SUSTAINABLE DEVELOPMENT FINANCE POLICY OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION

April 23, 2020

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ACRONYMS AND ABBREVIATIONS

Fiscal year (FY) = July 1 to June 30

ATI	Addis Tax Initiative
BB	Bank Budget
CRO	Chief Risk Officer
DEC	Development Economics
DeMPA	Debt Management Performance Assessment
DFCII	IDA Mobilization and IBRD Corporate Finance
DFi	Development Finance
DLP	Debt Limits Policy
DPOs	Development Policy Operations
DRS	Debtor Reporting System
DSEP	Debt Sustainability Enhancement Program
DSA	Debt Sustainability Analysis
EFI	Equitable Growth, Finance and Institutions
FCV	Fragility, Conflict and Violence
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
LEG	Legal
LIC DSF	Debt Sustainability Framework for Low-Income Countries
LIC	Low-Income Countries
MAC DSA	Debt Sustainability Assessment Framework for Market-Access Countries
MDBs	Multilateral Development Banks
MDO	Managing Director, Operations
MDRI	Multilateral Debt Relief Initiative
MPA	Multi-Pronged Approach to Addressing Debt Vulnerabilities
MTDS	Medium Term Debt Management Strategy
MTI	Macroeconomic, Trade and Investment
MTFP	Medium-Term Fiscal Plan
NCB	Non-Concessional Borrowing
NCBP	Non-Concessional Borrowing Policy
OPCS	Operations, Policy and Country Services
PBA	Performance-Based Allocation
PCO	Program of Creditor Outreach
P-FRAM	Public-Private Partnership Fiscal Risk Assessment Model
PPAs	Performance and Policy Actions
PPG	Public and Publicly Guaranteed
PRA	Prevention and Resilience Allocation
RECA	Remaining Engaged in Conflict Allocation
SDFP	Sustainable Development Finance Policy
SDGs	Sustainable Development Goals
TA	Technical Assistance
TAA	Turn Around Allocation
TF	Trust Funds
VP	Vice President
WB	World Bank

I. INTRODUCTION

1. **In the context of the International Development Association 19th replenishment (IDA19) negotiations, IDA Deputies and Borrower Representatives ("Participants") endorsed the key features and principles of the proposed Sustainable Development Finance Policy (SDFP)**. The IDA19 replenishment was set against the background of mounting public debt vulnerabilities in IDA-eligible countries, reflecting rising debt levels and shifts in the composition of debt towards more expensive and riskier sources of financing. Participants noted the continued relevance of policies implemented by IDA to foster debt sustainability, such as the regular debt sustainability analyses (DSAs) under the joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSF) and the grant allocation framework (GAF). They also supported the concept of an SDFP, which would provide an incentive-based approach to leverage reforms for transparent and sustainable development finance in IDA-eligible countries. They emphasized that the SDFP should consider the capacity constraints of IDA-eligible countries and the specific challenges of small states and countries classified as fragile and conflict-affected. They welcomed the principles guiding the internal governance of the policy and the timeline for its implementation. They also endorsed the IDA19 policy package, which comprises a set of commitments to strengthen development outcomes in IDA countries, including sustainable financing practices. Informed by guidance from Participants, Management developed a full proposal for the SDFP.

2. **The proposed SDFP will further strengthen IDA's debt-related policy framework through a more pro-active and systematic engagement on addressing debt sustainability at the country level**. The policy will strengthen the performance orientation of the IDA allocation framework, with a focus on dealing with debt vulnerabilities, while expanding creditor outreach. IDA country allocations will be higher for countries making progress on performance and policy actions related to addressing debt vulnerabilities. The Bank will also intensify its outreach to other creditors to support sound lending practices.

3. **The SDFP will replace the Non-Concessional Borrowing Policy (NCBP) introduced in 2006**.[1] The new policy addresses a number of limitations identified in the 2019 NCBP Review (see Annex 1).[2] This Review concluded that the impact of the NCBP on the incentives of IDA countries has been positive but limited, and it suggested ways to improve debt management capacity and debt transparency in IDA countries. The Review also found that there is a strong rationale for expanding the scope of the new policy to include all IDA countries, and to undertake

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[1] The NCBP was aimed at addressing situations in post-Multilateral Debt Relief Initiative (MDRI) and grant-eligible IDA-only countries, in which debt relief or IDA grants could potentially: (i) cross-subsidize creditors that offer non-concessional loans to recipient countries, or (ii) create incentives for these countries to overborrow, thereby eroding the gains to debt sustainability obtained from debt relief and grants.

[2] See: "*IDA's Non-Concessional Borrowing Policy: 2019 Review*", September 2019. Annex 1 provides a detailed summary of the Review's findings. The review was undertaken as part of the International Monetary Fund (IMF) / World Bank (WB) Multi-Pronged Approach to Addressing Debt Vulnerabilities (MPA). See *"Debt Vulnerabilities in Emerging and Low-Income Economies"*, September 2018.

a broader and more systematic review of the drivers of rising debt vulnerabilities. The Review found a positive effect on creditor coordination, but it also identified opportunities for further improvement, including around enhanced transparency and communication. As levels of IDA's support to its client countries has increased over time, and as IDA is now exposed both to the capital markets and to higher risks of debt distress among IDA-eligible countries, there is also a need to strengthen IDA's financial sustainability.

4. **The SDFP will be launched at a time when IDA countries face enormous pressures relating to the COVID-19 pandemic, which necessarily also inform the roll out of the policy**. IDA countries are being hit hard by the unfolding crisis, which will require them to finance additional expenditures to meet emergency needs that could worsen their debt vulnerabilities. IDA is responding to the needs of its clients in a range of ways, including by releasing a larger portion of IDA19 resources in FY21 to support a strong response.[3] IDA's highly concessional resources, combined with its established practice of providing grants to countries most vulnerable to debt distress, will be a critical component of the international response to the crisis. In addition, on March 25, 2020, the World Bank and the IMF called on official bilateral creditors to provide a time-bound suspension on debt service to all IDA countries that request forbearance to enable an effective response to the crisis and limit its duration.[4] In this context, the World Bank and the IMF were tasked to work with IDA countries to evaluate their debt sustainability based on enhanced transparency and to monitor the use of freed-up fiscal space. Official bilateral creditors also request beneficiary countries not to increase their stock of non-concessional debt – other than already agreed under the IMFs Debt Limits Policy and the World Bank's NCBP/SDFP.

5. **In this context, the implementation of the SDFP will be an important instrument to foster greater debt transparency and make sure that freed resources are used efficiently during the COVID19 pandemic**. These aspects will therefore be the focus of the SDFP in its initial implementation phase. As importantly, the implications of the SDFP will need to be taken into account in decisions regarding the frontloading and use of IDA19 resources. The response to the anticipated economic impact of the pandemic underscores the urgency of more comprehensive creditor coordination, for which the creditor outreach envisioned under SDFP will also be critically important. Specifically, the policy will help to foster debt transparency including disclosure of loan contract terms and payment schedules.

6. **The purpose of this paper is to present the SDFP for consideration and approval by IDA's Board of Executive Directors.** Section II describes the policy's overall framework. Section III presents the policy's first pillar, the Debt Sustainability Enhancement Program. Section IV presents its second pillar, the Program of Creditor Outreach. Section V discusses the policy's expected outcomes and risks. The final section, Section VI, outlines Management's recommendations to IDA's Board of Executive Directors.

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[3] WBG Additional Response to the COVID-19 Crisis: Addressing the Economic and Social Implications. *Report No. DC2020-0003.*

[4] See "*The COVID-19 Debt Initiative: International Call for Action in Support of IDA Countries*," April 17, 2020.

II. OVERALL POLICY FRAMEWORK

7. **IDA countries face daunting development challenges and need to manage their public debt prudently to achieve good development outcomes.** Public debt allows governments to promote growth by investing in infrastructure and human capital, complementing domestic revenues, grants or private sector financing. Yet, when not effectively and efficiently managed, public debt can crowd out critical public expenditures, accumulate beyond sustainable levels, and put at risk hard-won development gains. Unsustainable debt levels increase uncertainty and reduce economic growth. High interest payments can reduce public expenditures in areas that are critical for long-term growth and development, such as in quality infrastructure and in education and health services. Furthermore, high public debt levels can increase the costs of new debt financing, as creditors price in the increased risks.

8. **Across the board, debt vulnerabilities in IDA-eligible countries have increased in recent years.** Currently, about half of IDA-eligible countries covered under the LIC DSF are at high risk of external debt distress or already in debt distress. This is double the share of countries in a similar situation in 2013. Increased debt vulnerabilities reflect rising debt levels and shifts in debt composition. External public and publicly guaranteed (PPG) debt in IDA-eligible countries as a group has become increasingly non-concessional. For the 69 IDA-eligible countries covered under the LIC DSF, non-concessional PPG external debt as a share of total PPG external debt has increased by about 2 percentage points since 2013, to reach an average of 63 percent in 2018.

9. **IDA countries, with the support of the international community, need to take determined actions to contain rising debt vulnerabilities.** Countries need to enhance their macro-fiscal policy frameworks, strengthen domestic revenue mobilization, invest more efficiently, and strengthen debt management capacity. To ensure that risks are detected and addressed before they materialize, increased efforts are needed to strengthen debt transparency. Countries should consider new borrowing only for investment projects with credibly high rates of return and apply stringent disclosure requirements to collateralized or collateral-like borrowing arrangements. Collateralized loans or collateral-like arrangements require a thorough assessment: whether collateral really leads to improved terms; whether there is no violation of the legal requirements of other creditors; and whether the collateral, especially if the underlying asset is unrelated, generates significant future revenues. It will also be important for countries to build their capacity to identify and manage fiscal risks from contingent liabilities, given that many countries are investing in large infrastructure projects through state-owned enterprises (SOEs) and are making increased use of public-private partnerships (PPPs). In the context of an increasingly diverse creditor base and rapid innovation of debt instruments, creditors also have an important role to play in supporting sustainable borrowing practices, for example, by promoting debt transparency and ensuring that borrowers are fully aware of the legal implications of contractual clauses. Prioritization of these policy changes will be key to improving debt sustainability in IDA countries. Furthermore, support from the international community in the context of the COVID-19 debt action called for by the World Bank and the IMF will be critical to help countries mount an effective response to the epidemic while mitigating adverse effects on their debt outlook. An

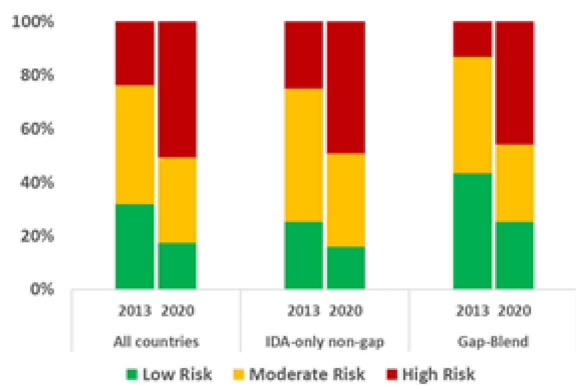
important step in that direction was taken on April 15, 2020, when the G-20 supported the initiative.[5]

10. **The objective of the SDFP is to incentivize countries to move towards transparent, sustainable financing and to promote coordination between IDA and other creditors in support of countries' efforts.** The SDFP recognizes that while the implementation of transparent and sustainable financing practices requires actions by both creditors and borrowers, sound debt management – including debt transparency – remains the primary responsibility of borrowers.[6] The SDFP will help to achieve this objective by: (i) supporting IDA clients to strengthen policies, institutions, and practices for transparent and sustainable financing of development goals; (ii) enhancing coordination among borrowers, creditors and other development partners; and (iii) introducing a more robust monitoring and accountability framework.

