Public Disclosure Authorized

IDA19

Addressing Debt Vulnerabilities in IDA Countries: Options for IDA19

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ACRONYMS AND ABBREVIATIONS

Fiscal year (FY) = July 1 to June 30

ADB	Asian Development Bank
AfDB	African Development Bank
AFESD	Arab Fund for Economic and Social Development
AMF	Arab Monetary Fund
BADEA	Arab Bank for Economic Development in Africa
BEPS	Base Erosion and Profit Shifting
BOAD	Banque Ouest Africaine de Développement (West African Development Bank)
CABEI	Central American Bank for Economic Integration
CAF	Corporación Andina de Fomento
CDB	Caribbean Development Bank
CPIA	Country Policy and Institutional Assessment
CRO	Group Chief Risk Officer
D4D	Data for Decision
DEC	Development Economics Vice Presidency
DeMPA	Debt Management Performance Assessment
DFCII	Development Finance Corporate IDA and IBRD
DFID	Department for International Development
DLP	Debt Limits Policy
DMF	Debt Management Facility
DMS	Debt Management Strategy
DPO	Development Policy Operation
DRC	Democratic Republic of the Congo
DRS	Debt Reporting System
DSA	Debt Sustainability Analysis
DSEP	Debt Sustainability Enhancement Program
DSF	Debt Sustainability Framework
EC	European Commission
EIB	European Investment Bank
EMATUM	Empresa Moçambicana de Atum
FCS	Fragile and Conflict Affected Situations
FCV	Fragility, Conflict and Violence
G&I	Governance and Institutions
GRA	General Resources Account
GVC	Global Value Chain
HIPC	Heavily Indebted Poor Country
IaDB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IG4MFD	Infrastructure Governance for Maximizing Finance for Development
IMF	International Monetary Fund
InfraSAP	Infrastructure Sector Assessment Program
IsDB	Islamic Development Bank
KF	Kuwait Fund for Arab Economic Development
LEG	The Legal Vice Presidency
LIC	Low-Income Country
LIDC	Low-Income Developing Country
MAC	Market Access Country
MDB	Multilateral Development Bank
MDRI	Multilateral Debt Relief Initiative
MFD	Maximizing Finance for Development
MIC	Middle-Income Country
MoF	Ministry of Finance
MPA	Multi-pronged approach
MTDS	Medium-Term Debt Strategy
MTI	Macroeconomics, Trade and Investment Global Practice
NCBP	Non-Concessional Borrowing Policy
NDF	Nordic Development Fund
JET	Jobs and Economic Transformation
OECD	The Organisation for Economic Co-operation and Development
OPCS	Operations Policy and Country Services
PBA	Performance-Based Allocation

PEHAA	Public Enterprises Holdings and Administration Agency
PPG	Public and Publicly Guaranteed
PPP	Public and Private Partnership
PRGT	Poverty Reduction and Growth Trust
SCD	Systematic Country Diagnostic
SDG	Sustainable Development Goals
SDFP	Sustainable Development Finance Policy
SECO	State Secretariat for Economic Affairs, Switzerland
SF	Saudi Fund for Development
SOE	State-Owned Enterprise
TA	Technical Assistance
V&H	Volume Cut and Hardening Terms
WB	World Bank
WBG	World Bank Group

TABLE OF CONTENTS

EXECUTIVE SUMMARY .... **i**

I. INTRODUCTION **1**

II. DEVELOPMENT FINANCE AND DEBT SUSTAINABILITY **2**

A. PUBLIC DEBT DYNAMICS AND DEBT VULNERABILITIES 3
B. VULNERABILITIES STEMMING FROM WEAK FISCAL POLICY FRAMEWORKS 4
C. VULNERABILITIES STEMMING FROM WEAK DEBT MANAGEMENT CAPACITY 5
D. VULNERABILITIES STEMMING FROM WEAKNESSES IN DEBT RECORDING, MONITORING, AND REPORTING 6
E. OUTLOOK 8

III. PROGRESS ON THE WB-IMF MULTI-PRONGED APPROACH TO ADDRESS DEBT VULNERABILITIES **9**

IV. POLICY ACTIONS UNDER THE *JET* AND *G&I* SPECIAL THEMES TO ADDRESS DEBT VULNERABILIES **12**

A. JOBS AND ECONOMIC TRANSFORMATION 13
B. GOVERNANCE AND INSTITUTIONS 14

V. TOWARDS A NEW SUSTAINABLE DEVELOPMENT FINANCE POLICY **16**

A. THE PROPOSED SUSTAINABLE DEVELOPMENT FINANCE POLICY 18

VI. CONCLUSION AND ISSUES FOR DISCUSSION **26**

LIST OF ANNEXES

Annex 1: Risk of External Debt Distress in IDA Countries 28

Annex 2: Non-Concessional Borrowing Policy Review 30

LIST OF BOXES, FIGURES AND TABLES

Boxes

Box 1: Examples of recent debt transparency reforms 10
Box 2: Abidjan High-Level Consultation on Addressing Debt Vulnerabilities (May 16, 2019) 11
Box 3: The International Monetary Fund (IMF)'s Debt Limit Policy (DLP) Review 12
Box 4: Examples of Annual Performance and Policy Actions 20
Box 5: Implementation Arrangements of the Sustainable Development Finance Policy (SDFP) 23

Figures

Figure 1. Public Debt in IDA countries, median, percent of GDP ... 3
Figure 2. Public Debt by IDA groupings, percent of GDP ... 3
Figure 3: Evolution of the Risk of External Debt Distress for IDA Countries, Percent of IDA Countries ... 4
Figure 4: Ratio of debt service to expenditures in IDA countries, simple average ... 4
Figure 5. Decomposition of debt dynamics in IDA countries, in percent of GDP, simple average ... 5
Figure 6: Primary fiscal deficit in Fragile and Conflict-affected Situations, percent of GDP ... 5
Figure 7: Proposed *modus operandi* of the Debt Sustainability Enhancement Program ... 22

Tables

Table 1: Towards a Sustainable Development Financing Policy ... 19
Table 2: IDA Outreach Activities ... 24

EXECUTIVE SUMMARY

i. **Rising debt vulnerabilities in IDA countries could jeopardize their development goals at a critical time to meet the 2030 Development Agenda**. The financing needs of IDA countries are very significant and debt, properly managed, is a critical ingredient of development. Yet, there is a real risk that, as public debt levels grow, governments spend *more* on debt service and *less* on education, health, and infrastructure. With about half of IDA countries now at a high risk of external debt distress or in debt distress, the issue of how IDA should adapt its policy framework to support debt sustainability has become a central topic for the IDA19 replenishment negotiations.

ii. **Participants at the IDA Replenishment meeting in Washington, D.C. in April 2019 discussed a paper that presented an overview of the various ways that IDA supports countries' efforts to manage their debt**. Participants requested a follow-up paper for discussion at the June meeting that would lay out concrete policy options to adapt and expand elements of IDA's allocation and financial policies to support financial sustainability and achieve country development goals while minimizing risks of debt distress. Participants asked for a simple and rules-based proposal that uses transparent indicators and emphasizes positive incentives instead of focusing only on disincentives. They welcomed the idea to transform the Non-Concessional Borrowing Policy (NCBP) into a Sustainable Development Finance Policy (SDFP) and supported expanding the coverage of the SDFP to IDA Blend and Gap countries, broadening debt coverage in line with sound international standards, and further strengthening the link with Debt Sustainability Analysis (DSA).

iii. **This paper responds to these requests and lays out a proposal that aims to support and incentivize IDA countries to achieve and maintain debt sustainability**. The proposal has three main components.

iv. **First, continued implementation of the World Bank-International Monetary Fund (WB-IMF) Multipronged Approach (MPA) for Addressing Emerging Debt Vulnerabilities**. The MPA reflects the ample experience and leading role of the WB and the IMF on debt-related issues, and provides the overarching framework for IDA's efforts to support debt sustainability. Going forward IDA will work closely with the IMF to strengthen implementation of this framework, including improved monitoring of debt vulnerabilities, enhanced early warning systems, support for structural reforms to help reduce debt vulnerabilities, improved debt transparency, and increased debt management capacity building and outreach to creditors and borrowers in order to raise awareness of debt issues.

v. **Second, introduction of new policy actions under the IDA19 Special Themes of Jobs and Economic Transformation (JET) and Governance and Institutions (G&I) that promote sustainable economic growth and improved debt management policies**. A development trajectory that is sustainably financed requires progress both on the economic growth side and on actions to strengthen the fiscal policy framework. Assuring debt sustainability depends not only upon the absolute level of debt, but also on the successful implementation of a comprehensive set of policies that are expected to enhance economic growth and strengthen the fiscal policy framework, including domestic revenue mobilization, efficiency of public expenditures and debt management. This highlights two important policy priorities for IDA countries. First,

improvements in debt ratios have been dominated by movements in the denominator (exports and GDP) highlighting the importance of growth-promoting macroeconomic and structural policies for achieving debt sustainability. Second, IDA countries need to strengthen their fiscal policies by developing a credible macroeconomic framework and consider new borrowing only for investment projects with credibly high rates of return, while using fiscal risk management tools. Countries also need to strengthen efforts to mobilize domestic resources, improve the efficiency of public expenditures, and strengthen public investment and debt management.

vi. **Third, replacing IDA's current NCBP with a broader SDFP**. The ultimate objective of the new SDFP will be to assist all IDA countries to establish a path of sustainable development finance that enhances progress toward achieving the 2030 Development Agenda. The policy would achieve this objective by: (i) strengthening IDA recipients' incentive structures with appropriate accountability measures and closer operational linkages with country programs; (ii) enhancing collective action and partnerships among IDA recipients, creditors and other development partners; and (iii) introducing more robust monitoring and accountability measures. The screening system proposed is forward looking by design – debt-distress risk ratings emerging from DSAs are based on forward-looking analyses of countries' debt sustainability prospects, taking into account not only baseline debt projections but also standardized stress tests. As such they more adequately reflect risks of debt over-accumulation.

vii. **The proposed SDFP has two key pillars**. The first pillar is a *Debt Sustainability Enhancement Program (DSEP)* to enhance incentives for countries to move toward sustainable financing. This would address debt related risks pertaining to the *demand side* factors (pull factors). Every year, all countries are evaluated according to debt distress stress levels (*traffic light indicator)*. Countries at low risk of debt distress (*green-light countries)* will have access to 100 percent of their core allocations. Countries at moderate, high risk of debt distress or in debt distress (*yellow and red-light countries)* will have access to 100 percent of their core allocations subject to meeting agreed policy actions to be implemented on a yearly basis. Incentives will take the form of a share of the country's allocation (10 percent and 20 percent for countries at moderate and high risk of debt distress, respectively) that will be set aside and released upon satisfactory implementation of the agreed policy actions of their DSEP. For *yellow and red-light countries,* specific performance and policy actions include strengthening (i) fiscal sustainability; (ii) debt management; and/or (iii) the coverage and timeliness of debt reporting. The performance and policy actions would be developed by countries and agreed in the context of IDA's country programs. They would be defined in the fourth quarter of every fiscal year (FY) and progress would be assessed the following year, as prior actions for the decisions on whether to release or to continue with the set asides.

viii. **The second pillar is a *Creditor Outreach Program* building on IDA's global platform and convening role**. The objective of the program is to facilitate information sharing, dialogue and coordination, including coordination among Multilateral Development Banks (MDBs), to help mitigate debt related risks pertaining to the *supply side* factors *(push factors*). Effective collective action would go a long way towards mitigating risks of unsustainable debt accumulation.

ix. **The proposed SDFP builds on IDA's already very strong foundation for addressing debt sustainability**. Per the advice of Participants, the SDFP would rely on the allocation "set aside" rather than an allocation "discount" as the main tool to incentivize countries to take policy

steps to reduce debt vulnerability risks. This must, however, be done in a way that takes account of the differing needs and capacities of IDA countries. By tailoring the annual performance and policy actions based on the specific circumstances of each IDA country, the SDFP would ensure that low capacity countries, including those affected by Fragility, Conflict and Violence (FCV), or facing structural challenges, including high vulnerability to shocks and the effects of climate change such as small island economies, would also be able to make the progress needed to avoid or access the set aside. In addition, the SDFP seeks to maximize the signaling effects, to borrowers and to creditors, by being simple and policy-oriented.

x. **The SDFP provides incentives for continuous improvement toward a sustainable borrowing path, recognizing the impact of exogenous shocks**. With this system:

- Countries consistently meeting their annual performance and policy actions would maintain their full allocations for the IDA19 period.
- Countries at *yellow and red light* that do not implement their annual performance and policy actions in the first year, but delivers the following year would also maintain their full allocations for the IDA19 period.
- Countries at *yellow or red light* that miss their annual performance and policy actions may lose their set aside at the start of the last year of the IDA19 period.

xi. **The internal governance of the SDFP will be similar to the current governance of the NCBP**. It will emphasize equity of treatment and due processes. It will be simple to be efficient and send clear signals to borrowers and creditors. It will be transparent and disclosed.

xii. **The SDFP would come into effect on July 1st, 2020, at the outset of IDA19**. The proposals endorsed by IDA19 Participants during the Addis meeting will be included in the draft Deputies Report scheduled for discussion in October 2019. A detailed proposal would be presented to the IDA Board sometime in the third quarter of FY20, following the completion of the IMF review of its Debt Limits Policy.

xiii. **The views of Participants are sought on the following questions.**

a. Do Participants support the overall IDA19 package, which is anchored in the WB-IMF Multi-Pronged Approach, and includes policy commitments under the Special Themes as well as reforms to IDA's financial policies?

b. Do Participants agree with the overall framework of a Sustainable Development Finance Policy as described in Section V?

c. Do Participants agree that the proposed design and approach of the Debt Sustainability Enhancement Program where a policy-based set aside would be a suitable mechanism for incentivizing IDA countries to borrow sustainably?

I. INTRODUCTION

1. **Rising debt vulnerabilities in IDA countries could jeopardize their development goals at a critical time to meet the 2030 Development Agenda**. The financing needs of IDA countries are very significant and debt, properly managed, is a critical ingredient of development. Yet, there is a real risk that, as public debt levels grow, governments spend *more* on debt service and *less* on education, health, and infrastructure. While there have not been material changes since the analysis on debt vulnerabilities presented in Bali in October 2018 and in Washington during the Spring Meetings in 2019, about half of IDA countries – many of which are small states – are now at a high risk of external debt distress or in debt distress.

2. **Over the last decades, IDA has played an important role in helping countries achieve and maintain debt sustainability**. IDA has provided debt relief with the international community. IDA also tailors the terms of its assistance to debt sustainability; provides technical assistance to IDA recipients; addresses debt in its policy dialogue with the countries; and facilitates coordination among creditors. In addition, IDA's direct financial assistance has aimed at supporting sustainable economic growth and good governance in client countries, a key factor in maintaining debt sustainability.

3. **Intensifying progress towards the Sustainable Development Goals (SDGs) and on the World Bank Group (WBG)'s twin goals of reducing poverty and boosting shared prosperity in a sustainable manner will require, *inter alia*, greater mobilization of finance for development**. In this area, the challenge for the international community as a whole is two-fold. First, to assist IDA countries to ensure that the benefits exceed the costs of servicing their debt. This requires that situations where the costs may be exceeding the benefits are identified early enough so that corrective action may be taken by country authorities with support from IDA and other partners. Second, to respect the principles of debt transparency and sustainable lending that include provision of concessional financing where and when needed.

4. **Participants at the IDA Replenishment meeting in Washington, D.C. in April 2019 discussed a paper that presented an overview of the various ways that IDA supports countries' efforts to manage their debt**. Participants requested a follow-up paper for discussion at the June meeting that would lay out concrete policy options to adapt and expand elements of IDA's allocation and financial policies to support financial sustainability to achieve their development goals while minimizing the risk that they experience debt distress. Participants asked for a simple and rules-based proposal that uses transparent indicators and emphasizes positive incentives instead of focusing only on disincentives. They welcomed the idea to transform the Non-Concessional Borrowing Policy (NCBP) into a Sustainable Development Finance Policy (SDFP) and supported expanding the coverage of the SDPF to IDA Blend and Gap countries, expanding debt coverage in line with sound international standards, further strengthening the link with Debt Sustainability Analysis (DSA) and considering the special challenges facing small states.

5. **This paper responds to these requests and lays out a proposal that aims to support and incentivize IDA countries to achieve and maintain debt sustainability**. The paper is organized as follows. Section II summarizes the evolution of public debt vulnerabilities in IDA

countries, highlighting the need for action on three fronts: fiscal and growth policy, debt management, and debt transparency. Section III provides an update on the implementation of the World Bank-International Monetary Fund (WB-IMF) Multi-Pronged Approach (MPA) for helping countries tackle debt vulnerabilities. It reflects the initial steps in the IMF's review of its Debt Limit Policy, and a broad range of activities to identify risks and build country capacity to manage debt. Section IV summarizes IDA19 policy directions presented in the Jobs and Economic Transformation (JET) and the Governance and Institutions (G&I) Special Themes. Supporting IDA countries in a development trajectory that is sustainably financed requires progress both on (i) the economic growth side, and (ii) actions to strengthen the fiscal policy framework - the key source of debt vulnerability. The G&I Special Theme includes policy commitments to build fiscal space, increase spending efficiency, and address debt vulnerabilities. The JET Special Theme proposes a stepped-up focus on supporting the enabling environment for jobs-intensive private investment and facilitating access to expanded market opportunities. Section V presents options on how to further adopt elements of IDA's allocation and financial policies that have a bearing on sustainable lending. It builds on the ongoing 2019 NCBP Review (Annex 2) and feedback provided by IDA Participants at the April 2019 meeting.

II. DEVELOPMENT FINANCE AND DEBT SUSTAINABILITY [1]

6. **IDA countries have large financing needs for delivering on the 2030 Development Agenda**. A recent WB report finds that, for infrastructure alone, Low and Middle-Income Countries (LICs and MICs) face yearly financing needs ranging from two percent of their Gross Domestic Product (GDP) to eight percent of GDP, depending on the ambitiousness of the goals and the efficiency of the investments.[2] While maintaining debt sustainability is the responsibility of IDA countries, international financial institutions that help meet these financial needs must also support debt sustainability objectives.

