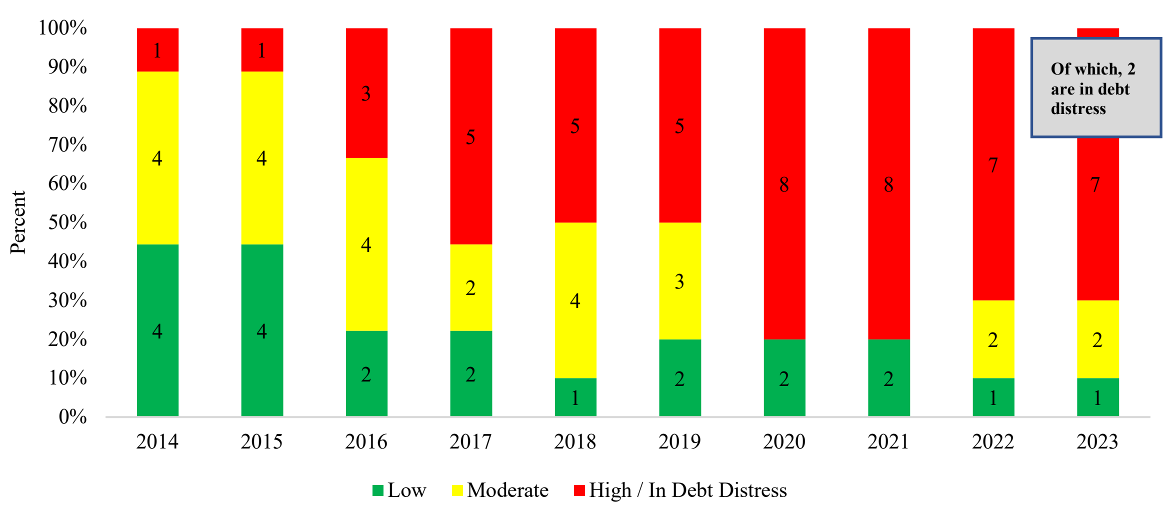
Source: World Development Indicators

Figure 2. 2. Estimated Poverty Headcount Rate 2022 vs 2019 (Percentage of total population, US$2.15 Poverty line)



Source: World Bank Staff estimates

Figure 2. 3. Evolution of Risk of Debt Distress Ratings for 10 Blend Countries under LIC-DSA (Percentage of countries)



Source: World Bank/IMF. End-June position.
Note: Countries covered in the analysis: Cabo Verde, Cameroon, Republic of Congo, Dominica, Grenada, Kenya, Papua New Guinea, St. Vincent and the Grenadines, Timor-Leste, and Uzbekistan (from 2018 onwards).

III. GRADUATION OUTLOOK

16. **A review of the graduation readiness of the current Blend countries indicates that all of them are facing significant headwinds.** Building on the description of the Blend countries and the World Bank country programs in Section II, and complementing the issues identified for various groups of Blend countries, Table 3.1 summarizes country-specific findings of this review.

Table 3. 1. Summary of Blend Countries' Readiness to Graduate at the End of IDA20

IDA Blend Country	Country-specific Challenges Affecting Readiness to Graduate from IDA[(a)]
Cameroon	The country has a high risk of external and overall debt distress and is highly vulnerable to commodity price risks as an oil exporter, bringing significant macroeconomic volatility. It has a relatively low GNI per capita (estimated at US$1,660 in 2022), a poverty headcount rate of 23.1 percent, and a low HCI score of 0.4. It is classified as a fragile state by the World Bank Group, having high institutional and social vulnerabilities.
Cabo Verde	The country has a high risk of debt distress. It is highly vulnerable to external shocks given its reliance on a single sector (tourism) and has not built resilience to such shocks. Its GNI per capita is estimated to have fallen by 19.4 percent in 2020, but has since recovered to an estimated US$4,140 in 2022.
Republic of Congo	The country is classified as a fragile state by the World Bank Group, having high institutional and social fragility. It is currently in debt distress and is highly vulnerable to commodity price risks. At 52.6 percent, its poverty headcount rate is relatively high and the country has a low HCI score of 0.42. Its GNI per capita is also comparatively low (at an estimated US$2,060).
Fiji	The country is vulnerable to climate shocks in the form of tropical cyclones as well as external shocks given its reliance on a single sector (tourism). Its GNI per capita is estimated to have fallen by 17 percent in 2020, and currently stands at US$5,270.
Kenya	Having become a Blend country only in FY18, Kenya has a much lower income per capita (estimated at US$2,170 in 2022) compared to the average of medium-size countries and a poverty headcount rate of 22.3 percent. It also faces climate change vulnerabilities, including droughts and locust infestations. It is a country facing a high risk of debt distress.
Nigeria	The country has a poverty headcount rate of 31.5 percent and a low HCI score of 0.36. It is part of the World Bank's list of fragile countries, classified as having medium-intensity conflict, due to on-going pockets of fragility, primarily in the North of the country. The country is also vulnerable to climate change and natural disasters shocks, including floods, droughts, and sandstorms. It falls in the second-highest quintile of vulnerability as measured by the EVI. Nigeria's 36 state governments, which oversee provision of a wide range of public services, have much weaker fiscal positions post-COVID and are not likely to be able to borrow from IBRD.
OECS countries	While these countries have higher and growing incomes per capita, they also face high risks of debt distress and vulnerability to external shocks, notably climate and economic shocks.
Pakistan	The country has a relatively low GNI per capita (estimated at US$1,580 in 2022) and a low HCI score of 0.41. It faces significant institutional and fiscal vulnerabilities and pockets of fragility. Subnational governments, which oversee provision of a wide range of public

IDA Blend Country	Country-specific Challenges Affecting Readiness to Graduate from IDA[(a)]
	services, are not well-positioned to borrow from IBRD. The country faces significant climate vulnerabilities as measured by the CRI.
Papua New Guinea	While the country's GNI per capita (estimated at US$2,730 in 2022) is on the upper end of the range for Blend countries (excluding Small States), it faces significant fiscal vulnerabilities, largely from commodity price shocks. It also faces institutional weaknesses, and is classified as a fragile state. Its latest available poverty headcount rate is 32.1 percent and its HCI score is 0.43.
Timor-Leste	The country faces significant institutional vulnerabilities and is classified by the World Bank as having high institutional and social fragility – as evidenced by its relatively low CPIA of 2.8 and poverty headcount rate of 34.2 percent. Its GNI per capita is estimated at US$1,970 in 2022. The country is also vulnerable to natural disasters and climate change.
Uzbekistan	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.

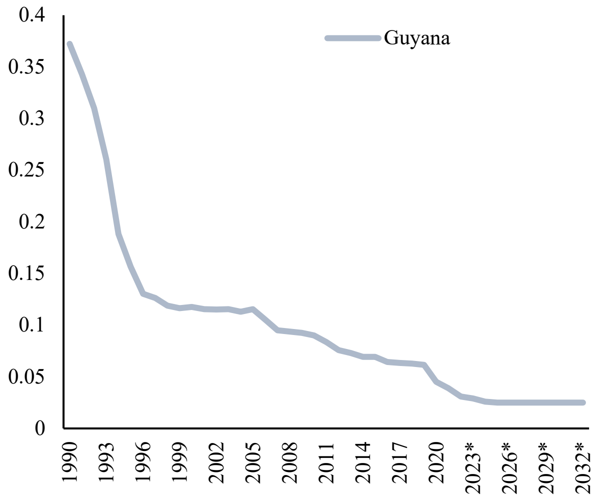
Note: [(a)] Headcount poverty estimates are for 2022, at the US$2.15 a day poverty line.

17. **Its Gap status notwithstanding, Guyana could be considered for graduation at end IDA21.** While graduation will be determined based on a comprehensive analysis of country circumstances and would be subject to the outcome of a creditworthiness assessment, Guyana could graduate in the medium term. Guyana's graduation prospects are bolstered by its high per capita income, declining poverty headcount (below 3 percent at the US$2.15 a day poverty line) and debt sustainability. Propelled by a significant increase in oil production, Guyana's GNI per capita is currently estimated at US$15,050 – more than eleven times the IDA cut-off and almost double the GDI, the level at which IBRD graduation discussions are typically initiated. Guyana's commercially recoverable petroleum reserves are expected to reach over 11 billion barrels, one of the highest levels in the world. It now has an opportunity to utilize oil windfalls to transform its economy, address development needs, and build substantial buffers to absorb shocks (Figure 3.1). Management proposes that Guyana's eligibility for Blend financing be assessed, upon request from the country authorities. Subject to a determination that it is IBRD creditworthy, Guyana could be considered for graduation at end-IDA21. A transition period during IDA21 is proposed to ensure a smooth path to non-concessional financing and will be important in light of vulnerabilities to the weak global environment. In line with the systematic approach to graduation adopted in IDA17, engagement with the country authorities on the graduation process will be enhanced with support from the Graduation Task Force.

18. **Longer-term graduation prospects also deserve attention.** Since IDA18, IDA has performed analysis of long-term graduation trends using a statistical model that provides the probability of graduation for countries. The model considers a wide range of factors that affect countries' graduation including GNI per capita, time the country's GNI per capita has been over IDA's operational cut-off, creditworthiness, poverty headcount, population, exports/GDP, life expectancy, urbanization, fragility, institutional development, and resource rents.

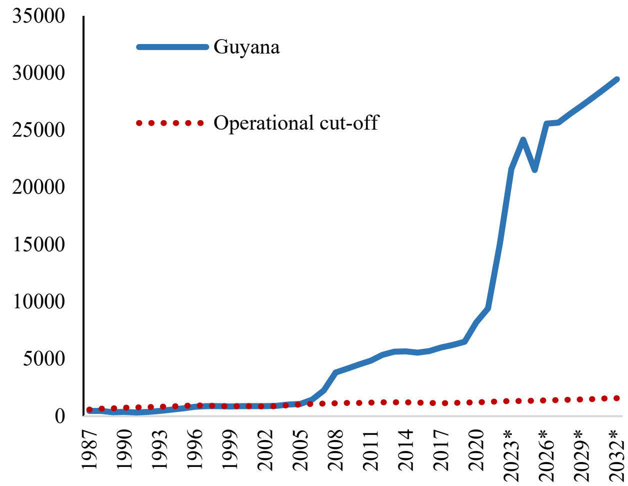
Figure 3. 1. Key Macro Indicators for Guyana

Figure 3.1a. Poverty headcount (U$2.15) for Guyana



Note: Projections for 2023 onward
Source: World Bank Staff Estimates

Figure 3.1b. GNI PC of Guyana vis -a-vis Operational cut-off (US$)



Note: Projections for 2023 onward
Source: World Bank Staff Estimates

19. **Beyond IDA21, model projections point to a higher likelihood of countries graduating from IDA.** This includes several small islands with relatively high-income levels but where graduation prospects currently remain held back by their vulnerability to shocks and precarious debt situations. Among these are the OECS countries with per capita incomes well above the IDA operational cut-off (ranging from US$8,460 to US$11,160) and expected to exceed the high-income benchmark by end IDA22. As the first recipients of the SIEE in 1985 and having been assessed as IBRD creditworthy shortly thereafter, the OECS countries have been in Blend status for over 35 years. It is important therefore to review, as we do in this paper, the type of support being provided to small islands under the SIEE and to consider if the exception provides sufficient incentive and a smooth approach for SIEs graduation from IDA. While vulnerabilities persist, it is recognized that at high levels of income, countries are in a better position to cope with adverse impacts of natural disasters, take greater advantage of IBRD financing and mobilize more domestic and private resources. In preparation of their eventual graduation, which the model currently suggests could happen at the end of IDA22, Management proposes to focus country programs more sharply on initiatives to further build resilience to external shocks through improvements in disaster risk management, debt management and sustainability, and enhanced domestic resource mobilization.[15] Management also proposes to recalibrate the financing terms of countries benefiting from the SIEE that are above the GDI (see Section V).

20. **If current trends continue, Bangladesh also looks poised to graduate in the medium term**. The country has a low and declining poverty headcount (at 5 percent at the US$2.15 a day poverty line), promising growth prospects as well as a stable overall macro-economic and debt

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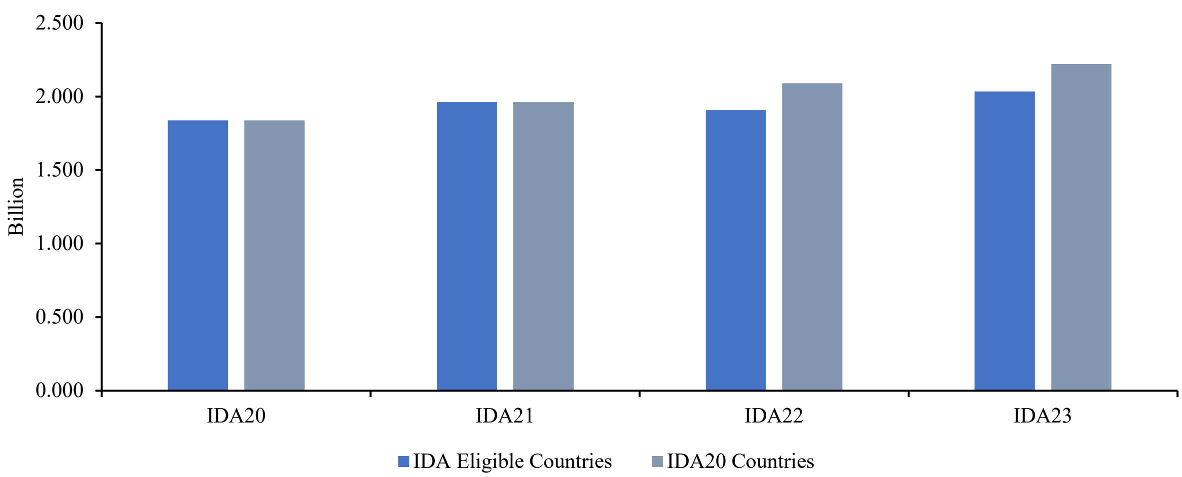
[16] *Bangladesh - Country Partnership Framework for the Period FY2023 - FY2027 (English).* Washington, D.C. : World Bank Group. *http://documents.worldbank.org/curated/en/09904052 3102036987/BOSIB037c73db00920ae960a4e78fa47587.*

sustainability outlook. This should facilitate further improvements in living standards and human development keeping the country on track to reach upper middle-income (UMIC) status by end IDA22. However, it should be noted that it is a country highly vulnerable to natural disasters, considered to be one of the most adversely affected by climate change. As a Gap country, preparation for Bangladesh's graduation from IDA (i.e., moving to Blend status) will be initiated under the new Country Partnership Framework (CPF) FY23-27.[16] This would involve an IBRD creditworthiness assessment to be requested by the Authorities.[17] Continued efforts to strengthen Bangladesh's financial sector while maintaining fiscal and debt sustainability, underpinned by enhanced domestic resource mobilization, will be key in facilitating its transition to an IBRD-only eligible country.