11. **The SDFP will cover all IDA-eligible countries.** Growing public debt vulnerabilities have extended beyond post-MDRI and grant-eligible IDA-only countries covered by the NCBP. As illustrated in Figure 1, the increase in external debt vulnerabilities is affecting all country lending categories within IDA. Indeed, those countries in the Gap and Blend categories, which will now be covered by the SDFP, experienced a more marked shift towards riskier external debt distress categories. Additionally, safety margins in many countries assessed at low or moderate risk of external debt distress have eroded.[7] So a comprehensive approach is needed.

FIGURE 1. IDA-ELIGIBLE COUNTRIES: RISK OF EXTERNAL DEBT DISTRESS [8]

(2013–2020 – countries under the LIC DSF)



Source: World Bank-IMF LIC DSF database as of end-February 2020.
Note: The "High Risk" category includes countries assessed as in debt distress.
Covers IDA-eligible countries under the LIC DSF.

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5 See "*G20 Finance Ministers and Central Bank Governors Meeting Communiqué,*" April 15, 2020.

6 See, for example, World Bank and IMF. 2019. "*G20 Operational Guidelines for Sustainable Financing – Diagnostic Tool*" for sustainable financing practices for creditors.

7 See: "*Debt Vulnerabilities in IDA-eligible countries*," October 2018 and "*The Evolution of Public Debt Vulnerabilities in Lower Income Countries*" World Bank – IMF. 2020.

8 The sample in the chart includes 64 countries up to 2013, 67 in 2014, 68 in 2015-2018 and 69 in 2019.

12. **The SDFP will have two pillars.** These are:

a. ***The Debt Sustainability Enhancement Program (DSEP)*** will enhance incentives for countries to move toward transparent and sustainable financing. Recognizing the importance of debt-financed investments for development, the DSEP will address debt-related risks pertaining to *demand-side* factors *(pull factors)*. The DSEP will be an element of IDA's broader support to country programs for broad-based, sustainable growth and poverty reduction. Under the DSEP, countries will implement performance and policy actions (PPAs) as part of a medium-term effort towards transparent and sustainable borrowing, informed by the country programs which include lending, diagnostics and technical assistance (TA).[9] The DSEP will inform the levels of IDA resource allocations available to individual countries, as well as how those resources will be used.

b. ***The Program of Creditor Outreach (PCO)*** will enhance IDA's global platform and convening role to promote creditor outreach and coordination on transparent and sustainable lending practices, including debt transparency. Enhanced creditor coordination, for instance among multilateral development banks (MDBs), will help mitigate debt related risks pertaining to *the supply side* factors *(push factors*). Strengthening these mechanisms for collective action will go a long way towards mitigating risks of unsustainable debt accumulation.

13. **The SDFP framework builds on the lessons learned during the NCBP implementation and adapts it to the new debt and creditor landscape.** Figure 2 summarizes the differences. The dual objectives of the SDFP—namely, to incentivize countries to borrow sustainably and promote coordination between IDA and other creditors in support of borrowing countries' efforts—are more proactive and focused than the broad objectives of the NCBP.[10] The policy changes designed to achieve the SDFP's objective will include: (i) broadening country coverage; (ii) further strengthening the link with the Debt Sustainability Analyses (DSAs) and actions by countries to address the vulnerabilities identified in them; (iii) enhancing public disclosure and transparency; and (iv) enhancing creditor outreach with broader scope and more information sharing, dialogue and coordination, especially among the MDBs [and official bilateral creditors in the context of the COVID-19 Debt Action].

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9 A programmatic engagement would set a medium-term perspective as the anchor for the PPAs.

10 See Annex 1.

FIGURE 2. TRANSITION FROM THE NCBP TO THE SDFP

	NCBP	SDFP
Objective and Coverage	**Broad objective** covering *inter alia* debt sustainability	**Clearer objectives** with enhanced focus on debt sustainability and debt transparency
	Narrow country coverage - post-MDRI and IDA grant recipients	**Broader country coverage -** applies to all IDA-eligible countries systematically
Borrower incentives	**Remedies -** volume reductions and hardening of terms in response to unsustainable NCB	**Incentives -** Debt Sustainability Enhancement Program with a strong and proactive focus on debt-related policies, institutions, and practices
Creditor Outreach	**Active outreach, but limited scope**	**Program of Creditor Outreach – facilitate more information sharing, dialogue, and coordination**

14. **The development of this SDFP proposal has benefited from extensive consultations with various stakeholders.** Box 1 summarizes the key findings from these consultations.

BOX 1. CONSULTATIONS ON THE SDFP

IDA has been engaged in consultations with external and internal stakeholders to ensure the successful rollout and implementation of the SDFP. External consultations included IDA-eligible countries, multilateral and bilateral creditors, and civil society organizations. Consultations with IDA-eligible countries were conducted jointly or with the participation of the African Development Bank, the Asian Development Bank, the Inter-American Development Bank and the IMF. In addition to broad support for the proposed policy, these consultations also highlighted the following:

a. *Participants from IDA-eligible countries* emphasized the need for dialogue on the implications of DSEP and its proposed set-asides and discounts. They sought clear guidelines on developing and implementing the PPAs. And they requested support to strengthen their own capacity.

b. *Participants from MDBs* expressed their intention to align their own policies with the World Bank's SDFP. They requested regular updates on the implementation of SDFP to ensure effective alignment and coordination.

c. *Bilateral creditors* commended IDA on its efforts to improve transparency. They underscored the importance of the World Bank and the IMF continued collaboration.

d. *Participants from civil society organizations* emphasized the importance of improving debt transparency at the domestic level. They requested a broader focus on debt, public finance management, and procurement. They also requested that information be shared in a timely and consistent manner. They also underscored the importance of giving flexibility to countries to cater to country context.

Management has also been working closely with the IMF to strengthen the rollout and implementation of the SDFP, and to seek closer alignment between this and the IMF review of its Debt Limits Policy.

III. DEBT SUSTAINABILITY ENHANCEMENT PROGRAM

15. **The DSEP will offer incentives for IDA-eligible countries to make continued progress toward sustainable and transparent borrowing and investment practices.** The program comprises an annual process of defining a set of PPAs designed to enhance debt sustainability and assessing progress on their implementation. It will be implemented in four steps.

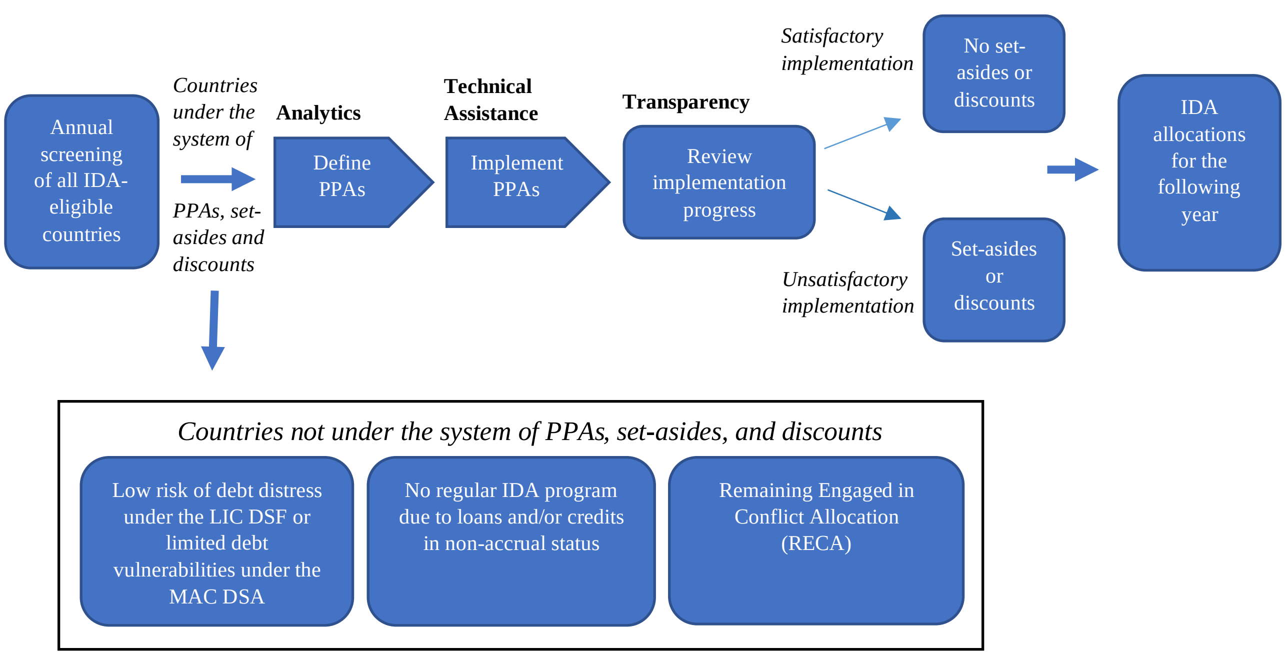
a. *First*, all IDA countries will be screened annually for their debt vulnerabilities in order to identify those IDA countries for which PPAs will need to be defined and implemented.

b. *Second*, those countries that are required to implement the defined PPAs will do so in close consultation with IDA, considering their institutional capacity to implement PPAs and with particular focus on the definition of milestones. These PPAs will serve as a cornerstone of the DSEP.

c. *Third*, the progress made by countries in implementing their PPAs will be assessed relative to their defined milestones.

d. *Finally*, performance against the PPAs will have implications for IDA allocations, in that countries that do not satisfactorily implement their PPAs would not be able to access 10 or 20 percent of their annual Country Allocations as well eligibility to frontloading (other than for small states where limited access may be needed to facilitate operational delivery) and reallocations. In some cases (severe or repeated breaches of PPAs such as non-concessional borrowing ceiling), the terms of IDA financing can also be hardened. A flow chart illustrating the key features of the DSEP is at Figure 3.

FIGURE 3. FLOW CHART OF DSEP IMPLEMENTATION



Step 1: Annual Screening of all IDA-eligible Countries

16. **All IDA-eligible countries will be screened annually for debt-related vulnerabilities and institutional capacity to define and implement PPAs.** For countries subject to the LIC DSF, the screening for vulnerabilities will be primarily informed by their Debt Sustainability Analyses (DSAs). There are three categories of countries that will normally not be required to define and implement PPAs:

a. Countries subject to the LIC DSF[11] that are at low risk of external debt distress and countries under the Debt Sustainability Assessment Framework for Market-Access Countries (MAC DSA) for which Management determines that debt vulnerabilities are limited;

b. Countries in non-accrual status; and

c. Countries that are eligible for IDA's Remaining Engaged in Conflict Allocation (RECA).[12]

Step 2: Defining PPAs

17. **PPAs will be defined, based on strong analytics and in close consultation with country authorities**. Each country's PPAs will be defined based on a sound analytical framework that will help identify and prioritize those actions that are critical for addressing key debt vulnerabilities. Key diagnostic and analytical tools that will help identify the PPAs will include DSAs, Debt Management Performance Assessments (DEMPAs), existing systematic country diagnostics (SCDs) and public expenditure reviews (PERs), and ongoing Development Policy Operations (DPOs) and IMF programs. In the absence of adequate data from the DSA, it may also be useful to find actions which lead to the provision of better data by the following year. Dialogue between the Bank and the country authorities will also be critical. Box 2 provides additional details.

