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PROPOSAL FOR THE ALLOCATION OF CONCESSIONAL RESOURCES 2019-2020

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ABBREVIATIONS

CIPE	Country Institutional and Policy Evaluation
CPIA	Country Policy and Institutional Assessment
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EPBA	Enhanced Performance-Based Allocation
FSO	Fund for Special Operations
IDA	International Development Association
PMR	Progress Monitoring Report
SGO	Sovereign Guaranteed Operations

I. INTRODUCTION

1.1 The purpose of this document is to submit for the consideration and approval of the Board of Executive Directors Management's proposal for the allocation of concessional resources for 2019-2020.[1]

1.2 The proposal was prepared according to the DSF/EPBA methodology presented in document GN-2442 entitled "Implementation of multilateral debt relief and concessional finance reform at the IDB. Proposal for the implementation of a Debt Sustainability (DSF) and Enhanced Performance-Based Allocation (EPBA) framework", which was approved by the Board of Executive Directors (Board) on February 21, 2007. Document GN-2442 presented an enhanced performance-based allocation system for the distribution of concessional resources, under a blended financing structure, based on the DSF/EPBA criteria. Under the DSF/EPBA, the overall allocation of concessional resources is determined by a combination of country needs and performance, which determines the concessional resources allocation (as per the EPBA); and the risk of debt distress, which defines the appropriate blend of regular Ordinary Capital (OC) resources (as per the DSF). As such, the DSF/EPBA links concessional resource allocation with absorption capacity, while preserving alignment with debt sustainability. Section III summarizes the application of the EPBA and Section IV summarizes the application of the DSF.

1.3 The proposal was also prepared according to the provisions of document AB-3066-2 entitled "Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets", which was approved by the Board of Governors on September 1, 2016. Section II summarizes the application of country eligibility criteria and Section V presents the determination of the EPBA envelope.

II. COUNTRY ELIGIBILITY

2.1 Country eligibility for concessional resources is determined by two criteria: (i) a Gross National Income (GNI) per capita lower than the threshold of US$2,834 in 2015 prices, which is US$2,919 in 2017 prices[2]; or (ii) insufficient creditworthiness for borrowing 100 percent on regular OC terms, as indicated by a country's score on a synthetic creditworthiness indicator (SCI).[3] The SCI is the sum of: (i) the percentage of concessional

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[1] Information on the utilization of concessional resources allocated for the 2017-2018 period will be included in the Q1 2019 report on the implementation of the DSF/EPBA framework to be presented to the Board of Governors pursuant to Resolution AG-3/07.

[2] Data for GNI per capita according to the Atlas methodology is taken from the World Development Indicators, published by the World Bank.

[3] "Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets" (AB-3066-2), approved September 1, 2016. A country will be eligible for concessional resources if: (i) it has a GNI per capita lower than the threshold; or (ii) GNI per capita between one and two times the threshold and a score on the SCI higher than a defined threshold (90). Additionally, as a safety margin, a country shall be above the GNI per capita eligibility threshold for a minimum of two consecutive years before losing eligibility.

resources applicable to a country in the latest allocation of concessional resources period; and (ii) a numerical equivalent of the average of the long-term, foreign currency sovereign credit ratings available from S&P, Moody's and Fitch. As such, it combines two perspectives on debt sustainability – the risk of debt distress as assessed by a debt sustainability analysis using the World Bank/IMF Debt Sustainability Framework for Low-Income Countries and a market perspective from the principal rating agencies.

2.2 Application of the eligibility criteria yields the following conclusions, which are summarized in Table 1:

- **Nicaragua**: had a GNI per capita of US$2,130 in 2017, which is below the per capita income threshold (Annex 1).

- **Honduras**: had a GNI per capita of US$2,250 in 2017, which is below the per capita income threshold (Annex 1).

- **Guyana**: had a GNI per capita of US$4,460 in 2017, which is above the per capita income threshold but below two times the threshold. In addition, Guyana has an SCI score of 102, which is higher than the hard threshold of 90 and indicates that the country lacks sufficient creditworthiness for borrowing solely on regular OC terms (Annexes 1, 2 and 3).

- **Bolivia**: had a GNI per capita of US$3,130 in 2017. GNI per capita crossed the per capita income threshold in 2014 and remained above it in 2015, 2016 and 2017 (Annex I). Moreover, the country has an SCI score of 52, which is lower than the soft threshold of 80 (creditworthiness grey zone) and indicates that the country has sufficient creditworthiness for borrowing solely on regular OC terms.[4] Since Bolivia's GNI per capita has been above the per capita income threshold from 2014 through 2017 and its SCI score remains lower than 80, **Bolivia will not be eligible for concessional resources in the 2019-2020 allocation**, in accordance with the provisions set forth in document AB-3066-2.[5]

- **No other countries** are eligible for concessional resources (Annexes 1, 2 and 3).[6]

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[4] The SCI has two thresholds: (i) a hard threshold of 90; and (ii) a soft threshold of 80. An SCI score higher than 90 indicates that a country lacks sufficient creditworthiness for borrowing solely on regular OC terms, while a score lower than 80 indicates sufficient creditworthiness. An SCI score between 80 and 90 -- the "creditworthiness grey zone" -- requires Management to make a determination and a recommendation to the Board of Executive Directors regarding eligibility.

[5] Bolivia will continue to qualify for receiving non-reimbursable technical cooperation through the "Operational Capacity and Policy Dialogue" area of intervention of the Strategic Development Program for Countries (OC-SDP for Countries) - document GN-2819-1 - (formerly Small and Vulnerable Countries Program Window) until the end of 2019 (similar to the cases of Guatemala and Paraguay in 2015 [document GN-2442-46 "Fund for Special Operations. Proposal for the Allocation of Resources 2015-2016"]).

[6] Per the "Report on the Ninth General Increase in Resources of the Inter-American Development Bank" (AB-2764), Haiti is outside the EPBA/DSF framework until 2021 and receives support in the form of grants only.

Table 1. Application of Eligibility Criteria

Country	Per capita income threshold	Creditworthiness	Management recommendation
Nicaragua	Below the income threshold	In the creditworthiness grey zone	Eligible based on income per capita
Honduras	Below the income threshold	SCI lower than the creditworthiness threshold	Eligible based on income per capita
Guyana	Between 1 and 2 times income threshold	SCI higher than the creditworthiness threshold	Eligible based on creditworthiness
Bolivia	Above the threshold for more than 2 consecutive years	SCI lower than the creditworthiness threshold	Not eligible

Source: VPC based on Annexes 1, 2, and 3.

III. THE ENHANCED PERFORMANCE-BASED ALLOCATION (EPBA)

A. Enhanced Performance-Based Allocation

3.1 The EPBA formula for concessional resources has two components: (i) **needs and economic strength**, comprised of population and Gross National Income (GNI) per capita;[7] and (ii) **country performance**, estimated as the weighted average of portfolio performance (30%) and the quality of the country's institutional and policy framework (70%), as measured by the Country Institutional and Policy Evaluation (CIPE). Each of these variables in the allocation formula has a defined exponent for the calculation of the distribution coefficient as determined in document GN-2442.[8]

B. Country Institutional and Policy Evaluation (CIPE)

3.2 The criteria and methodology for calculating the CIPE were originally introduced in 2002 in the context of the first proposal for a performance-based allocation for Fund for Special Operations (FSO) resources (documents GN-1856-31 and CC-5819). CIPE criteria or variables are grouped into four major policy clusters, each with a specific weight in the total CIPE score: 1) Economic Management (15%); 2) Structural Policies (20%);

[7] Data for population and GNI per capita is taken from the World Development Indicators (World Bank).

[8] $POP^{0.5} \times GNIpc^{-1} \times [0.7*CIPE + 0.3\ PPI]^{2}$. The performance-based allocation formulas for concessional resources in other multilateral development banks (MDBs) also comprise the same two components, although each institution has a specific weight for each variable.

3) Policies for Social Inclusion/Equity (35%); and 4) Public Sector Management and Institutions (30%). The weights attached to each policy cluster were approved by the Board of Executive Directors.

3.3 The CIPE was reformed in 2010 (document GN-2442-32) and 2012 (GN-2442-42) in order: (i) to update the variables and the respective rating guide; (ii) to include quantitative indicators to increase objectivity in the assessment, as recommended by OVE (documents RE-279 and RE-376); and (iii) to harmonize methodologies with other MDBs.[9] The CIPE variables and weights that have been applied for the 2019-2020 allocation cycle remain the same as the 2012, 2014 and 2016 CIPEs. Annex IV presents the CIPE variables, and the selected quantitative indicators, as well as the basic procedures and rating guide to calculate the ratings for each variable and thus the overall CIPE score.

3.4 Annex V presents the CIPE scores, disaggregated at the level of the 16 variables. Following the practice since 2012, and in accordance with recommendations made by OVE, the scores of the 16 CIPE variables will be disclosed as part of the Proposal for the Allocation of Resources for the 2019-2020 cycle.

C. Portfolio Performance

3.5 Consistent with document GN-2442 and all subsequent biennial allocations, the portfolio performance indicator (PPI) for the EPBA has been derived from the percentage of undisbursed loan balances (ULB) represented by projects classified as "unsatisfactory" (i.e., either with an "alert" or a "problem" classification). The classification of projects as "satisfactory", "alert" or "problem" follows the Bank's corporate measure for project performance - the Progress Monitoring Report (PMR). The PMR captures different dimensions of projects' performance and indicators measure each stage of a project's life cycle (Annex VI). For the purposes of the PPI, projects also pass through a second filter that compares projects against Bank-wide benchmarks. Table 2 presents the PPI scores for the 2019-2020 allocation.

Table 2. Portfolio Performance at December 31, 2017

Country	Undisbursed loan balance (ULB)	Unsatisfactory ULB	Unsatisfactory ULB as % of total ULB	1-6 Scale
Guyana	178.4	66.1	37.1%	**4.15**
Honduras	424.3	0.0	0.0%	**6.00**
Nicaragua	677.6	69.8	10.3%	**5.49**
Total	1,280.3	135.9	10.6%	**5.47**

Source: VPC based on PMR March 2018 cycle database, provided by SPD; CGY; CHO; and CNI.

[9] Since 2004 most MDBs harmonized with the World Bank's CPIA. Harmonization was recommended by an Independent Panel that reviewed the CPIA and found little value added in having similar, highly correlated methodologies among MDBs. The harmonization was also consistent with the Managing for Development Results Framework (MfDR) objective of minimizing duplication in multilateral assessment approaches.