21. **Despite the possible graduations, overall needs for IDA financing are likely to be on an upward trend in nominal terms through 2034.** Considering probabilities of the countries remaining IDA Borrowers, Figure 3.2 presents a projection of the expected total population of IDA-eligible countries for IDA20 and the subsequent three replenishment periods. While the model predicts the likely graduation of countries representing 9.5 percent of today's IDA population by 2034, the expected population growth of around 1.4 percent in the remaining IDA countries will more than offset this. As a result, the total population in IDA countries would remain nearly constant between the IDA21 and IDA23 replenishments. For this reason, demand for IDA's resources is likely to remain high.

Figure 3. 2. Total Projected Population of IDA20 Countries and IDA-eligible Countries for the IDA21–23 Replenishment Periods (period average)



Source: World Bank Populations Projections and staff estimates.

[16] *Bangladesh - Country Partnership Framework for the Period FY2023 - FY2027 (English).* Washington, D.C. : World Bank Group. *http://documents.worldbank.org/curated/en/09904052 3102036987/BOSIB037c73db00920ae960a4e78fa47587*.

[17] Bangladesh is already classified as a Blend country by the Asian Infrastructure Investment Bank.

IV. REVERSE GRADUATION AND RECLASSIFICATION FRAMEWORK

22. **Following the reverse graduation of Sri Lanka, discussed and endorsed by IDA Participants on November 2, 2022, IDA Participants requested Management to develop a framework to guide decisions on reverse graduation**. Many countries across the world today are facing challenging macro-economic conditions due to the impacts of the COVID-19 pandemic, climate change, and adverse global economic conditions which have led to rising food and energy prices and been exacerbated by Russia's invasion of Ukraine. These developments, coupled with other country specific factors, led to the reverse graduation of Sri Lanka from an IBRD Borrower to IDA-only status in FY23. The parameters of a proposed framework are set out below drawing from established practice. They seek to provide clarity on the criteria for access to IDA to help countries understand the conditions under which this may occur, and to elaborate the factors taken into consideration to guide the Bank's decisions in specific country circumstances.

A. IDA Reverse Graduations

23. **"Reverse Graduation" is the obverse of "Graduation."** It refers to the formal determination that an IBRD Borrower previously assessed as creditworthy and one that "graduated" from IDA, subsequently confronted adverse circumstances rendering it non-creditworthy for IBRD financing and eligible for IDA borrowing. In such cases countries have been accorded renewed access to IDA, subject to eligibility criteria and a demonstrated commitment to reform.

24. **To date, 13 countries have reverse graduated to IDA.** Since IDA's inception, 46 countries have graduated from IDA of which 13 countries, or 28 percent, were subsequently assessed as not creditworthy, or with only limited creditworthiness, for IBRD financing, and "reverse" graduated to IDA. Over 70 percent of reversals took place between 1989 and 1994. Since then, only 3 countries, Papua New Guinea in FY03, Syria in FY17 and Sri Lanka in FY23 have reverse graduated. Three reverse graduates, Egypt, Indonesia, and the Philippines, were able to restore creditworthiness and graduate from IDA for a second time. They first graduated from IDA in FY79 (Philippines), FY80 (Indonesia) and FY81 (Egypt) and reverse graduated to Blend Borrowers in FY91 (Egypt and the Philippines) and FY99 (Indonesia). The Philippines regained IBRD-only status within three years in FY93, Egypt after eight years in FY99 and Indonesia after nearly a decade in FY08.

B. IDA Reclassifications

25. **Reclassification refers to countries that joined the World Bank as IBRD-eligible members but are then given access to IDA after meeting specific criteria.** Reclassification of an IBRD-only Borrower to IDA-eligible has, to date, been restricted to three small island states under the SIEE – Marshall Islands (2011), Micronesia (2011) and Fiji (2019). In FY02, Uzbekistan was reclassified to IDA-eligible as the country had been temporarily classified as IBRD-eligible when it joined the World Bank. As such, to date, there is no precedent of reclassification of a non-Small State IBRD-eligible Borrower to IDA-eligible.

C. Past Practice in Reverse Graduations

26. **Prior to FY23 all reverse graduations conformed to the eligibility criteria for accessing IDA financing.** Regarding the **creditworthiness criterion**, all previous reverse graduates were assessed as lacking creditworthiness or having only limited creditworthiness for IBRD financing at the time of their reverse graduation.[18] The validity of these assessments was confirmed by the restructuring of debt by their official bilateral and private creditors. Nine of the 12 countries that reverse graduated between FY89 and FY17 restructured their external debt. Most received significant debt reduction, including 5 countries (Cameroon, Republic of Congo, Côte d'Ivoire, Honduras, and Nicaragua) that benefitted from the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI). The remaining 3 countries did not restructure external debt: in the case of Papua New Guinea lack of creditworthiness was related to domestic obligations and Syria and Zimbabwe have protracted arrears to external creditors including IBRD and IDA. Regarding the **'relative poverty' criterion,** in the year reverse graduation occurred, GNI per capita in all cases prior to Sri Lanka was below the IDA operational cut-off (Table 4.1).

Table 4. 1. Reverse Graduations and Eligibility for IDA Credits

Country	FY of reverse graduation	Reason for reverse graduation	GNI per capita at time of reverse graduation (US$)	IDA cut-off at time of reverse graduation (US$)	Classification immediately after reverse graduation	Classification in FY24
Nigeria	FY89	Lower oil prices	370	580	Blend	Blend
Egypt	FY91	Gulf crisis/ domestic policies/lower oil prices	630	700	Blend	IBRD
Honduras	FY91	Currency devaluation	483	700	IDA-only	Gap
Nicaragua	FY 91	Internal and external disequilibria	n/a – but data suggest below cut-off	700	IDA-only	Gap
Philippines	FY91	Currency devaluation/gulf crisis	645	700	Blend	IBRD
Cote d'Ivoire	FY 92	Recession	730	740	Blend	Gap
Zimbabwe	FY92	Economic miss-management	650	740	Blend	Blend / inactive
Cameroon	FY 94	Recession/CFA devaluation	780	835	IDA-only	Blend
Congo, Rep. of	FY 94	Recession/lower oil prices	805	835	IDA-only	Blend
Indonesia	FY 99	Asian crisis	770	925	Blend	IBRD

[18] In previous cases, at the time of reverse graduation, countries had lost access to international financial markets.

Country	FY of reverse graduation	Reason for reverse graduation	GNI per capita at time of reverse graduation (US$)	IDA cut-off at time of reverse graduation (US$)	Classification immediately after reverse graduation	Classification in FY24
Papua New Guinea	FY03	Trade shock/ drought	760	885	Blend	Blend
Syria	FY17	Political and economic crisis - civil war	1,153	1,185	IDA-only / inactive	IDA-only / inactive
Sri Lanka	FY23		3,820	1,255	Gap	Gap

Note: Egypt, Indonesia and Philippines have since graduated

27. **The reverse graduation of Sri Lanka in FY23 was an exceptional case where a different measure of 'relative poverty' was applied, reflecting the fact that countries are graduating out of IDA at income levels significantly higher than the operational cut-off.** Sri Lanka graduated from an IDA-only Borrower to Blend status in FY12 and to an IBRD-only Borrower in FY17. In December 2022 it reverse-graduated to IDA-only status following the collapse of the economy and loss of creditworthiness. A decline in economic growth in 2019 was already a sign that the country's economy was facing challenges, and these were exacerbated by the COVID-19 pandemic, which led to a sharp fall in two of Sri Lanka's main sources of foreign exchange inflows, remittances and tourism. This put pressure on reserves to pay for essential imports and service external debt. Economic downfall, political turmoil, policy missteps, and payment default to international bondholders and request for debt restructuring from official and private external creditors underscored the assessment that the country was no longer creditworthy. However, GNI per capita at the time of reverse graduation was US$3,820, close to three and a half times higher than the prevailing operational cut-off. While Sri Lanka's GNI per capita remained above IDA's operational cut-off point, it was projected to fall below the level of graduation and close to the 75th percentile of per capita incomes in IDA countries.

D. Rationale for a Reverse Graduation and Reclassification Framework

28. **Several factors point to the need to establish a framework for reverse graduation and reclassification.** Many IBRD-only Borrowers are confronting challenging macro-economic conditions and may not be able to support the cost of meeting their development financing needs with market-based sources of financing, particularly given global inflationary pressures and rise in interest rates. In addition, adherence to the 'relative poverty' criterion as currently defined for determining IDA financing, no longer provides viable criteria for reverse graduation and/or reclassification decisions because the criterion metric – the operational threshold – has not kept pace with the progressive and significant rise in world per capita incomes, or the evolution and level of GNI per capita in countries currently eligible for IDA resources.

29. **Relative to the global GNI per capita, the operational cut-off is much lower now than when it was established**. The operational cut-off has not been adjusted to reflect the progression in global per capita income which has risen substantially over time reflecting positive development outcomes at the country level. When the operational cut-off was introduced in FY89, it was equivalent to 17.4 percent of world GNI per capita. By FY24 it had fallen to 10.3 percent. If the

operational cut-off had retained its value relative to world GNI per capita, it would have been US$2,225 in FY24, 69 percent above the current value (Figure 4.1). The erosion of the operational threshold, relative to world GNI per capita has called for prudence in the application of the per capita income criterion when considering countries' graduation from IDA. Consequently, a more flexible and gradual approach to graduation has been taken over the past 30 years.

30. **The majority (60 percent) of IDA countries have GNI per capita above the operational cut-off** (Figure 4.2)**.** The average GNI per capita of IDA-eligible Borrowers in FY24 is US$2,671, more than double the operational cut-off. This is driven in large part by the average GNI per capita of small economies, US$5,849 for FY24. For all other IDA-eligible Borrowers, GNI per capita for FY24 averages US$1,411, seven percent higher than the operational cut-off. There is, however, a marked divergence between Borrowers classified as IDA-only with an average GNI per capita of US$787 as compared to Gap and Blend Borrowers where GNI per capita is US$2,344 and US$2,004, respectively, for FY24 (Table 4.2).

Table 4. 2. IDA-Eligible Countries – Average GNI per capita FY24 (US$, thousands)

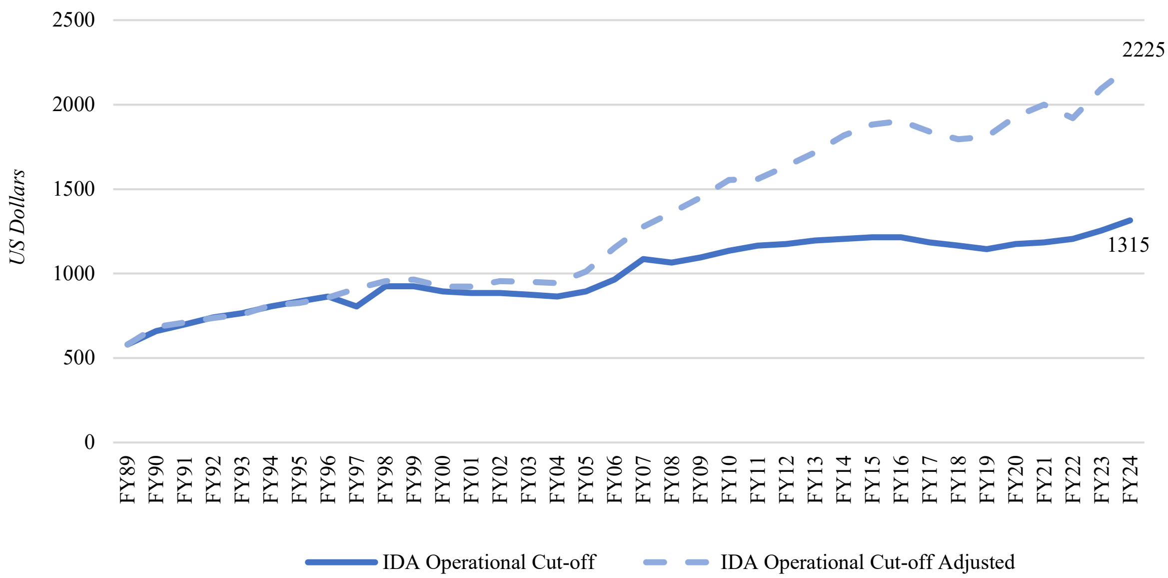
	GNI per Capita FY24		
	All IDA borrowers	Excl. Small Economies	Small Economies
IDA-only	1,844	787	4,725
Gap	3,142	2,344	7,133
Blend	4,365	2,004	7,064
Gap and Blend	3,698	2,226	7,085
ALL IDA-Eligible	**2,671**	**1,411**	**5,849**

Source: World Bank Income and Lending Criteria FY24

31. **Past reviews of Graduation Policy concluded that the operational threshold need not be raised,** as this would have only a marginal impact on the demand for IDA funds and could have an unintended impact on IDA's finances. This conclusion still holds. The operational threshold, the trigger for a country's extended transition out of IDA, remains an important element of IDAs Graduation Policy.[19] This said, its erosion relative to world GNI per capita and IDA eligible countries, points to the need for flexibility around the relative income criterion, as is practiced with graduation decisions.