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11 Annex 2 reports which countries are currently under LIC DSF and presents information on other selected characteristics of IDA-eligible countries which are relevant for the SDFP.

12 Countries eligible for RECA are defined by high-intensity conflict and extremely weak institutional capacity, such that PPAs are unlikely to be appropriate. Moreover, RECA maintains a base level of engagement (a PBA 'floor') in these exceptional cases, so the notion of set-asides and discounts are similarly unlikely to be appropriate.

BOX 2. SOURCES FOR IDENTIFYING PPAS

The following sources may help teams to inform the design of possible actions:

a. **DSAs:** Options may include reforms underpinning the baseline scenario and identified risks. For example, a sustainable trajectory underpinned by the implementation of specific reforms (such as fiscal consolidation, SOE reforms, borrowing limits) could inform the identification of PPAs. PPAs may also aim to address debt vulnerabilities and debt reporting gaps identified in the DSA.

b. **Other analytical work:** Ongoing analytical activities could also help inform PPAs. For example, existing public expenditure reviews (PERs) or other dedicated analytical work can help identify actions (such as PEFA or the CPIA debt-related cluster).

c. **DPOs**: DPOs and accompanying policy dialogue can inform definition of PPAs. DPO prior actions/triggers can qualify as policy or performance actions under the SDFP. The achievement of targets that are part of the results matrix of DPOs could serve as performance actions under the SDFP. In addition, a continuation of recently adopted good practices, that increase the sustainability of recent reforms, can also count as performance actions.

18. **PPAs need to be both ambitious and realistic, targeting the country's debt vulnerabilities, but tailored to country's capacity to implement, and supported by the international community**. High priority will be given to careful calibration of the PPAs for small state economies and FCS countries. Design of the PPAs for these countries will reflect the specific challenges and constraints they face.

19. **Depending on country context, PPAs may cover some or all of the following areas:**

a. Enhancing debt transparency including by improving the coverage, accuracy and timeliness of debt reporting;

b. Enhancing fiscal sustainability (e.g., revenue mobilization, public expenditure efficiency, reducing fiscal arrears, public investment management); and

c. Strengthening debt management, including use of borrowing limits and minimization of collateralization.

20. **PPAs could take various forms, depending on the country context and the underlying factors that contribute to debt vulnerabilities.** Examples of PPAs to foster debt transparency include disclosure of loan contract terms and payment schedules; full disclosure of the stock of public and publicly guaranteed debt, SOE liabilities, and debt-like instruments; steps by borrowers to request relief from excessive confidentiality clauses in order to proceed with transparent data reporting; measures to ensure effective and prudent use of collateral and liens in sovereign borrowing; compliance with legal requirements of other creditors, such as negative pledge clauses; and improved reporting of external debt to the World Bank's Debtor Reporting System (DRS). Examples of PPAs to strengthen fiscal sustainability include measures to: (i) enhance domestic resource mobilization through tax reforms (i.e., via broadening of the base and changes to rates, and rationalization of tax expenditures); (ii) improve the efficiency and effectiveness of spending

while protecting the poor and vulnerable (such as public procurement reforms, implementation of a medium-term fiscal strategy, strengthened oversight of SOEs); and (iii) improve public investment management (e.g., through enhancing the quality of the framework for the evaluation, selection and execution of public investment projects, as well as the integration of the public investment plan in the annual budget). Finally, examples of PPAs to improve debt management include measures to: (i) enhance the legal and regulatory framework for public debt; (ii) adopt/publish a Medium-Term Debt Management Strategy; and (iii) improve debt recording. PPAs for FY21 could also be related to debt payment moratorium: for example, they may require that a country entitled to seek debt payment moratorium from official bilateral creditors does so.

21. **For many countries, PPAs are likely to include borrowing ceilings.** Like other PPAs, borrowing ceilings aimed to support countries to meet their financing needs in a sustainable manner. They are important tools to help governments make informed borrowing decisions and promote efficient use of financing, while avoiding unsustainable debt buildups. In addition to being an important performance target, borrowing ceilings can also help creditors make informed lending decisions.

22. **Borrowing ceilings under the SDFP will primarily take the form of nominal limits on non-concessional external PPG debt, which will ensure policy continuity as well as consistency with the IMF's revised DLP (see Box 3).** The framework for establishing borrowing ceilings is presented in Annex 3. Exceptions to this framework may be made ex-ante (when limits are established) in cases where non-concessional borrowing is linked to projects with high economic, financial and social returns. Ex-post exceptions will be made only under a highly restrictive set of circumstances.

BOX 3. THE IMF'S DEBT LIMITS POLICY

The IMF's Debt Limits Policy (DLP) establishes the framework for setting conditionality to address debt vulnerabilities in IMF-supported programs. Debt conditionality is an important instrument in the IMF toolkit, intended to complement other program conditions that help achieve macroeconomic sustainability. The last review of the DLP was completed in 2014.

Key principles of the current policy are: (i) public debt conditionality is used when a member faces significant debt vulnerabilities or when there are advantages to using debt limits in place of, or as a complement to, fiscal conditionality; (ii) in countries normally relying on concessional external financing, the formulation of debt conditionality is linked to the country's risk of debt distress, its borrowing plans, and its capacity to monitor debt, with explicit limits placed on non-concessional borrowing where debt distress risk is high and/or debt monitoring capacity is weak.

The review of the policy now underway examines whether the DLP has been effective in containing debt vulnerabilities without unnecessarily constraining public investment, against the backdrop of ongoing major shifts in the credit landscape (see IMF-WB (2020)). The analysis to date has identified some areas where reforms to the DLP are warranted, with the changes representing an evolution of the design features adopted in 2014 rather than a major overhaul.

Suggested reforms to the DLP include:

a. Enhancing disclosure on debt information to staff;
b. Broadening the use of present value (PV) debt limits;
c. Fleshing out the policy relating to accommodation of non-concessional borrowing (NCB) in countries at high risk of debt distress;
d. Better tailoring conditionality for countries that rely on official concessional external financing but also have significant access to international capital markets;

The DLP would continue to link the form of conditionality to debt management capacity and to underscore the importance of actions to strengthen debt management capacity where needed. Actions taken by the IMF to strengthen debt management capacity will be coordinated with the World Bank.

23. **PPAs will be updated each fiscal year**. Where possible, PPAs will outline a programmatic engagement over a medium-term horizon, with actions and milestones broken out for each year. PPAs will be agreed prior to the FY in which they will need to be completed and assessed.

Step 3: Implementing PPAs

24. **IDA will provide support to its client countries as they implement their PPAs.** The World Bank will support the design and implementation of PPAs through analytical work (e.g., Public Expenditure Reviews), lending instruments (e.g., DPOs) and capacity building activities. As in the past, support will be underpinned by sound diagnostics (e.g., Debt Management Performance Assessments or DeMPA) and publicly available analytical tools, including BOOST public expenditure database, Public Private Partnership Fiscal Risk Assessment Model (P-FRAM)) and Medium-Term Debt Management Strategy (MTDS).

Step 4: Allocations and the implications of PPA implementation

25. **Performance against the agreed PPAs has implications for IDA allocations.** Countries that do not satisfactorily implement their PPAs would not be able to access 10 or 20 percent of their annual Country Allocations as well eligibility to frontloading and reallocations. Countries that are meeting their PPAs access their entire regular Country Allocation (including FCV envelope top-ups for eligible countries). These countries are also eligible for frontloading and reallocations.

26. **Countries that do not satisfactorily implement their PPAs during one year will have 10 or 20 percent of their Country Allocation for the year set aside**. Whether the reduction is 10 or 20 percent depends on the debt risks: countries with a LIC-DSA at moderate risk of debt distress and countries with a MAC-DSA where Management assesses risks are significant will have a 10 percent reduction; countries with a LIC-DSA at high risk of debt distress will have a 20 percent reduction. That set aside is however not final: countries that miss their PPAs one year can recover the lost amount if they satisfactorily implement the agreed PPAs the following year. An important exception is if a country does not satisfactorily implement the PPAs in the second year of the replenishment period. In that case, the set-aside cannot be recovered because all IDA resources need to be allocated within the replenishment period. Countries that have reduced Country Allocations are not eligible for frontloading (with some exceptions for small states for operational reasons)[13] and not eligible for reallocations.

27. **If performance on a set of PPAs is lagging two years in a row, the amount from the first year is automatically and irrevocably lost**. In some cases (severe or repeated breaches of PPAs such as non-concessional borrowing ceiling), the terms of IDA financing can also be hardened. An example of the system for set-asides for IDA-eligible countries under selected scenarios is shown in Figure 4. Annex 4 provides more detailed information. For IDA19, since this is the first year of implementation, countries will not have a set-aside during the first year of the replenishment period, but PPAs will be assigned in FY21. The impact on allocations starts in FY22, based on the track record of implementing agreed PPAs in FY21. However, eligibility of countries for frontloading in FY21 will be conditioned by progress made in defining and implementing the PPAs.

28. **Beyond the level of PBA allocations, other aspects of the IDA resource allocation framework will be adjusted to ensure consistency with the objectives of the DSEP.** Access to the Scale-Up Window will continue to be restricted to countries that are not at high risk of external debt distress. In addition, for LIC DSF countries at *moderate risk* of debt distress, or MAC DSA countries assessed by Management as having elevated debt risks, access will be restricted to those countries that have achieved satisfactory progress in the implementation of their PPAs (i.e., with neither a set-aside nor a discount). Access to the Regional Window will be implicitly restricted, since the reduction in the country allocation will limit the country's incentive to use part of their national allocation towards these projects. Given their purpose, access to the Crisis Response Window, the Private Sector Window, and the Window for Host Communities and Refugees will not be affected by the SDFP.

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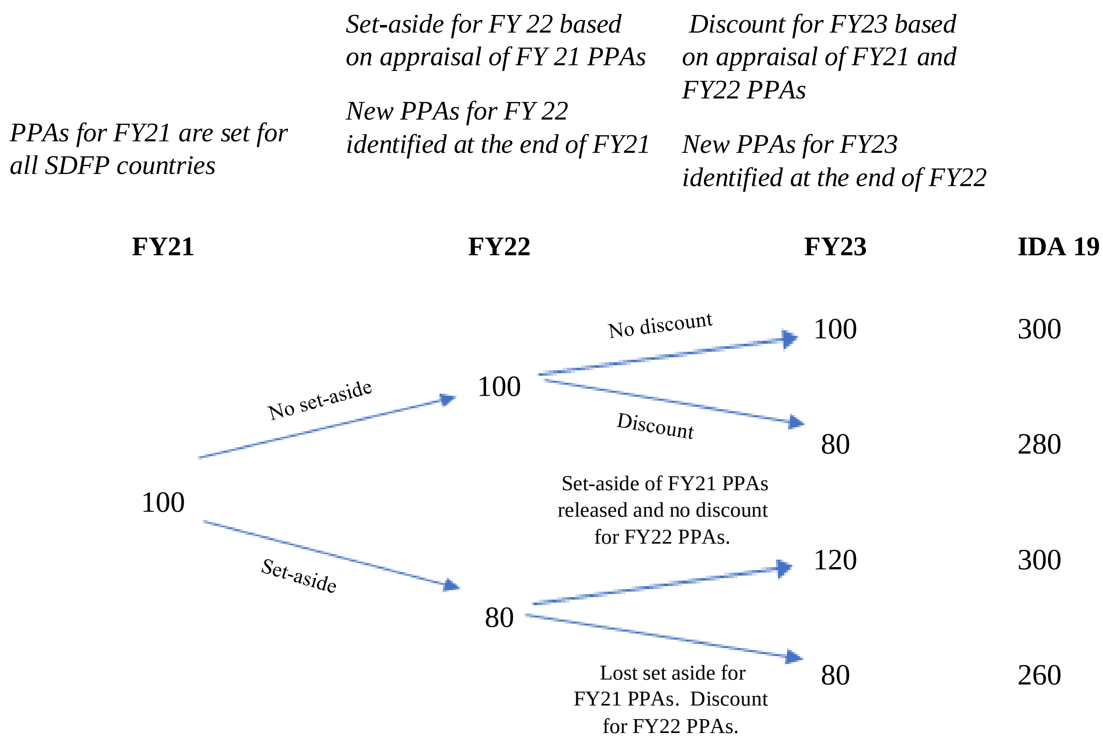
13 Small states that miss their PPAs will be allowed to frontload up to 50 percent of their indicative allocations, compared to 80 percent for smalls that meet their PPAs.