7. **Rising debt levels and debt vulnerabilities in IDA countries are potentially constraining access to finance**. IDA countries will need domestic public resources and private finance to achieve the 2030 Development Agenda. However, rising debt levels could jeopardize their development goals, as governments spend *more* on debt service and *less* on education, health, and infrastructure (see Figure 4). High debt can also create uncertainty, which undermines the ability to tap into the positive global trend in foreign direct investment and private finance. In addition, debt vulnerabilities severely undermine sustainability of economic growth and reduce the ability to mobilize domestic public resources. In short, when countries accumulate debt beyond sustainable levels, development outcomes are at stake, including reaching the SDGs.

8. **Debt per se is not the problem; used prudently, debt can be a powerful tool to achieve development**. Access to new sources of financing – if managed well – can help countries achieve their development goals. Several countries took advantage of the very low global interest rates and risk aversion in the wake of the global financial crisis to finance higher public investment to support growth. A case can be made for using debt to smooth consumption, following a terms of trade shock, with the optimal speed of adjustment depending on a range of factors. However, the

[1] This section recaps the findings of the October 2018 and April 2019 papers on debt trends and the evolution of debt vulnerabilities in IDA countries.

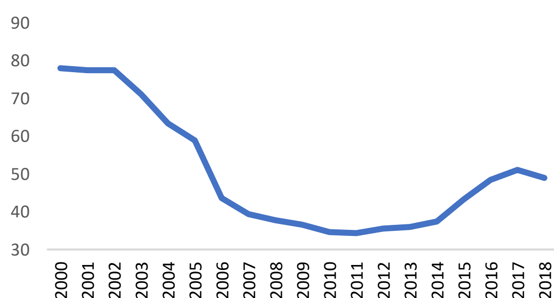
[2] Julie Rozenberg and Marianne Fay, "Beyond the Gap: How Countries Can Afford the Infrastructure They Need while Protecting the Planet" (Sustainable Infrastructure Series, World Bank, Washington, DC., 2019).

returns from debt must exceed the costs: first and foremost, in terms of development outcomes, but also in terms of strict economic rates of return. In many IDA countries that is not the case, and debt vulnerabilities have increased. Many LICs often have a more limited capacity to raise public revenue and carry debt. Countries with weak macroeconomic policy frameworks experienced the steepest increases in debt. This is particularly the case for fragile commodity-dependent countries that failed to implement growth-enhancing reforms to diversify their exports and build buffers to mitigate the impact of external shocks.

A. Public Debt Dynamics and Debt Vulnerabilities

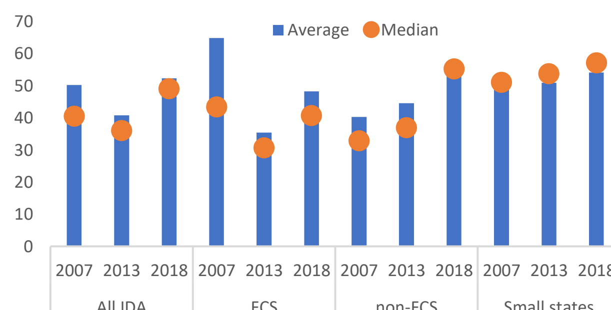
9. **Public debt levels in IDA countries have risen substantially over the past five years**. Having fallen steadily for many years on the back of strong growth and debt relief, starting from 2013, median public debt in IDA countries increased by 14 percentage points of GDP to reach about 50 percent of GDP in 2018 (see Figure 1). The increase in public debt levels was broad-based across IDA-eligible countries (see Figure 2), but slightly larger among commodity exporters. The increase in debt levels for countries affected by Fragility, Conflict and Violence (FCV) was slightly lower than for countries not affected by conflict (nine percentage points, compared to 13 percentage points for non-Fragile and Conflict-affected Situations (FCS)), while small states experienced a modest increase.

Figure 1. Public Debt in IDA countries, median, percent of GDP



Source: WEO, April 2019.

Figure 2. Public Debt by IDA groupings, percent of GDP



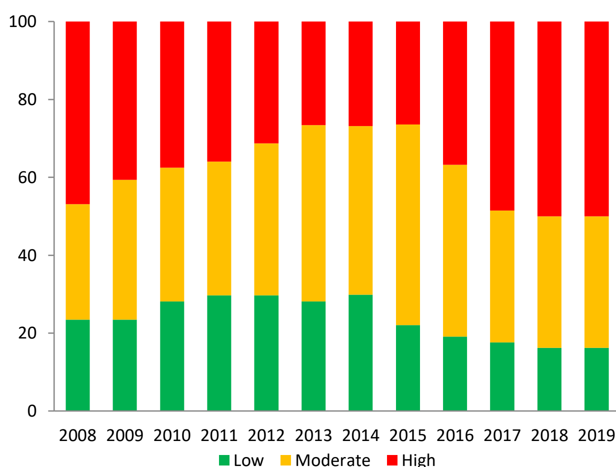
Source: WEO, April 2019.

10. **Rising debt levels and shifts in the composition of debt have increased debt vulnerabilities in IDA countries as a group**. As noted in the April 2019 Paper on Debt Vulnerabilities in IDA countries, as of end-May 2019, 50 percent of IDA countries covered under the joint WB-IMF Debt Sustainability Framework (DSF) are assessed at high risk of external debt distress or in debt distress (34 countries).[3] This number falls to around 30 percent once small states are excluded. In 2018, more than 80 percent of IDA-only and 75 percent of Gap countries are assessed to be at high or moderate risk, and only 11 are at low risk of external debt distress. Ten countries are assessed to be in debt distress. Most countries at moderate risk of debt distress have limited debt carrying capacity, with rising liquidity pressures. Countries at low risk of debt distress tend to have more diversified exports. Rising debt levels have also *crowded out* public

[3] See "Debt Vulnerabilities in IDA Countries: Policy Options for IDA19". Paper for IDA19 Replenishment. April 2019.

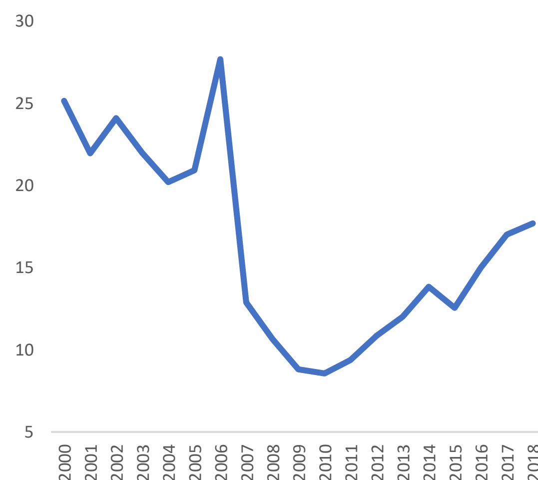
expenditures as debt service obligations account for an increasingly larger share of public expenditures (see Figure 4).

Figure 3: Evolution of the Risk of External Debt Distress for IDA Countries, Percent of IDA countries



Source: World Bank/IMF LIC-DSA database. As of May 2019.
Note: Figures are in calendar year. High risk includes countries in debt distress.

Figure 4: Ratio of debt service to expenditures in IDA countries, simple average



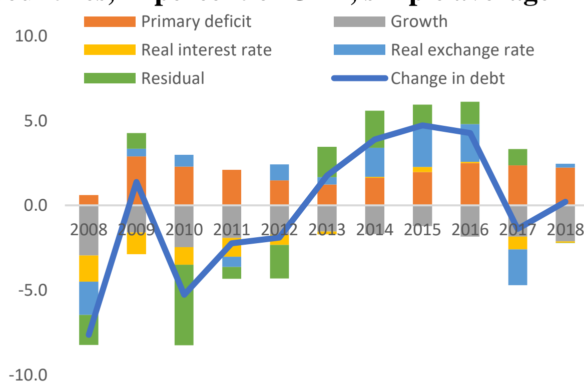
Source: IMF WEO, April 2019.
Note: Average of these countries where data is available, data not available for all IDA countries.

11. **A decomposition of public debt dynamics across IDA countries points to several reasons for increased debt vulnerabilities**. These include: (i) weaknesses in fiscal policy frameworks (including, weak domestic resource mobilization and efficiency of public expenditures); (ii) changing composition of debt towards more expensive and riskier sources of financing; and (iii) weak debt transparency. In addition, several countries were affected by internal conflict (Yemen and Burundi experienced increases in the public debt-to-GDP ratio) or by shocks (Ebola epidemics in the case of Liberia and Sierra Leone – where the public debt-to-GDP ratio increased by about 20 percentage points between 2013 and 2017). The remainder of this Section focuses on these three areas, before concluding with a discussion on the outlook.

B. Vulnerabilities Stemming from Weak Fiscal Policy Frameworks

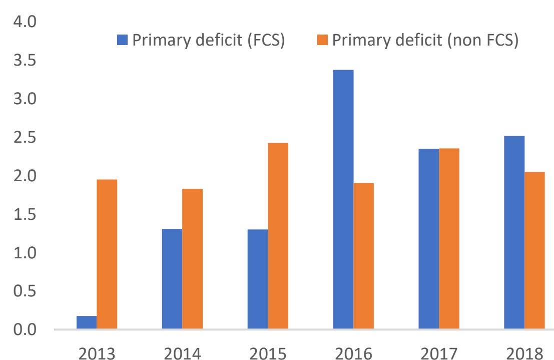
12. **First, widening fiscal deficits played a particularly important role in rising public debt (see Figures 3 and 4)**. Commodity-dependent countries ran sizeable fiscal deficits during the commodity price boom. Failure to build adequate buffers during that period left countries with the choice between higher borrowing and sharp fiscal adjustment when prices – and with them domestic revenues – dropped. Most chose the former. For countries less reliant on commodities, primary deficits remained at the core of debt dynamics, but changes in debt ratios by 2017 came to be driven increasingly by currency depreciation and a higher contribution from interest spending as countries contracted less concessional sources of financing. In FCS, primary fiscal balances have worsened in recent years (see Figure 6).

Figure 5. Decomposition of debt dynamics in IDA countries, in percent of GDP, simple average



Source: World Bank DSA database.

Figure 6: Primary fiscal deficit in Fragile and Conflict-affected Situations, percent of GDP



Source: World Bank DSA database.

13. **Only in a minority of cases, widening fiscal deficits are fully accounted for by higher levels of public investment: in a majority of cases, it reflects weaknesses in revenues or increases in current expenditures**. Empirical evidence for 34 Low-Income Developing Countries (LIDCs) studied by the IMF[4] suggests higher levels of public investment explain the build-up of debt only to a limited extent. Larger fiscal deficits are fully explained by the increase in public investment in about 30 percent of cases, and partially explained in one quarter of them. Public investment fell in the remaining countries.

14. **The scaling up of public investment was common prior to 2008, but after the Global Financial Crisis trajectories, it differed somewhat across IDA country groups**.[5] Prior to 2008, the scale-up of public investment benefited from a favorable global environment, rising commodity prices and a debt relief under the Heavily Indebted Poor Country (HIPC) and Multilateral Debt Relief Initiative (MDRI). After the crisis, public investment levels declined relative to 2007 levels. FCS and commodity exporters registered the largest declines. After 2008, the gap between public investment and public savings started to widen, triggered by a gradual decline in public savings. Increasing public investment efficiency continues to be constrained by weaknesses in Public Investment Management - not in all cases public investments generate high rates of return.

C. Vulnerabilities Stemming from Weak Debt Management Capacity

15. **Second, greater reliance on new sources of financing compounded with weaknesses in debt management, led to increased debt service and refinancing risks**. IDA countries have increased their reliance on financing from non-traditional sources. Since 2010, 18 IDA countries have issued a growing amount of international bonds, thanks to the low interest environment and the search for higher yields from international investors. Commodity dependent countries, including some HIPCs and FCS, constitute the bulk of issuers. At the same time, non-Paris Club creditors have become a more important source of financing over the past decade, especially in

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[4] IMF. Macroeconomic developments and prospects in low-income developing countries, March 2018.
[5] IMF. Trends and Challenges in Infrastructure Investment in Low-Income Developing countries, 2018.

commodity-dependent Sub-Saharan African countries. In 2017, non-Paris Club debt accounted for about one-fifth of the total Public and Publicly Guaranteed (PPG) external debt in IDA countries.

16. **The shift in the debt composition has increased debt portfolio risks**. First, enhanced reliance on commercial debt has raised refinancing, exchange rate, interest rate and capital reversal risks. The share of variable interest rates debt in total external debt has increased from an average of 10 percent to 13 percent during the same period, and the share of variable rate debt in total external debt now exceeds 25 percent in 13 countries. At the same time, a more diverse creditor base has increased the challenges of debt resolution. The stock of debt owed to commercial and non-Paris Club creditors more than doubled between 2010 and 2017.

17. **Despite increases in public debt and a shift towards riskier debt portfolios, debt management capacity in IDA countries remains weak**. The WB's Country Policy and Institutional Assessment (CPIA) indicates that the quality of the debt management policy and institutions in about half of IDA countries falls short of the 3.5 rating for which countries are considered to have "adequate" capacity. Areas of particular concern include: weaknesses in debt management governance;[6] weak coordination with fiscal policy; weaknesses in public financial management and in regulatory frameworks for domestic borrowing, loan guarantees, on-lending and derivatives; lack of operational risk management; poor quality of debt data; and insufficient staff capacity in debt management offices, to adequately assess fiscal and debt risks and deal with a diverse and fragmented landscape of investors and emerging creditors.

D. Vulnerabilities Stemming from Weaknesses in Debt Recording, Monitoring, and Reporting

18. **Despite significant improvements in debt data, current public debt statistics suffer from limited debt data coverage and debt transparency**. This is especially the case for debts to State-Owned Enterprises (SOE), contingent liabilities related to Public Private Partnerships (PPPs), and collateralized debt. At the same time, the public sector is one of the most heterogenous categories in terms of variety of definitions – individual countries differ in regard to the degree of centralization or federalization, and the corresponding budgetary and regulatory arrangements. The combined elements of these country-specific circumstances are also important drivers of weak debt data.

19. **Some countries also suffered from hidden SOE debts as a result of significant deficiencies in the management and oversight of SOEs and deep-rooted governance challenges**. In Mozambique, two state-guarantees issued in 2013 and 2014 by the Minister of Finance to SOEs incorporated as private enterprises – amounting to US$1.15 billion (nine percent of GDP at end-2015) – were not disclosed to the debt management staff and the public, and broader governance issues appear to have been an issue. In Togo, the government had pre-financed debt - a form of de facto government debt which was not reflected in official government debt statistics, amounting to seven percent of GDP at end-2016.

[6] For example, legal frameworks, insufficient audits, poor quality of debt management strategies and implementation capacity.

20. **The use of unconventional debt and debt-like instruments appears to have also been increasing**. To ease financing constraints, some IDA countries have borrowed through collateralizing future receivables and other creative ways, offering protection of creditor rights (Chad, Republic of Congo, Ghana, Liberia). PPP transactions are often structured so that they do not appear as a direct debt of the government, and they can represent significant contingent liabilities for the government unless well managed.

21. **Lending arrangements for commercial and non-Paris Club debt are often not published, and they can be complex and varied**. Some of this debt is collateralized. This may have the advantage of reducing borrowing costs, but might also reduce budget flexibility by earmarking revenues, weaken the creditor's incentive to assess the borrower's debt sustainability, and (if large) increase funding costs from other creditors who may reassess the probability of being repaid. Increased complexity of collateralized debt transactions undermines the IDA recipients'/other lenders' ability to determine the level of concessionality and reduce predictability of aid flows. Since IDA invokes its negative pledge clause in respect of its non-concessional credits, relevant IDA recipients are required to use transaction structures in their borrowings from other lenders, which do not violate the borrower's negative pledge undertaking to IDA. Other Multilateral Development Banks (MDB) (such as the International Bank for Reconstruction and Development (IBRD), the Asian Development Bank (ADB) and the African Development Bank (AfDB)) also have negative pledge clauses. An IDA recipient's violation of its negative pledge undertaking results in an event of default, and IDA may, among other things, suspend disbursements, and seek security to remedy the violation. The negative pledge clause was adopted as a part of IDA's hybrid financing model and provides important support towards IDA's long-term financial stability and preferred creditor treatment.

22. **During times of severe debt distress, which may necessitate debt restructuring, the existence of collateralized debt makes the process more complex**. This increases debt vulnerabilities as demonstrated in countries that collateralized petroleum exports and went into debt distress when oil prices dipped in 2014. A key issue in dealing with collateralized debt is transparency (on the size and type of the obligation). Increased exposure to non-Paris Club and commercial creditors may pose coordination challenges for debt resolutions in the future, making the consequences of debt distress even more disruptive, especially if debt is collateralized.

23. **Inadequate legal frameworks, limited capacity, and governance challenges are root causes for the lack of debt transparency**. Reliable and comprehensive data recording and monitoring of public debt requires a legal framework with clearly specified instruments and institutional coverage, well-defined organizational structures that ensure segregation of duties and avoid conflicts of interest, internal controls that ensure laws, procedures and policies are followed, and a secure debt recording system. At the same time, adequate capacity is needed at every step to record, monitor, and report public debt data, as well as to audit and conduct internal control functions. Finally, in some instances, governance challenges – including fraud and corruption – have led to significant underreporting of debt.

24. **Lack of transparency impedes on IDA countries' ability to attract creditors and private finance**. Improving debt transparency helps countries to reduce a risk of negative debt surprises, hence, creditors are more likely to reduce interest on debt to reflect reduced risk premia.

E. OUTLOOK

25. **Over the last decades, IDA has played an important role in helping countries achieve and maintain debt sustainability**. IDA has provided debt relief with the international community. It also tailors the terms of its assistance to debt sustainability; provides technical assistance to IDA recipients; addresses debt in its policy dialogue with the countries; and facilitates coordination among creditors. In addition, IDA's direct financial assistance has aimed at supporting sustainable economic growth and good governance in client countries, a key factor in maintaining debt sustainability. For example, official creditor coordination around DSA risk ratings, as well as the use of the DSAs in the commercial sector, are notable successes of IDA.

26. **Looking ahead, public debt levels in IDA countries are projected to remain contained over the next several years, conditional on continued efforts to strengthen fiscal policy frameworks and a pick-up in growth**. As noted in Figure 1, after a rapid increase in the previous years, the pace of debt accumulation has slowed. IMF projections indicate that debt levels may trend down after 2019, if deficits decline as projected.[7] At the same time, improvements in individual country debt carrying capacity is expected to be gradual and debt risks high. In addition, meeting annual debt amortization and debt service needs will present challenges in a number of countries.