D. Application of the EPBA

3.6 The allocation of concessional resources for the 2019-2020 period (Table 3) has been calculated according to the EPBA formula set forth in document GN-2442 and the CIPE and PPI performance components described above. Per Table 3, the EPBA envelope will be assigned as follows: Guyana 5.64%; Honduras 53.71%; and Nicaragua 40.65%.

Table 3. Application of the EPBA for Concessional Resources for 2019-2020

COUNTRY		Guyana	Honduras	Nicaragua	Total
Total population 2017		**777,859**	**9,265,067**	**6,217,581**	**16,260,507**
GNI per capita (US$) 2017		**4,460**	**2,250**	**2,130**	
Performance indicator (1-6 scale) = [0.7*CIPE + 0.3 PPI]		**3.53**	**4.17**	**3.90**	
CIPE (1-6 scale)		3.27	3.38	3.21	
Portfolio (PPI) (1-6 scale)		4.15	6.00	5.49	
Population exponent	**0.5**	882	3,044	2,494	
GNI p/c exponent	**-1**	0.00022	0.00044	0.00047	
Performance exponent	**2**	12.5	17.4	15.2	
Allocation value		2.5	23.5	17.8	43.7
Allocation shares EPBA		**5.64%**	**53.71%**	**40.65%**	**100%**

Sources: EPBA formula, GN-2442; population and GNI per capita data, World Bank, World Development Indicators (September 2018); CIPE scores, Annex V; portfolio scores, Table 2.

IV. Application of the Debt Sustainability Framework (DSF)

A. Concessionality

4.1 **Grant Element and Proposed Blends**. The appropriate grant element or degree of concessionality for concessional-eligible countries is derived from the risk of debt distress as assessed by application of the World Bank/IMF Debt Sustainability Framework (DSF) for Low Income Countries.[10] These concessionality levels will be achieved through a blend of "Regular OC" loans and "Concessional-OC" loans ("Parallel loans"), which have the following characteristics:

- Concessional-OC loans with a 40-year bullet repayment and a 0.25% lending rate.[11]

[10] "Implementation of multilateral debt relief and concessional finance reform at the IDB. Proposal for the implementation of a Debt Sustainability (DSF) and Enhanced Performance-Based Allocation (EPBA) framework" (GN-2442).

[11] These terms are identical to those pertaining to the Fund for Special Operations (FSO) portion of blended loans approved between 2007 and 2016.

• Regular-OC loans under the Flexible Financing Facility (FFF).[12]

4.2 **The level of concessionality embedded in the blended structure is presented in Annex VII**. In accordance with document AB-3066-2, the level of concessionality in blended loan operations (Concessional OC and Regular OC) will continue to be determined by the EPBA/DSF. Furthermore, it is established that the portion of Regular OC will be subject to the FFF. In order to guarantee the concessionality levels indicated by the EPBA/DSF, any of the options under the FFF may be offered to eligible borrowing member countries provided that such options are consistent with the concessionality levels, as presented in Annex VII.

B. Implications of the 2017 Revision of the DSF

4.3 **In September 2017 the Executive Boards of the IMF and World Bank approved the fourth revision of the Low-Income Country Debt Sustainability Framework (DSF) since its introduction in 2004**. This revision, like the previous three revisions, does not constitute changes to the Bank's concessional assistance framework, as set out in "*Implementation of multilateral debt relief and concessional finance reform at the IDB. Proposal for the implementation of a Debt Sustainability (DSF) and Enhanced Performance-Based Allocation (EPBA) framework*" (GN-2442). The adjustments to the DSF methodology adopted by the IMF and World Bank during their fourth revision are intended to improve the accuracy of the framework and will strengthen the Bank's ability to continue implementing the principles set forth in document GN-2442. The revised framework entails primarily macroeconomic and methodological reforms, which are summarized in Annex VIII. The revised framework, incorporating a new Excel template for the debt sustainability analyses and a new guidance note, came into effect in July 2018. In September 2018 World Bank and IMF staff gave a training course for IDB Country Economists working on concessional-eligible countries and this Proposal is based upon the new framework.

4.4 **As part of the revised DSF methodology the "moderate" risk of debt distress has been disaggregated into three sub-categories -- "Substantial space to absorb shocks", "Some space", and "Limited space"**. This new approach provides an indication of how close the country is to slipping into "high" risk of debt distress.[13] IDB Management views this disaggregation as a welcome reform from an operational point of view, since it provides a rigorous basis for greater granularity in the targeting of concessionality levels for countries in the "moderate" risk category.

4.5 **When the IDB adopted the DSF in 2007, the Board of Executive Directors approved the establishment of three financing blends**, corresponding to the three categories of the risk of debt distress: 30% Fund for Special Operations (FSO) (now Concessional OC)/70% Ordinary Capital for countries with a "low" risk of debt distress; 50% FSO/50% Ordinary Capital for countries with a "moderate" risk of debt distress; and 100% grants for countries

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[12] Under the FFF the maturity of investment loans is typically 25 years while that of policy-based loans is 20 years. Lending rates are based on three-month LIBOR, plus applicable charges, but borrowers can choose to fix the interest rate. http://www.iadb.org/en/idb-finance/english/flexible-financing-facility-fff,1986.html

[13] "Space" refers to how far the country's debt burden indicators are from crossing the debt thresholds in the baseline scenario. Such breaches would trigger the "high" risk of debt distress rating.

at “high” risk of debt distress.[14] Since 2007, the financing blends have evolved to respond to different conditions in the countries. From 2012 to 2016, the Board of Executive Directors approved successively less concessional financing blends for Bolivia, since DSAs indicated that higher proportions of OC lending would not jeopardize Bolivia’s “low” risk of debt distress. Furthermore, in the “Proposal for the Allocation of Concessional Resources 2015-2016”, Management proposed, and the Board of Executive Directors approved, an intermediate or transitional blend of 40% FSO/60% OC that was in between the traditional “low” risk blend of 30%/70% and the traditional “moderate” risk of 50%/50%. This transitional blend was applied to Honduras, which had transitioned from a “low” risk rating from 2007-2014 to a “moderate” risk rating in late 2014, and to Nicaragua, which had traditionally had a “moderate” risk rating but which narrowly missed a “low” risk rating in late 2014.

4.6 **The situations of Honduras and Nicaragua in late 2014 correspond to what is now termed “Moderate, with substantial space”**. The new, intermediate sub-category “Moderate, with some space” corresponds with the original “moderate” risk financing blend. However, to date the IDB has not had a lending blend that would be associated with “Moderate, with limited space”, which is the last category before “high” risk of debt distress. In order to maintain symmetry around the original (GN-2442) moderate risk financing blend in terms of the change in concessionality and overall volume, Management proposes that the new DSF risk category of “Moderate, with limited space” will carry a financing blend of 65% Concessional OC/35% regular OC. The more concessional mix from this blend would, for countries at this blend, help to offset the effect of rising interest rates on the regular OC portion of loans -- given that the 2019-2020 allocation will provide the least concessionality for any given blend since the EPBA/DSF was introduced in 2007 (Annex VII provides estimates of concessionality by blend).

4.7 Consequently, the assignment of financing blends for “moderate” risk countries using the DSF’s new disaggregation, would be as follows:

- “**Substantial Space**” – (which is the first category after “low” risk) will carry a financing blend of 40% Concessional OC/60% regular OC (concessionality currently estimated at 36.5%);
- “**Some Space**” – (the intermediate level) will carry the traditional financing blend for “moderate” risk countries of 50% Concessional OC/50% regular OC (concessionality currently estimated at 44%);
- “**Limited Space**” – will carry a financing blend of 65% Concessional OC/35% regular OC (concessionality currently estimated at 55%).

[14] In adopting this so-called “traffic lights” system, the IDB harmonized with four other IFIs using the DSF as the basis for determining the concessionality of their lending to low income countries (the International Development Association; the African Development Bank; the Asian Development Bank; and the International Fund for Agricultural Development (IFAD).

C. Conclusions of Debt Sustainability Analyses

4.8 A summary of the main assumptions and results of the debt sustainably analysis according to the DSF methodology performed for Guyana, Honduras and Nicaragua is presented in Annex VIII. Below are the respective risks of debt distress.

4.9 **Guyana.** The risk of external debt distress for Guyana is assessed as “low”. Accordingly, and per GN-2442, Management proposes a financing blend of 30% Concessional-OC and 70% regular-OC for the 2019-2020 allocation.

4.10 **Honduras.** The risk of external debt distress for Honduras is assessed as “moderate”. Within the “moderate” risk category, Honduras’ external debt is classified as having limited space to absorb shocks. Accordingly, Management proposes a financing blend of 65% Concessional-OC and 35% Regular-OC for the 2019-2020 allocation.

4.11 **Nicaragua.** The risk of external debt distress for Nicaragua is assessed as “moderate”. Within the “moderate” risk category, Nicaragua’s external debt is classified as having limited space to absorb shocks. Accordingly, Management proposes a financing blend of 65% Concessional-OC and 35% Regular-OC for the 2019-2020 allocation.

V. DETERMINATION OF THE EPBA ENVELOPE

5.1 **LTFP Projection Deviation Adjustments**. Per AB-3066-2, deviations between the Long-Term Financial Projections of the Ordinary Capital (LTFP) projected regular SG lending envelope for 2017-2018 and the subsequent actual regular SG approved level, will be added to/subtracted from the EPBA envelope for 2019-2020. The approved allocations for 2017-2018 (GN-2442-53) were based on the Base Case of the LTFP 2017 Final Document, which projected a regular OC sovereign-guaranteed (SG) lending program of US$10,000 million in 2017 and US$11,200 million in 2018. As a result, the approved EPBA envelope for 2017-2018 was US$674 million, or US$337 million annually (Table 4).

Table 4. Adjustments for Differences between Actual and Projected SG Approvals

	2017	2018	Total 2017-2018	Annual average
GN-2442-53 EPBA envelope coefficient (% of SG OC)	3.18%	3.18%	3.18%	
GN-2442-53 Projected SG OC lending program (2017 LTFP Base Case) [US$ million]	10,000	11,200	21,200	10,600
GN-2442-53 Approved EPBA envelope (US$ million)	318	356	674	337
Actual OC SG lending program (2019 LTFP Base Case) [US$ million]	10,899	12,700	23,599	11,799
EPBA envelope under perfect foresight (US$ million)	347	404	750	375
Difference between actual and projected	**29**	**48**	**76**	**38**

Source: VPC based on AB-3066-2; Section I; and 2017 LTFP, 2019 LTFP Final Document (November 2018).