FIGURE 4. THE SYSTEM OF SET-ASIDES AND DISCOUNTS: EXAMPLE FOR AN IDA COUNTRY AT HIGH RISK OF EXTERNAL DEBT DISTRESS



29. **The use of country allocations will be affected by the SDFP.** Subject to maintaining IDA's long-term financial sustainability (e.g., due to a sharp increase in loan-loss provisions), reductions in country allocations that are lost irrevocably will be redistributed through the PBA formula. All IDA countries that are not subject to set-asides or discounts i.e., IDA countries either at low risk of external debt distress or that demonstrate satisfactory progress in implementing their PPAs will benefit from this redistribution. While PPAs will be managed across IDA cycles (as other policy actions supported by IDA), IDA resources will be allocated within an IDA replenishment cycle. So by way of example, if a country does not implement its PPA in the final year of an IDA replenishment, that country will receive a lower allocation in the first year of the subsequent replenishment, although, it will have the possibility to recover that amount in the second year of that subsequent replenishment.

IV. PROGRAM OF CREDITOR OUTREACH

30. **The PCO aims to leverage the World Bank's role as a convener to promote stronger collective action, greater debt transparency and closer coordination among borrowers and creditors to mitigate debt-related risks.** In light of the new and evolving development finance landscape, IDA's platform is poised to play a key role in promoting stronger coordination among creditors, and in supporting countries to strengthen their ability to address debt-related vulnerabilities. Effective collective action can go a long way towards supporting countries to

enhance their understanding of the changing financial landscape and to mitigate risks of unsustainable debt accumulation in IDA countries.

31. **The PCO will complement existing mechanisms for creditor coordination.** For example, IDA has played an important role in creditor coordination, in particular among MDBs, many of which have adopted a grant allocation framework and debt-related policies similar to those of IDA. IDA would build on the experience and the platforms built after the HIPC/MDRI initiatives. The vision is that specific country efforts toward sustainable financing that are promoted under the SDFP, such as via PPAs related to public debt transparency, will also promoted by other creditors.

32. **Enhanced outreach efforts by IDA are also needed due to the emergence of creditors that are not part of established creditor coordination and information sharing platforms.** As such, IDA's efforts will focus on deepening outreach to multilaterals, enhancing communication with new bilateral creditors, strengthening outreach to non-Paris club bilateral creditors, and promoting dialogue on debt transparency with private commercial creditors. The PCO will be critical to supporting the implementation of the DSEP, including its borrowing ceilings.

33. **Specifically, through the PCO and in coordination with the World Bank's broader debt agenda, IDA will seek to:**

a. *Advance dialogue* among a broader range of development partners towards putting in place a set of principles on transparent and sustainable financing;

b. *Facilitate coordination* at the country-level among different creditors, including traditional and non-traditional creditors and the IMF, on actions to promote sound economic policies, prudent debt management, and sustainable lending practices;

c. *Enhance transparency and communications* on transparent and sustainable financing through new information sharing initiatives and dialogue on the SDFP.

Promoting good practice

34. **IDA will strengthen engagement with multilaterals (in particular among the MDBs) through development and promotion of transparent and sustainable financing principles.** IDA will work with these development partners to promote information sharing and coordination with respect to the implementation of country allocation frameworks and lending practices. All multilaterals will be invited to subscribe to such principles, to be aligned with the *G20 Operational Guidelines for Sustainable Financing*.[14]

35. **Outreach to non-Paris Club bilateral creditors will seek to promote dialogue on sustainable financing and debt transparency and the adoption of existing sustainable lending principles and practices.** These include the common operational principles for sustainable financing, which are being jointly developed by MDBs and other IFIs, and good practices outlined in the Multi-Pronged Approach to Addressing Debt Vulnerabilities (MPA). Outreach efforts on

[14] World Bank and IMF. 2019. "*G20 Operational Guidelines for Sustainable Financing – Diagnostic Tool*".

the SDFP will also be undertaken as part of DSA trainings and technical meetings on debt-related issues.[15]

Enhancing transparency

36. **IDA aims to enhance debt transparency for the benefit of all creditors, including through new information sharing initiatives and dialogue on the SDFP.** IDA will scale-up efforts to enhance communication in the context of existing MDBs consultation mechanisms, such as the MDB Forum, and will reach out to recently established multilateral banks. The goal is to leverage IDA's global platform to convene a larger number of partners to foster cooperation, dialogue and innovative solutions to address the emerging debt-related challenges faced by IDA-eligible countries.

37. **IDA will also strengthen its outreach to creditors through existing fora, such as the Paris Club and the OECD Working Party on Export Credits and Credit Guarantees (ECG).** Outreach among these established networks of creditors will be focused primarily on enhancing transparency and communication on the SDFP, to promote a better understanding of the new policy framework and its implications for IDA countries.

38. **IDA Management has launched a new SDFP website[16] with country pages to serve as a one-stop shop for all IDA debt policy-related information on IDA-eligible countries.** The website will enable easy access to key debt-related information and links, including on IDA's application of the SDFP and the outcomes of annual reviews of individual country's PPAs. The SDFP website will be used to publish and disseminate analytical content on debt of interest to creditors.[17] In addition, IDA plans to raise awareness of the WB-IMF *Lending to LICs* mailbox, through which public and private credit agencies can inquire about their clients' SDFP status, as well as sharing information about their lending intentions.

Promoting country-level dialogue

39. **Engagement with creditors will be supported by country-level coordination on activities such as technical assistance for debt management.** Country-based knowledge exchange on debt-related issues will be promoted to support dialogue at the country-level, for instance on the basis of joint World Bank-Fund DSAs. For non-traditional bilateral creditors, IDA will initially leverage existing debt management platforms to initiate and strengthen dialogue, promote knowledge exchange and enhance coordination among development actors.[18]

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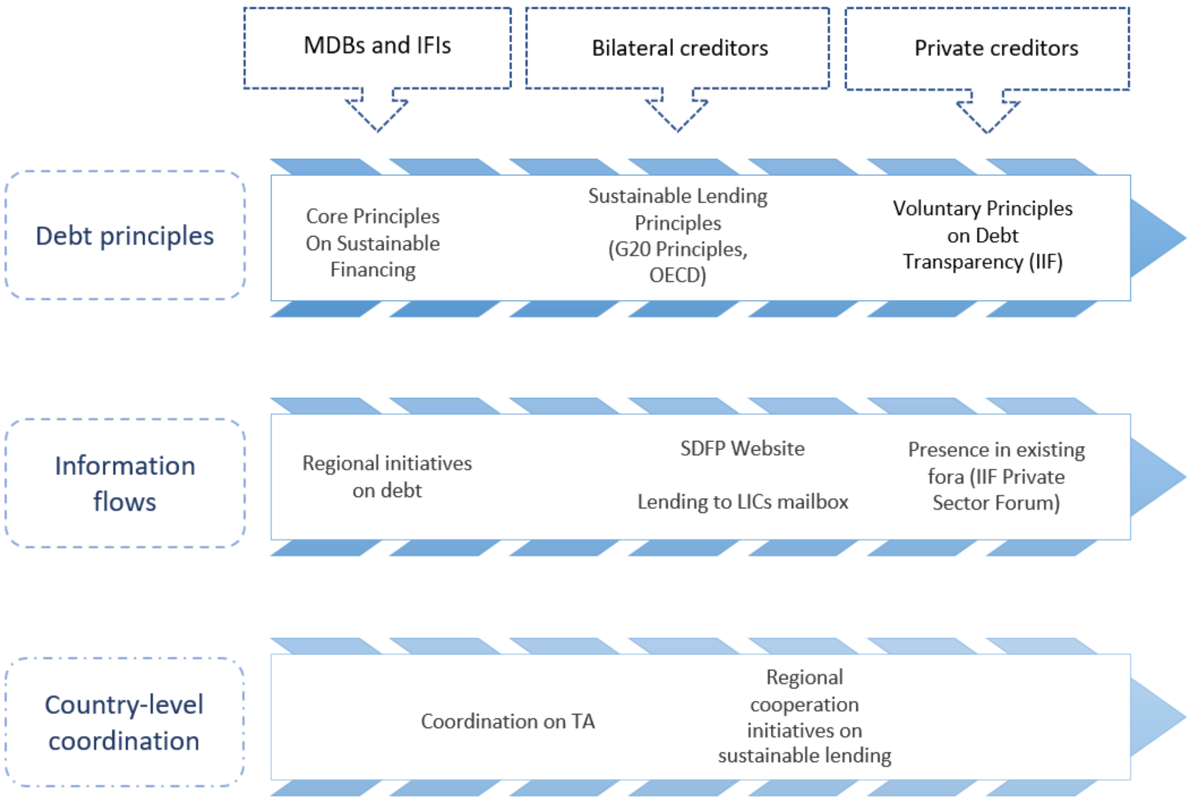
15 For example, IDA teams already engaged with a number of non-traditional creditors are looking to expand the coverage of such engagements.

16 *http://ida.worldbank.org/debt/*.

17 The website will complement the World Bank's Debt website (*www.worldbank.org/debt*) which provides comprehensive information on tools and reports on debt sustainability, debt management and debt relief, and publish analytical content (including notes on public debt definition, reporting requirements, collateralized loans, definitions of concessionality, most of which have been proposed under the MPA).