27. **Vulnerable IDA countries have the primary responsibility to act decisively to contain debt-related risks, with support from the international community**. This would require broadening the revenue base; strengthening tax administration; eliminating wasteful subsidies; and prioritizing spending initiatives on infrastructure, health, education, and poverty reduction. Commodity-dependent economies lacking diversification would need to build international reserves buffers and sovereign wealth funds where appropriate during periods of high commodity prices. These buffers facilitate consumption smoothing during periods of terms of trade deterioration or other external shocks and reduce incentives to rely on non-concessional borrowing to smooth domestic consumption.

28. **Risks to this scenario include policy reversals, inability to implement key fiscal and growth-promoting reforms, and adverse shocks, both domestic and external**. Revisions in expectations about global interest rates could lead to rapid shifts in market sentiment, unexpected financing gaps and increased funding costs, especially in countries with large external financing needs and limited fiscal buffers. In addition, despite the recent stabilization in the number of newly introduced barriers to trade, the threat of protectionism is still a major risk. Also, improvements in debt data coverage and reporting – a key agenda item in the WB and IMF operational work – may result in upward revisions of debt levels and possibly reassessments of debt risks.

29. **Debt will continue to be a powerful tool for development**. Access to new sources of financing – if managed well – can help countries achieve their development goals. In addition, prudent market borrowing will continue to play a useful role in increasing transparency and providing market signals to country authorities about the credibility of macroeconomic management.

[7] See "Fiscal Monitor: Curbing Corruption: IMF, 2019.

III. PROGRESS ON THE WB-IMF MULTI-PRONGED APPROACH TO ADDRESS DEBT VULNERABILITIES

30. **Rising debt risks have prompted the international community to step up its work to help countries reduce public debt vulnerabilities**. Recognizing that the primary responsibility for addressing debt vulnerabilities lies with borrowers, the IMF and the WB are working together to implement a MPA to help member countries address debt vulnerabilities. This work is taking place within the context of the global development agenda. The work program, which reflects the leading role of the World Bank and the IMF on debt-related issues includes improved monitoring of debt vulnerabilities, enhanced early warning systems, support for structural reforms to help reduce debt vulnerabilities, improve debt transparency, and increase debt management capacity building and outreach to creditors and IDA recipients to raise awareness of debt issues.

31. **The over-arching framework for IDA's current effort to support debt sustainability is anchored in the WB-IMF MPA to address debt vulnerabilities**. The MPA was called for in April 2018 by the Development Committee and the International Monetary and Financial Committee and is described in detail in a paper presented to the Development Committee in October 2018.[8] Management provided an update on the MPA implementation to the Board of Executive Directors in May 2019. Building on the progress achieved and on lessons learned in recent years, the MPA comprises a range of ongoing and planned actions in the following four areas:

- Area 1: Strengthening debt analytics and early warning systems to help countries better understand debt vulnerabilities;
- Area 2: Strengthening debt transparency to help countries have a more complete picture of their debt;
- Area 3: Strengthening capacity on debt/fiscal risk management to help countries deal with existing debt more effectively, including through operational support to strengthen macro-fiscal policy frameworks and manage fiscal risks;
- Area 4: Reviewing the IMF Debt Limits Policy (DLP) and the IDA NCBP.

32. **Several steps have been taken to implement the strategy**. In particular, the following measures have been put into effect:

- **Continued implementation of the Debt Sustainability Framework for Low-Income Countries (LIC-DSF) and further informal discussions at the IMF's Executive Board on the Debt Sustainability Assessment for Market Access Countries (MAC DSA)**. Specifically, the IMF-WBLIC-DSF has been revised, and now places greater emphasis on debt data coverage, on accounting for contingent liabilities, on analyzing customized shock scenarios, and on flagging possible optimism bias in projections. So far, 25 DSAs under the revised framework have been completed. IMF's methodology for MAC DSA is also being reviewed with a view to enhancing its coverage of debt including for contingent liabilities.

[8] See "Debt Vulnerabilities in Emerging and Low-Income Economies", DC2018-0011, September 18, 2018.

- **Alignment of the WB's Macro-fiscal forecasting model with the LIC-DSF,** integration of fiscal risk assessment toolkit with sectoral tools, and launch of an early warning framework for emerging market economies.
- **More systematic integration of debt issues in IDA operations by including debt issues as prior actions in Development Policy Operations (DPOs)**. IDA supported several important debt transparency reforms through advisory services or operational engagements in fiscal year (FY) 2019 (see Box 1). For example, prior actions/triggers in support of debt transparency were used in recent operations in Ethiopia. In addition, IDA has deepened the analysis of debt vulnerabilities and fiscal space in core diagnostics, such as public expenditure reviews, Systematic Country Diagnostics (SCD), and in special-topic reports.
- **Enhanced creditor outreach,** *inter alia* by including additional multi- and plurilateral creditors in Multilateral Development Bank (MDB) meetings and conducting workshops and training for non-Paris Club creditors. The IMF and the WB have been delivering workshops for non-Paris Club bilateral creditors on debt sustainability analysis and lending frameworks. In May, the WB and the African Development Bank (AfDB) jointly hosted a workshop on helping African LICs deal with debt vulnerabilities (see Box 2). In addition, IDA plans to enhance dissemination of the "Lending to LICs mailbox", through which public and private credit agencies inquire about their clients' NCBP status, as well as sharing information on their lending intentions.
- **Strengthened debt management assistance through the launch of the third phase of the Debt Management Facility (DMF-III) and increasing its focus on debt transparency and fiscal risks, and a revamp of the Medium-Term Debt Management Strategy tool**. The DMF-III was launched during the Spring Meetings. DMF-III will help finance technical assistance to strengthen debt management capacity and institutions, enhance debt transparency, and strengthen fiscal risk management in 84 countries.

Box 1: Examples of recent debt transparency reforms

IDA supported several important debt transparency reforms through advisory services or operational engagements in fiscal year 2019. Examples include:

In **Ethiopia**, a current Development Policy Credit contains a tranche release condition to enhance debt transparency through the publication of expanded annual debt reports and quarterly debt reports, starting from summer 2019 onwards. The expanded reports will include enhanced reporting on debt (external debt of state-owned enterprises, guarantees, and called guarantees), additional details on debt holders, and improved analytical components (evaluation of debt management operations and outcomes). IDA provided technical assistance (TA) to improve debt reporting and enhance the analytical quality of Ethiopia's annual debt report and quarterly statistical bulletins.

Cameroon and **Senegal** broadened their debt coverage in a recent Debt Sustainability Analysis prepared under the joint World Bank-International Monetary Fund (WB-IMF) Debt Sustainability Framework. Both countries benefitted from significant debt management TA provided by the WB and the IMF.

In **Cabo Verde**, a Development Policy Operation (DPO) supported the government's implementation of fiscal and debt management reforms, which will enhance transparency. The improvement of the legal framework for budget and debt management will increase debt transparency by increasing data coverage. Another outcome supported by the DPO is the improvement of State-Owned Enterprises oversight and monitoring, including the re-introduction of performance-based contracts and financial and operational performance monitoring.

Box 2: Abidjan High-Level Consultation on Addressing Debt Vulnerabilities (May 16, 2019)

The joint IDA-African Development Fund (ADF)event on May 16, 2019 brought together different perspectives and experiences aimed at sharpening the IDA and ADF policies and tools to better address debt vulnerabilities in IDA and ADF countries. Key conclusions of the discussions among debt practitioners, IDA, the International Monetary Fund (IMF), and the African Development Bank (AfDB) staff include:

- **Collaboration and coordination**. There was broad appreciation of the collaborative work being undertaken among the WB, the IMF, and the AfDB to address debt vulnerabilities, and calls for structured dialogue among major creditors and the authorities at the country level.
- **Capacity building and beyond**. While recognizing IDA's support in establishing debt management offices and institutional frameworks, debt practitioners urged IDA, the IMF and the AfDB to go beyond capacity building in debt management and consider assisting them with oversight functions, hedging, complex repayment mechanisms, procurement, and contract management.
- **Challenges- emerging and longstanding**. In maintaining debt sustainability, practitioners cited challenges emerging from climate change, rising costs of security (terrorism), and external shocks. Low absorptive capacity, delays in project implementation, and not being fully equipped to assess investment returns were challenges some of the practitioners had in common.
- **Knowledge sharing**. There were calls for support in nurturing knowledge exchange among practitioners. Examples of areas of interest included how Senegal managed subnational loans, Uganda selected projects to finance, and Côte d'Ivoire's committee of debt experts functioned.
- **Feedback on the IDA's policy toolkit**. Feedback on IDA's proposed approach to support countries in adopting sustainable borrowing practices was broadly supportive, with calls for considerations for unique circumstances of each country, their medium to long term prospects, and linkages to fiscal policy. IDA's outreach to other creditors and efforts to have systematic information disclosure among International Financial Institutions (IFIs) was encouraged.

33. **Continued implementation of the MPA will remain a key priority for the two institutions**. The institutions will continue to work closely together to take the agenda forward while maintaining a continuous dialogue with stakeholders. Key annual policy actions in 2019 include:

- Presentation of proposals on the IMF's DLP and the WB's NCBP to Executive Boards at end-2019 (see Box 3);
- Presentation of proposal for a revamped MAC DSA in late 2019;
- Finalization of enhanced debt management and fiscal risk toolkits in late 2019;
- Extension of the Debt Reduction Facility in late 2019;
- Continued creditor outreach, inter alia by delivering workshops and training to non-Paris Club official creditors, and further expanding the MDB network;
- Note for the G20 on "*Operational Guidelines for Sustainable Financing; Survey Results and Policy Recommendations*"; and
- Expansion of the WB Debt Reporting System, and further assistance under the DMF III and the D4D facilities.

Box 3: The International Monetary Fund (IMF)'s Debt Limit Policy (DLP) Review

The IMF's (DLP establishes the framework for setting conditionality to address debt vulnerabilities in IMF-supported programs. The policy dates back to the 1960s (and the basis for this, as for all Fund conditionality, is derived from the Articles of Agreement (Art. I(v) and V(3)(a)). Debt conditionality is one of the key instruments in the Fund's toolkit, intended to complement other program conditions to help achieve macroeconomic sustainability. It has played different roles and taken different forms in General Resources Account (GRA) and Poverty Reduction and Growth Trust (PRGT) supported programs. From the policy's inception, the exclusion of concessional flows has led to its predominant use in PRGT-supported programs. Importantly, the policy is not meant to prevent debt accumulation, but rather to help prevent/address a build-up of debt vulnerabilities.

Preliminary findings suggest that the DLP, together with other conditionality, has been broadly effective in helping to contain debt vulnerabilities in countries with IMF programs, but some shortcomings have become evident in the framework. Empirical and survey results based on the implementation of the new policy, since June 2015, suggest that the policy has been broadly implemented as designed. In most programs with debt limits debt vulnerabilities do not appear to have intensified during the program period, although there is a concern about growing off-balance sheet exposures. Debt limits appear to have complemented fiscal conditionality, but with some scope for improvement. At the same time, the reliance on zero non-concessional borrowing (NCB) limits appears to have continued to exert some restraint on investment, and the policy was not effective in improving debt recording and management capacity, and it is difficult to measure whether it has incentivized concessional resources. Further, the policy remains less applied in GRA programs, but this could be consistent with lower debt vulnerabilities.

Importantly the changing landscape also calls for a careful re-assessment of whether the design of the policy will be fully fit to purpose going forward. The existing policy, which dates to the benign post-HIPC period, has features that make it well-designed to help limit a *rise* of new vulnerabilities. It may not be ideal, however, to complement fiscal policy within a program effort to *reduce* debt vulnerabilities while safeguarding good investment opportunities. Moreover, it may not be a good match for high-risk countries that lack access to concessional financing, a group which appears to be growing in number.

Against this backdrop, the review would focus on four themes:

A. *Strengthen debt transparency and complementarity with fiscal conditionality*. Fiscal policy remains the right channel to address debt vulnerabilities, but debt limits can help, especially when fiscal coverage is narrow. However, this requires knowledge of exposures outside of the fiscal net, i.e., sufficient transparency about debt. The review will study options on how debt conditionality can enhance debt data transparency.

B. *Preventing/helping to address debt vulnerabilities, while not unduly constraining investment*. Greater and more diverse vulnerabilities, alongside still massive investment needs, suggests a need to consider whether greater tailoring of debt conditionality could help promote a better balance (and help to better match the policy to the challenges of the new financing landscape).

C. *Integrating debt management considerations.* Limited progress in this area, against rising debt management needs, suggests a need to re-examine the links in the policy to make sure they effectively support the articulation of debt conditionality.

D. *Clarifying issues related to concessionality.* Concerns about how the level of concessionality has been set, and how to properly distinguish between concessional and non-concessional debt in an evolving debt landscape, calls for some clarifications.

IV. POLICY ACTIONS UNDER THE *JET* AND *G&I* SPECIAL THEMES TO ADDRESS DEBT VULNERABILIES

34. **The development trajectory that is sustainably financed requires progress both on (i) the economic growth side and (ii) actions to strengthen the fiscal policy framework – the key**

source of debt vulnerability. Policy actions under JET and G&I Special Themes are aimed at promoting sustainable economic growth and improving debt management policies. Assuring debt sustainability depends not only upon the absolute level of debt, but also on the successful implementation of a comprehensive set of policies that are expected to enhance economic growth and to strengthen fiscal policy framework, including domestic revenue mobilization, efficiency of public expenditures, and debt management. This highlights two important policy priorities for IDA countries. First, improvements in debt ratios have been dominated by movements in the denominator (exports and GDP), highlighting the importance of growth-promoting macroeconomic and structural policies for achieving debt sustainability. Second, IDA countries need to strengthen their fiscal policies by developing a credible macroeconomic framework and consider new borrowing only for investment projects with credibly high rates of return and using fiscal risk management tools. Countries also need to strengthen efforts to mobilize domestic resources, improve the efficiency of public expenditures, and strengthen public investment and debt management.

35. **In the coming years, global conditions will make undertaking the reforms and investments needed to accelerate economic transformation all the more important**. Macroeconomic forecasts predict that job creation will be even more challenging in the coming years, with global growth moderating, commodity prices reverting, and costs of borrowing rising. In this context, using borrowing effectively to maximize growth potential will be critical, alongside stronger macroeconomic management, including greater debt transparency, diversification of the economy and greater market integration. Particularly for countries facing moderate to high risk of debt distress, any further public borrowing must be done transparently and sustainably, thereby reducing uncertainty and encouraging private-sector led growth.

36. **Finally, an important element in reducing debt vulnerabilities is increasing resilience of economic growth to withstand negative external shocks**. The costs of adverse external shocks are more easily absorbed in a flexible rather than a rigid labor market. Other factors – such as heavy market regulations and underdeveloped private sector – may also make it more difficult to countries to respond to shocks.

A. JOBS AND ECONOMIC TRANSFORMATION

37. **During IDA19, JET will increase its focus on operational impact, building on the progress made on diagnostics under IDA18**. IDA will continue to support economic transformation and private sector development as the pathway to more and better jobs, improving the quality of jobs in the formal and informal sectors, and strengthening inclusion. While IDA18 focused on developing knowledge and tools to support JET interventions, IDA19 will mark a pivot towards operational impact, including through a more deliberate focus of JET in the country programs. This will require putting greater emphasis on the 'how' – changing the way the WB approaches JET at the strategic and operational levels, including the incentives for focusing on more transformational, job-creating interventions led by the private sector.

38. **To mobilize private investments for development in IDA countries, the WBG has put Maximizing Finance for Development (MFD) at the heart of the approach to JET in IDA19**. This is particularly the case for mobilizing private investments for development of quality infrastructure. The financing gap to narrow the infrastructure gap in Africa alone is estimated to

be up to US$108 billion per year over the next decade.[9] It is clear that IDA can only meet a small share of the investment required to deliver on the JET agenda. In this context, developing capital markets and long-term financial instruments are needed to be able to leverage private investments for development. The following commitments are proposed:

- **As part of broader good macroeconomic management as a way to finance a country's development strategy, good debt management and debt sustainability is a critical part of a strategy to create jobs, transform economies, and create markets**. Effective use of debt to support productive investment is central to delivering on the JET agenda in IDA countries. At the same time, with rising debt levels in many IDA countries, the sustainability of investments may be at risk. To support debt transparency and effective management of debt (and of the broader macro-economic and fiscal environment): *All SCDs of IDA countries at moderate or high risk of debt distress will address the country's strategy for sustainably financing its development.*
- **JET policy commitments also promote private sector development and export growth**, two critical ingredients for financing debt. To better coordinate and direct IDA interventions toward enabling high opportunity, job-creating private sector investments, IDA will: *operationalize joint International Finance Corporation - World Bank (IFC-WB) diagnostics in 10 IDA countries through IDA and IFC interventions leveraging from among the WBG's full suite of instruments, including technical assistance, policy advice, lending and investment.* IDA will also support the regional trade integration and Global Value Chain (GVC) integration. Building on the findings of the 10 GVCs studies conducted under IDA18, the development of agri-food value chains will present significant opportunities to expand regional trade and deepen regional value chain integration, while also opening up possibilities to attract investment and increase exports through GVCs. For IDA19, *at least 66 percent of agriculture and agribusiness projects in IDA countries include support for value chain development, through connecting producers to markets, technical assistance for meeting international standards and regulations, and supporting logistics and reducing trade costs.*

B. Governance and Institutions

39. **Under IDA19, the G&I Special Theme supports a package of interrelated commitments covering (i) debt management and transparency, (ii) domestic resource mobilization, and (iii) infrastructure governance.**

Debt Management and Debt Transparency

40. **Two proposed commitments will focus on supporting IDA countries to strengthen institutions to better manage debt and enhance debt transparency**. The proposed commitments are:

[9] African Development Bank (2018) African Economic Outlook 2018.