5.2 However, the actual or realized level of OC SG approvals in 2017 was US$10,899 million and the expected level of approvals in 2018 (2019 LTFP, November 2018)) is US$12,700 million. Therefore, there was an under-projection and 3.18% of the actual OC SG approval level was US$750 million or US$375 million per annum. **Per AB-3066-2, the shortfall of US$76 million (US$38 million per year) will be added to the regular EPBA envelope derived as a proportion of the projected OC SG lending program for 2019-2020**.

5.3 **Changes in country eligibility**. AB-3066-2 also specified that the EPBA envelope proportion would be adjusted as countries gain eligibility or lose eligibility for concessional resources. Since Bolivia will cease to be eligible to concessional resources, its share of the EPBA envelope in 2017-2018 (23.1%) should be removed from the EBPA envelope coefficient for 2019-2020. This adjustment would reduce the EPBA envelope coefficient from 3.18% of the OC SG lending program to 2.45% (-0.73 percentage points).

5.4 **Nevertheless, an EPBA envelope coefficient of 2.45% would not be consistent with the medium and long-term debt sustainability of two of the three eligible countries, nor with absorption capacity.** In AB-3066-2, Management noted that 3.18% was a historically high proportion – in fact, it is approximately one-third higher than the average EPBA envelope for the period since GN-2442 (2007-2018) [Table 5]. In this regard, Management further stated that it viewed "the 3.18 percent envelope proportion as an upper limit for the initial proportion from an absorption and prudential perspective, in view of the high and rising share of IDB debt in the FSO-IV countries' debt to multilateral institutions".[15]

Table 5. Historical EPBA Envelope Coefficients

Biennial allocation	EPBA envelope (% of OC SG approvals)		Biennial EPBA envelope (US$ million) 2/	Biennial OC SG 1/ (US$ million)
	Without Bolivia	With Bolivia		
2007-2008	1.17%	1.48%	216.0	14,591
2009-2010 3/	1.36%	1.85%	443.0	24,006
2011-2012	1.73%	2.44%	436.0	17,877
2013-2014	1.75%	2.46%	491.2	19,940
2015-2016 4/	2.11%	3.21%	555.2	17,321
2017-2018	2.45%	3.18%	750.4	23,599
Average	**1.76%**	**2.44%**		**19,556**

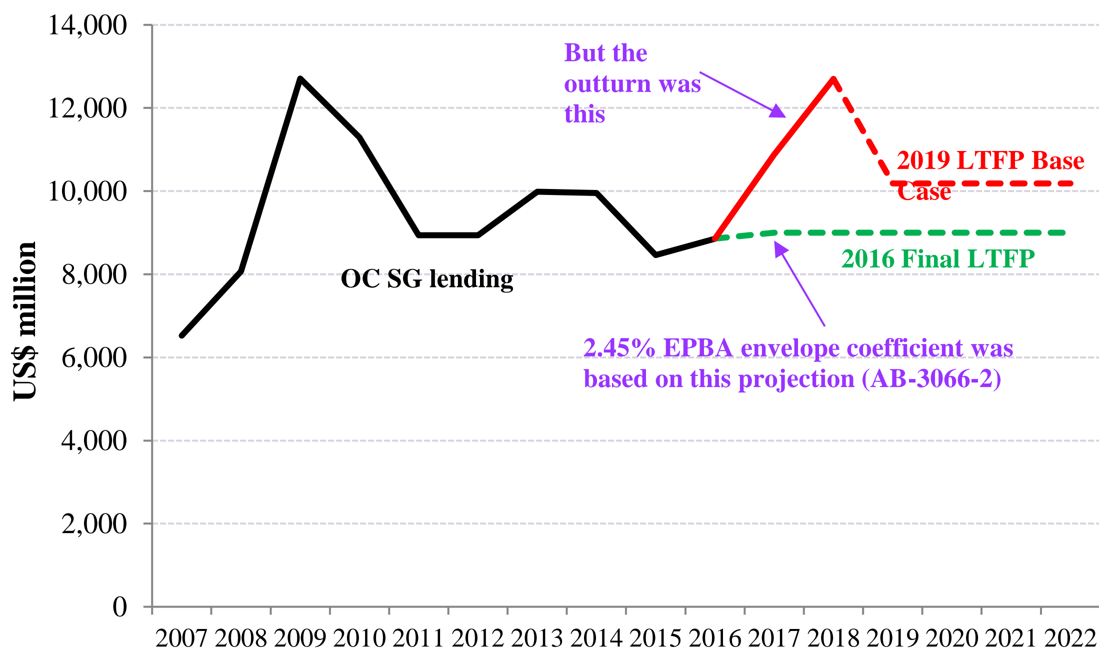
Source: VPC based on GN-2442-17, GN-2442-34, GN-2442-44, GN-2442-49, GN-2442-53, FIN/ACC data.
1/ Regular OC SG program, as defined in AB-3066-2.
2/ Bolivia, Guyana, Honduras, and Nicaragua.
3/ Final allocation, including two supplementary allocations.
4/ EPBA envelope was projected at 3.18% in Q3 2016.

5.5 **The premises upon which Management recommended that the initial level of the EPBA envelope coefficient be set at 3.18% are no longer valid**. Management based this

[15] "Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets" (AB-3066-2), approved September 1, 2016, paragraph 3.27.

assessment on two scenarios contained in the Proposal.[16] Consistent with other analysis and projections in the Proposal, the first scenario for future concessional assistance was based on the Base Case OC SG lending projected in the Long-Term Financial Projections OC 2016 Final Document, December 2015 (Graph 1). Consequently, the first scenario assumed an OC SG LTFP lending program of US$9,000 per annum for 2019-2020 (24% lower than the lending program now expected). Three variants of the Base Case scenario assumed different scenarios of country eligibility for concessional resources (the "Early Graduation scenario", an "Intermediate Graduation scenario", and a "Late Graduation scenario"). Of these three scenarios, the "Early Graduation scenario" assumed that Bolivia would not be eligible for the 2019-2020 concessional allocation and hence is the relevant scenario. Under the Base Case "Early Graduation scenario", the EPBA envelope was US$188.4 million per annum in 2019 and 2020. The alternative (LTFP growth scenario) assumed an OC SG LTFP lending program of US$9,835 million in 2019 and US$10,130 million in 2020 (approximately 16% lower than now expected). Under the Alternative LTFP "Early Graduation scenario", the EPBA envelope was US$206 million in 2019 and US$212 million in 2020. A historically-high EPBA envelope coefficient is not compatible with a higher-than-expected overall OC SG lending program.

Graph 1. EPBA envelope coefficient and LTFP projections

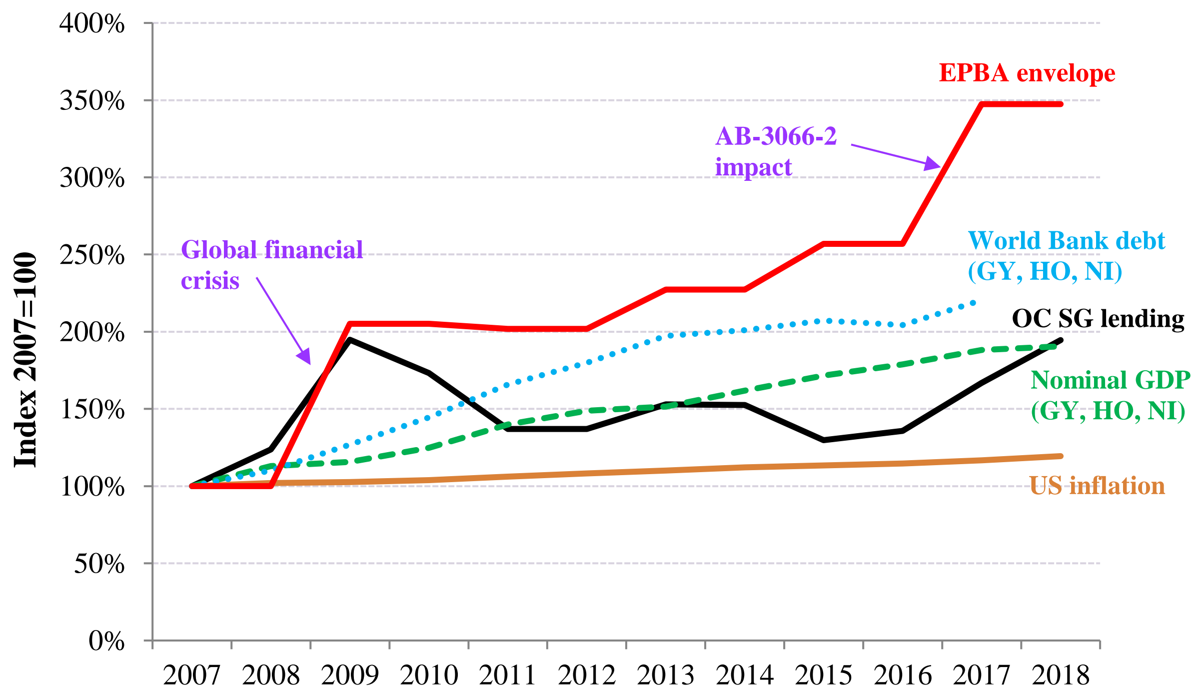


Source: VPC based on FIN/ACC, AB-3006-2, 2016 LTFP, 2019 LTFP.

[16] "Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets" (AB-3066-2), approved September 1, 2016, Annex II.

5.6 **The EPBA envelope has grown significantly since 2007 and far faster than comparative benchmarks.** The EPBA envelope grew 247% between the 2007-2008 and 2017-2018 allocations (Graph 2). This compares with a growth of 62% for the biennial OC SG approvals, 19% in the US GDP deflator and 91% in the sum of the nominal GDP in US dollars of Guyana, Honduras and Nicaragua. Various factors have contributed to the rapid growth of the EPBA envelope. In the context of the global financial crisis, in 2009 two supplementary allocations were approved that doubled the EPBA envelope for 2009-2010 with respect to the allocation in 2007-2008.[17] The three concessional allocations between 2011-2016 were based on indicative 10-year projections of demand and country absorption at the time of IDB-9 (and influenced by pre-2009 inflation rates). Per the above, with the approval of AB-3066-2 in September 2016, the basis for determining the EPBA envelope was switched to a percentage of the Bank's regular OC SG lending program prior to the 2017-2018 concessional allocation. OC SG lending in 2017-2018 turned out to be 36% larger than OC SG lending in 2015-2016.