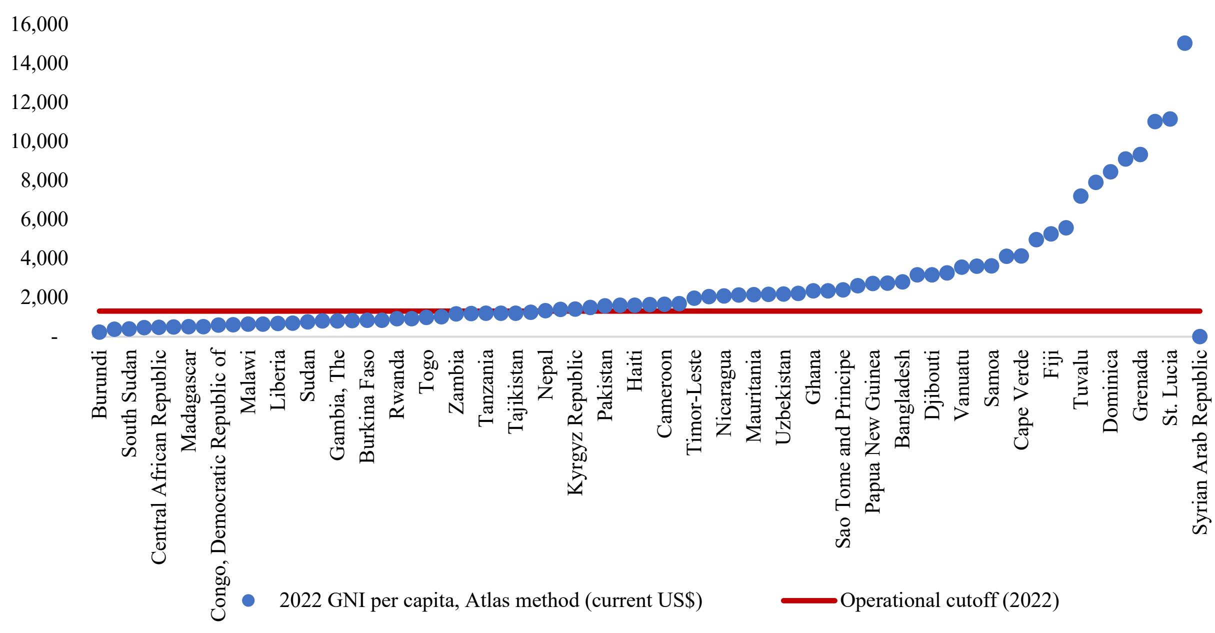
[19] As previously described the graduation process normally commences when the IDA operational cut-off is exceeded for at least two consecutive years. Financing terms are tightened at this point in preparation for the country's eventual and full transition to non-concessional financing.

Figure 4. 12. Evolution of IDA Operational Cut-Off FY89-FY24



Source: OP3.10 Annex D
Note: IDA operational cut-off adjusted reflects a constant (17.4 percent) share of world GNI since inception in FY89.

Figure 4. 3. IDA Eligible Countries – GNI per capita FY24



Source: World Development Indicators, OP3.10 Annex D

E. IDA Reverse Graduation and Reclassification Framework and Criteria

32. **The proposed framework is aimed at providing IBRD-only Borrowers, clear, consistent, and viable criteria for access to IDA to help them understand the conditions under which this may occur. It also guides the Bank's decisions in each specific country case and circumstances, while maintaining flexibility.** The proposed IDA reverse graduation and reclassification framework is *applicable to all IBRD Borrowers*. It is intended to be used in situations of deep and protracted economic crisis where short-to-medium term recovery prospects are limited as reflected in projections of worsening key economic and social indicators. For cases where economic deterioration is expected to be short lived, a one-off intervention for a prescribed period should be considered (see Box 1.1). Such exceptional support would afford time to determine whether conditions in a country warrant prolonged access to IDA in countries that meet the IDA eligibility criteria below.

Creditworthiness Criterion

33. **Renewed access to IDA has always been governed first and foremost by creditworthiness and it remains the core element of the proposed framework.** A creditworthiness assessment to support reverse graduation and/or reclassification would need to determine that the Borrower is: (i) no longer creditworthy for IBRD financing or retains only limited creditworthiness for such financing; and (ii) is unable to meet its development financing needs with market-based sources of financing, including from IBRD. The World Bank's mechanism for assessing creditworthiness of World Bank Borrowers, both for management of institutional risks associated with the IBRD and IDA portfolios and in support of decisions for graduation from, and reverse graduation to IDA, has proved robust. It encompasses an evaluation of eight key components of creditworthiness: (i) political risk; (ii) external debt and liquidity; (iii) fiscal policy and public debt burden; (iv) balance of payment risks; (v) economic structure and growth prospects; (vi) monetary and exchange rate policy; (vii) financial sector risks; and (viii) corporate sector debt.

'Relative Poverty' Criterion

34. **Any decision to reverse graduate or reclassify a country to IDA will also take into consideration a Borrower's 'relative poverty'**. This reflects IDA's Articles of Agreement which require IDA resources be reserved for the "less developed areas", which has typically been measured in relation to GNI per capita. However, as described above, a framework that employs the operational threshold to stay within the confines of the imperative to reserve IDA resources for the relatively poor presents challenges of viability. An alternative, more dynamic and straight-forward approach would be to set the 'relative poverty' threshold at the average GNI per capita of Gap and Blend Borrowers, excluding Small States, at the time the reverse graduation or reclassification takes place. This would allow a comparison of the GNI per capita of the country being considered with that of other Gap and Blend Borrowers, excluding Small States, and would be complemented with assessments of the GNI per capita compared to its level at the time of graduation (where applicable), as well as its expected growth path.

35. **In addition to the above, Management proposes that decisions for reverse graduation and/or reclassification are supported by an assessment of a country along the following four dimensions: (i) poverty and social indicators, (ii) vulnerability to shocks, (iii) public sector management and institutions, and (iv) commitment to reform.** This will allow for a comprehensive understanding of a country's economic and social context. Inclusion of these areas in reverse graduation (or reclassification) decisions builds on past practice.[20]

Poverty and Social Indicators

36. **Trends in poverty and social indicators are important to consider when evaluating a country's eligibility for IDA resources.** Economic shocks adversely impact households' economic position and are likely to lead to a deterioration in poverty and social indicators. Increase in headcount poverty can be an indicator for rising food insecurity, reduced livelihoods, and delayed investments in human capital (education and health), thereby impacting future growth prospects of a country. In this regard, it is proposed that trends in headcount poverty, the number of people that have fallen below the poverty line (or are expected to over the next year) and the Gini index be considered when assessing country's request for reverse graduation and/or reclassification. Other social indicators to look at include the country's performance in the Human Capital Index as well as adult literacy, life expectancy, infant mortality, and unemployment rates.

Vulnerabilities to Shocks

37. **High vulnerability to shocks is a likely precursor for repeated economic shocks and increased macroeconomic instability.** Countries that are by their economic structure, size, or position, highly vulnerable to economic or environmental shocks, can face repeated macroeconomic crises that deplete their fiscal and external buffers and increase financial sector risks. Crisis response puts additional pressure on scarce fiscal resources as countries increase spending to protect vulnerable populations and support economic activity while collecting lower revenues. This can contribute to elevated debt vulnerabilities overtime. Countries that are highly exposed to natural disasters and long-term climate change need resources to build resilience through investments in mitigation and adaptation measures.

Public Sector Management and Institutions

38. **Weak institutions impede a country's ability to implement key reforms to support long-term economic growth.** Political instability, weak governance and institutions can lead to protracted delays in the design and implementation of a credible macroeconomic reform program. This can impact a country's ability to respond to exogenous shocks or establish mechanisms to reduce the impact of future shocks. Moreover, opaque public procurement processes and limited external audits undermine transparency in public financial management. When considering access to scarce IDA resources, it is important to consider if a country is implementing reforms for their effective use through increased transparency and accountability of public institutions.

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[20] Historically, reverse graduation decisions considered, in addition to the 'relative poverty' and creditworthiness criteria, a performance criterion that looked at the quality of economic management in the past and planned structural reforms for the future, including a stabilization program, if any. This reflected the requirement that IDA resources be used productively.

Commitment to Reform

39. **It is important for a country to undertake structural reforms and demonstrate a clear commitment to reform for access to IDA resources.** IDA access to potential IDA eligible Borrowers is conditional on the government embarking on difficult economic reforms to address key drivers of macroeconomic instability and to improve debt sustainability (for countries that are facing a debt crisis). Judgment on commitment to reform takes account of a country's record of recent reforms, efforts to pursue reforms that are needed to address the macro-economic deterioration that has led to the country's request for coming back to IDA and willingness to engage in policy dialogue. Reform commitments could be implemented through an International Monetary Fund (IMF) program when necessary, to address macroeconomic and fiscal challenges. The World Bank engagement in the country should include a focus on core fiscal, trade, and growth issues while protecting social safety net spending and complementing the IMF program, if in place.

40. **The framework described above is designed to guide decisions on access while retaining flexibility in its application.** An assessment of lack of, or limited creditworthiness for IBRD financing or GNI per capita that falls below the IDA graduation decision threshold (the average GNI per capita of IDA-eligible Gap and Blend countries) would not automatically imply a country should or will be approved for reverse graduation and/or reclassification. Rather, it should be seen as a trigger for Bank management to begin a comprehensive review of the country's overall macro-economic and fiscal situation and its capacity to sustain a long-term development program.

F. Recommendation

41. **Management proposes to anchor reverse graduation and reclassification decisions on the criteria for IDA eligibility – creditworthiness and relative poverty. Management also proposes to consider additional supporting factors such as trends in poverty and social indicators, vulnerabilities to shocks, institutional constraints and a demonstrated commitment to reform.** Management recommends using the average GNI per capita of IDA-eligible countries classified as Gap or Blend, excluding Small States, as a guide for implementing the relative poverty criteria for reverse graduation and reclassification, while also considering projections of the country's GNI per capita and comparisons of GNI per capita relative to the year of the country's earlier graduation from IDA (where applicable).

V. BROADENING THE SMALL ISLAND ECONOMIES EXCEPTION

42. **Small States[21] are characterized by unique development challenges.** The disproportionate impact of the COVID-19 pandemic in Small States has underscored these challenges. Most Small States experienced double-digit GDP contractions in 2020, largely due to prolonged disruptions to global tourism. These countries now face spillovers from Russia's invasion of Ukraine and the global monetary tightening cycle. Small States are expected to have weak recoveries with large and possibly permanent losses to the level of output. As discussed earlier in Section II, the vulnerability of Small States to economic shocks is primarily due to their dependence on imports of essential goods, a concentrated economic structure, elevated levels of debt, reliance on external financing, and susceptibility to natural disasters and climate change. Moreover, the frequency and intensity of weather-related natural disasters in Small States has increased in recent decades and is expected to rise further because of climate change. Resulting damages from these events, equivalent to nearly 5 percent of GDP annually, on average, are increasing.[22] High public debt levels have limited the scope for additional market financing by most Small States to respond to their challenges, particularly as most of them lack creditworthiness to borrow in international credit markets and their cost of borrowing is high.

43. **IDA has long recognized the special characteristics of a subset of Small States – SIEs – that affect creditworthiness and access to finance.** In 1985, the Board approved an exception to IDA's eligibility criteria that gives eligible SIEs continued access to concessional IDA resources, the SIEE.[23] Countries are granted the Exception once their per capita income crosses the IDA operational cut-off and it allows them to remain eligible for highly concessional loan terms that IDA offers – Small Economy Terms with no interest, 40-year maturity and a 10-year grace period. The Exception allows SIEs that are in principle Gap countries to remain classified as IDA-only countries, thus potentially becoming eligible for IDA grants depending on their risk of external debt distress.[24,25] In 2019, the SIEE was revised to allow IBRD-only SIEs to be eligible for the exception,[26] as a result of which, Fiji was granted the exception effective 1st July 2019.[27] See Box 5.1 and Annex 3 for details on the revisions to the SIEE in 2019.

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21 Based on the Bank's definition of Small States (1.5 million people or less), there are 21 IDA-eligible Small States and 12 IBRD-only Small States (Annex 6).

22 Global Economy Prospects, January 2023 World Bank.

23 See Board paper "Terms of Lending to Small Island Economies Graduating from IDA, IDA/R85-134, dated November 18, 1985.

24 A Gap Country that is eligible for the SIEE is granted the status of an IDA-only Country, and may be eligible for IDA Grants as set out in Section III, paragraph 2.b of the Bank Policy, Financial Terms and Conditions of Bank Financing. July 2023.

25 Based on the joint World Bank-IMF Low-Income Country Debt Sustainability Analysis (LIC-DSA). Debt sustainability analysis of St. Lucia and Fiji is carried out using the Market Access Country Debt Sustainability Analysis (MAC-DSA). As of end-June 2023, no SIE under the Exception is assessed at low risk of external debt distress and only three countries (Cabo Verde, Solomon Islands and Vanuatu) are at moderate risk. All others are at high risk and Grenada and Sao Tome and Principe are in debt distress.

26 IDA18 Post-Mid-Term Review Amendments, Review of the Small Island Economies Exception and IDA18 Exceptional Allocation to Jordan and Lebanon, IDA/R2019-0062/1, April 2019.

27 Membership in IDA is a pre-condition for such reclassification. An SIE that does not have IDA membership will first need to obtain such membership to be able to access IDA resources—even if it meets all four entry criteria. Of the six IBRD-only SIEs, Antigua and Barbuda, Nauru, and Seychelles do not have IDA membership.