18 These include existing technical workshops and TA.

FIGURE 5. IDA'S OUTREACH WITH CREDITORS

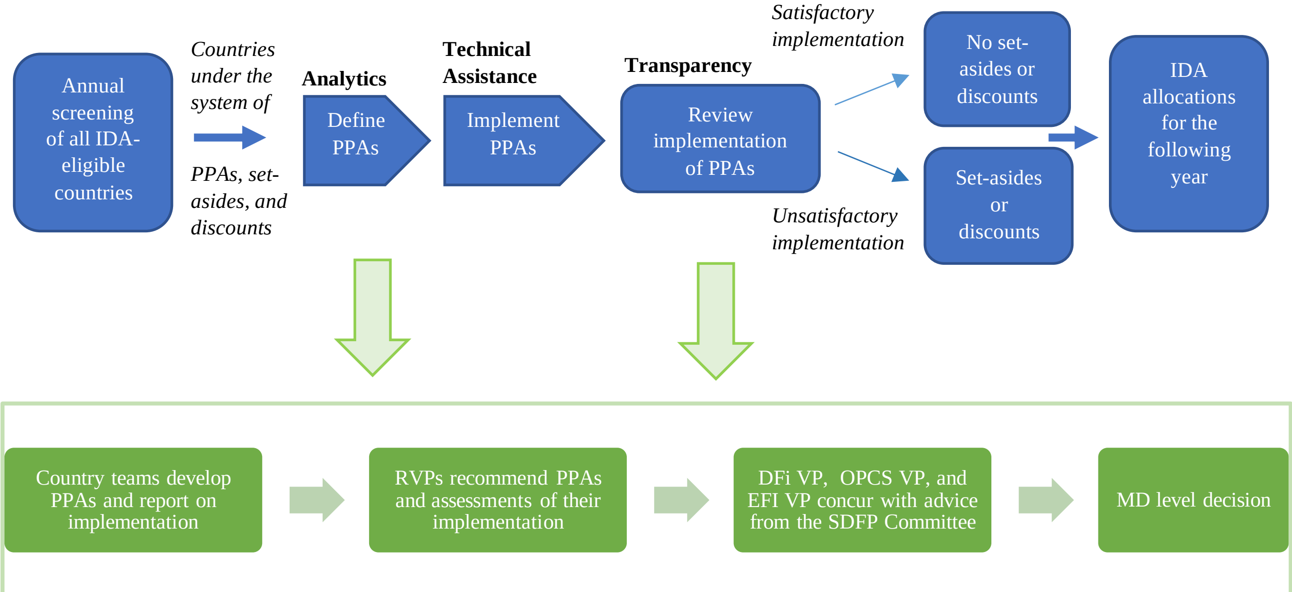


Governance and Arrangements for the Policy

40. **The governance arrangements of the SDFP will be rooted in IDA's existing accountability and decision-making framework.** These arrangements (Figure 6) will seek to ensure that the PPAs are: (i) identified by IDA's Regions on the basis of country dialogue, (ii) informed by sound diagnostics, including DSAs, PERs etc.; and (iii) aimed at supporting an ambitious but realistic pathway towards debt sustainability.

41. **Decisions will be taken at the Managing Director level, upon the recommendation of the Regional Vice-Presidencies (RVP) with the concurrence of Development Finance (DFi) VP, Operations, Policy, and Country Services (OPCS) VP, and Equitable Growth, Finance, and Institutions (EFI) VP.** The Region will define the PPAs in close consultation with their clients and assess their implementation. The process underlying the development of PPAs and assessment of their implementation will involve technical global units and country teams and will build on consultations and dialogue with IDA-eligible governments. Regional Vice Presidents will recommend PPAs and assess their implementation. DFi VP, OPCS VP, and EFI VP will concur. The SDFP Committee will advise (see below). The Managing Director will then take the decision. This high level of scrutiny reflects the strong accountability and incentive mechanism that underpins the SDFP.

FIGURE 6. GOVERNANCE ARRANGEMENTS



42. **An SDFP Committee will be established to advise IDA's Senior Management on the implementation of SDFP.** The Committee will comprise DFi, EFI, OPCS, CRO and LEG.[19] Corporate review and clearance will be supported by an SDFP Secretariat hosted by DFi. Responsibilities of the SDFP Committee will include:

a. *Providing advice on PPAs* proposed by the Regions regarding, for example, the level of ambition given existing capacity and cross-country consistency;

b. *Providing advice for the establishment of set-asides and discounts and release of set-asides* to Senior Management based on the implementation of the PPAs;

c. *Escalating issues that may be left unresolved* during the PPAs review and approval processes to EFIVP, OPSVP and DFiVP;

d. *Reporting on the SDFP* to IDA Participants and the Board.

43. **The Board will be regularly informed of SDFP implementation.[20]** Information on SDFP-related decisions will be reported to the Board on a yearly basis. In addition, Management will provide an update on implementation of the policy to Participants at the IDA19 Mid-Term Review.

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19 LEG will have an advisory role.

20 Annex 5 contains additional clarifications pertaining to the implementation of the SDFP provided by Management to the Board at the time of its approval.

44. **Given the unprecedented crisis of the COVID-19 pandemic at the time of the launch of the SDFP, a phased approach will be adopted in implementing the SDFP in IDA19.** As noted above, IDA countries are vulnerable to the COVID-19 pandemic and its economic and social implications. The crisis requires IDA to frontload its resources in FY21 to provide emergency support. At the same time, dealing with debt vulnerabilities remains critically important and progress in debt transparency, and debt reconciliation will be a critical factor of the COVID-19 Debt Action. Hence, while all IDA countries identified through the screening process will be expected to define PPAs for the first year of the IDA19 replenishment (FY21), these actions are expected to focus primarily on debt transparency and to some extent on debt management – which would help inter alia in the implementation of the COVID-19 Debt Action, with less emphasis on structural fiscal sustainability issues. For some IDA countries, it may take several months, up to about end-October 2020, to define these PPAs. Eligibility of countries for frontloading in FY21 will be conditioned by progress made in defining and implementing the PPAs.

V. EXPECTED OUTCOMES AND RISKS

45. **Over the medium-term, the DSEP is expected to strengthen borrowers' incentive structures and contribute to improved debt transparency, debt management, and fiscal policy frameworks**. PPAs will contribute to setting IDA countries on a path towards sustainable borrowing policies, institutions and practices, but they alone will not ensure debt sustainability. Continued country ownership of reforms and continued commitment to sound fiscal and debt management will be critical for ensuring that debt remains sustainable. Even with improved policies, countries will never be immune from the negative effects of exogenous shocks, better policies will help countries to enhance their access to external financing and to lower costs of such financing.

46. **Over the medium-term, the PCO is expected to improve coordination between IDA and other creditors and increase uptake of core principles on transparent and sustainable financing by IDA's partners**. In particular, the SDFP could help with promotion and coordination around practices to enhance debt transparency, such as avoiding use of comprehensive confidentiality clauses, and adopting sound financing practices, such as the completion of a comprehensive due diligence process by creditors before considering debt financing. Outcomes could also include increased usage of the "Lending to LICs" mailbox by different creditors.

47. **There are substantial risks related to the implementation of the DSEP.** The first risk relates to capacity constraints on the borrowers' side. In particular, countries with limited capacity or vulnerable to shocks could be inadvertently penalized with lower allocations where and when concessional funding is most needed. This risk will be mitigated by calibrating PPAs to the context of each country and by providing TA for institutional support to clients. Flexibility of the approach will be key risk mitigation measure in small states and countries affected by FCV.[21] The second risk may be limited country commitment or ownership. This risk will be mitigated by early engagement and proactive country dialogue. There are also design risks; the new policy could make the IDA allocation process more complex and less predictable. To mitigate this risk, a robust

[21] This risk was identified by IDA Participants during the IDA19 negotiations and will be closely monitored.

communication approach – including consultations, guidance for the staff, educational tools, websites, etc. – will be deployed. In addition, streamlining the governance process, staggering implementation, and adapting the level of ambition to local capacity will facilitate implementation.

48. **The main risks associated with the PCO is coordination failure among international actors, leading to limited impact on creditors' behavior**. Outreach has become more complex with the growing number of creditors that operate under different institutional frameworks and mandates. In addition, the PCO will represent one element only among many others in a collective effort among borrowers, creditors and international development partners to address debt-related risks. To mitigate this risk, PCO initiatives are designed to emphasize actionable steps rather than broad directions. These include the adoption of debt sustainability principles by creditors, to support engagement with traditional and non-traditional creditors, and country-level coordination initiatives, including TA on debt management and transparency. In addition, IDA's platform will be leveraged to support stronger cooperation among the international community.

VI. RECOMMENDATION

49. **Management recommends that IDA Executive Directors approve the proposed Sustainable Development Finance Policy, specifically the following core elements:**

a. **Country Coverage**. This Policy applies to all countries eligible for IDA resources.

b. **Two Pillars of the SDFP**. The SDFP comprises two main pillars:

i. the *Debt Sustainability Enhancement Program* that enhances incentives for countries to move toward transparent and sustainable borrowing and investment practices; and

ii. the *Program of Creditor Outreach* that enhances IDA's global platform and convening role to promote creditor outreach and coordination on sustainable lending practices, including debt transparency.

c. **Key principles of the Debt Sustainability Enhancement Program:**

i. Performance and Policy Actions (PPAs). To support countries in making continuous improvements towards a transparent and sustainable borrowing path, IDA establishes PPAs for countries facing debt vulnerabilities

ii. *Set-asides and discounts.* A set-aside from or a discount of a country's IDA Country Allocation are used to incentivize satisfactory implementation of these PPAs. Countries which demonstrate satisfactory progress in implementing their PPAs have access to their full annual country allocation. Countries that do not satisfactorily implement their PPAs will either have a share of their country allocation set aside or their country allocation will be reduced. Amounts of set-asides and discounts are based primarily on the debt sustainability framework applicable to a country and that country's debt.

d. **Key principles of the Program of Creditor Outreach:**

i. *Advance dialogue* among a broader range of development partners towards putting in place a set of principles on transparent and sustainable financing

ii. *Facilitate coordination* at the country-level among different creditors, including traditional and non-traditional creditors and the IMF, on actions to promote sound economic policies, prudent debt management, and sustainable lending practices;

iii. *Enhance communications* on transparent and sustainable financing through new information sharing initiatives and dialogue on the SDFP.

e. **Effectiveness date of the SDFP**: July 1st, 2020**.**

ANNEX 1. A SUMMARY OF IDA'S NON-CONCESSIONAL BORROWING POLICY 2019 REVIEW

1. **The IDA Non-Concessional Borrowing Policy (NCBP) was introduced in 2006.**[22] The policy is part of IDA's toolkit to help countries improve debt sustainability. It aimed at addressing situations in post-Multilateral Debt Relief Initiative **(**MDRI**)** and grant-eligible IDA-only countries in which IDA's debt relief and/or grants could potentially: (i) cross-subsidize creditors that offer non-concessional loans to recipient countries, or (ii) create incentives for these countries to overborrow, thereby eroding the gains to debt sustainability obtained from debt relief. The NCBP recognizes the existence of trade-offs between the goals of debt sustainability and financing development needs. In this regard, NCBP was not a blanket restriction on NCB and acknowledged that under certain circumstances and if well managed, NCB could be a useful component of a financing mix that helps finance development needs of low-income countries

2. **From its onset, the NCBP framework included periodic implementation reports to the Board of Executive Directors.** Reviews[23] and updates were completed in September 2007, June 2008, April 2010, and October 2015. The 2019 Review[24] was discussed in an informal meeting of the Board on Tuesday, October 8, 2019. Against the backdrop of an evolving development finance landscape, the 2019 Review took stock of the experience since the introduction of the policy, with focus on the period after the 2015 Review.

3. **The 2019 Review was informed by the record of experience and country cases, surveys of country teams and analytical work.** Extensive consultations were undertaken with various groups of stakeholders: (i) WB country teams regarding their experiences in implementing the NCBP and views on potential adjustments needed to enhance the effectiveness of the framework; (ii) IDA borrowers on the NCBP experience in assisting them address increased debt vulnerabilities; (iii) MDBs on identifying key common principles and coordinating actions to enhance sustainable lending; and IMF together with other IDA stakeholders. The Review was also informed by three papers that were undertaken to analyze public debt dynamics and vulnerabilities in IDA-eligible countries.