Graph 2. Growth of EPBA Envelope and Comparators 2007-2018



Source: VPC, FIN/ACC, World Development Indicators, World Bank "International Debt Statistics 2019", and IMF WEO October 2018.

5.7 **The rationale for switching the basis for determining the EPBA envelope to a percentage of the regular OC SG lending program remains solid.** Under this methodology, the EPBA envelope is embedded in the Bank's broader financing decisions, thus ensuring coherence between Concessional OC and non-concessional OC lending

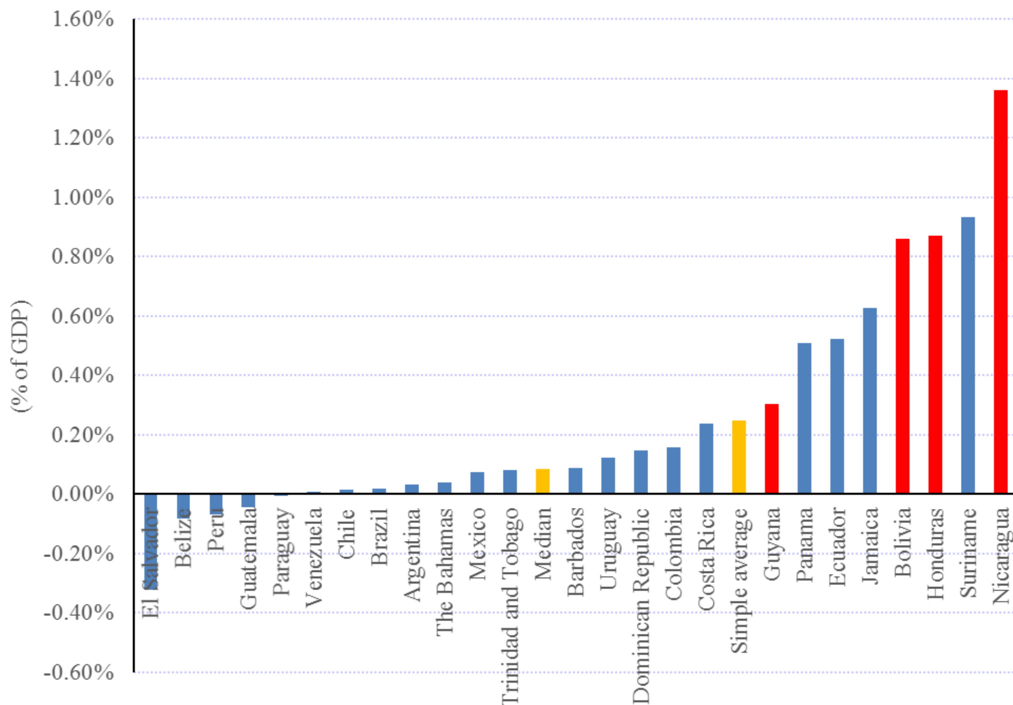
[17] "Fund for Special Operations. Supplementary allocation for 2009-2010", (GN-2442-20) and "Fund for Special Operations. Options for providing additional resources to the D2 countries in 2009-2010", (GN-2442-22).

decisions. Also, it should anchor the growth in concessional financing to the growth in overall OC financing. Finally, it avoids the EPBA envelope getting locked into a trajectory based on long-term macroeconomic projections.

5.8 **However, per paragraphs 5.5 and 5.6, the initial EPBA envelope coefficient was set at too high a level.** A coefficient based on the original 3.18% generates a lending level that is arguably (see below) not consistent with the debt sustainability of two of the three eligible countries and with absorption capacity.

5.9 **A large EPBA envelope has led to high levels of loan approvals in Nicaragua and Honduras.** This has led to high levels of loan disbursements -- thereby rapidly increasing debt levels -- and an accumulation of substantial undisbursed loan balances (ULB). During the four-year period from 2014-2017, net loan flows as a percentage of GDP to countries eligible for concessional assistance were 10 times those to the median IDB borrowing country and nearly four times the simple average for all IDB borrowing countries. Annual net loan flows to Nicaragua averaged 1.36% of GDP, while those to Honduras averaged 0.87% of GDP (Graph 3). That was equivalent to increasing the IDB debt-to-GDP ratio by 5.5 percentage points of GDP in four years in Nicaragua and by 3.5 percentage points of GDP in Honduras.

Graph 3. IDB Net Loan Flows/GDP
(Annual average 2014-2017)



Source: VPC based on FIN Annual Net Flows Report and IMF WEO database October 2018.

5.10 **The direct effect of high approval and disbursement levels has been a rapid increase in debt to the IDB.** From 2008-2017, public debt to the IDB grew at a compound annual rate of 18% in Honduras, 15% in Nicaragua and 11% in Guyana. Such growth rates have

been far in excess of the growth in nominal GDP or other indicators of debt carrying capacity. In Honduras, the growth of IDB debt over the last five years has also exceeded the pace of debt accumulation in the periods prior to the HIPC and MDRI debt relief initiatives (Annex X). The IDB public debt-to-GDP ratio more than doubled from 2007 to 2017 in Honduras and Nicaragua (Table 6). This increase stands in contrast with the expectation in GN-2442 that the EPBA/DSF would "allow countries to maintain a stable or declining IDB debt/GDP."[18]

Table 6. IDB Public Debt as % of GDP

	2004	2006	2007	2017
Guyana	19.7%	35.4%	8.8%	14.1%
Honduras	10.5%	13.3%	2.9%	8.5%
Nicaragua	9.0%	22.7%	6.4%	14.0%

Source: VPC based on FIN Loan Management System and IMF WEO database October 2018.

5.11 **GN-2442 proposed that the IDB adopt and "use the DSF as an instrument to avoid undue debt accumulation and to define appropriate concessionality levels".[19]** Biennial reviews of the implementation of the EPBA/DSF have documented the success of the DSF in defining appropriate concessionality levels.[20] However, the inexorable and rapid expansion of the EPBA envelope has undermined the ability of the DSF to act as an instrument to avoid undue debt accumulation. This is illustrated by the experience of Honduras from 2014-2018 (Box 1) and medium-term projections (Table 7 and Annex X).

5.12 **In the absence of a correction in the EPBA envelope coefficient, the DSF has "run out of road" to avoid undue debt accumulation.** The proposed blending changes would not, on their own, be sufficient to stabilize the IDB debt-to-GDP ratio in one of the countries (Table 7). Moreover, in the cases of Honduras and Nicaragua, there are no more blending changes available before reaching the 100% grant financing structure. Within a five-year period, Honduras has moved from a "low" risk rating to the "moderate" risk rating with least space to absorb shocks. Similarly, Nicaragua has moved from a borderline "low" risk rating to the "moderate" risk rating with least space. The DSAs indicate that the present value of public external debt in both countries is approximately 4 percentage points of GDP away from the indicative threshold, beyond which they would be categorized as at "high" risk of debt distress.

[18] GN-2442 "Implementation of multilateral debt relief and concessional finance reform at the IDB. Proposal for the implementation of a Debt Sustainability (DSF) and Enhanced Performance-Based Allocation (EPBA) framework", February 2007, paragraph 30. In addition, the fact that public external debt to the IDB has grown faster than GDP points to a need to continue to strengthen development effectiveness and enhance the contribution of Bank programs to supporting economic growth in the Bank's concessional-eligible member countries.

[19] GN-2442 "Implementation of multilateral debt relief and concessional finance reform at the IDB. Proposal for the implementation of a Debt Sustainability (DSF) and Enhanced Performance-Based Allocation (EPBA) framework", February 2007, paragraph 2.

[20] GN-2442-55 "Review of the Implementation of the Debt Sustainability Framework and Enhanced Performance-based Allocation 2015-2016".

Box 1
A Tale of Two Blending Changes

From 2007-2016, application of the DSF led to only two changes in lending blends among the three countries eligible for concessional resources in 2019-2020 – one for Honduras and the other for Nicaragua. Four years after the blending changes, it appears that one change was appropriate -- but overwhelmed by increases in the EPBA envelope -- while the other was not.

Honduras
Under the DSF Honduras was classified as having "low' risk of debt distress from 2007-2013 and this changed to "moderate" risk of debt distress in 2014. As a result, the Board of Executive Directors approved a change in the lending blend from 30% FSO/70% OC to 40% FSO/60% OC effective January 1, 2015. This change implied an increase in the level of concessionality and a 25% reduction in the volume of IDB lending compared to an unchanged blending scenario. This change slowed the growth of IDB debt in 2015 and 2016. However, growth in the EPBA envelope from 2015 through 2018 resulted in the annual allocation to Honduras in 2017-2018 being 47% higher than the annual allocations in 2013-2014, immediately prior to the blending change. As a result, the growth of IDB debt reaccelerated in 2017 and 2018. DSAs in 2016 and 2018, which maintained the "moderate" risk of debt distress rating, confirmed the appropriateness of the blending change that had been induced by the change in debt distress risk rating in late 2014.

Nicaragua
Under the DSF Nicaragua was classified as having "moderate' risk of debt distress from 2007-2018. However, in late 2014 Nicaragua appeared to have a borderline "low" risk rating. In October 2013, the IMF increased the discount rate for the DSF from 3% to 5%, which sharply reduced the present value of debt for all the DSAs produced subsequently.[1] International interest rates were still relatively low in 2014, with the result that 2014 had one of the most favorable combinations of discount rate and interest rates of any year since 2007. In the case of Nicaragua, the adjustment of the discount rate followed a rebasing of national accounts in 2012 that boosted the estimated size of GDP by 27%. Under these favorable circumstances, the DSA for Nicaragua in late 2014 showed that all of the external debt burden indicators remained well below their policy-dependent debt burden thresholds under the *baseline scenario*. Moreover, the projection was robust to all of the six standard shocks. However, an alternative scenario "*Setting key variables to their historical averages*" caused one debt indicator (the present value of debt-to-GDP) to breach its threshold (40%) in 2029.[2] Judged today, such results would likely be rated either "low" risk or "moderate risk, with substantial space".