- *Implement an integrated and programmatic approach to enhance debt transparency through increased coverage of public debt in DSAs and/or supporting debt transparency reforms*[10] *in 15 IDA countries.*
- *Bolster fiscal risk assessments and debt management capacity in 20 IDA countries through a scale-up of fiscal risks monitoring and/or implementation of debt management strategies.*

Strengthen Domestic Resource Mobilization

41. **Strengthening domestic resource mobilization in IDA countries is crucial in creating fiscal space to finance priority spending while avoiding debt concerns**. Preliminary findings suggest that the financing gap for achieving the SDGs for developing countries could stand at around US$2.5 trillion. Yet, developing countries facing the most binding financing constraints and often encounter the steepest challenges in collecting taxes. Building on the achievements under its predecessor, a commitment under IDA19 will focus on country specific binding constraints to resource mobilization. Adopting a "fit-for-purpose" approach to engagement on Domestic Revenue Mobilization in IDA will help identify appropriate tax handles and thus help address key bottlenecks hindering progress in this area. Innovative approaches, such as through the use of technology, will help enhance these efforts. To second this commitment, IDA will support the broadening of the tax base through reducing tax exemptions and addressing Base Erosion and Profit Shifting (BEPS). The following commitment is proposed:

- *Support 25 IDA countries that remain persistently below the 15 percent tax-to-GDP threshold through interventions (including lending and technical assistance) targeted at country-specific binding constraints to tax policy and/or administration, including supporting efforts to broaden the tax base such as reducing exemptions and addressing Base Erosion and Profit Shifting.*

Strengthen Infrastructure Governance

42. **The success of the MFD initiative will depend to a large extent on the adoption of good infrastructure governance practices.** Governance gaps are a primary binding constraint that prevent private capital from being leveraged. They work to prevent private finance from being crowded-in and invested funds from translating into productive, sustainable assets that serve citizens. Issues such as a lack of public sector transparency, poor corporate governance, inconsistent and cumbersome regulatory frameworks, and an institutional environment marked by collusion and corruption increase the unpredictability of transactions, weaken accountability, and, thus, discourage private investments. The identification of key governance bottlenecks to crowding in private capital through assessments, such as the Infrastructure Sector Assessment Program (InfraSAP) and the Infrastructure Governance for Maximizing Finance for Development (IG4MFD), will help provide a granular assessment of key public investment and service delivery management institutions and internal processes of a country that will inform country level engagements. IDA19 will also support IDA countries in the adoption of policies and regulations

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[10] Support to this commitment will draw from a suite of instruments including lending operations, diagnostics and technical assistance.

for enhanced quality, efficiency, and transparency of infrastructure investments. The following commitment is proposed:

- *Support 10 IDA countries in the identification of key governance constraints to the development, financing, and delivery of quality infrastructure investments to inform the adoption of policies and/or regulations for enhanced infrastructure governance in a majority of these (five countries).*[11]

43. **These efforts have important synergies with efforts to increase spending efficiency as well as with the JET Special Theme**. As the WBG increases its emphasis on investing in people through better nutrition, health care, and quality education leading to healthy, productive and sustainable lives, there will be a need to ensure that newly mobilized resources are spent efficiently in these priority areas. This, in turn, is directly connected to the gains targeted under the JET Special Theme. Economic transformation for job creation requires investments in infrastructure and human capital, for which resource mobilization is paramount considering prevalent debt sustainability concerns.

V. TOWARDS A NEW SUSTAINABLE DEVELOPMENT FINANCE POLICY

44. **Aligned with the MPA, this section outlines a proposal to enhance the impact of IDA's sustainable lending framework to help its client countries better mitigate and manage their debt risks**. Since the successful implementation of the HIPC Initiative and MDRI by a broad global coalition, IDA has taken the initiative to develop a framework of sustainable lending and put it into practice. IDA's current framework of sustainable lending centers around three core pillars:

- **The traffic light system** based on forward-looking debt analysis under the joint WB-IMF LIC-DSF;
- **The grant allocation framework** (GAF) to prevent a worsening of the debt burden due to IDA credits in low-income countries that are already at risk;
- **The Non-Concessional Borrowing Policy** that seeks to preserve the gains to debt sustainability from debt relief under the HIPC Initiative and MDRI, and to ensure prudent management of scarce IDA concessional resources.

45. **IDA Management is of the view that IDA's sustainable lending framework is broadly effective but that some changes are needed to adapt to changes in the global financial landscape since the framework was introduced over a decade ago**. These changes mostly concern the NCBP (see below), and only one change is proposed to the grant allocation system. To prevent what amounts to using IDA resources to subsidize large non-concessional loans, Management proposes to introduce a ceiling on grant allocations for large, IDA-only countries with access to alternative financing sources. The purpose of the proposed grant cap is to protect IDA's long term financial sustainability, while maintaining a sense of equity in grant access to IDA grant-eligible countries. Countries that are likely to be impacted by the proposed cap would

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[11] The objective of good infrastructure governance is to deliver the right projects in a way that is sustainable, transparent, and accessible to users and citizens. Assessments will address policy and regulatory frameworks, transparency practices, and institutional capacity constraints at the center of government and in infrastructure services as provided by ministries, public utilities, and sub-national governments, SOEs, and /or PPPs.

continue to be able to access the same volume of resources but would do so on concessional terms. It is therefore proposed that grant allocations be capped at a maximum of US$1 billion each FY per country. In addition, the changing financial flow landscape requires maintaining an emphasis on IDA's Preferred Creditor Treatment, including through the Negative Pledge Clause where applicable.

46. **As already discussed during the IDA Replenishment meeting in April 2019, IDA Management is currently undertaking a review of the NCBP** (Annex 1)[12] as part of the MPA, and in parallel with the IMF review of its DLP (Box 3). The early findings of the review have, since April, been refined through additional analysis, and benefited from the advice and guidance of the Participants at the April meeting, as well as from consultations with key stakeholders (see Box 2 above on the recent Abidjan debt conference). The main conclusions of the review are set out below:

- **Objectives and structure**. The 2019 NCBP review seeks to assess the effectiveness of the policy by assessing whether the policy: a) helped countries to preserve the gains to debt sustainability; b) influenced the composition of external debt; and c) promoted creditor coordination. NCBP has had positive but modest impact in incentivizing reduced NCB. However, it appears unrealistic to expect such policy to preserve debt sustainability on its own, given a more complex development finance landscape than when the policy was first introduced. Hence, the review suggests simplifying objectives of the policy, with a clear set of expected outcomes on its two pillars.
- **Coverage**. The NCBP, as was originally designed, applies to grant-eligible IDA-only and MDRI recipient countries (currently 40 countries), mainly to prevent these countries from eroding the gains of debt sustainability obtained from debt relief. There is a strong rationale to expand scope of policies to Gap and Blend countries.[13] First, growing debt vulnerabilities have transcended beyond post-MDRI and grant-eligible IDA-only countries into others, particularly LICs. Second, all IDA clients receive high levels of grant element: whether it is 100 percent grants for high-risk regular clients under the GAF or a 35 percent grant element for Blend clients. The new policy would take a broader view of debt. The current policy also has a narrow focus on external non concessional borrowing, but the landscape has changed – the share of domestic debt is rising.[14] This adjustment will tighten alignment with the current IMF DLP, which recognizes both external and total PPG debt.
- **Borrower's incentives**. The current policy recognizes that non-concessional borrowing is a useful complement to concessional financing and can help address the infrastructure gap in low income countries. The NCBP recognizes this complementarity and provides a flexible framework to assess the impact of non-concessional borrowing based on country- and project-specific factors. To date, the

[12] Regular updates on NCBP implementation providing detailed information about cases reviewed and taking stock of the lessons learned have been undertaken regularly, with the last review completed in 2015. The 2019 Review will be completed by October 2019 – see Annex 2 for a timeline and next steps.

[13] As the policy is expanded and becomes more rule-based, the risk of trading off against other IDA objectives (e.g., increase resources to FCS countries) or penalizing countries facing external shocks, such as natural disasters, was identified and emphasized by the Participants to the 2019 Spring Meetings discussions.

[14] Domestic debt has received more prominence under the revised LIC DSF which has been implemented since July 2018. The revised LIC DSF now systematically provides both external and public debt distress ratings.

NCBP has granted mostly waivers in response to breaches. Alternatively, a combination of volume reduction and hardening of terms have been used in response to breaches. This has opened space for policy dialogue on debt related issues. The policy framework could be adjusted towards further strengthening incentives to focus on critical policies and actions tailored to country circumstances that support debt sustainability, including by adjusting volumes. In addition, the revised policy should focus on strengthening incentives to utilize technical assistance. This was also a very strong feedback from IDA Participants at the 2019 Spring Meetings. The new policy should also maintain loan-specific and country-specific perspective considerations while supporting measures to enhance debt management and fiscal policy.

- **Coordination**. Alignment with the IMF DLP has been a key feature of the NCBP and must be preserved under the successor SDFP. In addition, the 2019 Review underscores the value of clear signaling, both to creditors and borrowers. Several borrowers have incorporated NCBP debt limits in their own guidelines, while breaches to the NCBP have led to clear signaling of the importance of taking action. The NCBP's impact on creditor coordination has been limited in scope, with some but limited impact of IDA's NCBP on other creditor practices. Coordination with MDBs is good, but needs to be enhanced with the aim to better complement policies to support debt sustainability and work towards a set of general principles for sustainable lending. Engagement with non-Paris Club bilateral and private creditors needs to be reinforced. Outreach to private and public credit agencies through the IDA's "Lending to LICs" mailbox could be expanded including through enhanced dissemination of the mailbox and reporting back.

A. THE PROPOSED SUSTAINABLE DEVELOPMENT FINANCE POLICY

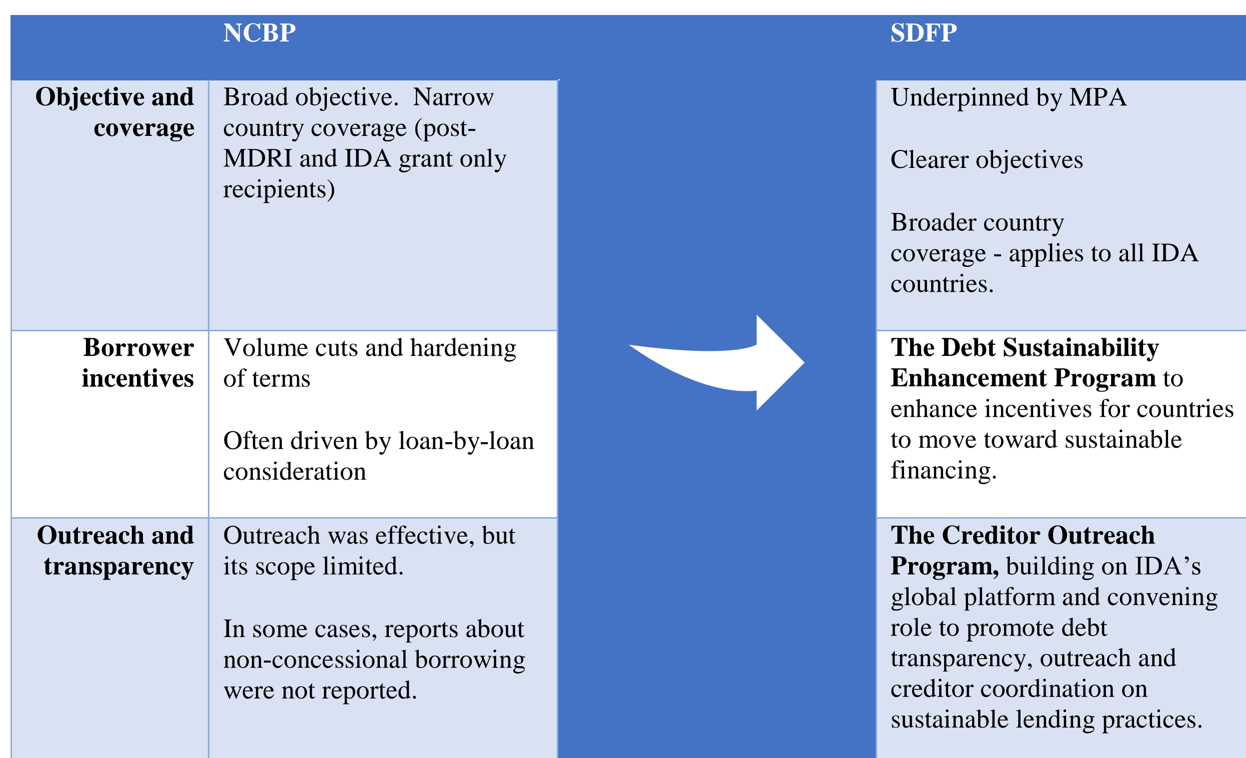
47. **Based on these findings as well as the advice and guidance of IDA Participants, Management proposes to replace the NCBP with a broader SDFP**. The ultimate objective of the new SDFP will be to assist IDA countries to establish a path of sustainable development finance that enhances progress toward achieving the 2030 Development Agenda and strengthens capacity to manage debt vulnerabilities. The policy would achieve this objective by: (i) strengthening IDA recipients incentive structures with appropriate accountability measures and closer operational linkages with country programs; (ii) enhancing collective action and partnerships among borrowers, creditors and other development partners; and (iii) introducing more robust monitoring and accountability measures. As such, they more adequately reflect risks of debt over-accumulation.

48. **The proposed SDFP (see Table 1) has two pillars:**

- *The Debt Sustainability Enhancement Program (DSEP)* to enhance incentives for countries to move toward sustainable financing. This would address debt related risks pertaining to *the demand side* factors *(pull factors),* recognizing the fact that the primary responsibility for addressing debt vulnerabilities lies with IDA recipients.
- *The Creditor Outreach Program* building on IDA's global platform and convening role. The objective of the program is to facilitate information sharing, dialogue and coordination, including coordination among MDBs, to help mitigate debt related risks pertaining to the *supply side* factors *(push factors*). Effective collective action would

go a long way towards mitigating risks of unsustainable debt accumulation. In addition, creditors would be urged to sparingly use secured lending structures. Awareness would be raised among creditors about the negative pledge clauses of multilateral development banks. Creditors would be urged not to undermine the role and financial stability of MDBs by using secured financing structures that violate the negative pledge obligations of borrowers in favor of the MDBs.

Table 1: Towards a Sustainable Development Financing Policy



	NCBP		SDFP
Objective and coverage	Broad objective. Narrow country coverage (post-MDRI and IDA grant only recipients)		Underpinned by MPA Clearer objectives Broader country coverage - applies to all IDA countries.
Borrower incentives	Volume cuts and hardening of terms Often driven by loan-by-loan consideration		**The Debt Sustainability Enhancement Program** to enhance incentives for countries to move toward sustainable financing.
Outreach and transparency	Outreach was effective, but its scope limited. In some cases, reports about non-concessional borrowing were not reported.		**The Creditor Outreach Program,** building on IDA's global platform and convening role to promote debt transparency, outreach and creditor coordination on sustainable lending practices.

Debt Sustainability Enhancement Program

49. **The proposed *DSEP* introduces a *performance-based set aside* of IDA funds to incentivize vulnerable countries to take measures to move towards sustainable borrowing policies**. The objective of the DSEP is to incentivize countries to take actions to address debt-related vulnerabilities. A key consideration in operationalizing this approach is to strengthen linkages between the IDA allocation framework and incentives for countries to enhance debt sustainability and vulnerabilities. This approach involves the following two steps:

- **Screening and monitoring**. This will be carried out prior to the start of each FY, based on (i) the joint IMF-WB LIC DSF; and (ii) an assessment of the implementation of performance and policy actions (see below) to be agreed in the previous FY as part of the DSEP. Every year, all countries are screened. Countries at low risk of debt distress (*green-light countries*) will have access to 100 percent of their core allocations. Countries at moderate, high risk of debt distress or in debt distress (*yellow and red-light countries* based on external public debt vulnerabilities) will have access to 100 percent of their core allocations subject to meeting agreed policy actions to be

implemented on a yearly basis. Incentives will take the form of a share of the country's allocation (10 percent and 20 percent for countries at moderate and high risk of debt distress, respectively) that will be set aside and released upon satisfactory implementation of the agreed policy actions of their DSEP (with exception of (i) Year one of an IDA replenishment, since set asides cannot be carried over across replenishments; and (ii) Year three of a replenishment, where the discount will be final).

- **Development of annual performance and policy actions**. Annual performance and policy actions under the DSEP will be defined every FY (around April) and assessed the following year, as prior action for the decision on the subsequent year's allocation. These are a set of mutually agreed policy and/or institutional actions, focusing on areas informed by the most recent DSA that are deemed important to prevent, manage and disclose public debt related vulnerabilities. These criteria can also be performance and policy actions, such as a debt limit. These criteria will be proposed by the Regions in consultation with the borrower to be endorsed by IDA's senior management team based on recommendations from the SDFP Committee (modelled on the existing NCBP Committee) in the context of IDA's country programs. The annual performance and policy actions would aim to strengthen: (i) fiscal sustainability, (ii) debt management, and/or (iii) debt reporting coverage/timing. Ideally, performance and policy actions will be derived from policy-based financing operations (DPOs) and/or IMF programs. Performance and policy actions for countries with an IMF program would be coordinated with their IMF program, consistent with current practice for NCBP implementation. Performance and policy actions are conditions for the set aside of allocations to be released. Their implementation would be evaluated through the SDFP Committee. See Box 4 for more details on possible annual performance and policy actions.

Box 4: Examples of Annual Performance and Policy Actions

There would be no more than three annual performance and policy actions, driven by the analysis of the sources of vulnerabilities and of debt management/transparency shortcomings. Preferably, there would be one action each for fiscal policy, debt management and debt reporting.

Potential performance and policy actions related to fiscal policy would be related to measures to reduce or contain the primary fiscal deficit - reducing debt vulnerabilities is primarily accomplished through fiscal policy. In specific terms, these key annual performance and policy actions could be related to domestic resource mobilization, optimizing expenditures and/or improving public investment management.

Potential performance and policy actions on debt management would be zero Non-Concessional Borrowing (NCB) for red light countries eligible for grants (as per current practice under the Non-Concessional Borrowing Policy (NCBP), and improvements based on Debt Sustainability Analysis (DSA) for any country with challenges on that front. Debt management related measures would relate to borrowing policy, issuance of sovereign guarantees, debt recording, for instance.

Potential performance and policy actions on debt transparency would be related to coverage and timing of reporting of detailed information at loan level for external borrowing of reporting countries using standardized set of forms (World Bank's Debt Reporting System or DRS).