Box 5. 1. SIEE – Eligibility Rules on Reclassification from IBRD-only to IDA (2019)

Under existing rules, an IBRD-only Small Island Economy is eligible to be reclassified as a Blend Country or an IDA-only Country, upon the country's request if all of the following four conditions are satisfied:[a]

i. its per capita income is at or below the IBRD Graduation Discussion Income (GDI).
ii. it is highly vulnerable to natural disasters or long-term impact of climate change[b]
iii. it has limited creditworthiness for accessing commercial credit, and[c]
iv. its access to IBRD resources is constrained by creditworthiness or affordability considerations.[d]

Source: Bank Policy, Financial Terms and Conditions of Bank Financing (July 2023).
Notes:
a: Membership in IDA is a precondition for such reclassification.
b: Based on three commonly used indices—Climate Risk Index (CRI), Economic and Environmental Vulnerability Index (EVI), and World Risk Index (WRI)—where such data is available. If a country falls in the highest or second-highest quintile of vulnerability as measured by the CRI or EVI; or classified as "high risk" or "very high risk" by the WRI, it will have met the vulnerability criterion for entry/re-entry.
c: Based on sovereign credit ratings published by major credit rating agencies. If a country has an above investment grade credit rating, it would not be eligible to enter/re-enter IDA.
d: Based on an assessment of adequacy of a country's access to IBRD resources and affordability of borrowing terms. "Affordability" means a country's ability to borrow non-concessional resources sustainably, as informed by a World Bank-IMF Debt Sustainability Analysis.

44. **Seventeen SIEs with GNI per capita above the IDA operational cut-off currently receive special treatment from IDA under the Exception.**[28] Of these 6 are classified as Blend countries and 11 as IDA-only (these would otherwise fall under the definition of a Gap country). The GNI per capita income of SIEs ranges from US$1,610 (Comoros) to US$11,160 (St. Lucia). See Box 5.2 (and Annex 4) for a discussion of countries that have been granted the exception between 1985-2023.

45. **Under IDA18, favorable lending terms granted to SIEs were extended to all IDA countries classified as Small States.** This benefitted four IDA-eligible Small States that are not islands—Bhutan, Djibouti, Guyana, and Timor-Leste. However, these countries were not granted the Exception, because the Exception is applicable to only SIEs.[29] In all, 21 countries currently receive IDA credits on Small Economy Terms (see Annex 5).

[28] Cabo Verde, Comoros, Dominica, Fiji, Grenada, Kiribati, Maldives, Marshall Islands, Micronesia, Samoa, Sao Tome and Principe, Solomon Islands, St. Lucia, St. Vincent and the Grenadines, Tonga, Tuvalu, and Vanuatu.

[29] Bhutan, Djibouti, and Guyana maintain their Gap country classification. Timor-Leste is a Blend country. None of the four are eligible for IDA grants except possibly through the Window for Host Communities and Refugees.

Box 5. 2. Entry and Exit into the Small Island Economies Exception (SIEE) - 1985-2023

The SIEE, approved in 1985, gives IDA-eligible SIEs access to concessional IDA resources. The rationale for the Exception was centered on SIEs special characteristics, including exposure to exogenous economic shocks, export vulnerability, high cost of basic infrastructure, higher unit costs of investment in the industrial sector, limited size of domestic markets, and distance from major markets.

The Exception was first granted to six countries, with the understanding that it would be extended to other SIEs facing similar circumstances when their per capita incomes reach the IDA operational cut-off. The initial set of countries to receive the Exception were *Dominica, Grenada, St. Kitts and Nevis (St. Christopher and Nevis at the time), St. Lucia, St. Vincent and the Grenadines, and Tonga*. Their per capita incomes were above or almost approaching the IDA operational cut-off when the Exception was granted. Most of them were considered not creditworthy at the time for borrowing from IBRD. Recognizing that the strict enforcement of IDA eligibility rules would leave these member countries without access to either IDA or IBRD resources, the Board paper recommended that these countries be granted continued access to IDA, while adopting specific measures to strengthen their creditworthiness to borrow from the IBRD.

12 additional countries have been granted the Exception since 1985. While the first round of exceptions was approved by the Board when the Exception was first adopted, all subsequent decisions to grant the Exception were taken by Management. The *Marshall Islands and Micronesia* were reclassified from "IBRD-only" Borrower to "IDA-only" under the Exception, effective July 1, 2011, because they were assessed as not creditworthy for borrowing from IBRD.[a] *Cabo Verde* was granted the Exception in 1997 when its per capita income exceeded the IDA operational cut-off. It continues to receive IDA Concessional Credits on Small Economy Terms under the Exception. *Samoa, Vanuatu, the Maldives, Kiribati, Tuvalu, Sao Tome and Principe, Comoros and the Solomon Islands* were granted the Exception when their per capita incomes rose above the IDA cut-off. A creditworthiness assessment by the Bank was required in the case of new member countries and for countries for which a creditworthy assessment had never been performed.[b]

Fiji entered the fold of countries under the SIEE when it was revised in April 2019 to introduce explicit criteria to give IBRD-only SIEs access to IDA. Under the revised SIEE, an IBRD-only SIE is eligible for entry or re-entry to IDA (as a Blend or IDA-only country) if it meets the criteria. Based on this, Fiji's Borrower status was reclassified from an IBRD-only country to a Blend Country, effective July 1, 2019.

While the 1985 Board paper did not explicitly discuss small islands' vulnerability to natural disasters, vulnerability to climate change is now a key criterion for entry into the SIEE. Though not a formal requirement, Bank's decisions to grant the Exception to Tuvalu, the Marshall Islands and Micronesia all considered vulnerability to natural disasters and climate change. In 2019, revisions to the SIEE entry criteria for IBRD-only SIEs formally recognized these aspects as part of the rationale for granting the Exception.

While St. Kitts and Nevis graduated from IDA in 1994, the rest of the countries that were granted the exception continue to benefit from it. Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines reached Blend Country status in the late 1980s and Cabo Verde was reclassified as a Blend Country, effective July 1, 2009, based on a formal creditworthiness assessment. Blend countries continue to receive IDA Concessional Credits on Small Economy Terms but are not eligible for IDA Grants (except possibly through the Window for Host Communities and Refugees, WHR). IDA-only countries that benefit from the exception, 11 in total, are also eligible for grants depending on the risk of debt distress.

Note: [(a)] The Marshall Islands and Micronesia were the only two countries to be reclassified from IBRD-only Borrower status to IDA-eligible status pursuant to the Exception. However, neither country had ever borrowed from IBRD. Each country was initially classified as an IBRD-only Borrower when they joined the Bank respectively in May 1992 and June 1993 and remained in that granted access to IDA resources under the Exception, effective July 1, 2011. [(b)] Namely Tuvalu, Federated States of Micronesia, and Marshall Islands.

A. Recognizing the Vulnerabilities of non-Island IBRD Small States

46. **While the SIEE has long supported SIEs, many non-island Small States also face similar challenges and have deep-rooted vulnerabilities.** As with SIEs, non-island Small States have high levels of economic concentration. They are vulnerable to economic shocks, have fragile debt sustainability, limited creditworthiness, and face high costs of building resilience to climate change and natural disasters – which they are also highly susceptible to. Lack of scale and limited connectivity raise costs and constrain diversification efforts. These shared vulnerabilities are reflected in comparable outcomes between SIEs and non-island Small States on the three commonly used indices that look at structural vulnerability to economic and environmental shocks—the Global Climate Risk Index (CRI), the World Risk Index (WRI), and the Economic Vulnerability Index (EVI) (Annex 7).

47. **In recognition of these challenges, some IBRD-only Small States have argued that they too should have access to concessional financing.** Two non-island IBRD-only Small States, Belize, and Suriname have officially requested access to IDA. A key argument presented by those proposing IBRD-only Small States' access to IDA is that these countries have lower per capita income than the many SIEs currently eligible for IDA financing and IDA Small Economy Terms. While the Bank has explored various options – through IDA, IBRD, and trust funds—for scaling-up support to vulnerable IBRD-only Small States, including provision of temporary access through the IDA Crisis Response Window (CRW) or linking grants to IBRD loans through a Multi-donor Trust Fund (MDTF), these have had little success.

48. **Extending the SIEE to non-island Small States offers a straightforward option for recognizing the higher vulnerability of qualifying Small States.** As with the SIEE, the proposed extension will apply to countries that fall under the World Bank Group's definition of Small States (1.5 million people or less). It would potentially allow access to concessional financing for qualifying non-island Small States that are currently not eligible because the Exception is exclusive to SIEs. This option entails applying the criteria laid out in Box 5.1 to IBRD-only Small States and granting the exception to those that qualify. The existing criteria looks at per capita incomes, vulnerability to natural disasters and long-term climate change, access to commercial credit and access to IBRD resources when evaluating a country's entry/re-entry into IDA. Thus, extending these criteria to IBRD-only Small States is consistent with IDA's existing architecture where a country's eligibility to IDA resources is based on its relative poverty and creditworthiness. This proposal is also in line with ongoing Evolution discussions on incorporating vulnerability considerations in determining access to concessional resources.

49. **If the SIEE were to be extended to IBRD-only Small States, under the existing criteria, the only Small States that could potentially gain access to IDA are Belize, Eswatini and Suriname.**[30] Three non-island countries, Belize, Eswatini, and Suriname, meet the income criterion for reclassification, i.e., GNI per capita below the GDI (US$7,805 for FY23), the vulnerability criterion (Table 5.1 and Annex 7) and they also have below investment grade credit ratings, thereby meeting the "limited creditworthiness for accessing commercial credit" criterion. An assessment at the country-level is needed to establish whether these countries' access to IBRD

30 Of these, Suriname is not a member of IDA and will first need to gain IDA membership. Membership in IDA is a pre-condition for borrowing from the Association.

resources is constrained by creditworthiness or affordability considerations.[31] Assuming that Belize, Suriname and Eswatini, like Fiji, are reclassified to Blend status, they will receive Small Economy Terms but will not be eligible for grants except possibly through the Window for Host Communities and Refugees (WHR).

Table 5. 1. Application of Existing Entry Criteria to all IBRD-only Small States

	Income Criteria	**Creditworthiness Criteria**	**Vulnerability Criteria**		
	Per capita GNI <US$7,805	**Below investment grade rating[a]**	**Based on CRI[b]**	**Based on EVI[c]**	**Based on WRI[d]**
Small Island Economies					
Antigua and Barbuda	No	Not rated	**Yes**	No	No
Mauritius	No	No	No	No	No
Nauru[e]	No	Not rated	…	No	No
Palau	No	Not rated	…	No	No
Seychelles	No	**Yes**	No	**Yes**	No
St. Kitts and Nevis	No	Not rated	No	No	No
Small States that are not Island Economies					
Belize	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Eswatini	**Yes**	**Yes**	No	**Yes**	No
Montenegro	No	**Yes**	**Yes**	…	No
Suriname	**Yes**	**Yes**	No	**Yes**	No

Notes: "…" means not available.

a. Country has a below investment grade credit rating as reported by major credit rating agencies. *Source: Trading Economics.*

b. Belongs to the quintile of countries with highest losses or quintile with second-highest losses per the CRI score (2000-2019); *Source: Global Climate Risk Index 2021.*

c. Belongs to the quintiles of countries with the highest or second highest measure of vulnerability using the composite EVI rank; *Source*: *United Nations Committee for Development Policy Secretariat. Triennial review dataset 2000 – 2021.*

d. Country risk rated as "Very High" or "High". *Source: World Risk Report 2022.*

e. IBRD Lending subject to Bank Policy, "Lending Operations: Choice of Borrower and Contractual Agreements." Source: Bank Directive, Financial Terms and Conditions of Bank Financing (July 2023).

50. **Replacing the 1985 SIEE with a broader "Small States Exception" will also have financial implications for the non-island Small States that currently have access to IDA.** Should IDA replace the SIEE with a broader Small States (island and non-island) Exception (SSE), then under the existing framework of the SIEE, IDA-eligible Small States classified as Gap, will be re-classified to IDA-only and be eligible for grants depending on their risk of external debt distress status. However, Management proposes that the Exception only be extended to IDA-eligible Small States that have GNI per capita below the high-income threshold. Based on the above, Djibouti, Bhutan and Timor-Leste will receive the exception. Djibouti and Bhutan will be re-classified as IDA-only and gain access to grants and Timor-Leste will remain a Blend country (it will not be eligible for grants). Guyana will retain its Gap status and continue to receive IDA financing on Small Economy Terms (see Annex 8 for details).

51. **Overall, the financial impact on IDA from the proposed extension of the SIEE to all Small States would be relatively small.** If Belize, Eswatini, and Suriname are reclassified from

31 Per the criteria introduced in 2019, an assessment of the adequacy of a country's access to IBRD resources and affordability of borrowing terms is undertaken only if all other entry criteria are met.

IBRD and become Blend countries, there will be some resource implications for IDA. However, given that all three countries would receive relatively small country allocations, the overall burden on IDA is expected to be minimal. Preliminary estimates indicate Belize, Eswatini and Suriname would each receive annual Country Allocations of between SDR17 million to SDR20 million.[32] Depending on eligibility, these countries may also receive additional IDA resources through IDA's windows. Bhutan, Djibouti and Timor-Leste already receive IDA credits on Small Economy Terms. Here the financial impact of extending the SIEE would be with regards to their access to grants. The financial impact of Bhutan and Djibouti becoming eligible for grants in FY25 would be around SDR35 million given that Djibouti with a "high" debt distress rating is eligible for 100 percent grants whereas Bhutan with a "moderate" debt distress rating will be eligible for 50 percent credits and 50 percent grants.[33] Overall, the potential changes of lending terms for all these countries through the extension of the SIEE will reduce IDA FY34 Deployable Strategic Capital (DSC) by US$250-350 million, or 0.2 percent of the DSC ratio.

i. **Recommendation**

52. **IDA Management recommends replacing the SIEE with a Small State Exception (SSE), effective FY25, which accords the same treatment to all Small States (islands and non-islands) that meet the criteria.** This provides a comprehensive, structured, and lasting solution to challenges faced by Small States, as defined by the World Bank Group, and is in line with the original intention of the SIEE, which was to provide vulnerable (island) economies, access to IDA's concessional financing terms. In this case (i) based on the existing criteria for IBRD-only SIEs to be classified as IDA-eligible (as laid out in Annex 3), Belize, Eswatini and Suriname which are currently IBRD-only non-island Small States will likely qualify for reclassification to IDA (subject to a creditworthiness assessment); and (ii) IDA-eligible non-island Small States with GNI per capita below the high-level income threshold (Timor-Leste, Bhutan and Djibouti) will receive the Exception. Of these, Bhutan and Djibouti, will become eligible for grants, subject to their risk of external debt distress.