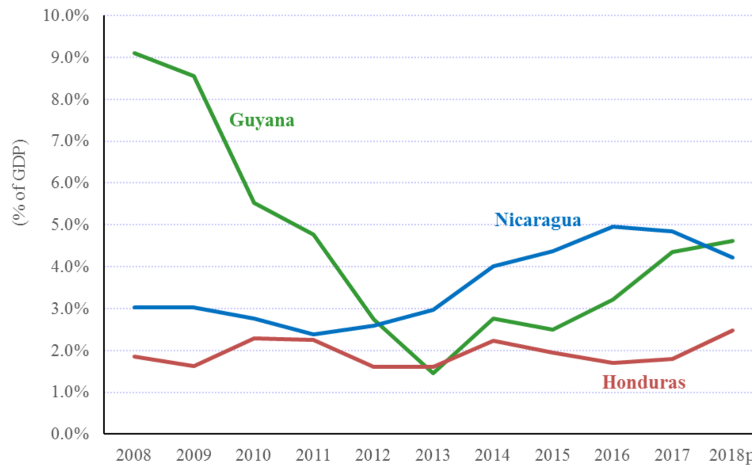
Based on these results, Management proposed, and the Board of Executive Directors approved, a change in the lending blend from 50% FSO/50% OC to 40% FSO/60% OC effective January 1, 2015. This change resulted in a decrease in the level of concessionality and a 25% increase in the volume of IDB lending compared to an unchanged blending scenario. This increase was compounded by growth in the EPBA envelope from 2015 through 2018. As a result, the annual allocation to Nicaragua in 2017-2018 was 61% higher than the annual allocation in 2013-2014.

In retrospect, the 2014 DSA gave a false signal. The "*historical averages*" scenario, which had been the only scenario at the time to flag a weakening of debt sustainability, subsequently turned out to have been the best predictor of debt indicators over the next four years. In this context, the realism of the 2018 DSA (Annex VIII) is underlined by the closeness of the trajectory of debt indicators in the *baseline scenario* to that of the *historical scenario*.

1/ IMF October 2013 "Unification of Discount Rates Used in External Debt Analysis for Low-Income Countries", Washington, D.C.
2/ The "*Setting key variables to their historical averages"* scenario is the red dotted line in DSA graphs.

5.13 **In addition to debt sustainability concerns, there are also indications that an unadjusted EPBA envelope coefficient would strain country absorption capacity limits**. Increasing volumes of lending in recent years has led to a build-up in undisbursed loan balances in concessional-eligible countries (Graph 4).

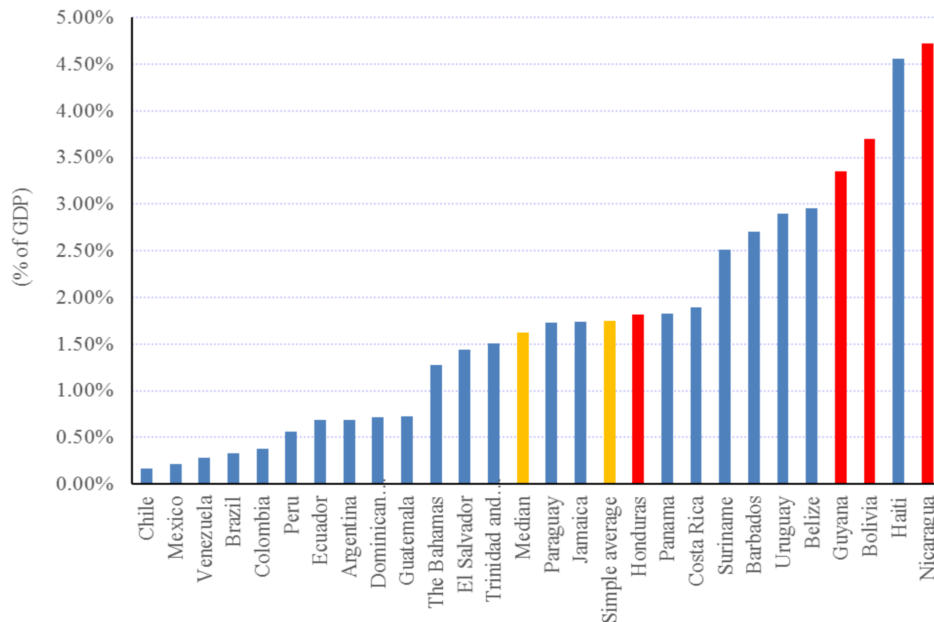
Graph 4. Undisbursed Loan Balances as % of GDP
(2008-2018)



Source: VPC, based on OPS LMS 50 (Country Portfolio) and IMF WEO October 2018.

5.14 **As a result, concessional-eligible countries have higher undisbursed loans balances (ULB) as a percentage of GDP than other Bank member countries (Graph 5)**. Nicaragua maintained a ULB on IDB loans equivalent to nearly 5% of GDP during 2015-2017.

Graph 5. Undisbursed Loan Balances as % of GDP
(Average 2015-2017)



Source: VPC, based on FIN and IMF WEO October 2018.

5.15 **Management has analyzed appropriate EPBA envelope coefficients under various scenarios (Annex IX)**. These include the concessional assistance scenarios under AB-3066-2, proxies for Guyana's disbursement absorptive capacity, and the maximum external borrowing limits under the Government of Honduras' Public Debt Policy for 2019-2022, which stipulates upper limits on the contracting of public external debt for 2019-2022.[21] With the exception of the proxy for the "maximum absorptive capacity for Guyana", all scenarios point to an EPBA envelope coefficient substantially below the "no adjustment" coefficient of 2.45%.

5.16 **The EPBA coefficient was further analyzed in terms of its consistency with the GN-2442 aspiration that the EPBA/DSF would allow the stabilization of the IDB debt/GDP ratio.[22]** If the EPBA envelope coefficient is not corrected (i.e. it is left at 2.45% under the LTFP Base Case), the IDB debt/GDP ratio would not stabilize over the medium term in at least one of the countries. A coefficient equal to the average of the period prior to the implementation of AB-3066-2 (2007-2016) [1.62%] would stabilize and start to reduce the IDB debt-to-GDP ratios in all three countries over the medium term, in the absence of shocks (Table 7).

Table 7. Projected IDB SG Debt-to-GDP Ratio Under Different EPBA Coefficients

Guyana	2006	2007	2017	2018	2019	2020	2022	2024
Unadjusted coefficient (2.45%)	35.4%	8.8%	14.1%	14.0%	14.9%	12.5%	10.6%	9.3%
Management Proposal (1.62%)	35.4%	8.8%	14.1%	14.0%	14.6%	12.2%	10.0%	8.5%
Honduras	**2006**	**2007**	**2017**	**2018**	**2019**	**2020**	**2022**	**2024**
Unadjusted coefficient (2.45%)	10.5%	2.9%	8.5%	9.2%	9.9%	10.5%	11.4%	11.6%
Management Proposal (1.62%)	10.5%	2.9%	8.5%	9.2%	9.8%	10.3%	10.9%	10.7%
Nicaragua	**2006**	**2007**	**2017**	**2018**	**2019**	**2020**	**2022**	**2024**
Unadjusted coefficient (2.45%)	9.0%	6.4%	14.0%	14.8%	16.5%	17.3%	17.0%	16.5%
Management Proposal (1.62%)	9.0%	6.4%	14.0%	14.8%	16.3%	17.0%	16.3%	15.4%

Source: VPC based on 2019 LTFP, IMF WEO October 2018, and IDB 2018 DSAs. Green indicates stabilized IDB debt-to-GDP ratio; red indicates IDB debt-to-GDP ratio increasing.

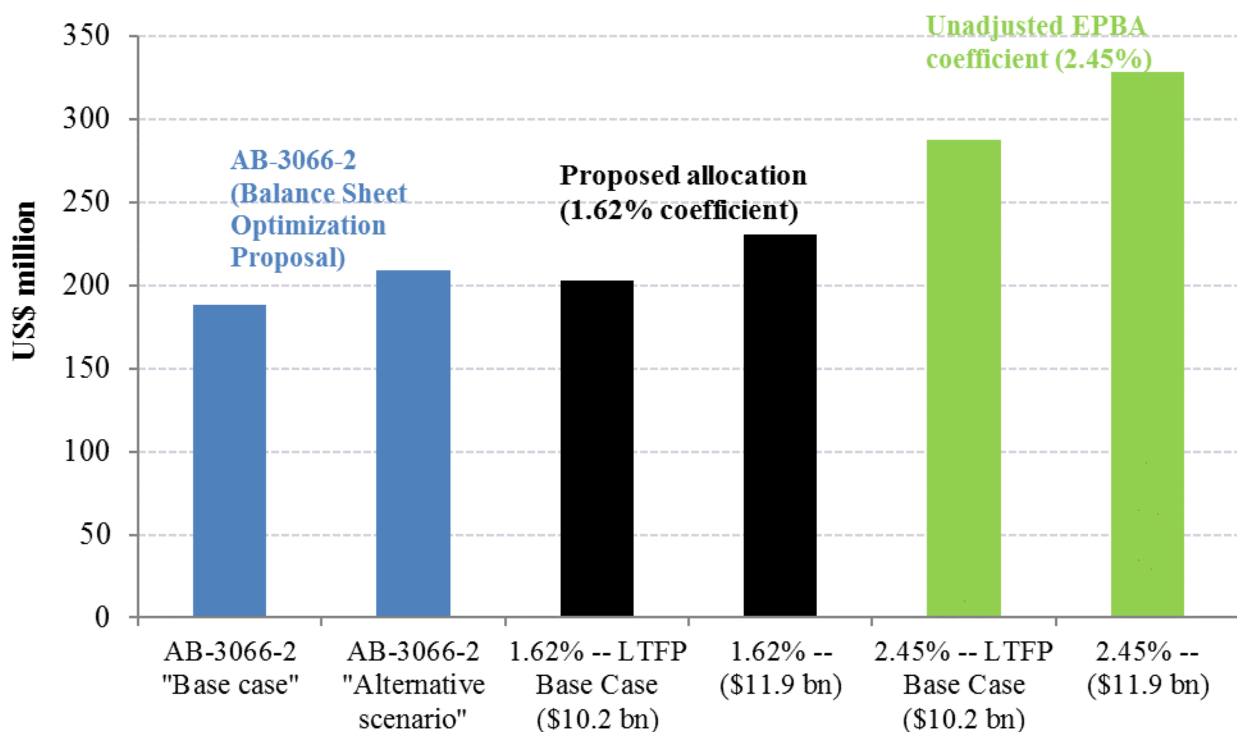
5.17 **A reduction in the EPBA coefficient to 1.62% of projected SG lending would offset the higher-than-forecast levels of SG lending and leave the EPBA envelope in dollar terms in the range of the concessional assistance scenarios contained in the** Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets" (AB-3066-2). The "Base Case for the Early Graduation Scenario" projected an annual EPBA

[21] Government of Honduras, Comisión de Crédito Público, Secretaria de Finanzas "Política de Endeudamiento Público, 2019-2022". The Public Debt Policy stipulates a maximum of US$450 million in new external debt (from all creditors) per annum for 2019 and 2020. This limit does not apply to PBLs.