Key Features and Evolution of the NCBP

4. **The policy is pursued through a two-pronged strategy involving**: (i) enhancing creditor coordination; and (ii) encouraging appropriate borrowing behavior through borrower disincentives to discourage external non-concessional borrowing (NCB) by grant eligible and post-MDRI countries. Under the policy, NCB is reviewed either based on loan-by-loan or on borrowing ceilings. In cases of breaches, IDA can either issue waivers or respond by reducing allocated IDA volumes, hardening terms, or a combination of both. The policy focused on external non-

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22 IDA.2006. "IDA-eligible countries and non-concessional debt: dealing with the 'free rider' problem in IDA14 grant-recipient and post-MDRI countries*"*. *IDA/R2006-0137/1*, June.

23 IDA. 2007. "The role of IDA in ensuring debt sustainability: a progress report". *IDA/SecM2007-0590*, September; IDA 2008. "IDA's Non-Concessional Borrowing Policy: Review and Update". *IDA/SecM2008-0473*, June; IDA 2010. "IDA's Non-Concessional Borrowing Policy: Progress Update." *IDA/SecM2010-0240*, April; IDA 2015. "IDA's Non-Concessional Borrowing Policy: Review and Update". *IDA/SecM2015-0161*, October.

24 IDA 2019. "IDA's Non-Concessional Borrowing Policy: 2019 Review". *IDA/SecM2019-0221*, September.

concessional Public and Publicly Guaranteed (PPG) central government debt, consistent with the fiscal coverage under the Debt Sustainability Framework (DSF). Concessionality was established in terms of a minimum grant element10 requirement set at 35 percent.

5. **A key building block of the updated NCBP was the establishment of debt limits for countries subject to the policy.** Although not part of the original NCBP, debt limits became an important feature of the policy and were applied using a differentiated approach based on the country's debt vulnerabilities and capacity. Countries assessed at high risk/in debt distress under the joint WB-IMF DSF had a zero NCB ceiling. However, these countries could request *ex-ante* or *ex-post* waivers for loans with high developmental impact. Countries at low or moderate risk of external debt distress had the option to request a non-zero debt ceiling or request exceptions on a loan-by-loan basis. Coordination with the IMF was, from the onset, an important component of the NCBP. Under the agreed framework, IDA-eligible countries subject to the NCBP under an IMF program were monitored under the IMF's DLP. For countries without IMF programs, NCB issues were addressed under the NCBP.

6. **The NCBP has evolved over time,[25] with adjustments proposed in various reviews and updates.** While initially the focus was on "free-riding",[26] this later evolved to emphasize the need to protect debt sustainability and exercise IDA's fiduciary responsibility. Various adjustments were proposed, in different reviews, mainly to enhance flexibility, transparency and to align it to internal and external changes, including to the IMF's DLP.

7. **As the policy evolved, so did the governance arrangements.** The NCBP Committee is now chaired by the Director of IDA Mobilization and IBRD Corporate Finance (DFCII), and includes representatives from Macroeconomics, Trade and Investment (MTI), OPCS, Legal (LEG), Chief Risk Officer (CRO) and DEC, and often more senior level staff including practice managers, and directors attend these meetings. DFi serves as the Secretariat of the Committee. The NCBP Committee make recommendations to DFiVP for approval. The DFiVP provides the Chief Executive Officer (CEO) with recommendations for final clearance. The Board is subsequently informed of management's decision.

Implementation Assessment and Key Findings

8. **The implementation assessment considered various issues concerning NCBP implementation with the primary objective of assessing whether the NCBP was generally implemented as intended**. It considered experiences since the policy's introduction, focusing on the period since the 2015 Review. Overall the assessment found that the NCBP was broadly implemented as intended with the joint IMF-WB Debt Sustainability Framework for Low-Income Countries (LIC DSF) as a key input and has provided a flexible framework to assess the impact of and rationale for NCB based on country and project-specific factors. The NCBP and IDA's

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25 For details see: IDA 2019. "IDA's Non-Concessional Borrowing Policy: 2019 Review". *IDA/SecM2019-0221*, September.

26 The term "free riding" was used in the original 2006 paper (see footnote 1) to refer to situations in which IDA's debt relief or grants could potentially cross-subsidize lenders that offer non- concessional loans to recipient countries.

responses have complemented or fostered IDA country dialogue and programs, along with influencing countries to seek alternative sources of concessional financing.

9. **Requests for setting *ex-ante* non-zero debt ceilings for countries at low and moderate risk of external debt distress has been limited to two countries.** The limited number of requests for ceilings could be have been due to relatively limited level of awareness on the NCBP as the survey the survey and consultations with country teams revealed. It may also have been because some nonzero ceiling eligible countries had their ceiling set under the IMF's DLP for those with IMF program. In addition, waivers were requested and granted to several countries, reflecting the policy's acknowledgement that there are situations where NCB can be appropriate. The decisions to grant waivers are considered carefully by the NCBP Committee and were consistent with the policy's flexibility provisions.

10. **Coordination with the IMF has served the policy well; the case for continued coordination remains strong.** Where countries are not under an IMF program, IDA takes the lead in establishing debt limits on external NCB, in consultation with the IMF country teams. For IDA-eligible countries under an IMF program, the IMF takes the lead in setting debt limits following discussions with the WB country teams.

11. **The NCBP governance arrangements remain adequate although there is room for further streamlining the decision-making process.** The assessment revealed that recent review processes have taken longer than expected given the various steps needed before final clearance, and in some cases given the complexity of cases involved. A survey of country teams also indicated the gaps in communication between the NCBP Committee, country teams and authorities which further slows down the NCBP review process.

12. **Consultations with the country teams suggest that the NCBP provided an external anchor that may have helped countries contain NCB, country teams also raised some implementation challenges that the new policy should address, including:**

a. The NCBP's lack of a clear exit strategy - no clear guidelines regarding the conditions required to lift the responses.

b. While the new LIC-DSF guidelines provide enhanced guidance on efforts to include SOEs debt, some country authorities raised concerns regarding the challenges they face in collecting SOEs debt.

c. In certain countries, political pressures complicate discussions on debt sustainability.

13. **An assessment of the inventory of country cases, excluding those covered by the IMF DLP, provided additional insights on implementation of the NCBP.** These include:

a. There is no systematic approach to review NCBP cases as they were reviewed only when brought to the attention of the NCBP Committee.

b. The NCBP implementation dealt with NCB mostly on an ex-post basis, while a forward-looking engagement with countries was needed.

14. **An assessment of the Outreach Program implementation shows that, overall, the NCBP's impact on creditor coordination has been effective but limited in scope.** Engagement with non-Paris Club, bilateral and private creditors remains sporadic. Engagement with non-Paris Club bilateral creditors was ongoing and a more diversified group of agencies have been reaching out to IDA through its "Lending to LICs" mailbox.

15. **Survey and consultation with other MDBs found that NCBP had a positive impact on creditors' lending decisions but this can be enhanced**. More than half of the MDBs surveyed are familiar with the NCBP and factor it into their lending decisions.

Summary of Key Findings

a. **Implementation:** The NCBP was implemented as intended and this has also been confirmed by previous reviews. It has provided a flexible framework to assess countries' NCB cases based on country and project-specific factors. The results from the surveys suggest that the NCBP and NCBP responses have complemented or fostered IDA country dialogue and programs which are the WB's primary instruments to help countries address debt vulnerabilities.

b. **Coverage**: Growing debt vulnerabilities have transcended beyond post-MDRI and grant-eligible IDA-only countries into other IDA-eligible countries. However, NCBP still applies only to grant-eligible IDA-only and MDRI recipient countries (currently 40 countries). Therefore, there is a strong rationale to expand the scope of the new policy to include all IDA-eligible countries which would help enhance IDA's role in helping promote debt sustainability. Furthermore, the implementation of the NCBP focused mostly on external NCB. However, the financing landscape has been changing with the share of domestic debt is rising. The new policy should also take a broader view of debt, which will tighten alignment with the current IMF DLP which encompasses both external and domestic public debt.

c. **Borrower incentives:** This Review found that the impact of NCBP on borrowers' incentives have been positive but limited. This is consistent with the findings of the 2008, 2010 and 2015 Reviews and from its inception, the policy acknowledged this limitation. In this regard, the 2008, 2010, and 2015 reports recommended further adjustments to the NCBP implementation. Given the limited impact of these adjustments, management's proposal is now to move to a more comprehensive and ambitious SDFP.

d. **Impact on creditor coordination:** The NCBP's impact on creditor coordination, overall, has been effective with room for further improvements. Coordination with MDBs could be further enhanced 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.

16. **Communication and transparency:** Results from consultations and surveys pointed towards a need to enhance transparency and communication. The new policy should ensure continued effective communication and transparency, including communicating the correct reporting obligations and encouraging systematic and timely reporting of NCB both of which are critical to the effectiveness of policy.

ANNEX 2. COUNTRY CHARACTERISTICS RELEVANT TO THE SDFP (AS OF FEBRUARY 2020).[27]

Country	IDA lending category	FCS status	Small State Lending Terms	Risk of external debt distress
Afghanistan	IDA	Yes		high
Bangladesh	IDA			low
Benin	IDA			moderate
Bhutan	IDA		Yes	moderate
Burkina Faso	IDA	Yes		moderate
Burundi	IDA	Yes		high
Cabo Verde	Blend		Yes	high
Cambodia	IDA			low
Cameroon	Blend	Yes		high
Central African Republic	IDA	Yes		high
Chad	IDA	Yes		high
Comoros	IDA	Yes	Yes	moderate
Congo, Dem. Rep.	IDA	Yes		moderate
Congo, Rep.	Blend	Yes		in distress
Côte d'Ivoire	IDA			moderate
Djibouti	IDA		Yes	high
Dominica	Blend		Yes	high
Eritrea	IDA	Yes		#N/A
Ethiopia	IDA			high
Fiji	Blend		Yes	MAC-DSA
Gambia, The	IDA	Yes		in distress
Ghana	IDA			high
Grenada	Blend		Yes	in distress
Guinea	IDA			moderate
Guinea-Bissau	IDA	Yes		moderate
Guyana	IDA		Yes	moderate
Haiti	IDA	Yes		high
Honduras	IDA			low
Kenya	Blend			moderate
Kiribati	IDA	Yes	Yes	high
Kosovo	IDA	Yes		MAC-DSA
Kyrgyz Republic	IDA			moderate
Lao PDR	IDA			high
Lesotho	IDA			moderate
Liberia	IDA	Yes		moderate
Madagascar	IDA			low