B. Criteria for Calibrating IDA Financing Terms

53. **The 1985 Board paper recommended that six SIEs be granted access to IDA, but that they receive support to strengthen their creditworthiness to borrow from IBRD and access commercial markets.** Specifically, the Board paper noted that projects and adjustment programs in these countries should be designed to strengthen creditworthiness and accessing financing from commercial sources, on appropriate terms.

54. **However, barring St Kitts and Nevis, all countries that have been granted the exception, continue to benefit from it.** As discussed in Box 5.2, countries have continued to enter the exception over the past three decades, however, St Kitt's was the only country to transition out

[32] Based on estimates for FY24 calculated using CY2019 CPIA data for Belize and Eswatini, and 2022 GNI per capita and population data for the three countries. Suriname has no CPIA data, estimates assume lowest score among current IDA Small States. Small States also benefit with resources from IDA windows, contingent instruments, and reallocations; these add to the country allocations provided for these countries.

[33] If both countries become eligible for 100 percent grants due to a deterioration in their debt distress rating (worst-case scenario), they would receive their FY25 country allocations, around SDR48 million in total, in grants.

of the SIEE in FY94. While five countries have transitioned to Blend status – the last of which was Cabo Verde in 2009, and Fiji entered the exception as a Blend country in 2019, the remaining countries in the SIEE continue to be IDA-only and remain eligible for grants.

55. **This has led to many countries under the exception benefiting from one of IDA's most concessional financing terms despite having per capita incomes that are six to eight times that of the IDA operational cut-off.** Dominica, St. Vincent and the Grenadines, St. Lucia, Grenada, and Maldives continue to be eligible for IDA Small Economy Terms despite having per capita incomes ranging from US$8,460 to US$11,160, which are six to eight times above the IDA operational cut-off.[34] For six of the 17 countries under the exception, their per capita incomes even exceed the level that typically initiates discussions on graduating from IBRD, i.e., the GDI.[35]

56. **To address this issue and facilitate a gradual tightening of SIEs' access to IDA's highly concessional lending terms, the SIEE was revised in 2019.** Prior to 2019, a country once granted the exception, continued to enjoy its benefits till it graduated to IBRD-only status. This meant that SIEs under the exception faced a steep adjustment from Small Economy Terms to IBRD lending terms, skipping IDA Regular terms or Blend Terms, upon their graduation from IDA. However, recognizing the need for a gradual tightening of lending terms to facilitate a smoother transition out of IDA, the SIEE was revised in 2019 and a criterion was introduced for determining IDA financing terms for SIEs. As per the criteria, an SIE would face a hardening of terms and transition from receiving IDA concessional credits on Small Economy Terms to Blend Terms if (a) its GNI per capita exceeded the high-income threshold for at least three consecutive years;[36] and (b) subject to risk of debt distress considerations as described in Box 5.3. These criteria recognized the expectation that at higher levels of income, countries are in a better position to cope with adverse impacts of nature disasters and mobilize more domestic and private resources.

57. **Revisions in 2019, while paving the way for a smooth path for SIEs towards eventual graduation from IDA, have not led to any changes so far.** The threshold for hardening of terms is currently set in relation to the World Bank Group income classification for high income countries, US$13,845. However, this threshold is 77 percent higher than the IBRD GDI of US$7,805. Given the high-income per capita threshold set for tightening of terms, there has been no change in lending terms to SIEEs since FY19 and no change is expected in the medium-term as none of the countries have GNI per capita above the threshold based on 2022 data or are rated as having low risk of debt distress. Applying the same criteria to IDA-eligible non-Island Small States that receive Small Economy Terms, Guyana's GNI per capita income exceeded the high-income per capita threshold for the first time in 2022 and is expected to stay above it over the next few years. However, the country's risk of external debt distress risk is rated as moderate.

34 As an IDA-only country, Maldives is eligible for 100 percent grants given its high risk of debt distress. However, as per IDA's SDFP, financing terms for Maldives were hardened to 100 percent credits effective July 1, 2023, due to repeated breaches of the non-concessional borrowing ceiling over FY21-FY23. Previously, Maldives had also faced a hardening of terms under the Non-Concessional Borrowing Policy (NCBP) due to non-compliance with the Policy.

35 St. Vincent and the Grenadines, St. Lucia, Grenada, Dominica, Maldives, and Marshall Islands.

36 The high-income threshold is the per capita income above which a member country is categorized as a "high income country" for operational purposes. It is updated by the Bank every year, based on the annual rate of change of the SDR-deflator. See *Per Capita Income Guidelines for Operational Purposes*, May 24, 2023.

Box 5. 3. Criteria for Calibrating IDA Financing Terms (2019)[a]

The SIEE revision of April 2019 provisioned for the gradual tightening of IDA's highly concessional lending terms – Small Economy Terms - accorded under the Exception, as part of the graduation process from IDA.

Eligibility for continuation of Small Economy Terms. For countries that exceed the high-income threshold for three consecutive years, debt distress considerations will be used to inform the calibration of IDA financing terms as follows:

- An SIE classified as a Blend Borrower or as IDA-only and assessed at low-risk of debt distress will receive IDA Concessional Credits on Blend Terms if its GNI per capita has exceeded the high-income threshold (US$13,845 for FY24) for three consecutive years.
- An SIE in debt distress or at high or moderate risk of debt distress would be eligible to continue receiving IDA Concessional Credits on Small Economy Terms, despite exceeding the high-income threshold if:

  i. its risk of debt distress is high owing to exogenous shocks or the high cost of adaptation and preparedness for natural disasters and climate change, and
  ii. its debt reporting practices and Sustainable Development Finance Policy (SDFP) compliance are both adequate.

An SIE that is not eligible for continuation of special treatment under the SIEE and not ready for graduation will:

i. be re-classified as a Gap Country or a Blend Country, as appropriate;
ii. receive IDA Concessional Credits on Blend Terms; and
iii. not be eligible for IDA Grants (except possibly through the WHR).

All IDA-eligible Small Island Economies (regardless of their eligibility for the Small Island Economies Exception) are subject to IDA's Graduation Policy.

(a) *IDA18 Post-Mid-Term Review Amendments, Review of the Small Island Economies* Exception *and IDA18 Exceptional Allocation to Jordan and Lebanon, IDA/R2019-0062/1, April 2019 and the Bank Policy, Financial Terms and Conditions of Bank Financing (July 2023).*

58. **The current provisions for tightening of financing terms for SIEs and graduation from IDA raise questions of effectiveness but also of consistency of practice, and equity, as regards to other IDA-eligible countries.** The SIEE was introduced in 1985 in recognition of the special circumstances and vulnerabilities of this group of IDA Borrowers. Over the years, however the gap between the concessions granted to SIEs and other IDA-eligible countries has widened, and it will continue to do so under the current provisions. At the time of granting of the exception, the income per capita of the 17 SIEs was on average, 74 percent above the IDA-operational cut-off whereas in FY24,[37] it is 345 percent above the operational cut-off of USS1,315 (Figure 5.1). This contrasts with the average GNI per capita for other (non-SIEs/ Small States) Gap and Blend Borrowers of US$2,226 – 69 percent above the IDA operational cut-off (Table 4.2). Given IDA's overall philosophy to allocate the largest possible share of resources to the poorest and the most vulnerable countries, it is important to consider whether there is a need to better calibrate the criteria for access to IDA's highly concessional financing terms to countries that have higher per capita incomes and more resources to support their development needs.

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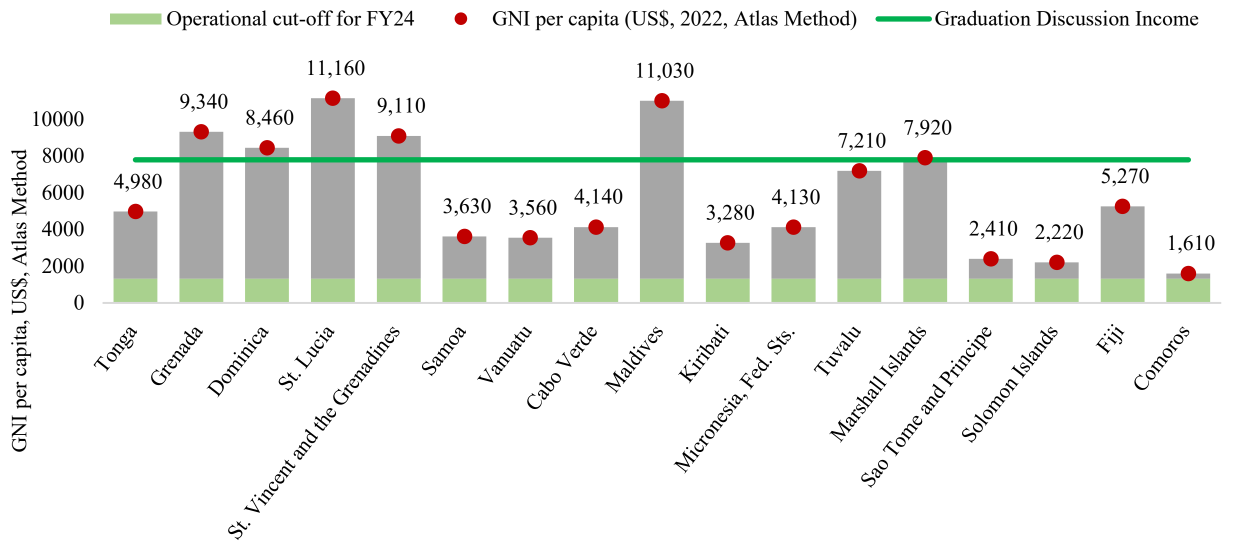
37 Difference is calculated between the GNI per capita of each country in the year that they were granted the Exception and the operational cut-off in that year.

Figure 5. 1. GNI per Capita (2022) and Operational Cut-off (FY24)



Source: Atlas Method, WDI. Bank Directive, Financial Terms and Conditions of Bank Financing, July 2023.

59. **Using the GDI as the threshold for recalibrating IDA financing terms for SIEs may be a more appropriate measure.** It will also be consistent with the criteria applied to other IDA-eligible Borrowers (other than SIEs) for whom the eligibility for IDA and the trigger for a hardening of terms signaling graduation is the same, the IDA operational cut-off. In contrast, for SIEs, eligibility for the exception is income per capita above the IDA operational cut-off (for IDA-only SIEs) or income per capita below the GDI (for IBRD-only SIEs). On the other hand, the trigger for hardening of terms is the high-income threshold. Consistency argues for them to be both set in terms of eligibility criteria, i.e., the GDI. Similarly, all Gap/Blend countries receive blend terms regardless of their risk of debt distress and despite having lower incomes than the SIEs. To be consistent in treatment with other IDA eligible countries, we recommend removing debt considerations from the existing criteria for eligibility for Small Economy Terms.

60. **Keeping in mind the above, IDA Management proposes a simpler and more equitable criteria for calibrating IDA financing terms for SIEs.** The revised criteria will consider the GDI as the key threshold for changes in IDA financing terms for SIEs. Moreover, we propose that the transition in financing terms is applied after countries have incomes above the GDI for two years. This is to account for volatility in per capita incomes due to exogenous shocks and to give countries time to prepare for the transition in financing terms. It is also similar to the approach that IDA takes for transitioning countries to Gap – a country's GNI per capita has to exceed the IDA operational cut-off for two years for it to be classified from IDA-only to Gap.

61. **Starting FY25, for countries that exceed the GDI for two consecutive years, IDA financing terms will be calibrated as follows:**

a. an SIE would receive IDA Concessional Credits on Blend Terms if its GNI per capita exceeds the GDI for at least two consecutive years.

b. an SIE with GNI per capita below the GDI for less than two consecutive years would be eligible to continue receiving IDA Concessional Credits on Small Economy Terms and remain eligible for grants (subject to the country's external risk of debt distress),[38] if its debt reporting practices and SDFP compliance are both adequate.[39]

c. an SIE that is not eligible for continuation of special treatment under the SIEE and not ready for graduation will be re-classified as a Gap Country or a Blend Country,[40] as appropriate, will receive IDA Concessional Credits on Blend Terms; and will not be eligible for IDA Grants (except possibly through the WHR).

d. Countries that are no longer classified as Small States, on account of their population exceeding the World Bank Group population threshold for Small States, will continue to be eligible for the Exception for up to two years, before being classified as Blend, Gap or IBRD-only, subject to country circumstances.

e. All IDA-eligible Small Island Economies (regardless of their eligibility for the Small Island Economies Exception) are subject to IDA's Graduation Policy.

62. **As per the proposed criteria, countries with GNI per capita above GDI for two consecutive years, will face Blend terms from FY27.** St Lucia, Grenada, St. Vincent and the Grenadines, Maldives and Dominica have had GNI per capita above the GDI for two consecutive years. Marshall Islands GNI per capita exceeded the GDI for the first time in 2022. If current trends in income per capita remain, these six countries will be the first to transition to Blend terms starting July 1, 2026. Similarly, if the Exception is expanded to non-island Small States, then the same criteria will be applied to them as well as any other countries that receive IDA financing on Small Economy Terms (see Annex 8 for details). In this case, Guyana will be eligible for Blend terms starting FY27 as its GNI per capita has also exceeded the GDI over the past two years (2021-2022).

63. **Countries that lose eligibility for Small Economy Terms, will have access to concessional IDA Blend Terms and be eligible for other support mechanisms that IDA offers to countries with high vulnerabilities.** While IDA's Small Economy Terms are highly concessional lending terms that IDA offers (61 percent concessionality), it should be noted that Blend Terms are also concessional (35 percent concessionality), especially when compared to IBRD terms and market-based financing. Thus, countries that exit the SIEE due to their per capita incomes exceeding the GDI will continue to receive IDA financing on concessional terms. Moreover, IDA will also support them address their vulnerabilities through other avenues, including but not limited to: (i) the base allocation that Small States receive is higher than the allocation that they would receive otherwise due to their low populations (the IDA base allocation

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[38] Based on the joint IMF-World Bank Debt Sustainability Analysis and in accordance with IDA's Grant Allocation Framework.