[22] In addition to being proposed in GN-2442, the IDB debt-to-GDP ratio is also the broadest, final outcome indicator. Other operational or debt burden indicators would also be related to it.

envelope of US$188.4 million for 2019-2020 (AB-3066-2). The "Alternative Scenario under the Early Graduation Scenario" projected an annual average EPBA envelope of US$209 million for 2019-2020 (AB-3066-2). Under the 1.62% EPBA coefficient, the annual EPBA envelope for 2019-2020 would be US$203.1 million under the LTFP Base Case of a regular SG lending program of US$10,185 million for 2019-2020 and US$230.3 million under a US$11.9 billion lending program. An unadjusted EPBA coefficient (2.45%) would produce an EPBA envelope of US$287 million – US$328 million (Graph 6). As discussed above, even the lower level (US$287 million) would be too large to stabilize the IDB debt-to-GDP ratio in all three countries under a baseline scenario (with no negative shocks).

Graph 6. Annual EPBA envelope 2019-2020 under selected scenarios



Source: VPC based on AB-3006-2, 2019 LTFP.

5.18 **Paragraph 3.28 of document AB-3066-2 states that "Any adjustments to the EPBA envelope proportion will be proposed by Management in the context of the biennial allocation of concessional resources exercise and approved by the Board of Executive Directors".**[23] In view of the considerations presented in Section V, and per AB-3066-2, Management proposes that the EPBA envelope coefficient be 1.62% of the projected

[23] Similarly, paragraph 3.24 of document AB-3066-2 noted that, just as was the case for the allocations from 2007-2016, "each proposed biennial EPBA envelope and allocation of concessional resources would be subject to approval by the Board of Executive Directors".

regular OC SG approval level for 2019-2020 in the base case scenario of the Long-Term Financial Projections 2019 (Table 8). It is important to underline that this EPBA envelope would still imply substantial lending envelopes and resource transfers for the three eligible countries.[24]

Table 8. Determination of the EPBA Envelope

	2017	2018	2019	2020	Total 2019-2020	Annual average
Regular SG OC lending program (Base Case LTFP 2019)	-	-	10,185	10,185	20,370	10,185
EPBA envelope coefficient	3.18%	3.18%	1.62%	1.62%		
Regular EPBA envelope (US$ million)	-	-	165.0	165.0		
Adjustment for LTFP 2017 under-projection (Table 4)	-	-	38.1	38.1		
Proposed EPBA envelope (US$ million)	**318.0**	**318.0**	**203.1**	**203.1**	**406.3**	**203.1**

Source: VPC based on AB-3066-2; Section I; and Long-Term Financial Projections 2019 Final Document (November 2018).

VI. Proposed Allocation of Concessional Resources for 2019-2020

6.1 **Country eligibility**: In accordance with the eligibility criteria set forth in document AB-3066-2, Guyana, Honduras and Nicaragua are eligible for concessional resources for the 2019-2020 allocation period.

6.2 **Carry-overs**. In 2011, the Board approved the elimination of the No-Carry-Over policy applicable to FSO resources within the biennial period, which allows countries to back-load or front-load resources within the allocation period in order to increase flexibility in the use of the resources (document GN-2442-34). Nonetheless, and in accordance with DSF/EPBA provisions, no reallocations or carry-overs of concessional-eligible country specific allocations between allocation periods were permitted in the four biennial concessional allocations from 2011-2018. Management proposes to maintain these carry-over rules (namely, flexibility to back-load or front-load within the two-year allocation period but no carry-over into subsequent allocation periods) for the 2019-2020 allocation of concessional resources.

6.3 **Application of the EPBA/DSF**. The allocation of concessional resources for the 2019-2020 period was calculated according to the Enhanced Performance-Based Allocation formula set forth in document GN-2442 and the respective performance components described in Section III. The application of the DSF in order to determine the recommended blending with Regular-OC resources was described in Section IV. Section V presented analysis regarding the EPBA envelope proportion of the regular OC SG lending program

[24] Equivalent to 1% of GDP annually in the cases of Guyana and Nicaragua and 0.8% of GDP for Honduras.

for 2019-2020. Table 9 presents the annual allocations for 2019 and 2020 according to the EPBA/DSF and the regular OC SG lending program in the LTFP 2019.[25] Should the Sustainable Lending Level (SLL) of the LTFP be revised during the course of 2019, Management may review the proposed annual allocations for 2019-2020 as set forth in Table 9 below. Any changes to the said proposed allocation will be submitted to the Board of Executive Directors for its consideration and approval. In accordance with document AB-3066-2, any under/over-allocation resulting from deviations between the actual regular OC SG lending in 2019-2020 and the projection used for the 2019-2020 concessional allocation will be credited/debited to the subsequent biennial EPBA envelope.

Table 9. Proposed Annual Allocations for 2019-2020 (US$ million)

<table>
<tr><th rowspan="4"></th><th colspan="2">(1)</th><th colspan="3">(2)</th><th>(3)</th><th>(4)</th><th>(5)</th></tr>
<tr><th colspan="2">EPBA allocation
Concessional OC resources</th><th rowspan="3">DSF
Risk of Debt Distress</th><th colspan="2">Blend</th><th rowspan="2">Regular OC</th><th rowspan="2">= (1) + (3)
Total annual allocation</th><th rowspan="2">= (4) * 2
Biennial allocation</th></tr>
<tr><th></th><th></th><th>Concessional</th><th>Regular</th></tr>
<tr><th>%</th><th>US$ mn</th><th colspan="2">% of total</th><th>US$ mn</th><th>US$ mn</th><th>US$ mn</th></tr>
<tr><td>Guyana</td><td>5.64%</td><td>11.5</td><td>Low</td><td>30%</td><td>70%</td><td>26.7</td><td>38.2</td><td>76.4</td></tr>
<tr><td>Honduras</td><td>53.71%</td><td>109.1</td><td>Moderate (Limited)</td><td>65%</td><td>35%</td><td>58.7</td><td>167.8</td><td>335.7</td></tr>
<tr><td>Nicaragua</td><td>40.65%</td><td>82.6</td><td>Moderate (Limited)</td><td>65%</td><td>35%</td><td>44.5</td><td>127.0</td><td>254.1</td></tr>
<tr><td>Total</td><td>100.0%</td><td>203.1</td><td></td><td></td><td></td><td>130.0</td><td>333.1</td><td>666.2</td></tr>
</table>

Source: Based on Table 8; Section III; and Section IV.

VII. RECOMMENDATION

7.1 Management recommends that the Board of Executive Directors approve: (a) an EPBA envelope proportion of 1.62% of the regular OC SG lending program as projected in the LTFP for the 2019-2020 period, which may be revised, and the total amount of concessional financing, as described in section V.; (b) the continuance of existing carry-over rules, as presented in Section VI; and (c) the allocation of Concessional-OC and Regular OC resources for the years 2019 and 2020, as described in Section VI. and presented in Table 9.

[25] The proposed allocation for Guyana represents a doubling of its allocation in 2017-2018. In 2019 and 2020, the Bank will also support Guyana's growth and development by continuing to foster strategic dialogue with Government, civil society and the private sector, and by accessing non-reimbursable technical assistance and grants aiming at supporting the country in preparing for oil and gas wealth.

Annex I

Gross National Income per Capita, Atlas Methodology in Current US$, of IDB Borrowing Member Countries with GNI per Capita less than US$10,000 (2013-2017)

	2013	2014	2015	2016	2017
Mexico	10,010	10,220	9,860	9,010	8,610
Brazil	12,730	12,020	10,100	8,860	8,580
Dominican Republic 1/	5,820	6,090	6,250	6,390	6,630
Suriname 2/	9,030	9,350	8,830	6,990	6,020
Peru	6,270	6,340	6,160	5,950	5,970
Ecuador 2/	5,830	6,130	6,000	5,800	5,890
Colombia	7,760	7,970	7,130	6,350	
Two times threshold	**5,504**	**5,608**	**5,668**	**5,730**	**5,839**
Colombia					5,830
Jamaica 1/	5,020	4,940	4,730	4,630	4,750
Guyana	3,890	4,040	4,060	4,240	4,460
Belize	4,310	4,380	4,580	4,480	4,390
Guatemala 3/	3,310	3,450	3,610	3,790	4,060
Paraguay 3/	4,180	4,390	4,210	4,060	3,920
El Salvador 2/	3,740	3,810	3,880	3,930	3,560
Bolivia		2,870	3,000	3,080	3,130
Eligibility threshold 4/	**2,752**	**2,804**	**2,834**	**2,865**	**2,919**
Bolivia	2,620				
Honduras	2,040	2,040	2,090	2,160	2,250
Nicaragua	1,860	1,940	2,020	2,100	2,130
Haiti	800	820	810	790	760

Source: GNI per capita from World Bank, World Development Indicators (September 2018). Available online at http://data.worldbank.org/data-catalog/world-development-indicators ; Threshold from AB-3066-2; US GDP deflator from IMF World Economic Outlook database, October 2018.

Notes:
1/ Ineligible for the Intermediate Financing Facility after 2004.
2/ Ineligible for blended FSO/OC loans after 2009.
3/ Ineligible for blended FSO/OC loans after 2015.
4/ Threshold is US$2,834 in 2015 prices. Threshold for 2013-2017 is 2015 level, adjusted for US GDP deflator.