27 This table reflects the latest publicly available DSAs under the LIC DSF as of February 2020.

Country	IDA lending category	FCS status	Small State Lending Terms	Risk of external debt distress
Malawi	IDA			moderate
Maldives	IDA		Yes	high
Mali	IDA	Yes		moderate
Marshall Islands	IDA	Yes	Yes	high
Mauritania	IDA			high
Micronesia, Fed. Sts.	IDA	Yes	Yes	high
Moldova	Blend			low
Mongolia	Blend			MAC-DSA
Mozambique	IDA			in distress
Myanmar	IDA	Yes		low
Nepal	IDA			low
Nicaragua	IDA			moderate
Niger	IDA	Yes		moderate
Nigeria	Blend	Yes		MAC-DSA
Pakistan	Blend			MAC-DSA
Papua New Guinea	Blend	Yes		moderate
Rwanda	IDA			low
Samoa	IDA		Yes	high
São Tomé and Principe	IDA		Yes	in distress
Senegal	IDA			moderate
Sierra Leone	IDA			high
Solomon Islands	IDA	Yes	Yes	moderate
Somalia	IDA	Yes		in distress
South Sudan	IDA	Yes		in distress
St Lucia	Blend		Yes	MAC-DSA
St Vincent	Blend		Yes	high
Sudan	IDA	Yes		in distress
Syrian Arab Republic	IDA	Yes		#N/A
Tajikistan	IDA			high
Tanzania	IDA			low
Timor-Leste	Blend	Yes	Yes	low
Togo	IDA			moderate
Tonga	IDA		Yes	high
Tuvalu	IDA	Yes	Yes	high
Uganda	IDA			low
Uzbekistan	Blend			low
Vanuatu	IDA		Yes	moderate
Yemen, Republic of	IDA	Yes		moderate
Zambia	IDA			high
Zimbabwe	Blend	Yes		in distress

ANNEX 3. FRAMEWORK FOR SETTING CEILINGS UNDER THE SDFP

1. **Principles.** The principles underlying the framework for setting debt ceilings are listed below. They seek to ensure its transparent, comprehensive and equitable implementation.

   a. *Safeguard external debt sustainability:* Granted ceilings should not lead to a deterioration in countries' debt sustainability outlook under the LIC DSF.

   b. *Promote transparency*: Decisions should be based on clear and simple rules that are easy to communicate and understood by all stakeholders. These rules should also account for limited technical capacity and debt management needs of some IDA-eligible countries.

   c. *Adequate balance between rules and flexibility*: While applied based on a rules-based process, the framework should allow for a degree of flexibility to accommodate country- and project-specific circumstances if warranted.

   d. *Ensure fair and equal treatment among IDA-eligible countries:* The framework should ensure consistency of treatment for countries in similar situations. It should also avoid situations where implementation is prevented by factors outside the control of authorities.

2. **Framework.**[28] Ceilings under the SDFP will primarily take the form of nominal limits on non-concessional external PPG debt and will be set as detailed below:[29]

   a. **Countries under LIC DSF at low risk of external debt distress and countries under the MAC DSA.** These countries will normally not be subject to a ceiling.[30] The setting of a ceiling may nevertheless be triggered under certain circumstances, including when an episode of rapid and significant debt buildup occurs.[31]

   b. **Countries under LIC DSF at moderate risk of external debt distress.** Ceilings will avoid a risk of external debt distress downgrade.

   c. **Countries under LIC DSF at high risk of external debt distress and in debt distress**. There will be two categories:

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[28] Ceilings will be applied only if there is no conflict with specific national legislations. Where such legislation exist, ceilings in national legislation will take precedence. Furthermore, ceilings exclude debt management operations. A similar approach will be followed for other fiscal rules that may be in place.

[29] Ceiling on present value terms of total external PPG debt could also be considered depending on country circumstances.

[30] Deteriorations in the risk of external debt distress rating would in principle not be precluded except for cases where rapid debt buildups warrant the setting of a ceiling.

[31] Rapid debt buildups (concessional and non-concessional) would be monitored, reported and addressed as relevant as part of Bank dialogue.

i. **Countries at high risk of external debt distress with sustainable outlook.** A zero ceiling on non-concessional borrowing will apply in principle. Non-concessional borrowing would be allowed only under exceptional circumstances.[32] An exception will be considered when: (i) concessional financing is not available; and (ii) the operation is needed for debt management operations and is consistent with the MTDS and the MTFP (if it exists).

ii. **Countries under LIC DSF in debt distress or at high risk of external debt distress with unsustainable outlook.** A zero ceiling on non-concessional borrowing applies. A non-zero ceiling could be considered, for example, for arrears clearance operations only if other financing options are not available.

3. **Special considerations**. The framework will apply – as needed – additional requirements or increased flexibility to address country-specific circumstances. For example, country specific factors driving debt vulnerabilities could lead to debt ceilings being complemented or taking the form of ceilings targeting specific debt components.[33]

4. **Exceptions.** Ex-ante exceptions to the framework may be granted in cases where non-concessional borrowing is linked to projects with high economic, financial and social returns. Such exceptions would be granted on a case-by-case basis and would require the borrower to share comprehensive information on the financing and the expected impact of the project.[34] In principle, ex-post exceptions (i.e., requests for exemptions received after financing contracts were signed) would not be granted, unless the financing is in response to an exogeneous shock or the authorities provide evidence that the financed project does meet the criteria for an ex-ante exception and provide a clear rationale for the project not being discussed with the Bank ex-ante. Such ex-post considerations should be exceptional and may trigger the inclusion of additional PPAs as part of the SDFP.

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[32] For example, critical projects with strong development impact and strong financial and social rates of return.

[33] For example, arrears accumulation, issuance of guarantees, specific contingent liabilities – e.g., SOEs/PPPs.

[34] This would include volume, financing terms, disbursement schedule, use of the proceeds and available project analyses. The exceptions will only be considered upon provision of the required information.

ANNEX 4. IMPACT OF PROGRESS IN IMPLEMENTATION OF PPAS ON COUNTRY ALLOCATIONS

1. **The table below shows the impact of positive or negative performance in a given year on the following year's allocation**. The allocation is assumed to be 100 by default. One replenishment cycle corresponds to year N to N+2. Note that:

a. the impact of missing temporarily one year's PPA is different if it happens in the second year of a replenishment (4th case above) and

b. the impact in IDA19 will be different since there is no observable PPA performance in the previous year (FY20), so the first year of FY21 all countries will get their full allocation.

	N-1	N	N+1	N+2	N+3
Country making consistent progress in PPA implementation					
PPA	+	+	+	+	+
Allocation		100	100	100	100
Country missing a PPA for the last year of the replenishment but implementing it a year later					
PPA	-	+	+	+	+
Allocation		80	120	100	100
Country missing a PPA in the first year of a replenishment, but implementing it a year later					
PPA	+	-	+	+	+
Allocation		100	80	120	100
Country missing a PPA in the second year of a replenishment					
PPA	+	+	-	+	+
Allocation		100	100	80	100
Country missing a PPA in the last year of a replenishment					
PPA	+	+	+	-	+
Allocation		100	100	100	80
Country missing a PPA assigned for N-1 for two years but implementing all PPAs assigned for year N with one-year lag					
PPA	-	-	+	+	+
Allocation		80	80	120	100
Country missing PPAs every year					
PPA	-	-	-	-	-
Allocation		80	80	80	80

ANNEX 5. ADDITIONAL CLARIFICATIONS ON IMPLEMENTATION ISSUES

1. On June 9, Executive Directors approved the Sustainable Development Financing Policy (SDFP). Approval of the SDFP was provided with the understanding that Management would submit clarifications pertaining to the implementation of the SDFP in a note supplementing the SDFP Board Paper. This note includes said clarifications.

Approach to Performance and Policy Actions (PPAs)

2. The establishment and assessment of PPAs will be based on a rules-based and equitable framework. The definition and implementation of PPAs are at the core of the SDFP, as the countries will need to achieve the agreed PPAs each fiscal year in order to earn their full annual allocations the following year. PPAs will mostly be specific actions that the country needs to take as a matter of priority in order to enhance its debt sustainability. An assessment will be made at the end of each FY as to whether those actions have been taken or not.

3. The design of PPAs will be informed by sound diagnostics and accompanying policy dialogue. The identification of PPAs will rely on recognized, published, and peer reviewed frameworks: Debt Management Performance Assessments (DeMPA) in the case of debt management; debt sustainability analyses, including under the joint Bank-Fund Debt Sustainability Framework for low-income countries (LIC-DSA) in the case of fiscal sustainability; and the debt transparency toolkit on debt transparency. Additional tools such as the Public Expenditure and Financial Accountability (PEFA) framework, Public Investment Management Assessments (PIMA) framework, and the Public-Private Partnerships Fiscal Risk Assessment Model (PFRAM) will also be used to provide relevant information.

4. Building on this extensive suite of diagnostic tools, the second step under the Debt Sustainability Enhancement Program (DSEP – cf. Section III of the SDFP paper) will have two sub-steps:

i. Identifying Potential Technical Areas for PPAs

5. **DSAs will be the primary source for identifying potential areas for PPAs**. DSAs highlight the key drivers of debt trajectories and sources of debt vulnerabilities. Information to be used to identify potential PPA areas includes:

- *a.* Key drivers of debt dynamics (e.g., primary deficit and growth projections) and assumptions underpinning the baseline scenario (e.g., assumed medium- and long-term fiscal reforms).
- *b.* Debt data issues (e.g., debt data transparency and coverage issues).
- *c.* Key sources of fiscal risks (contingent liabilities, SOEs, guarantees, PPPs).
- *d.* Potential debt management areas (asset-liability management) requiring attention.

6. Potential PPA areas include the following:

a. **Debt transparency.** Debt transparency is critical for borrowers and creditors to take informed decisions. The design of PPAs in this area will be informed by the forthcoming debt transparency tool, reported gaps in debt data coverage in DSAs, the quality of reporting, and the DeMPA. For example, if assessed as a critical issue, PPA in this area will require the publication of a public debt report that strengthens data coverage.

b. **Fiscal sustainability.** Supporting countries to address debt vulnerabilities is a key objective of the SDFP. The design of PPAs in this area will be informed by DSAs or recent Public Finance Reviews – recognizing in particular the importance of strengthening public revenue mobilization and public investment as well as reducing revenue leakage. For a country with weak SOE/PPP financial performance, PPAs will relate to identifying, managing and mitigating fiscal risks. When domestic revenue mobilization is structurally low, PPAs will include measures to bolster revenue collection. If certain spending items are structurally high, PPAs will be related to improving the efficiency and effectiveness of spending while protecting the poor and vulnerable. Findings from the DSA will be complemented with additional diagnostic tools, such as for example the PFRAM (e.g. for a country with significant PPPs), and the PIMA (e.g. for a country with weak public investment management).

c. **Debt management.** The design of PPAs in this area will be informed by DeMPA reports, where available, or similar assessments. PPAs will focus on critical areas where a country does not meet the minimum requirement. For example, in a country that does not meet the minimum requirements for a debt management legal framework, the PPA will be linked to implementing reforms to strengthen the authorization and accountability in \ relevant laws and regulations. Findings from the DeMPA can be complemented with additional diagnostic tools, such as the guarantee management framework for countries with large guarantees.

ii. Selecting specific actions under PPAs

7. Among potential PPAs identified, country teams will select and propose around three PPAs for implementation in a FY. The selection of PPAs, to be carried out in collaboration with the country authorities, will be informed by ongoing work in the area of debt sustainability, transparency and debt management. It will recognize capacity constraints faced by each country as well as countries' vulnerability to external shocks and it will ensure country ownership. When proposing PPAs, teams will: i) build on analytical underpinnings and policy dialogue; ii) take into account implementation capacity constraints, particularly for countries in Fragile and Conflict Situations (FCS) and Small States; and iii) factor-in implementation support (PPAs could become prior actions of a DPO, they could be conditionalities of an IMF program, they could be underpinned by technical assistance provided by the Bank or other development partners). Proposed PPAs will be vetted at the RVP level and then by the Bank-wide SDFP committee, for quality and consistency. Specific actions to be taken under PPAs will need to be confirmed by the country concerned.