[39] Under the SDFP, repeated unsatisfactory implementation of PPAs which include debt ceilings can lead to a combination of set aside, discount and the hardening of the terms of IDA financing. Sustainable Development Finance Policy Implementation Guidelines, July 2022.

[40] A country that immediately graduates from IDA (e.g., St. Kitts and Nevis in 1994) will be re-classified as an IBRD-only Borrower and will be subject to the appropriate IBRD terms.

was quadrupled in IDA18 and remains roughly the same in IDA19 and IDA20), (ii) additional volumes are provided to eligible countries through the Fragility, Conflict and Violence (FCV) Envelope to address drivers of fragility, (iii) for crisis response, resources are also available through the Crisis Response Window (CRW) to assist countries hit with economic shocks, natural disasters and pandemics, (iv) IDA's Sustainable Development Finance Policy (SDFP) seeks to support countries with high debt vulnerabilities move toward sustainable borrowing practices, and (v) going forward, IDA eligible Small States (members of the Small States Forums and UN Small Island Developing States) will benefit from Climate Resilient Debt Clauses that will provide them the option to temporarily defer payments upon meeting established trigger thresholds for severe natural disasters.[41]

64. **At the same time, IDA will continue to support these countries to move towards eventual graduation to IBRD.** Country programs in Small States that transition to Blend Terms should focus more sharply on initiatives to further build resilience to external shocks through improvements in disaster risk management, debt management and sustainability, and enhanced domestic resource mobilization for eventual transition to IBRD (as discussed in Section III).

i. **Recommendation**

65. **IDA Management recommends revising the criteria for IDA financing terms for countries under the SIEE, proposed SSE.** Realigning the threshold for calibration of IDA financing terms to the GDI will be consistent with the criteria applied to other non-Small State IDA-eligible Borrowers. Moreover, while recognizing that countries at higher levels of income are better positioned to cope with economic shocks and can mobilize more domestic and private resources for their growth and development, this proposal will ensure that IDA Small States have continued access to concessional IDA financing as well as support from IDA to address their socioeconomic, vulnerabilities through available polices measures. Prior to the recommended changes to the SIEE coming into effect, IDA Management will hold consultations with countries that will be impacted by them.

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41 Option to purchase / activate Climate Resilient Debt Clauses will be included in new IBRD loans / IDA credits that are yet to be approved.

VI. ISSUES FOR DISCUSSION

66. **Management seeks guidance from IDA Participants on the following:**

a. Staff welcomes Participants' views on the expected graduation timeline for Guyana at the end of the IDA21 period, after due process in considering its readiness for graduation.

b. Do Participants agree with the structured, but flexible approach proposed for reverse graduation and reclassification to IDA?

c. Do Participants agree to broaden the scope of the SIEE to IDA and IBRD non-island Small States i.e., a broader Small States Exception (SSE)? Do Participants agree with the criteria for calibrating the terms on which IDA concessional resources are provided to countries under the Exception?

ANNEX 1. ELIGIBILITY FOR IDA FINANCING

	Country	FY24 Lending Eligibility	2022 GNI per capita, Atlas method (current US$)	Income Group
1	Cameroon	Blend	1,660	Lower middle income
2	Congo, Republic of	Blend	2,060	Lower middle income
3	Kenya	Blend	2,170	Lower middle income
4	Nigeria	Blend	2,140	Lower middle income
5	Pakistan	Blend	1,580	Lower middle income
6	Papua New Guinea	Blend	2,730	Lower middle income
7	Uzbekistan	Blend	2,190	Lower middle income
8	Cape Verde	Blend/Small Island	4,140	Lower middle income
9	Dominica	Blend/Small Island	8,460	Upper middle income
10	Fiji	Blend/Small Island	5,270	Upper middle income
11	Grenada	Blend/Small Island	9,340	Upper middle income
12	St. Lucia	Blend/Small Island	11,160	Upper middle income
13	St. Vincent and the Grenadines	Blend/Small Island	9,110	Upper middle income
14	Timor-Leste	Blend/Small State	1,970	Lower middle income
15	Zimbabwe	Blend/ Inactive	1,500	Lower middle income
16	Bangladesh	Gap	2,820	Lower middle income
17	Benin	Gap	1,400	Lower middle income
18	Cambodia	Gap	1,700	Lower middle income
19	Cote d'Ivoire	Gap	2,620	Lower middle income
20	Ghana	Gap	2,350	Lower middle income
21	Haiti	Gap	1,610	Lower middle income
22	Honduras	Gap	2,740	Lower middle income
23	Kosovo	Gap	5,590	Upper middle income
24	Lao People's Democratic Republic	Gap	2,360	Lower middle income
25	Lesotho	Gap	1,260	Lower middle income
26	Mauritania	Gap	2,160	Lower middle income
27	Myanmar	Gap	1,210	Lower middle income
28	Nicaragua	Gap	2,090	Lower middle income
29	Senegal	Gap	1,640	Lower middle income
30	Sri Lanka	Gap	3,610	Lower middle income
31	Bhutan	Gap/Small State	3,170	Lower middle income
32	Djibouti	Gap/Small State	3,180	Lower middle income
33	Guyana	Gap/Small State	15,050	High income
34	Afghanistan	IDA-only	380	Low income
35	Burkina Faso	IDA-only	840	Low income
36	Burundi	IDA-only	240	Low income
37	Central African Republic	IDA-only	480	Low income
38	Chad	IDA-only	690	Low income
39	Congo, Democratic Republic of	IDA-only	590	Low income
40	Ethiopia	IDA-only	1020	Low income
41	Gambia, The	IDA-only	810	Low income
42	Guinea	IDA-only	1,180	Lower middle income
43	Guinea-Bissau	IDA-only	820	Low income
44	Kyrgyz Republic	IDA-only	1,410	Lower middle income
45	Liberia	IDA-only	680	Low income
46	Madagascar	IDA-only	510	Low income
47	Malawi	IDA-only	640	Low income

	Country	FY24 Lending Eligibility	2022 GNI per capita, Atlas method (current US$)	Income Group
48	Mali	IDA-only	850	Low income
49	Mozambique	IDA-only	500	Low income
50	Nepal	IDA-only	1,340	Lower middle income
51	Niger	IDA-only	610	Low income
52	Rwanda	IDA-only	930	Low income
53	Sierra Leone	IDA-only	510	Low income
54	Somalia	IDA-only	470	Low income
55	South Sudan	IDA-only	400	Low income
56	Sudan	IDA-only	760	Low income
57	Tajikistan	IDA-only	1,210	Lower middle income
58	Tanzania	IDA-only	1,200	Lower middle income
59	Togo	IDA-only	990	Low income
60	Uganda	IDA-only	930	Low income
61	Yemen, Republic of	IDA-only	640	Low income
62	Zambia	IDA-only	1,170	Lower middle income
63	Comoros	IDA-only/Small Island	1,610	Lower middle income
64	Kiribati	IDA-only/Small Island	3,280	Lower middle income
65	Maldives	IDA-only/Small Island	11,030	Upper middle income
66	Marshall Islands	IDA-only/Small Island	7,920	Upper middle income
67	Micronesia, Federated States of	IDA-only/Small Island	4,130	Lower middle income
68	Samoa	IDA-only/Small Island	3,630	Lower middle income
69	Sao Tome and Principe	IDA-only/Small Island	2,410	Lower middle income
70	Solomon Islands	IDA-only/Small Island	2,220	Lower middle income
71	Tonga	IDA-only/Small Island	4,980	Upper middle income
72	Tuvalu	IDA-only/Small Island	7,210	Upper middle income
73	Vanuatu	IDA-only/Small Island	3,560	Lower middle income
74	Eritrea	IDA-only/Inactive	810	Low income
75	Syrian Arab Republic	IDA-only/Inactive	..	Low income

ANNEX 2. WORLD BANK SUPPORT TO BLEND COUNTRIES

1. **Building on the country categorization outlined in Table 2, this section summarizes how the World Bank is supporting Blend countries to address their development challenges, thus preparing them for a successful graduation from IDA.**[1]

i. **Resource-Rich Blend Countries**
Cameroon, Congo, Rep., Nigeria, Papua New Guinea, Timor-Leste, Uzbekistan.

2. **Weak institutions, macroeconomic volatility, and poor performance in poverty and social indicators plague many resource-rich countries.** Six of the fourteen Blend countries are resource-rich countries. With economic growth dependent on volatile commodity prices, these countries have often faced the challenge of highly fluctuating macroeconomic situations. The lack of economic diversification further increases these countries' vulnerabilities to economic shocks. Weak institutions also contribute to poor macroeconomic and fiscal management as well as disappointing social outcomes. These countries tend to have high levels of inequality, higher poverty headcount rates, and lower social indicators. Despite these characteristics, their stock of natural resources and the potential returns associated with them give these countries access to IBRD financing, particularly in periods of high commodity prices and better growth. However, given the challenges mentioned above, their eventual graduation from IDA is delayed. To this end, World Bank support to these countries has focused on fostering macroeconomic resilience, economic diversification, and institutional strengthening. This includes advancing policy reforms to improve fiscal and debt management and structural reforms for private sector led non-resource driven growth. Other areas of support include technical assistance to attract investment in manufacturing activities and infrastructure as well as to facilitate export-oriented manufacturing and agro-processing. Equally, the World Bank is supporting these countries in addressing governance weaknesses and improving service delivery in health and education and gender inequality for human development.

ii. **Federal Countries**
Nigeria and Pakistan

3. **While both Pakistan and Nigeria have implemented fiscal decentralization, challenges remain.** In Pakistan, misalignment of institutional responsibilities between the federal and provincial governments has contributed to fiscal instability and unsustainable budget deficits. Expenditure responsibilities rest mostly with the federal government while provinces receive a larger share of total revenues. This mismatch has contributed to persistently high general government fiscal deficits, insufficient development spending and adverse incentives for fiscal consolidation at the provincial level. Similarly, in Nigeria, while states and local governments play a vital role in delivering health, education, and other key public services, they rely heavily on federally collected revenues for much of their funding. However, the revenue sharing formula only partly aligns with states' populations and development challenges. Many of the funds from the federation are simply split equally across the states, but states that more effectively collect their

[1] The discussion in this section is primarily based on ongoing Country Partnership Frameworks (CPFs) in Blend countries. CPFs identify the key objectives and development results through which the WBG intends to support a member country in its efforts to end extreme poverty and boost shared prosperity in a sustainable manner.

own revenues are also rewarded more. This adversely impacts the government's ability to implement pro-poor programs in states where they are mostly needed. In Pakistan, the Bank's support has included technical assistance for increasing own-source revenues for provinces, rationalizing expenditures, and creating forums for increased coordination between the provincial and federal governments on fiscal planning and targets. In Nigeria, the effort has been on increasing non-oil revenues, removing petrol, electricity and exchange rate subsidies while protecting social protection spending and strengthening the institutional framework for fiscal and debt management.

4. **Subnational governments are primarily responsible for service delivery in a decentralized environment but their ability to meet financing obligations (particularly IBRD loans) is limited.** In countries with fiscal decentralization, social service delivery e.g., health and education are provided by subnational governments. While in principle, these governments can borrow from the World Bank, they may find it difficult to repay IBRD loans even after the central government becomes IBRD creditworthy. As a result, an important part of the World Bank's engagement in supporting these large countries for graduation is technical assistance to the central governments in designing fiscal support to subnational governments.

iii. **Small Countries**
Cabo Verde, Dominica, Fiji, Grenada, St. Lucia, St. Vincent and Timor-Leste.

5. **Concentrated economic structures, vulnerability to exogenous shocks and exposure to climate change are key impediments to these countries' development and ability to transition out of IDA.** Small States—countries with a population of 1.5 million or less share attributes that make them especially vulnerable to exogenous shocks, including dependence on imports of essential goods, highly concentrated economies, elevated levels of debt, reliance on external financing, and susceptibility to natural disasters and climate change. Damages from natural disasters can be multiples of GDP, and recurrent disasters contribute to high levels of debt. Systemic and serious debt sustainability issues make it difficult for these countries to graduate from IDA. The World Bank Group has a longstanding and growing commitment to supporting Small States' development. In recent years, support has been ramped up for: (i) enhancing development finance, (ii) developing innovative disaster and climate financing mechanisms, (iii) fostering private investment and diversification, and (iv) strengthening government capacity. Going forward, Small States will continue to require external financing.[2] Support for strengthening resilience will remain key given diversification is inherently constrained by the nature of these economies (geographical remoteness, and vulnerability to uninsurable exogenous risks). The global community can assist Small States in these efforts by focusing assistance on initiatives to help restore and preserve debt sustainability and supporting climate change adaptation.[3]

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[2] World Bank Support to Small States (From Crisis to Resilience, October 2023).

[3] Global Economic Prospects, January 2023. World Bank and World Bank Group Support to Small States, Brochure, April 2023.

iv. **Countries with Pockets of Fragility**
Cameroon, Congo, Rep., Kenya, Nigeria, Pakistan, Papua New Guinea, and Timor-Leste[4]

6. **The World Bank supports these countries in providing public services in fragile areas, protecting human capital, and strengthening institutions.** In addition to fragility and conflict, these countries also face increasing risks from food insecurity, climate change, rising inequality, and demographic change. The Bank aims to support these countries by helping prevent the escalation of conflict and violence and addressing the root causes of fragility, remaining engaged during crisis and post-crisis situations to preserve human capital and key institutions, strengthening the social contract between citizens and the state, and ensuring inclusion of the most vulnerable and marginalized, including creation of development opportunities for refugees and host communities. This focus on fragility, which is also present in IDA's country programs in these countries, will help them toward graduation to IBRD. Moreover, investments to help reduce fragility of institutions have elements of global public good, as FCV issues often have regional and global implications. In Cameroon, the World Bank has a large engagement in the country's fragile and insecure areas with projects focused on increasing access to electricity, education and health delivery, building climate resilience, and development agriculture and livestock markets. In Timor-Leste, the Bank's program seeks to mitigate fragility risks by governance reform, economic diversification, youth development, and gender equality. Following the escalation of conflict in Nigeria's fragile north-east, the Bank's support in the area was realigned to focus more attention on the recovery and restoration of basic services and livelihoods.