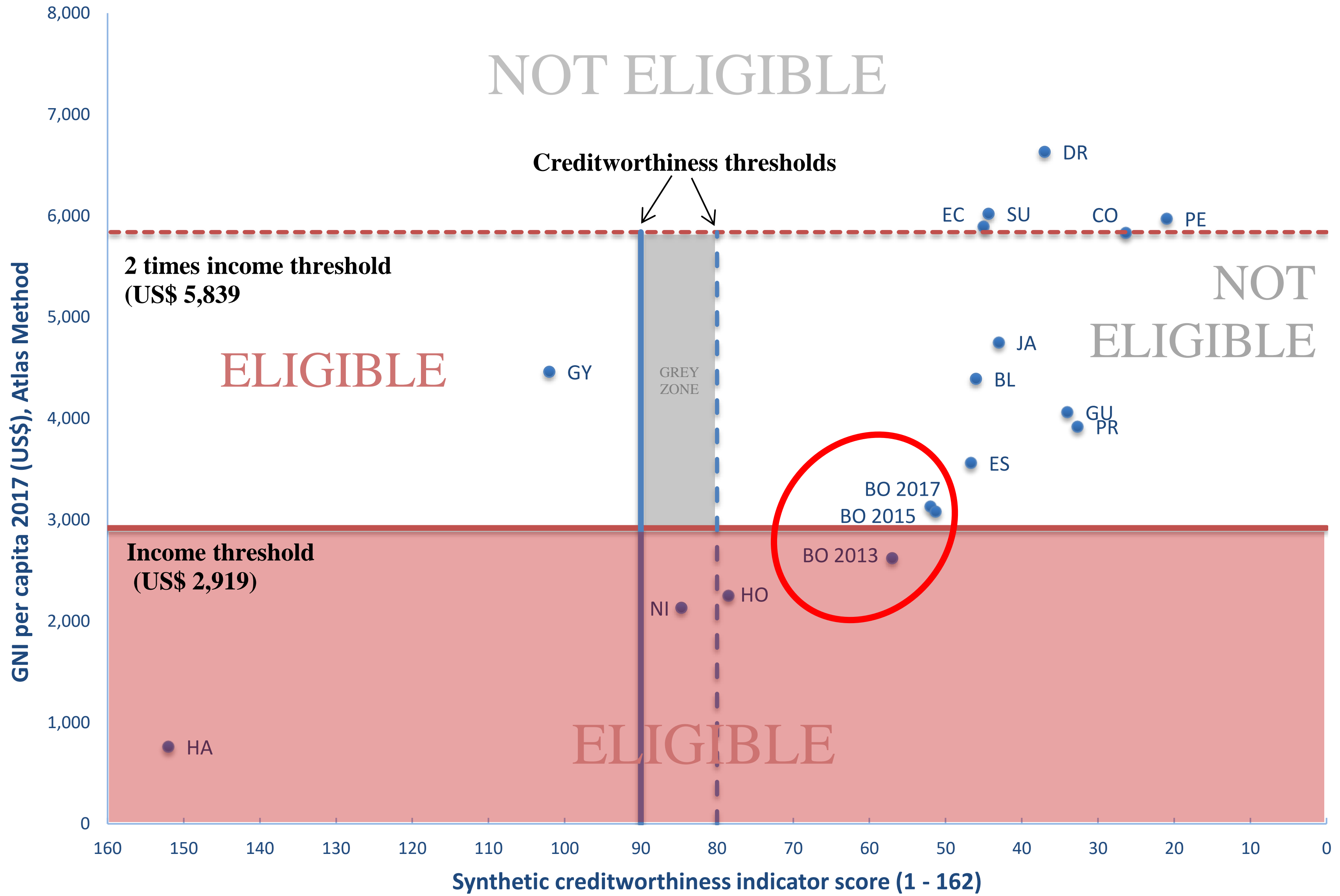
ANNEX II

SYNTHETIC CREDITWORTHINESS INDICATOR (1-162)

Market perspective / LIC DSF			(Grants %)	Blend in last allocation (Concessional OC %)						Regular OC only
			High/In debt distress	Moderate			Low			
S & P equivalent	Outlook	Numerical equivalent	100	65 Limited space	50 Some space	40 Substantial space	30	20	15	0
BB+	**P**	**30**	130	95	80	70	60	50	45	**BH**
BB+	**S**	**31**	131	96	81	71	61	51	46	31
BB+	**N**	**32**	132	97	82	72	62	52	47	32
BB	**P**	**33**	133	98	83	73	63	53	48	**PR**
BB	**S**	**34**	134	99	84	74	64	54	49	**GU**
BB	**N**	**35**	135	100	85	75	65	55	50	35
BB-	**P**	**36**	136	101	86	76	66	56	51	**BR,CR**
BB-	**S**	**37**	137	102	87	77	67	57	**BO**	**DR**
BB-	**N**	**38**	138	103	88	78	68	58	53	38
B+	**P**	**39**	139	104	89	**HO**	69	59	54	39
B+	**S**	**40**	140	105	90	80	70	60	55	40
B+	**N**	**41**	141	106	91	81	71	61	56	41
B	**P**	**42**	142	107	92	82	72	62	57	42
B	**S**	**43**	143	108	93	83	73	63	58	**JA**
B	**N**	**44**	144	109	94	84	74	64	59	**AR**
B-	**P**	**45**	145	110	95	**NI**	75	65	60	**EC, SU**
B-	**S**	**46**	146	111	96	86	76	66	61	**BL**
B-	**N**	**47**	147	112	97	87	77	67	62	**ES**
CCC+	**P**	**48**	148	113	98	88	78	68	63	48
CCC+	**S**	**49**	149	114	99	89	79	69	64	49
CCC+	**N**	**50**	150	115	100	90	80	70	65	50
CCC	**P**	**51**	151	116	101	91	81	71	66	51
CCC	**S**	**52**	**HA**	117	**GY**	92	82	72	67	52
CCC	**N**	**53**	153	118	103	93	83	73	68	53
CCC-	**P**	**54**	154	119	104	94	84	74	69	54
CCC-	**S**	**55**	155	120	105	95	85	75	70	55
CCC-	**N**	**56**	156	121	106	96	86	76	71	56
CC	**P**	**57**	157	122	107	97	87	77	72	57
CC	**S**	**58**	158	123	108	98	88	78	73	58
CC	**N**	**59**	159	124	109	99	89	79	74	**BA**
C	**S**	**60**	160	125	110	100	90	80	75	60
C	**N**	**61**	161	126	111	101	91	81	76	**VE**
SD	**S**	**62**	162	127	112	102	92	82	77	62

Source: Numerical equivalent credit ratings (as of November 13, 2018), RMG; risk of debt distress and blend (GN-2442-53).
Note: Countries without a rating are assigned "CCC" for the calculation of the SCI.

ANNEX III: INTERACTION OF ELIGIBILITY CRITERIA 2017/2018



Source: VPC based on Annexes I and II.

ANNEX IV: COUNTRY INSTITUTIONAL AND POLICY EVALUATION (CIPE)

Policy Cluster	Variables	Indicator (Source)
A. Economic management 15%	1. Monetary and Exchange Rate Policies	
	2. Fiscal Policy	
	3. Debt Policy and Management	
B. Structural policies 20%	4. Trade	The logistic performance index (World Bank)
	5. Financial Sector	Financial Market Development Index [26] (World Economic Forum)
	6. Business Regulatory Environment	Starting a Business [50%] (World Bank)
		Regulatory Quality index [50%] (Worldwide Governance Indicators)[27]
	7. Policies and institutions for environmental sustainability	Environmental Performance Index (Yale University)
C. Social inclusion/equity policies 35%	8. Gender equality, indigenous peoples and people of African descent	The Gender Inequality Index (UNDP)
	9. Equity of Public Resource Use	
	10. Building human resources	Health and primary education index [75%] (World Economic Forum)
		Higher education and training index [25%] (World Economic Forum)
	11. Social Protection and Labor	
D. Public sector management and institutions 30%	12. Property rights and rule-based governance	Rule of law indicator (Worldwide Governance Indicators)
	13. Quality of budgetary and financial management	
	14. Efficiency of revenue mobilization	
	15. Quality of public administration	Government effectiveness index (Worldwide Governance Indicators)
	16. Transparency, accountability and corruption in the public sector	Control of corruption index (Worldwide Governance Indicators)

- **CIPE 2018 Basic Procedures and Questionnaire**

[26] Previously called "The Financial Market Sophistication Index".

[27] The Worldwide Governance Indicators are produced by Kaufmann, Kraay and Mastruzzi.

ANNEX V: CIPE Ratings 2018[28]

Policy Cluster and Weight	Variable	GUYANA Score	HONDURAS Score	NICARAGUA Score
A. Economic management (15%)	1. Monetary and exchange rate policies	3.50	3.50	3.50
	2. Fiscal policy	3.50	3.50	3.50
	3. Debt policy and management	4.25	3.75	3.75
	Policy Cluster A Score	**3.75**	**3.58**	**3.58**
B. Structural policies (20%)	4. Trade	3.11	3.94	3.73
	5. Financial sector	3.06	3.60	3.29
	6. Business regulatory environment	3.47	3.02	2.90
	7. Policies and institutions for environmental sustainability	2.76	2.95	2.96
	Policy Cluster B Score	**3.10**	**3.38**	**3.22**
C. Social inclusion/equity policies (35%)	8. Gender equality, indigenous peoples and people of African descent	3.43	3.42	3.55
	9. Equity of public resource use	2.83	3.83	3.33
	10. Building human resources	3.75	3.64	3.71
	11. Social protection and labor	3.20	3.60	2.70
	Policy Cluster C Score	**3.30**	**3.62**	**3.32**
D. Public sector management and institutions (30%)	12. Property rights and rule-based governance	3.21	2.63	2.49
	13. Quality of budgetary, procurement and financial management	3.00	3.50	3.75
	14. Efficiency of revenue mobilization	3.50	4.00	3.50
	15. Quality of public administration	2.68	2.49	2.70
	16. Transparency, accountability and corruption in the public sector	3.08	2.36	2.04
	Policy Cluster D Score	**3.10**	**3.00**	**2.90**
	Total Score	**3.27**	**3.38**	**3.21**

[28] CIPE scores and underlying write-ups were prepared by CCB and CID, in coordination with VPS sector specialists, and reviewed by a panel composed of SPD, RES and VPC.