50. **Transition arrangements**. As a transition mechanism from the NCBP to the SDFP, in the first year of IDA19 (FY21) only the countries that will have gone through a FY19 NCBP review and hence been assigned key annual performance and policy actions will be subject to the DSEP. Other countries will have their first annual performance and policy actions decided in FY20, monitored in FY21, with an impact on the FY22 (second year of IDA19) allocations. This will enable the countries to focus on meeting the key annual performance and policy actions in FY21 (the first year of IDA19) before any set asides are made.

51. **This approach transforms a disincentive (volume discount) into an incentive (set aside) to improve performance**. Using a rules-based approach, also enables expansion to all IDA countries, not only grant-eligible ones as in the current NCBP. The annual performance and policy actions will be forward looking by design – debt-distress risk ratings emerging from DSAs are based on forward-looking analyses of countries' debt sustainability prospects, taking into account not only baseline debt projections but also standardized stress tests. As such they more adequately reflect risks of debt over-accumulation. In addition, the SDFP seeks to maximize the signaling effects, to borrowers and to creditors, by being simple and policy-oriented. Finally, the SDFP allows IDA to take account of the differing needs and capacities of IDA countries. By tailoring the annual performance and policy actions based on the specific circumstances of each IDA country, the SDFP would ensure that low capacity countries, including those affected by fragility, conflict and violence would also be able to make the progress needed to access the set aside.

52. **This system provides incentives for continuous improvement toward debt sustainability with flexibility to incorporate the impact of exogenous shocks**. With this system:

- A country at moderate/high risk that meets consistently annual performance and policy actions would maintain its full annual allocation.
- A country at moderate / high risk that misses performance and policy actions one year but delivers the following year would also maintain its full allocation (except if the miss is in Year 3 because there is no carry over of the set aside across replenishments).
- A country at moderate / high risk that consistently misses performance and policy actions would get a cumulative 10/20 percent discount for the entire replenishment (a bit less in IDA19 because of the FY20 transition period).

53. **In addition, the proposed system has also some design flexibility to accommodate special circumstances:**

- **For some countries and specific cases, particularly Blend IDA countries, set asides might not be a sufficient incentive to take action**. There could be cases where trade-offs emerge at a country level where a combination of both reducing allocated IDA volumes and hardening terms is warranted. When applying this framework, there might be a need to allow the introduction of hardening terms in specific cases, hence, it is proposed that the SDFP Committee is able to recommend taking steps to harden terms if warranted in exceptional cases.

- **For small states, the reviews will be reduced from annual to once every two years to reduce transaction costs both for clients and IDA**. In cases where any of these

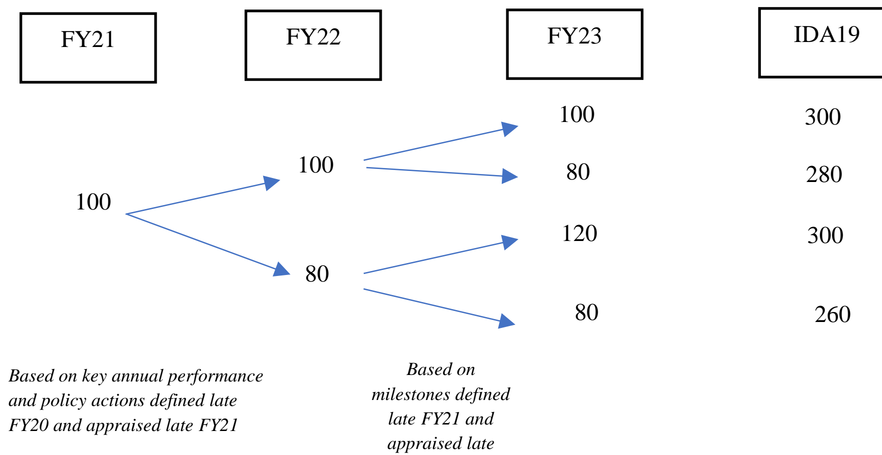
countries fail to take the actions by the end of the second year, they will receive discounts from their third-year allocations.

- **Building capacity of IDA countries to address debt vulnerabilities**. Alongside implementation of the DSEP, countries may request IDA to provide technical assistance to build capacity to address debt vulnerabilities. They may request support from IDA and the IMF through the DMF. A country can also request IDA to help prepare a technical assistance project, to be financed by an IDA grant/credit from its IDA country allocation, which will provide sustained support over multiple years.

54. **Under the proposed SDFP, in the first two years of a replenishment, any allocation discounts and set asides remain within the country's multi-year IDA allocation**. This changes in the third year of a replenishment, as set asides do not carry over across replenishments. Thus, if a country does not achieve the annual performance and policy actions (performance milestones) by the start of the third year of a replenishment, the applicable discount for the third year, as well as any accumulated set asides, would be released to be reallocated across all IDA countries through the Performance-based Allocation (PBA) formula. This approach will tend to benefit those countries with relatively stronger Country Performance Rating (CPR).[15]

Figure 7: Proposed *modus operandi* of the Debt Sustainability Enhancement Program

For a country at high risk of debt distress the path depends on whether annual policy actions are met



55. **The key outcome of this Program is increased capabilities of countries to address debt related vulnerabilities through IDA's operational country programs, using concrete actions supported by lending, diagnostics and technical assistance**. While the ultimate impact of the program will continue to be the level of risks measured by DSAs, the Program is designed in recognition for the multiple drivers of debt sustainability. As intermediate outcome, the Program will also monitor indicators related fiscal policy, debt management, and debt transparency. Key

[15] The CPR consists of a linear combination of clusters A-C of the CPIA ratings (with a weight of 24 percent), Cluster D of the CPIA rating (with a weight of 68 percent), and portfolio performance rating (with a weight of 8 percent).

indicators for fiscal policy include primary balance as a share of GDP and tax revenues as a share of GDP. Key indicators for debt reporting include the coverage of DSA (central government, general government or public sector) and timeliness of the Debt Report System (DRS). Key indicators for debt management include Debt Management Performance Assessment (DeMPA) scores.

56. **The internal governance of the SDFP will be similar to the current governance of the NCBP**. It will build on similar principles and architecture, while addressing some challenges identified in the review (Annex 2). Box 5 summarizes implementation arrangements of the SDFP.

Box 5: Implementation Arrangements of the Sustainable Development Finance Policy (SDFP)

The implementation framework for the SDFP will be developed following IDA Deputies and Borrower Representatives endorsement of the policy, under the following principles:

Equity of treatment. The implementation framework will seek to ensure equitable application of policy across all IDA countries, including by calibrating performance and policy actions consistent with country context and capacity, especially for FCS and small states.

Simplicity and predictability. The implementation framework will be presented in a pragmatic and simple, clear way, including regarding steps to be taken by borrower countries and IDA. Especially with the expansion of country coverage and the expansion from NCB to risk of debt distress, the policy will focus on more countries. Parsimony in the number of performance and policy actions will be a priority. Automaticity – using 'by default' action such as NCB ceiling – and rules-based approach will mitigate risks of complexity. They will also help send clearer signals to borrowers and creditors.

Rules based. The implementation framework will include clearly defined rules, including on monitoring and reporting. For instance, it will clarify instances under which waivers for loan-by-loan considerations will be assessed, such as for high return priority investments and for shocks such as natural shocks.

Governance issues. The implementation framework will include checks and balances. The internal governance of the SDFP will be similar to the current governance of the NCBP, and include an inter-departmental Committee, which makes recommendations for approval by Management. The SDFP will have enhanced transparency and amongst others, key SDPF decisions will be disclosed with due consideration to the necessary confidentiality provisions.

57. **There are some risks related to this proposed approach of Debt Sustainability Enhancement Program (DSEP)**. The first risk is that, despite progress in implementing the DSEP, countries' debt sustainability does not improve. In most cases, reducing debt vulnerabilities require time. This could be because external shocks cause a further deterioration or because the actions generate progress that is insufficient. The proposed Program alone will not be able to reduce debt sustainability risks; instead the Program should be used as an additional element in a comprehensive approach to address the debt vulnerabilities. As such, the development impact of this Program is to encourage countries to take more actions to address debt vulnerabilities. Second, there are also design risks. Underlying drivers of debt vulnerabilities in each individual country are technically complex and it is often hard to identify and quantify appropriate key annual performance and policy actions. To mitigate this risk, the design of the Program builds some flexibility in selecting the key annual performance and policy actions. This also why the Program is anchored on a JET policy commitment for country-specific diagnostics and builds on the joint IMF/WB DSAs. Thus, the design risk can be mitigated by selecting performance and policy actions in areas that flow from DSA outcomes. The third risk is that countries do not take these actions, which could be driven by (i) capacity limitations and (ii) lack of long-term commitment

by political leaders of many countries to take action. This could lead countries to increase their reliance on sources of financing less concessional than IDA, undermining the objective of the policy. Adequate calibration of the key annual performance and policy actions and regular reviews will be necessary. In addition, the delivery risk can be mitigated by focusing on TA on achieving these performance and policy actions.

The Creditor Outreach Program

58. **Over the last two decades IDA has undertaken active outreach efforts with nearly all multilateral and bilateral creditors**. Active outreach efforts and coordinated actions among creditors is critical to help countries mitigate debt-related risks. As a result of IDA's outreach efforts (Table 2 summarizes recent actions), the joint Bank-Fund LIC DSF is now widely used as the key tool for assessing debt vulnerabilities and for structuring the dialogue around debt sustainability issues in IDA countries. Furthermore, most major multilateral creditors use a resource allocation framework similar to IDA's for decisions on financing terms. OECD creditors rely on IDA's NCBP for the provision of non-concessional lending.[16] The emergence of non-traditional creditors that are usually not part of established creditor coordination and information sharing platforms call for enhanced efforts in this area. Such efforts should seek to promote sound practices, such as, for example, the G20 principles for sustainable lending, and build on efforts outlined in the joint Bank-Fund multipronged approach. Other statements of sustainable lending principles are also relevant, for example, those issued by the Paris Club and those articulated by the Development Committee.

Table 2: IDA Outreach Activities

CREDITOR	OUTREACH	TIMING
MDB/RDBS & IFIS	▪ Survey on lending practices ▪ MDB Forum ▪ MDB events ▪ Debt Discussions in Abidjan	▪ February ▪ February ▪ May ▪ May
PARIS CLUB BILATERAL CREDITORS	▪ Review of Lending to LICs mailbox ▪ Publishing of table on NCB and debt limits	▪ March-April ▪ Real time updates
NON-PARIS CLUB BILATERAL CREDITORS	▪ Debt workshops	▪ May/June
PRIVATE CREDITORS	▪ Institute of International Finance	▪ TBD
BORROWERS	▪ NCBP Survey ▪ Consultations on debt sustainability, co-hosted by AfDB	▪ March ▪ May

59. **The objective of the enhanced creditor outreach is to facilitate information sharing, dialogue and coordination building on IDA's global platform and convening role**. The proposed enhancement could include outreach to new creditors, such MDBs that have not been

[16] See for example, "Debt Vulnerabilities in IDA Countries: Policy Options for IDA19, March 2019 and joint Bank/Fund note to the G20: "Strengthening public debt transparency," June 2018.

traditionally present in existing fora, and non-Paris Club and private creditors. It could also include an expansion to new areas of interest, such as country platforms and coordinated technical assistance. In particular, it could comprise the following areas:

- **Expand MDB Forum**. IDA will scale up efforts to further enhance existing MDB meetings, in particular, by reaching out to recently established MDBs. These efforts will be channeled, inter alia, through the Multilateral Development Bank Forum.
- **Strengthen outreach with debtor countries to reinforce the reporting obligations to systematically and timely report of non-concessional borrowing and enhance information exchange with the authorities**. As officials change from time to time, a regular/periodic information campaign to improve stakeholder's awareness of the NCBP and the related information is necessary. This will be reinforced with annual workshops (during IMF/World Bank Spring/Annual meetings) and through other communication means.
- **Establish country-based platforms for knowledge exchange on country-specific debt-related issues**. Discussion could focus on promoting a common understanding of debt-related challenges and opportunities to help countries address debt vulnerabilities. Joint Bank-Fund DSAs could provide the analytical framework for a holistic, fact-based dialogue. This initiative will be started as a pilot, to be scaled up over time.
- **In addition, creditors could be urged to sparingly use secured lending structures**. Awareness would be raised among creditors about the negative pledge clauses of multilateral development banks. Creditors would be urged not to undermine the role and financial stability of multilateral development banks by using secured financing structures that violate the negative pledge obligations of borrowers in favor of the MDBs.
- **Use established debt management platforms to strengthen dialogue around technical assistance (TA) and enhance coordination among TA provider**. For example, the Debt Management Facility could serve as a platform for knowledge exchange in the context of Steering Committee meetings and through its Implementation Coordination Group and Stakeholders' Forum.
- **Expand "Lending to LICs"**. "Lending to LICs" plays an important role in the liaison of the World Bank and the IMF with some official bilateral creditor. IDA could further promote awareness and use of the mailbox.
- **Launch a new SDFP website with country pages**. The new website would enhance the transparency of the SDPF decisions while providing links to the reworked WB debt website[17] that promotes a greater understanding of debt related policies and issues among creditors, as well to country specific debt information.
- **Publish and disseminate additional analytical notes for creditors**. This could, for example, include notes on public debt definition and reporting requirements, collateralized loans, and definitions of concessionality of debt, some of which have been contemplated under the joint Bank-Fund multipronged approach.

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[17] Please see http://ida.worldbank.org/debt and http://www.worldbank.org/en/topic/debt

60. **Management notes that while IDA is the largest single source of concessional financing to IDA countries the success of the Creditor Outreach Program depends on actions by a large number of financial institutions**. The number of these institutions has grown significantly in recent years, which complicates efforts by IDA and the IMF in particular to support countries' objectives regarding long-term debt sustainability. Management notes that many financial institutions have the same shareholders as IDA and encourage shareholders that are represented on the boards of these institutions to monitor their policies and practices with a view to supporting the global objective of debt sustainability.

Other adjustments to IDA financial policies

61. **Finally, while no change is proposed to the existing terms of IDA's financial products offered to IDA clients, new instruments are being developed to help IDA recipients manage commodity price fluctuations and exposure to foreign exchange rate movements:**

- **Following the discussion at the April 2019 Meeting, this paper seeks Participants' endorsement to introduce commodity hedging intermediation for IDA countries before the end of IDA18**. This product would help countries actively manage the fiscal exposure that many IDA countries have to commodity prices and would broaden IDA's existing toolkit of risk management products offered to countries to deal with various types of risks that may affect their fiscal budget such as natural disasters and weather risks.
- **In addition, responding to Participants' feedback at the meeting in April 2019, Management is committed to looking further into developing solutions that would benefit IDA Countries in accessing local currency financing**. Given the complexity and challenges involved in developing such a new product, Management suggests a two-stage approach: (i) develop a strong understanding of the developmental benefits for IDA recipients, the various challenges and lessons learned from the past, expected to be completed by end of IDA18, and (ii) explore and propose options covering market-based and policy-based solutions highlighting the financial and risk implications for IDA, envisioned to be completed by no later than IDA19 Mid-Term Review (MTR).

VI. CONCLUSION AND ISSUES FOR DISCUSSION

62. **Based on the changing landscape of development finance and the challenges that these changes present, this paper outlines proposals to strengthen IDA's policy framework to help IDA countries to move towards sustainable borrowing policies**. The proposals outlined in the paper seek to transform the NCBP to a Sustainable Development Finance Policy. The central objective of the revised policy is to incentivize sustainable borrowing. The broad direction of reform includes expanding coverage to IDA Blend and Gap countries; expanding debt coverage in line with sound international standards; further strengthening the link with the DSA; and enhancing public disclosure and transparency.

63. **The SDFP will come into effect on July 1st, 2020, at the start of IDA19**. Following the advice and guidance from IDA19 Participants at the June meeting, Management will include the contours of the SDFP in the draft Deputies' report, while completing consultations around the

SDFP. A detailed proposal will go the Board sometime in the third quarter of FY20, following the completion of the IMF review of its Debt Limits Policy.

64. **The views of Participants are sought on the following questions**.

a. Do Participants support the overall IDA19 package, which is anchored in the IMF/WB Multi-Pronged Approach, and includes policy commitments under the Special Themes as well as reforms to IDA's financial policies?

b. Do Participants agree with the overall framework a Sustainable Development Finance Policy as described in Section V?

c. Do Participants agree that the proposed design and approach of the Debt Sustainability Enhancement Program where a policy-based set aside would be a suitable mechanism for incentivizing IDA countries to borrow sustainably?