7. **Low domestic revenue mobilization poses a financing constraint to addressing development challenges in Kenya and Pakistan and Bank support is centered on improving fiscal and debt management.** In Pakistan, tax revenues, excluding grants, were recorded at 9.2 percent of GDP in FY23,[5] while in Kenya they reached 13.3 percent of GDP in 2021.[6] Below potential collections of general sales tax (GST) in Pakistan amidst high expenditures, particularly rising interest payments, have contributed to sizable fiscal deficits and elevated public debt levels. Similarly, slippages in domestic revenue mobilization and an ambitious development agenda in Kenya led to the fiscal deficit averaging 7.3 percent over FY20-FY21 while fiscal consolidation measures are expected to contribute to a lower deficit of 5.7 percent of GDP in FY23.[7] Support to enable these countries' transition to IBRD-only status is focused on strengthening fiscal sustainability and improving fiscal and debt management. In Pakistan, the Bank is supporting the adoption and nationwide implementation of a harmonized GST framework to reduce existing inefficiencies in GST collection through a Development Policy Operation (DPO), legislative measures to strengthen fiscal management and creation of a unified debt management office. Similarly, in Kenya, the Bank's program is focused on fiscal and debt related policy reforms including strengthening of recurrent expenditure controls, improving public investment management, accelerating domestic revenue mobilization efforts, and addressing fiscal risks arising from contingent liabilities from SOEs.

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[4] Based on the World Bank FY24 list of Fragile and Conflict-affected Situations (FCS). Although not on this list, there is significant sub-national fragility in parts of Kenya and Pakistan.

[5] Fiscal Operations data. Ministry of Finance, Government of Pakistan. Fiscal year in Pakistan runs from July 1 to June 30.

[6] World Development Indicators.

[7] Estimated. Kenya Economic Update, May 2023, World Bank.

v. **Countries in Transition to a Market Economy**
Uzbekistan

8. **Uzbekistan's efforts to fully transition to a market economy require sustained and continuous support.** While a more open and competitive economy has emerged in Uzbekistan, the transition is still at an early stage. The focus of the Government's economic reforms has been on deep structural changes to build a competitive, market-led, and inclusive private sector economy. There is also an emphasis on reducing the role of the state in economic production and refocusing the state's role as an effective public investor and enabler of the private sector. The government has committed to reducing the poverty rate by half by 2026 and supporting Uzbekistan in becoming an upper-middle-income country by 2030. World Bank support in the country is focused on increasing private sector employment, improving human capital, and building resilience through greener growth.[8]

[8] World Bank, Country Partnership Framework for the Republic of Uzbekistan (FY2022-FY2026),

ANNEX 3. ELIGIBILITY FOR THE SMALL ISLAND ECONOMIES EXCEPTION[1]

1. Country-eligibility for exceptional treatment from IDA pursuant to the Small Island Economies Exception is determined by Management as follows:

   a. An IBRD-only Small Island Economy is eligible to be reclassified as a Blend Country or an IDA-only Country if all of the following four conditions are satisfied (membership in IDA is a pre-condition):
      i. its per capita income is at or below the Graduation Discussion Income (GDI);
      ii. it is highly vulnerable to natural disasters or long-term impact of climate change;
      iii. it has limited creditworthiness for accessing commercial credit; and
      iv. its access to IBRD resources is constrained by creditworthiness or affordability[2] considerations.

   b. A Small Island Economy that meets the definition of a Gap or a Blend Country is eligible (or continue to be eligible) for the Small Island Economies Exception if:
      i. its GNI per capita has not been at or above the High-Income Threshold for three consecutive years; or
      ii. its GNI per capita has been at or above the High-Income Threshold for three consecutive years, but
         A. it is in debt distress or at high or moderate risk of debt distress;
         B. its debt distress is high owing to exogeneous shocks or the high costs of adaptation and preparedness to natural disasters or climate change; and
         C. its debt reporting practices and SDFP compliance are adequate.

   c. A Gap Country that is eligible for the SIEE is granted the status of an IDA-only Country, and may be eligible for IDA Grants as set out in Section III, paragraph 2.b of this Policy.

   d. A Small Island Economy that is not eligible for continuation of special treatment under the Small Island Economies Exception and not ready for graduation from IDA:
      i. is classified as a Gap Country or a Blend Country, as appropriate;[3]
      ii. receives IDA Concessional Credits on Blend Terms; and
      iii. is not eligible for IDA Grants (except possibly through the WHR).

   e. All IDA-eligible Small Island Economies (regardless of their eligibility for the Small Island Economies Exception) are subject to IDA's Graduation Policy.

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[1] Existing eligibility criteria for the SIEE, as revised in 2019. Published in the Bank Policy, Financial Terms and Conditions of Bank Financing (July 2023).

[2] Affordability means a country's ability to borrow non-concessional resources sustainably, as informed by a World Bank-IMF Debt Sustainability Analysis.

[3] A country that immediately graduates from IDA is re-classified as an IBRD-only borrower and will be subject to the appropriate IBRD terms.

ANNEX 4. HISTORICAL APPLICATION OF THE SMALL ISLAND ECONOMIES EXCEPTION[1]

Country	Effective Date of Exception	Per Capita GNI when Granting Exception (US$)	Operational Cut- off when Exception was granted (US$)	Prior IBRD Classification	Classification Granted
Tonga	July 1, 1987	780	790	No	IDA-only
Grenada		880			
Dominica		1080			
St. Lucia		1130			
St. Vincent and the Grenadines		900			
Samoa [Based on 1991 GNP]	July 1, 1992	930	765	No	IDA-only
Vanuatu [Based on 1991 GNP]	July 1, 1992	1120	765	No	IDA-only
Cabo Verde [Based on 1997 GNP]	July 1, 1997	1090	925	No	IDA-only
Maldives [Based on 1997 GNP]	July 1, 1998	1150	925	No	IDA-only
Kiribati [Based on 1999 GNP]	July 1, 2000	910	885	No	IDA-only
Marshall Islands [Based on 2009 GNI]	July 1, 2011	3060	1165	Yes	Reclassified from IBRD to IDA-only
Micronesia, Federated States of [Based on 2009 GNI]	July 1, 2011	2220	1165	Yes	Reclassified from IBRD to IDA-only
Tuvalu [Based on 2010 GNI]	July 1, 2011	4670	1175	No	IDA-only
Sao Tome and Principe [Based on 2012 GNI]	July 1, 2013	1320	1205	No	IDA-only
Solomon Islands [Based on 2015 GNI]	July 1, 2016	1940	1185	No	IDA-only
Fiji [Based on 2018 GNI]	July 1, 2019	1145	4970	Yes	Re-classified from IBRD-only to Blend
Comoros [Based on 2020 GNI]	July 1, 2021	1205	1450	No	IDA-only

[1] This table does not include St. Kitts and Nevis (one of the original six countries to receive the exception) because it has since graduated from IDA.

ANNEX 5. SMALL STATES ELIGIBILITY FOR IDA RESOURCES

Small States - IDA Eligibility, Lending Terms and Key Characteristics									
	Country	**Region**	**Lending Status**	**IDA Lending Terms**	**Subject to SIEE**	**Population 2022**	**GNI Per Capita 2022**	**FCS**	**Grant Eligibility**
Small Island Economies	Comoros	AFR	IDA-only	Small Economy	Yes	836,774	1,610	Yes	Yes (100%)
	Kiribati	EAP	IDA-only	Small Economy	Yes	131,232	3,280	Yes	Yes (100%)
	Maldives	SAR	IDA-only	Small Economy	Yes	523,787	11,030		No**
	The Marshall Islands	EAP	IDA-only	Small Economy	Yes	41,569	7,920	Yes	Yes (100%)
	Micronesia, Federated States of	EAP	IDA-only	Small Economy	Yes	114,164	4,130	Yes	Yes (100%)
	Samoa	EAP	IDA-only	Small Economy	Yes	222,382	3,630		Yes (100%)
	Sao Tome and Principe	AFR	IDA-only	Small Economy	Yes	227,380	2,410	Yes	Yes (100%)
	Solomon Islands	EAP	IDA-only	Small Economy	Yes	724,273	2,220	Yes	Yes (50%)
	Tonga	EAP	IDA-only	Small Economy	Yes	106,858	4,980*		Yes (100%)
	Tuvalu	EAP	IDA-only	Small Economy	Yes	11,312	7,210	Yes	Yes (100%)
	Vanuatu	EAP	IDA-only	Small Economy	Yes	326,740	3,560		Yes (50%)
	Cabo Verde	AFR	Blend	Small Economy	Yes	593,149	4,140		No
	Dominica	LCR	Blend	Small Economy	Yes	72,739	8,460		No
	Grenada	LCR	Blend	Small Economy	Yes	125,438	9,340		No
	St. Lucia	LCR	Blend	Small Economy	Yes	179,857	11,160		No
	St. Vincent and the Grenadines	LCR	Blend	Small Economy	Yes	103,948	9,110		No
	Fiji	EAP	Blend	Small Economy	Yes	929,766	5,270		No
Non-Island Small States	Timor-Leste	EAP	Blend	Small Economy	No	1,341,296	1,970	Yes	No
	Bhutan	SAR	Gap	Small Economy	No	782,455	3,170*		No
	Djibouti	MNA	Gap	Small Economy	No	1,120,849	3,180	Yes	No
	Guyana	LCR	Gap	Small Economy	No	808,726	15,050		No

** World Bank Estimates. ** Maldives has faced a hardening of IDA terms due to non-compliance with the SDFP. Starting FY24, the country will receive 100 percent credits.*
Note: Effective July 1, 2017, lending terms applicable to SIEs were extended to all IDA-eligible Small States where a "Small State" is defined as an "IDA eligible country with a population of 1.5 million people or less".

Eligibility for SMLs: IDA-only countries at moderate risk of debt distress would be eligible only if an ex-ante DSA demonstrates that SMLs (PBA or SUW) financing will not have a negative impact on a country's risk of debt distress. Gap and Blend Small States are eligible for SMLs, except for red-light Small States. For Small States subject to a Market Access Country Debt Sustainability Analysis (MAC-DSA), eligibility for SMLs is determined on a case-by-case basis. Of the 21 IDA Small States: Bhutan, Cabo Verde, Fiji (MAC-DSA), Guyana, St Lucia (MAC-DSA), Timor-Leste, Vanuatu and Solomon Islands are eligible for SMLs.

Eligibility for Regular SUW and SUW-SMLs: Countries that are facing debt vulnerabilities will be able to access SUW-SMLs only if they are on track in implementing reforms to improve debt transparency and management and fiscal sustainability, by having implemented the agreed Performance and Policy Actions (PPAs) in line with the SDFP. For Small States subject to a Market Access Country Debt Sustainability Analysis (MAC-DSA), eligibility for SUW Regular and SUW-SMLs is determined on a case-by-case basis. Of the 21 IDA Small States: Bhutan, Cabo Verde, Guyana, Timor-Leste, Vanuatu, and Solomon Islands are eligible for SUW and SUW-SMLs (provided they are in compliance with the Sustainable Development Finance Policy). Fiji and St Lucia are MAC-DSA countries.

All Small States are also eligible for the Regional Window, and the Crisis Response Window (CRW). Djibouti is also eligible for the Window for Host Communities and Refugees (WHR). IDA-only small states and IDA small states classified as FCS are PSW eligible. IDA gap and IDA blend small states are generally not PSW eligible (except those temporarily PSW eligible until end-December 2023 and those in transition).

ANNEX 6. IBRD-ONLY SMALL STATES – KEY CHARACTERISTICS

	Country	Region	Lending Status	Population 2022	GNI Per Capita 2022	Income Classification
Small Island Economies	Antigua and Barbuda	LCR	IBRD-only	93,763	18,280	H
	St. Kitts and Nevis	LCR	IBRD-only	47,657	19,730	H
	Mauritius	AFR	IBRD-only	1,262,523	10,760	UM
	Nauru	EAP	IBRD-only	12,668	17,870	H
	Palau	EAP	IBRD-only	18,055	12,630	UM
	Seychelles	AFR	IBRD-only	100,060	14,340	H
Non-Island Small States	Belize	LCR	IBRD-only	405,272	6,800	UM
	Eswatini	AFR	IBRD-only	1,201,670	3,800	LM
	Montenegro	ECA	BRD-only	616,159	10,400	UM
	Suriname	LCR	IBRD-only	618,040	4880	UM

Note: The table does not include Equatorial Guinea and Trinidad and Tobago as the population in both countries has recently exceeded the 1.5 million, the threshold for being classified as a Small State.

ANNEX 7. INDICES TO MEASURE VULNERABILITY AND ASSESSMENT OF SMALL STATES VULNERABILITIES

A key constraint in assessing a country's vulnerability to natural disasters or long-term impact of climate change is that there is no single metric of vulnerability that captures all SIEs.[1] There are also issues related to the conceptual framework, component weights, data lags, and periodicity. Because of these limitations, in considering an actual request for gaining access to IDA, the 2019 Board Paper that introduced the entry/re-entry criteria for IBRD-only SIEs to IDA proposed that Management use three commonly used indices that focus on natural disasters, impact of climate change, and structural vulnerability to economic and environmental shocks—the Global Climate Risk Index (CRI), the World Risk Index (WRI), and the Economic and Environmental Vulnerability Index (EVI)—supplemented as necessary with other information if the country is not covered by any of them. If a country falls in the highest or second-highest quintile of vulnerability as measured by the CRI or EVI or classified as "high risk" or "very high risk" by the WRI, it will have met the vulnerability criterion for entry/re-entry.