8. The fourth DSEP step "Allocations and the Implications of PPA Implementation" (cf. Section III of the SDFP paper) will start with an assessment of PPA implementation. Many PPAs will be similar in their nature to the prior actions of DPOs and/or Disbursement Linked Indicators of Programs-for-Results (PforRs). As such, PPAs will be assessed on the basis of evidence provided by the countries. IDA will work with the countries during the implementation phase and assess progress made, which in turn will inform the IDA resource allocations to the countries concerned. As necessary, SDFP provisions for countries experiencing several external shocks will be applied.

Complementarities between the SDFP, the Debt Service Suspension Initiative (DSSI) and other aspects of IDA's response to the COVID-19 crisis

9. The early stage of the SDFP implementation will take place during the period when IDA-eligible countries will be affected by the adverse social and economic impacts of the COVID-19 pandemic, which will inevitably increase external financing needs and will lead to deterioration of debt-related vulnerabilities in many countries. IDA will ensure that adequate financing of the COVID-19 response is not undermined by the implementation of the SDFP. IDA is responding to the needs of its clients in a range of ways complementing the DSSI, including by allocating a larger portion of the IDA19 resources in FY21 compared to the other two years of the replenishment period, to support a strong response and to maximize positive net flows to IDA-eligible countries during the DSSI period. Instead of allocating one-third of the IDA19 envelope for FY21, IDA will advance a significantly larger portion.

10. The SDFP will support the DSSI in areas such as monitoring the created fiscal space, disclosure of debt and limiting new non-concessional borrowing in countries with elevated debt vulnerabilities to rare cases of clear strong economic development considerations. Participation in the DSSI should be beneficial to most eligible countries as a good debt management action, since it provides fast and timely financial support at a time when countries face heightened financing needs. The PPAs will focus on the three policy areas of debt transparency, fiscal sustainability and debt management, and will be selected based on strong analytics, as described above. This includes debt limits which will also apply under the DSSI framework. As such, PPAs are expected to be aligned with and reinforce incentives for countries to meet the DSSI requirements.

11. The SDFP includes a requirement that countries need to make progress on PPAs to access frontloading of IDA resources within a three-year cycle. As IDA makes an exceptional effort to frontload IDA resources in response to COVID-19, an emphasis will be placed on countries pursuing prudent debt policy consistent with long term debt sustainability objectives, to create positive incentives for prudent solutions for their financing needs.

Program of Creditor Outreach (PCO)

12. The PCO is an integral part of the SDFP and reflects that sustainable financing is a collective responsibility that will need cooperation by borrowers and creditors alike. It enhances IDA's global platform and convening role to promote creditor outreach and coordination on sustainable lending practices, including debt transparency. Management commits to provide to the Board in FY21 Q2 a further elaboration on the PCO, in particular with the specific results and

outcomes sought from planned outreach for FY21. The forthcoming Bank-Fund Multi-Pronged Approach (MPA) reports will also provide information on progress made on creditor outreach as a result of the various ongoing activities in the context of the MPA, across the range of creditors. IDA has consulted with other MDBs on the SDFP design. IDA will continue regular consultations with other MDBs on issues related to the SDFP and their debt-related policies, making such consultations an integral part of the PCO and striving to maximize consistency and complementarities between these policies. In addition to technical meetings, such consultations will also involve events at the senior management level. In addition to MDBs, they will involve other creditors and development partners. Every effort will be made to reach the broadest possible range of creditors. For example, building on the coordination under the NCBP, the OECD DAC Working Party on Development Finance Statistics (WP-STAT) requested an update on the SDFP in June, with the view to align their guidelines with the SDFP. Management also made regular presentations of the SDFP to the Paris Club as the policy was being developed and will schedule another one after its approval.

13. It is worth highlighting that IDA identified and proposed “Core Principles of Sustainable Financing” (Principles) to promote information-sharing and coordination among MDBs and other IFIs related to the implementation of resource allocation frameworks and similar debt/financing policies. The Principles have linkages to the G20 Operational Guidelines for Sustainable Financing and are structured around four pillars: Financing Policies; Creditor Coordination; Information Sharing and Transparency; and Financial Innovation. After consultations, the Asian Development Bank, African Development Bank, International Fund for Agricultural Development, and the International Monetary Fund have agreed to participate. These Principles are open to all MDBs and other IFIs and IDA will continue to promote them. The technical meetings on debt-related issues organized annually by the Bank and technical meetings on the MDB’s allocation frameworks will cover matters related to these policies as necessary, and the consultations process will also include higher level MDB coordination meetings.

14. Country platforms set up to discuss country-specific issues may be used on debt issues to share information, engage with creditors, and support dialogue at country-level, with the countries playing the lead role and using tools such as joint World Bank-Fund DSAs as analytical basis. Building on current practice, dialogue with IDA countries on PPAs will be used as an opportunity to engage and share information with creditors in the context of country-led coordination mechanisms.

Methodology for establishing debt limits under the SDFP and coordination with the IMF’s Debt Limit Policy

15. Borrowing ceilings under the SDFP will primarily take the form of nominal limits on non-concessional external public and publicly guaranteed (PPG) debt. Nominal borrowing amounts are easy to understand and communicate. In cases in which the IMF adopts debt limits-on the present value (PV) of external PPG debt, consistent with the IMF Debt Limit Policy (DLP), IDA will coordinate with the IMF, usually in the context of the preparation of DSAs, to adopt consistent nominal ceilings on non-concessional external PPG debt, based on agreed assumption on the terms of the new borrowing or use PV ceilings. PV ceilings could also be used under specific

circumstances, e.g., if small changes in borrowing terms would have large implications for nominal non-concessional ceilings.

16. Under the SDFP, countries assessed at high risk or in debt distress would in principle be assigned a zero ceiling on non-concessional borrowing. In these countries, non-concessional borrowing would be allowed only under exceptional circumstances, consistent with SDFP flexibility. For example, exceptions could be granted to finance critical infrastructure projects with strong development impact and strong financial and social rates of return, when concessional financing would not be available. Under the SDFP, such exceptions would be granted on a case-by-case basis and would require the borrower to share comprehensive information on the financing. In its assessment, IDA would consider the expected impact of the project both at the level of the country (to assess if the borrowing is consistent with the country's borrowing plan, the macroeconomic framework, the impact of the borrowing on debt sustainability and the adequacy of the policy and institutional framework) and of the specific loan and investment (to assess estimated economic, financial and social return of the loan, its development content and potential impact; taking into account the equity stake of the lender; the existence of additional costs; and the overall concessionality of the financing package). Blend countries and other countries with significant access to market-based financing will be accorded special consideration given their reliance on non-concessional financing. When warranted, ceilings for these countries will take debt management objectives into account and will be calibrated to support a reduction in debt vulnerabilities. The regular reporting to the Board on SDFP implementation would include a justification for any deviation for countries under a borrowing ceiling.

Staffing and budgeting

17. Management is committed to providing the required assistance to IDA countries as well as to allocating budget resources for this purpose to ensure that staffing requirements for implementation of the SDFP are fully met and to complement resources available from the trust funds such as Debt Management Facility, Global Tax Program, and others. Allocation of Bank budget resources and the related staffing decisions will follow the Bank's standard procedures.

Implementation arrangements and governance framework

18. Strong governance in implementation in critical to ensure quality and consistency of the DSEP. Management would like to reiterate that PPAs are selected and proposed by country teams in coordination with the authorities to ensure country ownership and they will benefit from technical support from the MTI global debt team from an early stage. PPAs will then be vetted through a rigorous two-stage review process (at the regional level with inputs from corporate units first, and then by the Bank-wide SDFP Committee) to ensure quality and equity of treatment. Country teams will propose PPAs and prepare an assessment of their implementation, in discussion with the countries' authorities and with advice from the Bank's relevant global and corporate teams. The Regional Vice President will review the PPAs for quality, consistency, and equity of treatment of comparable countries within the Region, with particular attention to the challenging cases, and recommend them for approval. Recommendations will be vetted by the Bank-wide SDFP Committee, with concurrence needed from the DFi, OPCS, and EFI VPs. The Managing Director for Operations will make the final decision based on these recommendations. Robust

communication on the SDFP during its launch and implementation will be essential to its effectiveness.

Updates to the Board

19. Management is committed to provide regular updates to the Board, including a first update on the FY21 PPAs in Q2 to review early implementation experience. Management will share the FY21 PPAs with the Board, after they are agreed with the countries, for information. This information will also be shared on the IDA Debt website in accordance with the Access to Information Policy. Debt ceilings will continue to be disclosed in close coordination with the IMF as is current practice. The review of the SDFP early implementation will articulate how the analytical framework described in the SDFP paper and further elaborated in this statement led to the selection of PPAs. This review will also provide information on key priorities identified for addressing debt vulnerabilities (including by types of countries e.g. for FCS or Small States; the links between PPAs and IMF programs; analysis of the IDA instruments to support implementation of PPAs; and priorities for technical assistance). As the PPAs are implemented, some of these actions may be supported by DPOs. At the country level, country teams will be advised to discuss with development partners the specific PPAs for each country.

20. Beyond this first report, a second report will provide, at the end of FY21 or early FY22, the outcome of PPA implementation for the first year, the impact on IDA allocations, and a similar sharing of information for the new PPAs. Management also intends to prepare a progress report for IDA Deputies in time for IDA19 Mid-Term Review (MTR). In addition, an IEG review will be requested after the initial stage of the SDFP's implementation.

Enhancing debt transparency in the context of the existing laws, regulations, and policies

21. There is broad consensus amongst IDA members that enhanced transparency is key. The Bank will operationalize efforts under the SDFP to enhance debt transparency in a sensible manner. Any debt transparency measures, and sharing of debt information, will be undertaken in accordance with the Bank's applicable policies, including the Access to Information Policy and Policy on External Debt Reporting and Financial Statements, and consistent with sound international practices. Under the Bank's Access to Information Policy, any information received by member countries in confidence remains protected.

Set-asides for the third year of IDA replenishment period

22. According to the Board paper, missing the completion of PPAs at the end of the second year of a replenishment cycle translates into an immediate and irreversible loss in allocation. While not mentioned in the Deputies Report, this feature reflects Management's further analysis of consistency with IDA policies and practices. This issue does not affect implementation in the first year of IDA19 replenishment period, and like other aspects of the policy, it will be reviewed at the IDA19 MTR.

Access to IDA windows

23. The only direct limitation for accessing IDA windows resulting from the SDFP concerns access to the Scale-Up Window (SUW) by countries at moderate risk of debt distress that did not satisfactorily implement their PPAs during the previous FY. All other countries at moderate risk of debt distress will be able to access SUW. The access to the Regional Window might be indirectly affected for countries whose allocations are reduced by the set-asides or discounts by the requirement to co-finance projects from PBA at fixed ratios. However, the choice to use national allocations will be still made by IDA countries, regardless of the progress they made on PPAs.

Risks and their mitigation

24. Management noted concerns raised about the risk of weak implementation of the policy as a result of IDA countries not being able to implement PPAs related to structural fiscal sustainability issues during the COVID-19 crisis, and the implications of this risk for IDA's financial sustainability. The approach of the policy is to address countries' debt-related vulnerabilities in a manner commensurate with the countries' implementation capacity. The policy provides a basis for a concerted effort to make progress in debt sustainability for the countries concerned, but other parties will need to collaborate to achieve this objective; only through collaboration can success be achieved. With regard to exogenous shocks such as COVID-19, the design of PPAs will take into account their impact on the countries' implementation capacity.