Annex 1: Risk of External Debt Distress in IDA Countries

Risk of External Debt Distress Classification under the joint Bank-Fund Debt Sustainability Framework, latest published DSAs, as of May 31, 2019

Country	Latest published DSA	Risk of external debt distress 1/
Afghanistan	Dec-18	High
Bangladesh	May-18	Low
Benin	Dec-18	Moderate
Bhutan	Oct-18	Moderate
Burkina Faso	Jan-19	Moderate
Burundi	Apr-15	High
Cabo Verde	Apr-18	High
Cambodia	Dec-18	Low
Cameroon	Dec-18	High
Central African Republic	Jul-18	High
Chad	Jan-19	High
Comoros	Jun-18	Moderate
Democratic Republic of the Congo	Oct-15	Moderate
Republic of Congo	Sep-15	Moderate
Côte d'Ivoire	Dec-18	Moderate
Djibouti	Apr-17	High
Dominica	Sep-18	High
Ethiopia	Dec-18	High
The Gambia	Jun-18	In distress
Ghana	Mar-19	High
Grenada	Jul-18	In distress
Guinea	Jan-19	Moderate
Guinea-Bissau	Jun-18	Moderate
Guyana	Jul-18	Moderate
Haiti	Feb-17	High
Honduras	Jul-18	Moderate
Kenya	Oct-18	Moderate
Kiribati	Jan-19	High
Kyrgyz Republic	Feb-18	Moderate
Lao P.D.R.	Mar-18	High
Lesotho	Apr-19	Moderate
Liberia	Jun-18	Moderate
Madagascar	Jul-18	Moderate
Malawi	Nov-18	Moderate

Country	Latest published DSA	Risk of external debt distress 1/
Maldives	Dec-17	High
Mali	May-18	Moderate
Marshall Islands	Sep-18	High
Mauritania	Dec-18	High
Micronesia	Sep-17	High
Moldova	Dec-17	Low
Mozambique	May-19	In distress
Myanmar	Apr-19	Low
Nepal	Feb-19	Low
Nicaragua	Jun-17	Moderate
Niger	Dec-18	Moderate
Papua New Guinea	Dec-18	Moderate
Rwanda	Jun-18	Low
Samoa	May-19	High
São Tomé and Príncipe	Aug-18	In distress
Senegal	Jan-19	Low
Sierra Leone	Dec-18	High
Solomon Islands	Nov-18	Moderate
South Sudan	Mar-17	In distress
St. Vincent and the Grenadines	Feb-19	High
Sudan	Nov-17	In distress
Tajikistan	Jun-11	High
Tanzania	Jan-18	Low
Timor-Leste	May-19	Low
Togo	Dec-18	Moderate
Tonga	Jan-18	High
Tuvalu	Jul-18	High
Uganda	May-19	Low
Uzbekistan	May-19	Low
Vanuatu	Apr-18	Moderate
Yemen	Sep-14	Moderate
Zambia	Oct-17	High
Zimbabwe	Jul-17	In distress

1/ Ratings reflect the latest official and publicly available rating

Annex 2: Non-Concessional Borrowing Policy Review

INTRODUCTION

1. **The IDA Non-Concessional Borrowing Policy (NCBP) was introduced in 2006**. The policy aimed at addressing situations in post-MDRI and grant-eligible IDA-only countries in which, i) IDA's debt relief or grants could potentially cross-subsidize creditors that offer non-concessional loans to recipient countries or (ii) create incentives for these countries to over-borrow, thereby eroding the gains to debt sustainability obtained from debt relief. IDA's policy response included: i) enhancing creditor coordination; and ii) encouraging appropriate borrowing behavior through borrower disincentives to discourage non-concessional borrowing by grant eligible and post-MDRI countries. Under the policy, non-concessional borrowing is reviewed either loan-by-loan or based on ceilings. In cases of breaches, IDA can either issue waivers or respond by reducing allocated IDA volumes, hardening terms, or a combination of both. For countries implementing IMF-supported programs, the decisions on NCB ceilings and waivers sought to maintain consistency with the Fund programs.

2. **From its onset, the NCBP framework included periodical implementation reports to the Board of Executive Directors**. Reviews were completed in September 2007, June 2008, April 2010, and September 2015.[18] The 2015 review highlighted the following enhancements to the NCBP's implementation arrangements including: (i) streamlined assessment of debt management capacity, (ii) introduction of debt ceilings for countries at low or moderate risk of debt distress, and (iii) enhanced transparency and reporting including publicly available information on the IDA website.

3. **In the context of IDA 19 replenishment, IDA is finalizing another review of NCBP that is taking place in parallel to the IMF's review of its Debt Limit Policy**. In addition to assessing the policy's implementation, the main objective of the ongoing review is to assess whether the policy: (a) encouraged appropriate borrowing behavior through borrower disincentives to discourage non-concessional borrowing by grant eligible and post-MDRI countries, thus protecting the gains of debt sustainability obtained from debt relief; and (b) promoted creditor coordination.

A. ASSESSING IMPLEMENTATION

4. **The number of countries under the NCBP declined from 43 in FY15 to 40 in FY19**. Three countries, Côte d'Ivoire, Lao PDR and Zambia exited the NCBP because they reached Gap status. In FY15, 68 percent of NCBP countries were in moderate (49 percent) or in low risk of debt distress (19 percent). From about a third of countries in high risk or in debt distress in FY15, the share jumped to half in FY19. Only 10 percent of NCBP countries are now in low risk of debt distress.

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[18] The role of IDA in ensuring debt sustainability: a progress report, September 2007; IDA's Non-Concessional Borrowing Policy: Review and Update, June 2008; IDA's Non-Concessional Borrowing Policy: Progress Update, April 2010; IDA's Non-Concessional Borrowing Policy: Review and Update, October 2015.

5. **This review indicates that implementation of the revisions introduced in 2010 and 2015 to enhance the flexibility of the policy in recognition of the increasing heterogeneity in the countries covered by the NCBP was mixed**. These changes included: (1) setting of ex-ante non-zero debt ceilings for countries at low and moderate risk of debt distress; (2) introduction and refinement of the joint WB-IMF capacity assessment; (3) streamlining internal processes to enable a faster decision-making process in responding to cases of non-compliance or requests for waivers; and (4) enhancing transparency.

6. **There were limited requests for the setting of ex-ante non-zero debt ceilings for countries at low and moderate risk of debt distress**. Since 2013, nominal ceilings on non-concessional debt were established for one country, Ethiopia which was at moderate risk of debt distress. Ethiopia debt ceiling has since been reduced to zero since moving to high risk of debt distress in 2017. Of the 40 countries subject to the NCBP, 15 countries have an IMF program as of May 2019, and of these six have a non-zero ceiling and one, Senegal, no debt limit. For most countries subject to the NCBP, continuous access to non-concessional borrowing is hindered by their risk of debt distress rating or limited debt management capacity. The revised policy will include a more systematic approach to the establishment of ceilings for countries that do not have ceilings under an IMF program, focusing on countries in moderate and high risk of debt distress. Notwithstanding the limited requests for ceilings, this mechanism has the potential to deepen the dialogue on debt sustainability and debt management, for instance outlining debt sustainability risks emanating from the state-owned enterprise (SOE) sector, as well as enhancing the capacity to evaluate public investment. Focus on measures to strengthen public investment under the IDA19 Governance Special and Institutions and JET special themes could be complemented by policy dialogue on debt ceilings in the context of the revised NCBP. IDA country teams often face difficulties in obtaining project-specific quantitative information, such as expected rates of return especially in projects where the World Bank Group (WBG) is not a participant. Collective action among development partners is called for to build the capacity of IDA countries' authorities to assess project development impact and rates of return.

7. **Progress was made in streamlining internal processes to enable faster decision-making in responding to cases of non-compliance or requests for waivers, but more needs to be done**. The survey of country teams indicated that there are gaps in communication between the NCBP Committee, country teams and authorities. It shows that there is a lack of brief and concise information on NCBP that are easily accessible by the authorities, which is important given the high staff turnover rates in member countries. The review highlighted the need for greater simplicity and clarity of the policy, as well as enhanced predictability and consistency of NCBP decisions to enhance the signaling effect. Enhancing authorities' awareness of the NCBP is desirable to improve further the policy's scope. To avoid instances of NCBP breaches due to lacking technical capacity and awareness, external outreach activities will need to follow the discussion by Executive Directors of this paper. Respondents also recommended celerity in reviewing NCBP cases and streamlining further internal processes.

8. **On enhancing transparency, while changes in terms or allocation volumes resulting from NCBP non-compliance are publicly available, the information is not easily accessible to most stakeholders**.[19] In addition, the current disclosure framework lacks the context required

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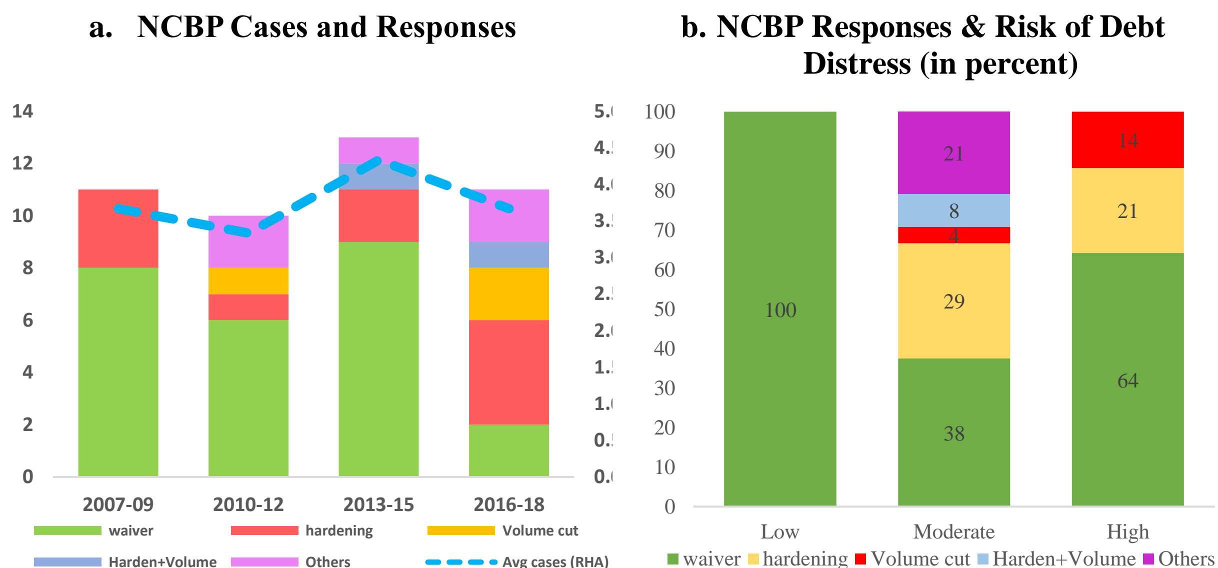
[19] Please see Bank Directive "*Financial Terms and Conditions of Bank Financing*".

to understand the rationale behind the NCBP Committee's decisions on waivers and remedies, and therefore is of limited use. Brief summaries of country cases reviewed by the NCBP Committee are disseminated in the periodic NCBP reviews and updates, but these are available with a considerable lag. However, the WB Board is informed about NCBP responses immediately after a Management decision is made. The revised policy will enhance transparency further, by expanding the information available and enhancing timeliness.

Figure A1.1. NCBP Country Cases, Responses and Debt Risk, 2007–2018



Source: World Bank staff calculations.

9. **The implementation of the NCBP was also assessed through an analysis of the inventory of country cases reviewed by the NCBP Committee**. Since the 2015 NCBP Review, 15 cases in 7 countries have been discussed in the context of the NCBP (please see a summary of NCBP responses since 2007 in Table A.1.1 and Figure A1.1). Several countries, such as Ethiopia and the Maldives had more than one case of non-concessional borrowing for NCBP Committee consideration since 2015. Country- and loan-specific circumstances demonstrated that non-concessional borrowing was part of an adequate financing mix in four cases pertaining to four countries: Ethiopia, Tajikistan, Togo and Comoros. Most waivers were granted ex-post, and for projects such as electricity, water, and transport infrastructure. Financing terms were adjusted for three countries: Maldives, Ethiopia and Lao PDR. Mozambique's IDA allocation was reduced 20 percent in FY18 and FY19. Volume cuts were more appropriate than the alternative of hardening the financing terms for countries in high risk or in debt distress and limited debt management capacity. Ethiopia's and Maldives' grant portion of their respective FY19 allocation was converted to regular IDA credits. For countries implementing IMF-supported programs, the decisions on NCBP ceilings and waivers maintain consistency with the IMF programs. Of the 25 NCBP waivers recorded, at least 10 were for countries with IMF programs that included conditionality under the DLP.

Table A1.1. List of IDA Countries with NCBP Remedy by year (as of May 2019)[1/]

IDA cycle	FY***	Hardening	Volume cut	Both (V&H)	Waiver provided	No Remedy
IDA18	2018	Maldives, Ethiopia	Mozambique		Tajikistan, Benin*	Comoros**
IDA17	2017	Maldives	Mozambique			Ethiopia
	2016	Ethiopia		Mozambique		
	2015	Ethiopia			Togo	
IDA16	2014	Lao PDR		Ethiopia	Chad, Madagascar*, Sao-Tome & Principe*	Zambia
	2013				Burundi*, Comoros*, Chad, Ethiopia, Guinea, Kyrgyz*	
	2012				Zambia, Cameroon	
IDA15	2011				Burundi*, Côte d'Ivoire*	Ghana
	2010	Ghana	Chad			
	2009	Ghana			Congo Rep, Cameroon, DRC, Mauritania, Rwanda, Senegal	
IDA14	2008				Rwanda*	
	2007	Ghana Angola			Mauritania*, Mali*	
	Total	**10**	**3**	**2**	**25**	**4**

* Waivers granted to maintain consistency with IMF program.
** Country request for waiver did not qualify and NCBP committee suggested the country to request ceiling.
*** Year of review; the remedy typically applies the following fiscal year.

10. **Evidence so far does not show a noticeable difference in borrowing decisions following different NCBP remedies (hardening of terms or volume cuts)**. The country teams survey results and the consultations that followed suggest that governments often place priority on the envelope of finance provided rather than on its terms. However, there is no clear pattern in borrowing decisions or efforts made to meet key annual policy actions set by the NCBP Committee that would indicate which remedy is more effective (Table A1.4). Decisions to harden terms of countries were taken cautiously to avoid further deteriorating debt risks. In other cases, the choice was informed by an expected turn-around in future creditworthiness. Decisions regarding volume discounts took into account debt risks as well as the need to minimize the risk of leaving countries with no alternative other than accessing non-concessional sources to compensate for reduced IDA allocations.

11. **Individual non-concessional borrowing cases reviewed by IDA since 2015 are as follows**:

- **The Maldives (2016-2018):** Between June 2015 and September 2016, the government of the Maldives contracted eight loans and issued a bond with a total amount of USD 1,031 million (about 29 percent of 2016 GDP) on non-concessional terms. The loans had a combined grant element of close to zero percent. The Maldives is an upper-middle income small island state, highly vulnerable to natural disaster and climate change. To address these risks, the Government has undertaken large debt-financed investments aiming relocate the population from the vulnerable islands and atolls to larger islands in Greater Malé. Maldives signed and guaranteed non-concessional loans in the amount of USD 1,010 million (25 percent of 2016 GDP) in FY2018 to support its large effort to consolidate its population around the capital city, a strategy that could reduce the cost of service delivery while supporting the jobs and climate change agenda. Following the review of Maldives case, IDA decided to harden the country's terms from 100 grants given the country's high risk of debt distress, to a 50 percent grant and 50 percent credit basis in FY18 and FY19.

  Government of Maldives has taken steps to increase transparency and accountability and made debt statistics publicly available. The Ministry of Finance (MoF) has published its fiscal and debt strategy for 2019-21, which includes a Medium-Term Fiscal Strategy and Medium-Term Debt Management Strategy. The MoF also began publishing its semi-annual public debt bulletin, which provides the disbursed and outstanding debt of the government including guaranteed and on-lent loans, external and domestic debt breakdowns, and summary of debt statistics including quarterly fiscal developments, quarterly reports for SOEs. Updated records on sovereign guaranteed debt are also available in the MoF website.

- **Ethiopia (2015-2018):** Ethiopia has been consecutively under IDA NCBP review and remedy since 2013. In FY13, IDA established a Non-Concessional Borrowing (NCB) ceilings of US$1 billion for FY13 and, in principle for FY14, and FY15. However, the Government of Ethiopia (GoE) breached this ceiling by contracting non-concessional borrowing amounting to US$5.8 billion (12 percent of GDP) in FY13 and US$2.2 billion (4 percent of GDP) in FY14 to finance a broad range of infrastructure investment programs. The combined grant elements of these loans were 18 and 12 percent in FY13 and FY14, respectively. In effect, the risk of debt distress shifted from low to moderate risk of debt distress in FY16. IDA responded to the breach of the policy by converting the grant portion of the PBA allocated into regular IDA credits. Without the remedy, Ethiopia would have received 50 percent of its allocations in grant terms and the other 50 percent in credit terms given its moderate risk of debt distress rating. In addition, IDA applied a five percent volume cut to Ethiopia's FY15 IDA allocation.

  The GoE complied with the non-concessional borrowing ceiling in FY15, having issued a $1.0 billion 10-years Eurobond priced at 7.125 percent consistent with the NCBP ceiling. However, due to debt sustainability considerations, the NCB ceiling was continuously reduced to $0.75 billion for FY16 (1.1 percent of GDP) and further down to US$400 million for FY17 and FY18 (0.5 percent and 0.3 percent of GDP, respectively). The NCB contracted in FY16 and FY17 were substantively within the NCBP ceilings set by IDA. However, in FY17, the GoE breached the NCBP ceiling by a wide margin. There were also delays in the reporting of NCB contracted in FY17

amounting to $1.14 billion. In addition, the FY18 ceiling was breached by 24 percent. Meanwhile, the 2017 DSA downgraded the Ethiopia risk of external debt distress from "moderate" to "high" and Ethiopia NCB ceiling was revised to zero. In response to the breach of FY18 NCBP ceiling and reporting delays, IDA hardened Ethiopia's terms by converting the grant portion of IDA allocation into credit in FY19.

Ethiopia has rolled out a robust set of reforms likely to improve transparency and debt management. The Ministry of Finance (MOF) issued the Public Debt Management and Guarantee Issuance Directive in January 2017 which considerably strengthened MOF's monitoring of non-concessional borrowing of State-Owned Enterprises (SOEs). Moreover, the restructuring of government's executive arrangements in October 2018 that put the former Ministry of Public Enterprises under the MOF as a Public Enterprises Holdings and Administration Agency (PEHAA) is expected to further enhance the MOF's monitoring of SOEs' activities, including their borrowings. As part of the Bank's Development Policy Operation, the government has also committed to refrain from taking on new non-concessional borrowing including external deposits at the National Bank of Ethiopia.

- **Mozambique (2016-2018)**: Between 2009 and 2014, Mozambique contracted a previously undisclosed non-concessional borrowing of US$1.3 billion by issuing guarantees to state controlled companies and through direct borrowing from lenders. The debt comprised two guarantees for loans contracted by commercial companies with state equity participation amounting to US$1.16 billion. In addition to these guarantees there were also direct loans of US$133 million from bilateral creditors. This debt was about 10 percent of GDP and was not previously disclosed to the World Bank and IMF. After disclosure, non-concessional borrowing by Mozambique breached the US$1.5 billion ceiling set for non-concessional borrowing under the IMF program in place since 2013. This ceiling breach shifted Mozambique risk of debt distress rating from moderate to high. IDA remedy to the breach of NCBP was to convert grant volume that Mozambique would have received for FY17 as a red-light country into regular IDA credits and apply a 20 percent reduction in the volume of IDA allocation.