(i) **Global Climate Risk Index** (developed by Germanwatch): The CRI is commonly used as an indicator of the level of exposure and vulnerability to extreme weather-related events. It analyzes the extent to which countries have been affected directly by the impacts of weather-related loss events—such as storms, floods, or heat waves.[2] The index indicates a level of future exposure to extreme weather events based on past weather-related losses (that is, number of deaths and economic losses in absolute and relative terms). The most recent data cover weather-related impacts in 2000–2019.[3] CRI indices are published for 180 countries where countries are ranked based on the highest weather-related impact (ranked 1) to the lowest (ranked 180).

(ii) **Economic and Environmental Vulnerability Index** (produced by the United Nations Committee for Development Policy): The EVI is a measure of structural vulnerability to economic and environmental shocks. It is calculated as 1/2 of the Economic Vulnerability Index and 1/2 of the Environmental Vulnerability Index. EVI scores are published for 143, a higher score indicates greater economic and environmental vulnerability and vice versa.

- The Economic Vulnerability Index is calculated as 1/4 of the share of agriculture, forestry and fisheries in GDP (Source: United Nations, Department of Economic and Social Affairs (DESA); 1/4 of the remoteness and landlockedness (UN DESA and Centre d'Etudes Prospectives et d'Informations Internationales (CEPII); 1/4 of the merchandise export concentration (Source: United Nations Conference on Trade and

1 The Technical Paper, Small States: Vulnerability and Concessional Finance published in 2018 discusses in detail the problems associated with formulating measures of Small States' vulnerability and their application. It further illustrates how ranking of vulnerability vary depending on the metric used; and how different metrics may lead to inconsistent rankings.

2 The CRI takes into account only weather-related events and excludes geological incidents such as earthquakes, volcanic eruptions, or tsunamis as they do not depend on the weather and therefore are not possibly related to climate change. Germanwatch acknowledges that the CRI is not a comprehensive climate vulnerability scoring. For example, it does not take into account rising sea-levels, glacier melting, or more acidic and warmer seas.

3 The indices is based on the number of deaths, number of deaths per 100,000 inhabitants, sum of losses in US dollars in purchasing power parity, and losses per unit of GDP.

Development (UNCTAD); and 1/4 of the export instability of goods and services (Source: UN DESA).

- The Environmental Vulnerability Index is calculated as 1/4 of the share of population in low elevated coastal zones (Center for International Earth Science Information Network - CIESIN - Columbia University), 1/4 of the share of population living in drylands (UN DESA), 1/4 of the instability of agricultural production (UN DESA); and 1/4 of the victims of disasters (UN DESA).[4]

(iii) **World Risk Index**: The World Risk Index has been published annually since 2011 by Bündnis Entwicklung Hilft and The Institute for International Law of Peace and Armed Conflict (IFHV) of Ruhr University Bochum. The WRI calculates disaster risk for 193 countries which are classified into five categories of risk: Very High, High, Medium, Low, and Vey Low. The Index is based on four components: (i) exposure to natural disasters; (ii) susceptibility / vulnerability depending on infrastructure, food supply and economic framework conditions; (iii) coping capacity depending on governance, health care and social security; and (iv) adaptive capacity to natural disasters, climate change and other exogenous shocks. The latest report available is for 2022.

Table A7. 1. Country Vulnerability as per the EVI, WRI and CRI

		EVI[5]	**Quintile**	**CRI**	**Quintile**	**WRI[6]**	**Classification**
	Current IDA Eligibility Status						
Small Island Economies							
Cabo Verde	Yes	39.9	Q4	137.67	Q1	1.27	L
Comoros	Yes	37.7	Q4	90.00	Q3	2.56	L
Dominica	Yes	35.0	Q3	33.00	Q5	3.27	M
Grenada	Yes	37.6	Q4	39.67	Q5	1.85	L
Fiji	Yes	39.6	Q4	38.33	Q5	6.54	H
Kiribati	Yes	51.7	Q5	116.33	Q2	2.64	L
Maldives	Yes	42.7	Q5	166.83	Q1	1.02	VL
Marshall Islands	Yes	59.9	Q5	164.84	Q1	2.29	L
Micronesia, Federated States of	Yes	50.1	Q5	55.67	Q4	4.36	M
Samoa	Yes	28.2	Q2	72.67	Q4	3.15	L
Sao Tome & Principe	Yes	25.8	Q2	N/A	N/A	0.48	VL
Solomon Islands	Yes	45.1	Q5	73.00	Q4	14.62	VH
St. Lucia	Yes	27.6	Q2	60.33	Q4	2.69	L

[4] *https://www.un.org/development/desa/dpad/least-developed-country-category/evi-indicators-ldc.html*

[5] The EVI is calculated as 1/2 of the Economic vulnerability index and 1/2 of the Environmental vulnerability index.
EVI legend: Bottom two Quintiles.

[6] WRI: VH – Very High, H – High, M – Medium, L- Low

		EVI[5]	Quintile	CRI	Quintile	WRI[6]	Classification
	Current IDA Eligibility Status						
St. Vincent and the Grenadines	Yes	29.7	Q3	59.17	Q4	2.30	L
Tonga	Yes	43.7	Q5	75.67	Q3	3.94	M
Tuvalu	Yes	57.1	Q5	113.50	Q2	1.46	VL
Vanuatu	Yes	39.6	Q4	53.83	Q4	10.64	H
Antigua and Barbuda	No	31.3	Q3	64.50	Q4	3.84	M
Mauritius	No	22.4	Q1	124.17	Q2	3.5	M
Nauru	No	30.3	Q3	N/A	N/A	1.0	VL
Palau	No	34.8	Q3	N/A	N/A	1.25	VL
Seychelles	No	40.5	Q4	160.33	Q1	2.54	L
St. Kitts and Nevis	No	30.3	Q3	116.00	Q2	2.07	L
Non-Island Small States							
Belize	No	39.8	Q4	48.67	Q5	7.65	H
Eswatini	No	37.3	Q4	97.33	Q3	1.82	VL
Suriname	No	44.5	Q5	164.00	Q1	4.87	M
Montenegro*	No	N/A	N/A	70.83*	Q4	3.3	M
Timor-Leste	Blend	38.7	Q4	166.83	Q1	7.97	H
Djibouti	Gap	53.9	Q5	70.33	Q4	10.66	H
Guyana	Gap	48.0	Q5	108.17	Q2	6.64	H
Bhutan	Gap	25.7	Q2	95.17	Q3	1.09	VL

*Note: * Score provided is for Serbia and Montenegro.*

ANNEX 8. ELIGIBILITY FOR THE PROPOSED SMALL STATES EXCEPTION

The Small States Exception will apply to countries that fall under the World Bank Group's definition of Small States (1.5 million people or less). Small States that are eligible for the broader Small States Exception (SSE) will receive IDA credits on Small Economy Term and those that are classified as IDA-Only will also be eligible for grants depending on their risk of debt distress.

Countries that are likely to gain access to the proposed SSE are:

- IDA-eligible countries: Bhutan, Djibouti and Timor-Leste will qualify for the exception. Bhutan and Djibouti will be reclassified from Gap countries to IDA-only and Timor-Leste will remain Blend. Guyana does not meet the entry criterion for the SSE as its GNI per capita exceeds the high-income threshold, but it will continue to receive IDA financing on Small Economy Terms.

- IBRD-only countries: Eswatini, Belize and Suriname,[1] subject to creditworthiness assessments, will be reclassified from IBRD-only to Blend.

Based on the revisions to the criteria for continued access to the SSE/Small Economy Terms, the following countries are likely to lose eligibility for the SSE/ Small Economy Terms, starting FY27 and will be reclassified as a Gap Country or a Blend Country, as appropriate:

- SSE: Dominica, Grenada, Maldives, Marshall Islands, St. Lucia, St. Vincent and the Grenadines

- Small Economy Terms: Guyana

Table A8. 1. Eligibility for the Proposed Small States Exception and Expected Reclassification

SIEE eligible (current) | SSE eligible and expected lending category (proposed) | Expected to exit the SIEE/Small Economy Terms in FY27

	Lending Status	Small States (Population = or < 1.5 m)			Other Members of the Small States Forum[a] (Population > 1.5m)
		Small Island Economies		Non-Island Small States	
IDA-Eligible	IDA-only	• Comoros • Kiribati • Micronesia • Samoa • Sao	• Solomon Islands • Tonga • Tuvalu • Vanuatu • Maldives	• Bhutan[b] • Djibouti[b]	• The Gambia[b] • Guinea-Bissau

[1] Of these, Suriname is not a member of IDA and will first need to gain IDA membership. Membership in IDA is a pre-condition for borrowing from the Association.

	Lending Status	Small States (Population = or < 1.5 m)			Other Members of the Small States Forum[a] (Population > 1.5m)
		Small Island Economies		Non-Island Small States	
		Tome and Principe	• Marshall Islands		
	Gap			• Guyana	• Lesotho[b]
	Blend	• Cabo Verde • Fiji	• St. Lucia • St. Vincent and the Grenadines • Grenada • Dominica	• Timor-Leste • Eswatini[b] • Belize • Suriname	
IBRD-only		• Mauritius • Nauru • Palau • Antigua and Barbuda	• Seychelles • St. Kitts and Nevis	• Montenegro[b]	• Botswana[b] • Equatorial Guinea[b] • Gabon[b] • Namibia[b] • Jamaica • Trinidad and Tobago
IBRD Graduates/ Non-Borrowers		• Bahamas • Barbados • Bahrain • Cyprus	• Iceland • Malta	• Brunei • Estonia • San Marino	• Qatar

Note: (a) The Small States Forum (SSF) comprises 50 members – 40 countries classified as Small States per the World Bank Group Definition (i.e., those with a population of 1.5 million or less) and 10 other members (with populations between 1.5 million and 2.8 million). Convening every year on the sidelines of the Annual/Spring Meetings, the Small States Forum provides an effective platform for dialogue and knowledge-sharing on how the World Bank can best support small states. (b) Not classified as Small Island Development States (SIDS) by the UN. Countries that are classified as SIDS by the UN but are not part of the SSF and are active Borrowers are: Dominican Republic (IBRD), Haiti (IDA Gap), Papua New Guinea (Blend).

Table A8. 2. Comparison of the Eligibility Criteria for the SIEE and the Proposed SSE

Eligibility Criteria	
Small Island Economies Exception (SIEE)	**Small States Exception (SSE)**
Only **Small Island Economies**, as per the World Bank Group Definition (population of 1.5 million or less) are eligible for the **SIEE**. **IBRD-only:** An IBRD-only **Small Island Economy** is eligible to be reclassified as a Blend Country or an IDA-only Country if all of the following four conditions are satisfied (membership in IDA is a pre-condition): i. its per capita income is at or below the Graduation Discussion Income (GDI); ii. it is highly vulnerable to natural disasters or long-term impact of climate change;	Only **Small States**, as per the World Bank Group Definition (population of 1.5 million or less) are eligible for the **SSE**. **IBRD-only:** An IBRD-only **Small State** is eligible to be reclassified as a Blend Country or an IDA-only Country if all of the following four conditions are satisfied (membership in IDA is a pre-condition): i. i. its per capita income is at or below the Graduation Discussion Income (GDI); ii. it is highly vulnerable to natural disasters or long-term impact of climate change;

<table>
<tr><th colspan="2">Eligibility Criteria</th></tr>
<tr><th>Small Island Economies Exception (SIEE)</th><th>Small States Exception (SSE)</th></tr>
<tr><td>iii. it has limited creditworthiness for accessing commercial credit; and
iv. its access to IBRD resources is constrained by creditworthiness or affordability considerations.</td><td>iii. it has limited creditworthiness for accessing commercial credit; and
iv. its access to IBRD resources is constrained by creditworthiness or affordability considerations.</td></tr>
<tr><td>IDA-only: An IDA-only Small Island Economy is eligible to receive the SIEE once its GNI per capita exceeds the IDA operational cut-off.</td><td>IDA-only: An IDA-only Small State is eligible to receive the SSE once its GNI per capita exceeds the IDA operational cut-off.

Moreover, for an IDA only Small State to be eligible for the SSE, it's GNI per capita must be below the high-income threshold.</td></tr>
<tr><th colspan="2">Criteria for Continuity of Special Treatment under the Exception / Small Economy Terms</th></tr>
<tr><th>Existing</th><th>Proposed</th></tr>
<tr><td>A Small Island Economy that meets the definition of a Gap or a Blend Country is eligible (or will continue to be eligible) for the Small Island Economies Exception / Small Economy Terms if:

i. its GNI per capita has not been at or above the High-Income Threshold for three consecutive years; or
ii. its GNI per capita has been at or above the High-Income Threshold for three consecutive years, but
(a) it is in debt distress or at high or moderate risk of debt distress;
(b) its debt distress is high owing to exogeneous shocks or the high costs of adaptation and preparedness to natural disasters or climate change; and
(c) its debt reporting practices and SDFP compliance are adequate.

A Small Island Economy that is not eligible for continuation of special treatment under the SIEE and not ready for graduation will be re-classified as a Gap Country or a Blend Country, as appropriate, will receive IDA Concessional Credits on Blend Terms; and will not be eligible for IDA Grants (except possibly through the WHR).</td><td>A Small State that meets the definition of a Gap or a Blend Country is eligible (or will continue to be eligible) for the Small Island Economies Exception / Small Economy Terms if:

i. its GNI per capita has not been above the IBRD Graduation Discussion Income (GDI) for two consecutive years; and its debt reporting practices and SDFP compliance are both adequate.
ii. Countries that are no longer classified as Small States, on account of their population exceeding the World Bank Group population threshold for Small States, will continue to be eligible for the Exception for up to two years, before being classified as Blend, Gap or IBRD-only, subject to country circumstances.

A Small State that is not eligible for continuation of special treatment under the SSE and not ready for graduation will be re-classified as a Gap Country or a Blend Country, as appropriate, will receive IDA Concessional Credits on Blend Terms; and will not be eligible for IDA Grants (except possibly through the WHR).</td></tr>
</table>