  In March 2017, Mozambique contracted a further US$138 million in non-concessional terms to finance the migration from analog to digital broadcasting. Considering this borrowing and given the earlier undisclosed non-concessional borrowing, IDA applied a 10 percent volume cut to Mozambique's allocation under the PBA framework in FY18. Additionally, IDA also provided FY18 financing to Mozambique on 100 percent grant terms consistent with the country's debt distress risk rating. In September 2018, IDA reviewed FY18 decision, noting that Mozambique did not contract any new know debt in the review period. However, the review also noted that limited progress had been made with respect to resolving debt defaults and restoring debt sustainability. The review also noted that the external audit of the previously undisclosed debt fell short of expectations due to significant information gaps. In view of these developments, IDA decided to retain the same remedy approved for FY18 (10 percent volume reduction to FY19 PBA allocation, with IDA financing on 100 percent grant terms) in FY19. Considering good progress in pursuing accountability regarding the non-disclosed debts, enhanced reporting and steps to close debt related legal and

regulatory loopholes, as well as no new NCB, the last NCBP review decided to lift Mozambique's volume discount with effect in FY20.

Mozambique continued to work closely with technical assistance from World Bank and IMF to strengthen debt management, to reform the governance of state-owned enterprises, and to improve public investment management in response to the hidden debt crisis. Regulations adopted to strengthen the management of public debt and guarantees in December 2017. The government approved a new state-owned enterprises law in 2018 and supporting regulations in 2019. A new public investment management system has been introduced. The Bank and Fund supported in fiscal adjustment, increasing transparency in financial market and modernization of foreign exchange market. The government made some progress in restructuring the MOZAM 2023 bond which was issued to finance the EMATUM (Empresa Moçambicana de Atum) Tuna Company in 2013 by reaching an agreement in principle with bondholders. The GoM has pursued transparency and accountability regarding the hidden debt cases, including through the launch of high-profile legal proceedings in Mozambique and in foreign countries. The government also took steps to legally challenge and obtain compensation for the SOEs (Proindicus and Mozambique Asset Management) guarantees.

- **Tajikistan (2017)**: In September 2017, Tajikistan issued a Eurobond worth $500 million (7.2 percent of 2016 GDP) maturing in 10-years and priced at 7.125 percent with zero grant element. The loan was contracted in non-concessional terms to finance the construction of the Rogun hydropower plant. The issuance of the Eurobond led Tajikistan's risk of debt distress to shift from moderate to high in November 2017. After cconsidering several project and country specific factors (including an external shock that depressed commodity prices and remittance inflows, weak policy and institutional performance, banking sector issues, and the project's prospect for export earnings) and lack of alternative concessional financing, IDA Management granted a waiver in response to the breech.

  The World Bank has provided technical assistance to the Ministry of Finance in Tajikistan through the *Debt Management Facility Trust Fund* (DMF TF). The TA activities included follow-up debt management performance assessment (DeMPA), the formulation of a Reform Plan (FY17), and the Debt Management Strategy (DMS FY18). The World Bank and the IMF jointly provided technical assistance on developing *Medium-Term Debt Strategy* (MTDS) followed by government approval of the MTDS for 2018-20 in December 2018 taking into account policy recommendations of the joint WB-IMF TA. The Ministry of Finance also requested continuous support from the World Bank and other donors (DFID and SECO) to upgrade its staff capacity and skills in public debt management.

- **Comoros (2018)**: In July 2018, Comoros singed a two-tranche loan with Eastern and Southern African Trade and Development Bank (TDB) in the amount of 40 million euros (equivalent to about 8 percent of GDP) to finance the rebuilding of El-Maarouf Hospital. The first tranche of the loan amounting 25 million euros has a grant element of zero percent. The legal agreement was complicated by making the disbursement conditional on the provision of a NCBP waiver. The authorities requested a waiver for

the loan. The NCB committee recommended instead the that the Government of Comoros considers the option of requesting a non-zero NCB ceiling. The Government of Comoros is considering this option.

12. **Surveys, consultations and the analysis of the inventory of country cases provided other insights on implementation**. An average of less than four country cases was reviewed per annum over the twelve-year period (Figure A1.1.), with no clear trend as the share of NCBP countries at higher risk of debt distress was increasing. Since FY19, the NCBP Committee rolled out a process of identifying potential gaps in reporting NCB. Countries have been reporting NCB to the World Bank's DRS and information is also reported in the context of the DSAs. However, in a number of cases these loans were not brought to the attention of NCBP Committee. To date, 10 country cases have been identified over FY15-FY19. Of these, eight countries are at low or moderate risk of debt distress and two are high risk. Consultations with country teams suggest that some reporting issues result from countries transitioning to or from IMF programs and others are due to the fact that several countries do not have NCB ceilings and reporting obligations to the NCBP Committee are not clear in those cases. Since it is new debt that triggers NCBP reviews, the difference between the high number of countries with high risk of debt distress and the low number of NCBP cases may also be an indication that it is the accumulation of debt that is driving the deterioration in debt risk.

13. **The NCBP Governance arrangements remain adequate**. The NCBP Committee is chaired by DFCII, and includes representatives from MTI, OPCS, LEG, CRO and DEC. DFCII serves as the Secretariat of the Committee. Decisions on NCBP related cases are made by the CEO. The Board is notified on the NCBP related Management decisions.

B. Creditor Coordination and Outreach

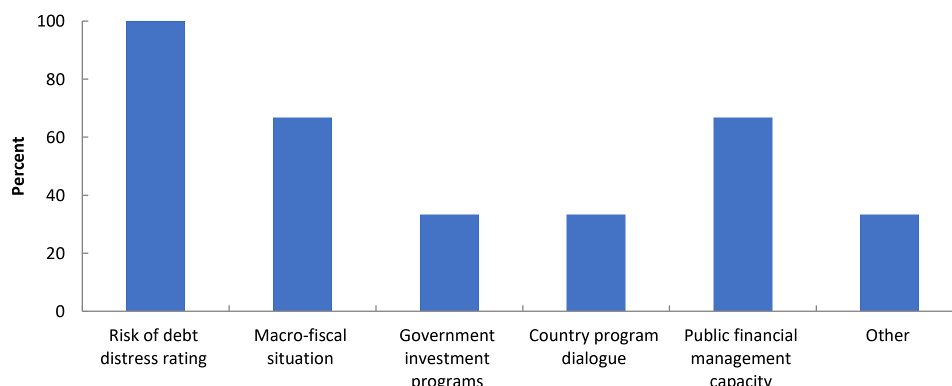
14. **Alignment with DLP is critical and should be reinforced**. Joint capacity assessments and the shared framework to establish debt limits ensures continuity of the policy advice to countries that move in and out of IMF arrangements. One shortcoming identified by the review is that the NCBP, as was designed originally, applies to grant-eligible IDA-only and MDRI recipient countries only. There is a strong rationale to expand scope of policies to Gap and Blend countries, thus covering more countries which could have IMF programs at some point. First, growing debt vulnerabilities transcend beyond post-MDRI and grant-eligible IDA-only countries into others. Second, all IDA clients receive grant resources: whether it is 100 percent grants for high-risk regular clients under the GAF or a 35 percent grant element for Blend clients. Going forward, enhanced coordination in setting ceilings in particular for countries in moderate risk of debt distress is critical. This includes setting ceilings for countries that are not grant eligible. In addition, there is scope for closer coordination in granting waivers to countries with elevated debt risks to ensure that high return projects are not unduly blocked. The current IMF DLP now recognizes both external and total PPG debt.

15. **The NCBP has an impact on creditors' lending decisions but this can be enhanced**. Some creditors rely heavily on the NCBP and IMF DLP, especially in cases where there is a zero-ceiling in place. In a similar manner, the Export Credit Group has developed its own Sustainable Lending Guidelines, which draw parallels to the IMF's DLP and IDA's NCBP affecting lending terms to countries subject to the NCBP.

16. **The results from a survey of MDBs[20] conducted as part of the NCBP review suggest that more than half of the MDBs are familiar with the NCBP and factor it into their lending decisions**. The results show that 50 percent of the respondents have a formula-based country resource allocation system, all of whom factor debt sustainability in determining volumes and/or terms. For some institutions, the Board decision alone determines the country resource allocation. All the responding institutions that consider debt sustainability use the joint World Bank-IMF Debt Sustainability Framework for Low Income Countries. Half of them complement the LIC DSF with their own analysis.

17. **Seventy percent of responding institutions are familiar with the World Bank's NCBP, about half of these institutions factor it into their lending decisions**. Thirty percent have a policy on non-concessional borrowing broadly similar to IDA's and most are undertaking or plan to undertake reviews of their policies. Their policies consider risk of debt distress rating most often, followed by public financial management capacity (Figure A1.2). Reponses to breaches to their non-concessional borrowing policy are broadly similar to IDA's.

Figure A1.2. Factors that influence MDB NCBPs



18. **Engagement with non-Paris Club bilateral and private creditors remains sporadic**. A more diversified group of agencies have been reaching out to the IDA's "Lending to LICs" mailbox. During the several months since the beginning of FY19 (July 1, 2018), around 18 inquiries[21] were received and responded to by IDA staff. Most of the inquiries referred to concessionality requirements in countries of interest, including minimum GE requirement, calculation of GE for specific loans, ceiling limit for NCB, and status of specific entities within the county (whether it is a state-owned and is covered by the DSA when considering country's

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[20] African Development Bank (AfDB), Arab Fund for Economic and Social Development (AFESD/FADES), Arab Monetary Fund (AMF), Caribbean Development Bank (CDB), Central American Bank for Economic Integration (CABEI), Corporación Andina de Fomento (CAF), European Commission (EC), European Investment Bank (EIB), Inter-American Development Bank (IaDB), International Fund for Agricultural Development (IFAD), Arab Bank for Economic Development in Africa (BADEA), Islamic Development Bank, Kuwait Fund for Arab Economic Development (KF), Nordic Development Fund, Saudi Fund for Development (SF), Banque Ouest Africaine de Développement (BOAD) - West African Development Bank.

[21] Includes country-specific inquiries for countries subject to only NCBP; excludes inquiries of countries subject to both, DLP and NCBP as IMF normally responds to those emails.

external debt); this also includes information regarding intention to provide financing with loan details. Some inquiries referred to general DLP/NCBP related matters, such as GE calculator formula, application of the policy, and update on the review of the policies. Countries of interest were Ethiopia, Mozambique, Tanzania, Zambia, Comoros and Solomon Islands with Ethiopia and Mozambique leading the list in terms of number of inquiries.

19. **An ambitious consultation program was conducted to inform the NCBP review**. A joint IDA and ADF High-Level Consultation on Addressing Debt Vulnerabilities in IDA and ADF Countries seminar was held from May 16 to May 17, 2019 in Abidjan. In addition to staff from several WB and ADF departments, participants included IMF, IFAD and debt officials from Côte d'Ivoire, Cameroon, Senegal, Uganda, and Zambia. The objective of the joint event was to bring different perspectives and experiences to help sharpen the IDA and ADF policies and tools to better address debt vulnerabilities in IDA and ADF countries. Outcomes include:

- **Collaboration and coordination**. Participants expressed appreciation of collaborative work being undertaken among the WB, IMF, and AfDB to address debt vulnerabilities. They recommended organizing structured dialogues among major creditors and officials at country level.
- **Capacity building and beyond**: Practitioners credited WB's TA and capacity building efforts in establishing debt management offices and institutional frameworks. They also emphasized debt management as being part of the overall macroeconomic management and urged the MDBs to go beyond capacity building in debt management and consider assisting them with oversight functions, hedging, complex repayment mechanisms, procurement, and contract management.
- **Challenges, emerging and longstanding**. In maintaining debt sustainability, practitioners cited challenges emerging from climate change, rising costs of security (terrorism), and external shocks. Practitioners would like to better understand complex contracts and skills to negotiate the terms. Low absorptive capacity, delays in project implementation, and not being fully equipped to assess investment returns were challenges some of the practitioners had in common.
- **Knowledge sharing**. Practitioners suggested establishing a network where they can easily contact one another. Some of the exchanges included how Senegal managed subnational loans, how Cameroon reduced investments so that they could stay within their fiscal deficit target, how Zambia negotiated their contracts with nontraditional lenders, how Uganda selected which projects to finance, and how well Côte d'Ivoire's committee of debt experts functioned.
- **Feedback on the IDA's policy toolkit**. Practitioners and participants from AfDB provided feedback on IDA's proposed approach to support countries in adopting sustainable borrowing practices. Considerations for unique circumstances of each country, their medium to long term prospects, and linkages to fiscal policy were discussed. Some questioned whether three years would be long enough for a country to undertake significant reforms to avoid volume discounts. IDA's outreach to other creditors and efforts to have systematic information disclosure among IFIs were also discussed.

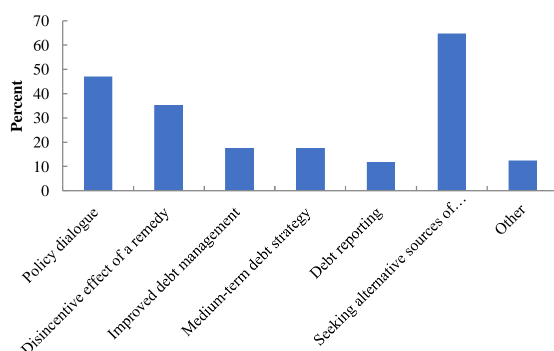
20. **IDA has also begun dialogue with others to identify to better complement policies on non-concessional borrowing and work towards a set of general principles**. IDA and AfDB have agreed to identify a set of high-level principles (with linkages to the G20 Operational Guidelines for Sustainable Financing). Other IFIs that could join this initiative are the IaDB and IFAD. Consultations with other IFIs are ongoing. Based on the set of principles agreed upon, the institutions will discuss engagement at country level for selected countries.

C. PROMOTING SUSTAINABLE BORROWING DECISIONS

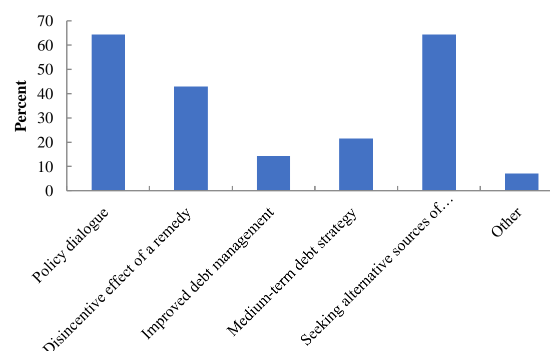
21. **The review's main findings thus far are that the NCBP has had positive but modest impact in incentivizing reduced NCB**. Consultations and a survey carried out with country teams indicate that the NCBP has played a useful role in country dialogue on debt sustainability. It also indicated that NCBP has influenced countries to seek alternative sources of concessional financing (Figure A1.3) and helped countries avoid instances of NCB and/or improve the terms of financing packages in some cases. Also, some EAP countries embedded some of the NCBP requirements in their budget guidelines. Additionally, the consultations and survey results also indicate that the NCBP has helped promote better debt strategy, management and reporting practices in selected country contexts. Having said that, consultations suggest that the NCBP was most useful when there was no IMF program or DPF. Finally, the review reiterated findings of the 2015 NCBP Review, on the limits of the policy's ability to affect borrowing decisions, particularly when IDA allocations are small and other sources of concessional financing are lacking.

Figure A1.3. Country Team Survey Results

NCBP and its role in debt sustainability



How NCBP lowered the risk of IDA grants potentially incentivizing overborrowing



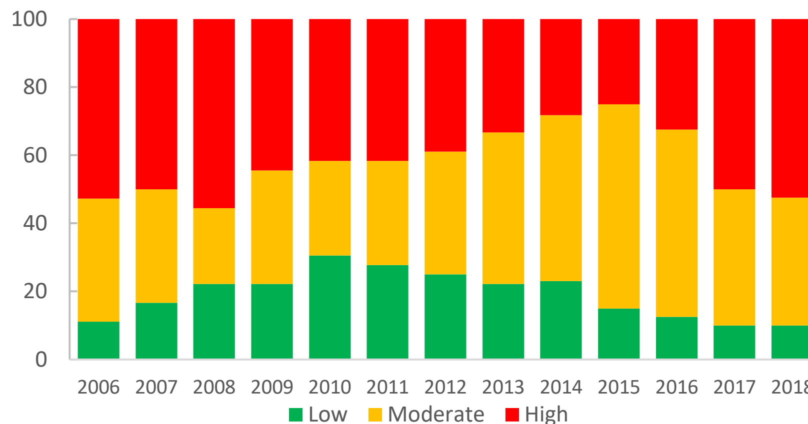
22. **An assessment of the NCBP's overall impact on debt sustainability was also carried out**. The shortcomings of these kinds of quantitative assessment are well known. Most obvious is the fact that a rigorous counterfactual cannot be constructed given the lack of a control group. Moreover, debt sustainability is a complex function of many endogenous and exogenous factors and isolating the impact of the NCBP is not an easy task. The shortcomings notwithstanding, three quantitative measures have been used to look at specific dimensions of debt sustainability.

23. **The first quantitative measure focuses on the risk of external debt distress derived from the joint WB-IMF Debt Sustainability Framework for low income countries**. It compares the risk of external debt distress for the 40 countries currently subject to the NCBP with the full sample of 68 IDA countries covered by the LIC-DSF over the 2006-2018 period. As shown in Figure A1.4, the share of NCBP countries at high risk of debt distress or in distress fell from

2006 to 2014 and then rose sharply, from 25 percent in 2015 to 50 percent by 2018. This outcome tracked very closely the evolution for the full sample of 68 IDA countries for which LIC-DSF debt risk ratings are available (25 percent in 2015 and 50 percent by January 2019). By this measure – the risk of debt distress – the current group of NCBP countries does not appear to have performed better in aggregate than the full sample of IDA countries. This could signal some positive effect since NCBP countries have lower capacity than non-NCBP countries but are not performing worse.

Figure A1.4. Evolution of the Risk of External Debt Distress for Countries Subject to the NCBP

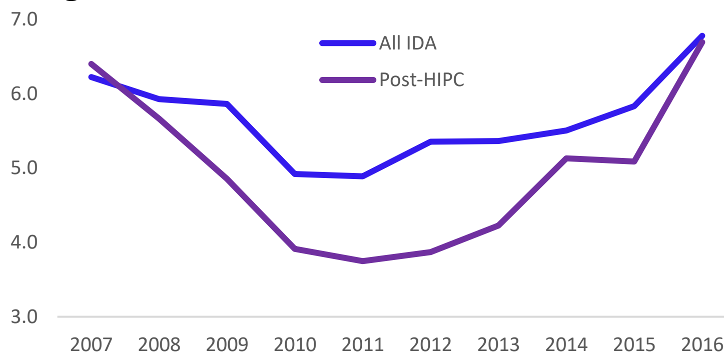
(Percent of IDA countries with LIC DSAs)



Source: World Bank/IMF LIC-DSA database; calendar year.

24. **The second measure focuses on the sustainability of the fiscal gains following debt relief under the HIPC Initiative and MDRI, and introduction of the grant allocation framework**. The comparison is between the set of 35 post-HIPC IDA countries and the full sample of IDA countries. The use of the post-HIPC countries allows inclusion of countries that were initially subject to the NCBP, but then transitioned to gap or blend status at some point and so are not subject to the NCBP today. The metric used for the comparison is the ratio of debt service on public and publicly guaranteed external debt to government revenues, for which data are available over the 2007-16 period through the World Bank's Debt Reporting System for 65 IDA countries (Figure A1.5). By this measure, the fiscal gains from debt relief were not sustained over time.

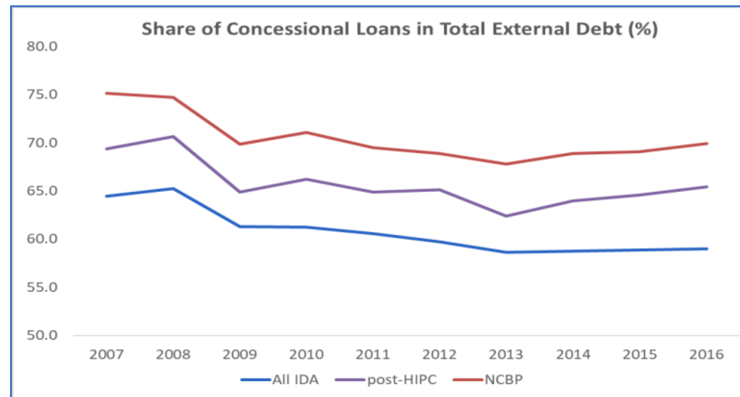
Figure A1.5. PPG Total Debt Service/Revenue (%)



Source: IDS.

25. **The third quantitative measure compares the change in the share of concessional debt in the total stock of external debt for the 40 current NCBP countries with the change in the share for all IDA countries over the 2007-2016 period**. Data on the share of concessional debt is available through the Bank's DRS - with the complication that the DRS uses the OECD DAC methodology for determining concessionality which is based on a 25 percent grant element threshold, not the 35 percent benchmark applied by the NCBP and DLP. As shown in Figure A1.6, the NCBP countries have followed a path of gradually declining concessionality of their PPG external debt that is quite similar to that for IDA countries overall. Moreover, the path of decline was very similar for both groups. For reference, Figure A1.6 also shows the evolution in the share of concessional debt for the post-HIPC countries where the decline is broadly similar.

Figure A1.6. Share of Concessional Loans in Total External Debt (%)

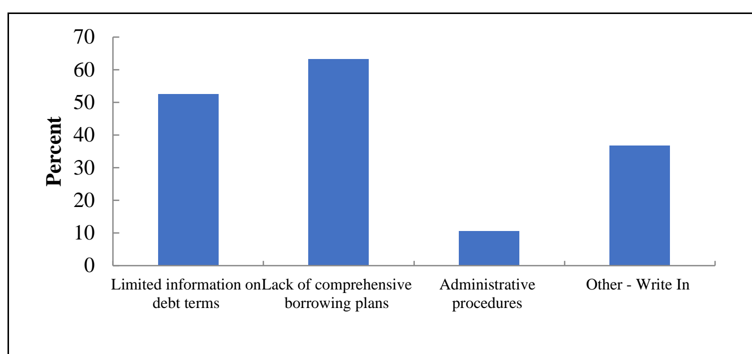


Source: IDS.

26. **The quantitative assessments above reveal that NCBP countries in aggregate have experienced similar trajectories of debt and debt vulnerabilities to those of all IDA countries as a group**. Countries that were closely monitored under NCBP may have benefited more from the policy but were already either at high risk or on a path toward higher risk of debt distress. The current policy's narrow focus on external NCB is no longer consistent with the changing landscape where broader factors are driving external debt vulnerability and the share of domestic debt is rising.

27. **The limited impact of the NCBP on borrower incentives appears to be the result of a complex and interlocking series of factors**. The country team survey pointed to a number of factors that have limited the impact of the NCBP on IDA recipients. Among these factors, country teams highlighted limited information on the terms of non-concessional borrowing and lack of comprehensive borrowing plans by country authorities (Figure A1.7). Other factors cited include lack of government understanding of the NCBP, limited transparency, political influences on borrowing decisions, and timing mismatches between NCBP monitoring and debt data availability. These limiting factors may help explain why the NCBP's utility in dialogue at the country level does not appear to have translated into discernable impact on aggregate debt sustainability indictors in the quantitative analysis. While the majority of country teams surveyed noted the NCBP has played a role in debt sustainability through country dialogue, less than half noted that it played a role through the disincentive effect of NCBP actions (remedies).

Figure A1.7. Country Team Survey Results



D. TOWARD A SUSTAINABLE DEVELOPMENT FINANCE POLICY

28. **During the First IDA19 Replenishment Meeting in April support was provided for the option of transitioning from the NCBP to a new Sustainable Development Finance Policy (SDFP)**. The name reflects the objectives of the new policy which are to incentivize sustainable borrowing and encourage coordination among all creditors. Sustainable borrowing and lending practices are critical to support sustained progress on the twin goals and the broader SDGs. The new policy must be clear, consistent, transparent, and tied to principles. The current debt problems are not confined to grant-eligible and MDRI recipient countries only, thus the scope and objectives may need to be formulated to refer to a broader group of IDA countries. Moving to a sustainable development finance policy will also create impetus for renewed engagement on sustainability with other creditors, including non-traditional and private creditors. The new policy will need to be formalized as an operational policy with associated implementation guidelines.

29. **Key findings from the NCBP review can help shape the successor SDFP, including the following:**

- **Objectives and structure**. The 2019 NCBP review seek to assess the effectiveness of the policy by assessing whether the policy: a) helped countries to preserve the gains to debt sustainability; b) influenced the composition of external debt; and c) promoted creditor coordination. NCBP has had positive but modest impact in incentivizing reduced NCB. However, it appears unrealistic to expect such policy to preserve debt sustainability on its own, given a more complex development finance landscape than when the policy was first introduced. Hence, the review suggests simplifying objectives of the policy, with a clear set of expected outcomes on its two pillars.
- **Coverage**. The NCBP, as was designed originally, applies to 40 grant-eligible IDA-only and MDRI recipient countries, mainly to prevent these countries from eroding the gains of debt sustainability obtained from debt relief. There is a strong rationale to expand scope of policies to Gap and Blend countries.[22] First, growing debt vulnerabilities have transcended beyond post-MDRI and grant-eligible IDA-only countries into others, particularly low-income countries. Second, all IDA clients

[22] As the policy is expanded and becomes more rule-based, the risk of trading off against other IDA objectives (e.g., increase resources to FCS countries) or penalizing countries facing external shocks such as natural disasters was identified and emphasized by the Participants to the 2019 Spring Meetings discussions.

receive high levels of grant element: whether it is 100 percent grants for high-risk regular clients under the GAF or a 35 percent grant element for Blend clients. The new policy would take a broader view of debt. The current policy also has a narrow focus on external NCB, but the landscape has changed - the share of domestic debt is rising.[23] This adjustment will tighten alignment with the current IMF DLP which recognizes both external and total PPG debt.

- **Borrower's incentives**. The NCBP has granted mostly waivers in response to breaches. This has opened space for policy dialogue and was grounded in the assumption that policies that encourage compliance through incentives rather than punishment tend to be more effective. The policy framework could be adjusted towards further strengthening incentives to focus on critical policies and actions tailored to country circumstances that support debt sustainability, including by adjusting volumes. In addition, the revised policy should focus on strengthening incentives to utilize technical assistance. This was also a very strong feedback from IDA Participants at the 2019 Spring Meetings. The current policy recognizes that non-concessional borrowing is a useful complement to concessional financing and can, help address the infrastructure gap in low income countries. The NCBP recognizes this complementarity and provides a flexible framework to assess the impact of non-concessional borrowing based on country- and project-specific factors. The new policy will maintain loan-specific and country-specific perspective considerations while supporting measures to enhance debt management and fiscal policy.
- **Coordination**. Consideration should be given as to how to align the successor SDFP with the IMF DLP as revised under the ongoing review and enhance coordination during implementation. In addition, the 2019 Review underscores the value of clear signaling, both to creditors and borrowers. Several IDA recipients have incorporated NCBP debt limits in their own guidelines, while breaches to the NCBP have led to clear signaling of the importance of taking action. The NCBP's impact on creditor coordination has been effective but limited in scope. Coordination with MDBs is good but needs to be enhanced with the aim to better complement policies to support debt sustainability and work towards a set of general principles for sustainable lending. Engagement with non-Paris Club bilateral and private creditors needs to be reinforced. Outreach to private and public credit agencies through the IDA's "Lending to LICs" mailbox could be expanded including through enhanced dissemination of the mailbox and reporting back.

E. COMPLETION OF THE NCBP REVIEW

30. **The NCBP review will be finalized by the 2019 IMF/World Bank Annual meetings in continued coordination with the IMF's DLP review**. The NCBP and DLP reviews will move forward in tandem and there will be close coordination on areas where the policies overlap, including to ensure consistency with the proposed Sustainable Development Finance Policy that would replace the NCBP. The IMF plans to hold a mid-point review for the DLP review in Fall 2019, followed by a final Board meeting in first half of 2020.

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[23] Domestic debt has received more prominence under the revised LIC DSF which has been implemented since July 2018. The revised LIC DSF now provides both external and public debt distress ratings.

Additional Tables

Table A1.2: NCBP Implementation Update since 2015 (as of May-2019)

No.	Country	DSA – Risk of external debt distress	DSA date	Institution Leading NCBP monitoring	Public debt/GDP WEO, 2017	Eligibility to NCBP ceiling	Current NCB ceiling	Type of NCBP Ceiling
	NCBP countries led by IMF Support Program							
1	Afghanistan	High	Nov-18	IMF	7.0	Zero		
2	Benin	Moderate	Nov-18	IMF	54.5	Non-zero	CFAF 469 bil	PV
3	Burkina Faso	Moderate	Dec-18	IMF	38.1	Non-zero	CFAF 370 bil	PV
4	Central African Republic	High	Jun-18	IMF	52.9	Zero		
5	Chad	High	Dec-18	IMF	52.5	Zero		
6	Gambia, The	High, in distress	Apr-19	IMF	88.0	Zero		
7	Guinea	Moderate	Dec-18	IMF	37.9	Non-zero	$650 mil	Nominal
8	Guinea Bissau	Moderate	May-18	IMF	53.9	Zero		
9	Madagascar	Moderate	Jun-18	IMF	36.0	Non-zero	$900 mil	PV
10	Malawi	Moderate	Nov-18	IMF	59.2	Zero		
11	Mauritania	High	Nov-18	IMF	96.6	Non-zero	$307 mil	Nominal
12	Niger	Moderate	Nov-18	IMF	45.2	Non-zero	CFAF 225 bil	PV
13	Senegal	Low	Dec-18	IMF	48.3	No limit		
14	Sierra Leone	High	Dec-18	IMF	63.9	Zero		
15	Togo	Moderate	Nov-18	IMF	75.7	Zero		
	NCBP countries led by World Bank Monitoring							
	1) Active IDA NCBP countries							
16	Comoros	Moderate	May-18	WB	32.4	Non-zero	Loan by loan	
17	Ethiopia	High	Nov-18	WB	54.2	Zero		
18	Maldives*	High	Oct-17	WB	63.9	Zero		
19	Mozambique	High	Apr-19	WB	102.1	Zero		
20	Tajikistan	High	Aug-17	WB	50.4	Zero		
	2) Others under WB NCBP							
21	Burundi	High	Mar-15	WB	51.7	Zero		
22	DRC	Moderate	Oct-17	WB	18.1	Zero		
23	Haiti	High	Nov-16	WB	31.1	Zero		
24	Kiribati*	High	Dec-18	WB	26.3	Zero		
25	Kyrgyz Republic	Moderate	Dec-17	WB	56.0	Non-zero	Loan by loan	
26	Liberia	Moderate	May-18	WB	34.4	Non-zero	Loan by loan	
27	Mali	Moderate	May-18	WB	35.4	Non-zero	Loan by loan	
28	Marshall Islands*	High	Aug-18	WB	25.5	Zero		
29	Micronesia*	High	Sep-17	WB	24.5	Zero		
30	Samoa*	High	Mar-19	WB	49.1	Zero		
31	Sao Tome and Principe*	High, in distress	Jul-18	WB	88.4	Zero		
32	Solomon Islands	Moderate	Oct-18	WB	9.4	Non-zero	Loan by loan	
33	South Sudan	High, in distress	Feb-17	WB	62.7	Zero		
34	Tonga*	High	Jan-18	WB	n/a	Zero		
35	Tuvalu*	High	Jun-18	WB	37.0	Zero		
36	Vanuatu*	Moderate	Mar-18	WB	48.4	Non-zero	Loan by loan	
37	Yemen, Republic of	High, in distress	Sep-14	WB	74.5	Zero		
	3) No NCB ceiling							
38	Rwanda	Low	May-18	WB	40.6	Non-zero	Loan by loan	PV, Nom.
39	Uganda	Low	Jan-17	WB	40.0	Non-zero	Loan by loan	PV, Nom.
40	Tanzania	Low	Apr-19	WB	37.0	Non-zero	Loan by loan	PV, Nom.

Table A1.3. Inventory of NCBP Country Cases, 2007-2018

	Country	Years Reviewed	IDA Cycle	Loan Amount % of GDP	DSA – Risk of external debt distress	IDA Response
1	Angola	2007	IDA14	35	Moderate	harden term
2	Ghana	2007	IDA14	8	Moderate	harden term
3	Mali	2007	IDA14	1	Low	Waiver
4	Mauritania	2007	IDA14	4	Moderate	Waiver
5	Rwanda	2008	IDA14	2	Moderate	Waiver
6	Cameroon	2009	IDA15	0.3	Low	Waiver
7	Congo, Republic	2009	IDA15	0.3	High	Waiver
8	DRC	2009	IDA15	1	High	Waiver
9	Ghana	2009	IDA15	2	Moderate	no remedy
10	Rwanda	2009	IDA15	1	Moderate	Waiver
11	Senegal	2009	IDA15	1	Low	Waiver
12	Burundi	2011	IDA15	4	Moderate	Waiver
13	Chad	2010	IDA15	6	Moderate	Volume cut
14	Côte d'Ivoire	2011	IDA15	2	High	Waiver
15	Ethiopia	2011	IDA15	2	Low	Waiver
16	Ghana	2010	IDA15	--	Moderate	harden term
17	Ghana	2011	IDA15	10	Moderate	no remedy
18	Mauritania	2010	IDA15	1	Moderate	Waiver
19	Cameroon	2010-12	IDA15/16	5	Low	Waiver
20	Lao PDR	2010-14	IDA15/16	9	Moderate	harden terms
21	Zambia	2011-12	IDA15/16	5	Low	Waiver
22	Burundi	2013	IDA16	1	High	Waiver
23	Chad	2013-14	IDA16	5	High	Waiver
24	Chad	2013-14	IDA16	9	High	Waiver
25	Comoros	2013	IDA16	7	High	Waiver
26	Ethiopia	2013-14	IDA16	17	Moderate	volume cut + harden terms
27	Guinea	2012-13	IDA16	6	Moderate	Waiver
28	Kyrgyz Republic	2013	IDA16	1	Moderate	Waiver
29	Madagascar	2014	IDA16	1	Low	Waiver
30	Sao Tome & Principe	2014	IDA16	10	High	Waiver
31	Togo	2014	IDA16	1	Moderate	Waiver
32	Zambia	2013-14	IDA16	6	Moderate	no remedy
33	Ethiopia	2015	IDA17	2	Moderate	hardening terms
34	Ethiopia	2016	IDA17	1	Moderate	hardening terms
35	Mozambique	2016	IDA17	11	Moderate	volume cut + harden terms
36	Ethiopia	2017	IDA17	1	Moderate	no remedy
37	Maldives	2017	IDA17	24	High	hardening terms
38	Mozambique	2017	IDA17	1	High	volume cut
39	Benin	2018	IDA18	1	Moderate	Waiver
40	Ethiopia	2018	IDA18	2	High	hardening terms
41	Maldives	2018	IDA18	22	High	hardening terms
42	Mozambique	2018	IDA18	--	High	volume cut
43	Tajikistan	2018	IDA18	7	High	Waiver
44	Comoros	2018	IDA18	8	Moderate	no waiver, ceiling suggested

Source: World Bank.

Table A1.4. List of IDA Countries with NCBP Remedy by year, May 2019

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Tol
1	Angola	harden												1
2	Benin												waiver*	1
3	Burundi					waiver*		waiver*						2
4	Cameroon			waiver			waiver							2
5	Chad				volume			waiver	waiver					3
6	Comoros							waiver*					WR	2
7	Congo, Republic			waiver										1
8	Côte d'Ivoire					waiver*								1
9	DRC			waiver										1
10	Ethiopia[1/]							waiver	V&H	harden	harden	NR	harden	6
11	Ghana	harden		harden	harden	NR								4
12	Guinea							waiver						1
13	Kyrgyz							waiver*						1
14	Lao, PDR								harden					1
15	Madagascar								waiver*					1
16	Maldives											harden	harden	2
17	Mali	waiver*												1
18	Mauritania	waiver*		waiver										2
19	Mozambique[2/]										V&H	volume	volume	3
20	Rwanda		waiver*	waiver										2
21	Sao Tome & Principe								waiver*					1
22	Senegal			waiver										1
23	Tajikistan												waiver	1
24	Togo									waiver				1
25	Zambia						waiver		NR					2
	Total cases/responses	**4**	**1**	**7**	**2**	**3**	**2**	**6**	**6**	**2**	**2**	**3**	**6**	**44**

*

IDA agree the waiver while under IMF.

Note: Volume= volume reduction; V&H= volume cut and hardening terms; Harden= hardening of terms; NR =no remedy and WR = waiver not granted