ANNEX VI: PORTFOLIO PERFORMANCE INDICATOR (PPI) FOR 2019-2020

- **Consistent with GN-2442 and all subsequent biennial allocations, the portfolio performance indicator (PPI) for the EPBA has been derived from the percentage of undisbursed loan balances (ULB) represented by projects classified as "unsatisfactory" (i.e., with either an "alert" or a "problem" classification)**. The classification of projects as "satisfactory", "alert" or "problem" follows the Bank's corporate measure for project performance - the PMR. The PMR captures different dimensions of projects' performance. Indicators measure each stage of the project's life cycle: (i) after Board approval and before reaching eligibility; (ii) between eligibility and up to 95% disbursement; and (iii) between 95% disbursement and project closure. Time-elapsed indicators apply for the first and third stage and are evaluated against country-specific benchmarks.[29] For the second stage, a synthetic indicator (SI), reflecting a weighted average of the indicators used for rating the project's execution performance, serves as the basis of the project classification.[30]

- **For the purposes of the PPI, projects also pass through a second filter that compares them against Bank-wide benchmarks**. As in 2014 and 2016, projects beyond the 80th percentile (i.e. in the slowest 20% of all Bank projects) were classified as "unsatisfactory". For the 2019-2020 allocation, Management used a three-year average (2014-2016) of all Bank SG loans to determine the 80th percentile thresholds for time-elapsed indicators in order to update the thresholds in line with evolving improvements in project execution and the behavior of the portfolio:

2nd filter thresholds applicable for 2019-2020 allocation

Indicator	Days	Months
	Unsatisfactory	**Unsatisfactory**
	percentile 80	percentile 80
Time elapsed from approval to legal effectiveness		
In countries requiring ratification	> 406	> 13.3
In countries not requiring ratification	> 285	> 9.4
Time elapsed from legal effectiveness to eligibility	> 245	> 8.1
Extensions of last disbursement expiration date	> 729	> 24.0

Source: VPC calculation of threshold based on SPD PMR master files, March 2015, March 2016 and March 2017.

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[29] The country benchmark is a historic 10-year average of a percentile limit (for the "alert" classification the percentile is 50 and for the "problem" classification the percentile is 75 for operations in Stage 1 and 80 for operations in Stage 3).

[30] For consistency with the reporting cut-off date of the Progress Monitoring Report (PMR) cycle the measurement date for the PPI was December 31, 2017.

ANNEX VII: DSF "TRAFFIC LIGHTS", BLENDED STRUCTURE AND LEVEL OF CONCESSIONALITY

DSF Risk of debt distress	DSF Financing composition			Concessionality	Indicative weighted-average interest rate per 1/ and 2/
	Grant share	Concessional OC share 1/	Regular OC share 2/		
In debt distress and High risk 3/	**100%**	**0%**	**0%**	**100.0%**	**0.00%**
N/A. Estimated Concessional OC concessionality	0%	100%	0%	81.5%	0.25%
Moderate risk "Limited space" 4/	0%	65%	35%	55.2%	1.71%
Moderate risk "Some space" 3/	0%	50%	50%	44.0%	2.34%
Moderate risk "Substantial space" 4/	0%	40%	60%	36.5%	2.75%
Low risk (Initial blend) 3/	0%	30%	70%	29.0%	3.17%
Low risk (Advanced blend) 5/	0%	25%	75%	25.2%	3.38%
Low risk (Advanced blend) 5/	0%	20%	80%	21.5%	3.59%
N/A. Estimated Regular OC concessionality	0%	0%	100%	6.5%	4.42%

Source: VPC based on IMF concessionality calculator http://www.imf.org/external/np/pdr/conc/calculator/default.aspx).
The discount rate is set at 5 percent.

Notes:

1) Concessional OC portion is a 40-year bullet repayment loan, with a 0.25% fixed lending rate.

2) Terms of the Regular OC portion are based on the standard terms of an investment loan under the Flexible Financing Facility (FFF), i.e., a 25-year maturity and 5.5-year grace period loan, with a weighted average life of 15.25 years. For the purposes of the concessionality calculation, it is assumed that the option for fixing the base rate has been exercised. As of October 2018, this would represent a 3.62% estimated fixed cost-base plus lending margin of 0.80%.

3) Lending blend established in GN-2442, approved by the Board of Executive Directors in February 2007.

4) IMF "Guidance Note on the Bank-Fund LIC DSF" (February 2018) provides a formal basis for disaggregating the broad "moderate risk" category into three sub-categories.

5) For countries at "low risk of debt distress" and considered on a path to graduation from concessional resources, Management may recommend to the Board of Executive Directors a more advanced blend.

ANNEX VIII: DEBT SUSTAINABILITY ANALYSIS BY COUNTRY

Per GN-2442, the IDB uses the Joint IMF and World Bank (WB) **Debt Sustainability Framework (DSF)** for Low Income Countries to monitor debt sustainability in the concessional-eligible countries. In order to assess the risk of debt distress, the DSF relies on the use of indicative thresholds to benchmark external debt-burden indicators. Under the DSA template, a baseline projection is constructed using official historical data and then the baseline is subjected to stress tests to assess the vulnerability to shocks.

Depending on how the country's current and projected **external public debt indicators** compare with the thresholds under the baseline, alternative scenarios, and stress tests, a country is classified as:[31]

- **Low risk:** All debt indicators are well below relevant country-specific debt-burden thresholds. Stress testing and country-specific alternative scenarios do not result in indicators significantly breaching thresholds.

- **Moderate risk:** While the baseline scenario does not indicate a breach of thresholds, alternative scenarios or stress tests result in a significant rise in debt-service indicators over the projection period (nearing thresholds) or a breach of debt or debt-service thresholds.

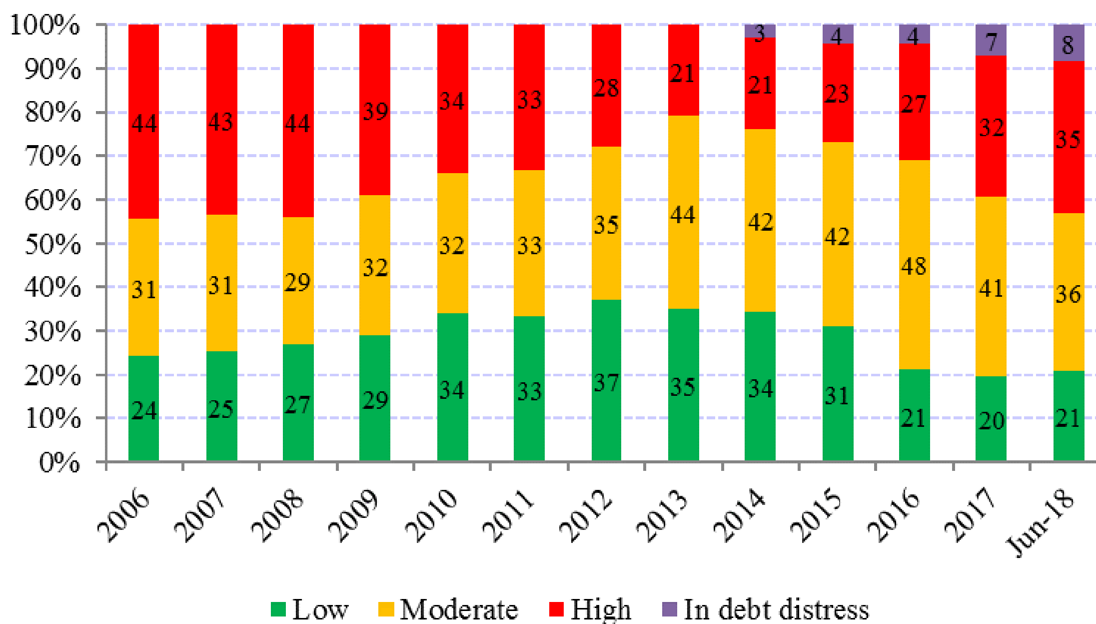
- **High risk:** The baseline scenario indicates a protracted breach of debt or debt-service thresholds, but the country does currently not face any payment difficulties. This is exacerbated by the alternative scenarios or stress tests.

- **In debt distress:** Current debt and debt-service ratios are in significant or sustained breach of thresholds. Actual or impending debt restructuring negotiations, or the existence of arrears would generally suggest that a country is in debt distress.

At the global level, the risk of debt distress, as measured by the LIC DSF, improved from 2006 to 2013, due to debt relief, reductions in global interest rates, and a commodity boom (Graph 7). However, since 2013 the proportion of low-income countries in debt distress or at high risk of debt distress has doubled. The proportion of countries at low risk peaked at 37% in 2012 and declined to 21% by June 2018. After several years of improvement, by 2018 risk ratings had broadly returned to where they were 12 years earlier at the time of the MDRI debt relief initiative. This has raised questions about whether the HIPC and MDRI debt relief initiatives have been successful in securing long-term debt sustainability.

[31] World Bank and IMF (2010). "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries", http://www.imf.org/external/np/pp/eng/2010/012210.pdf

Graph 7. Global Evolution of the Risk of Debt Distress
(In percent of total number of Low-Income Countries with DSAs)



Source: VPC, based on List of LIC DSAs for PRGT-Eligible Countries, IMF.org. https://www.imf.org/external/pubs/ft/dsa/lic.aspx

Note: The "In debt distress" category is included in "High risk" for years 2006-2013.

In 2016 and 2017 the IMF and World Bank undertook the fourth review of the LIC DSF. The framework was previously reviewed in 2006, 2009, and 2012. The IMF Executive Board reviewed the Proposed reforms on September 27, 2017.[32] A guidance note on the revised DSF was published in February 2018 and the new DSF started to be effective in July 2018.[33] IMF and World Bank staff provided training to IDB staff in the revised framework in mid-September 2018 and the DSAs prepared for this proposal use the revised DSF.

The adjustments to the methodology are intended to improve the accuracy of the framework, including by better identifying debt distress episodes and enhancing the statistical accuracy of predicting debt distress. While much of the core DSF was retained in the revised DSF, the revised DSF incorporates a number of important reforms:

- The assessment of countries' debt carrying capacity will now be based on several macroeconomic variables (international reserves, remittances, and economic growth) in addition to the World Bank's Country Policy and Institutional Assessment (CPIA) – this new aggregate is called the Composite Indicator;

[32] IMF (2017) "Review of the Debt Sustainability Framework for Low Income Countries: Proposed Reforms", https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/10/02/pp082217LIC-DSF

[33] IMF (2018) "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income countries", https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf

- There are updated thresholds for debt stock and debt service indicators;

- The number of debt indicators, thresholds, and standardized stress tests was reduced (one debt indicator – the present value of external debt to revenues – was found to be redundant and was dropped, leaving four debt indicators);

- Tailored stress tests have been introduced to better capture particular risks for countries;

- The moderate risk of debt distress category has been disaggregated into three sub-categories (limited space, some space, and substantial space);

- Realism tools were introduced to strengthen the realism of macroeconomic assumptions;

- The unified discount rate of 5 percent was maintained for the purposes of calculating the present value of debt in the LIC DSF and the grant element (concessionality).

The 2017 Review noted that over-optimism was prevalent in DSAs produced in the years 2011-2015 leading to sizable underestimation of debt outcomes in the medium term. Of additional concern, recent research suggests that over-optimism subsequently leads to harmful macroeconomic outcomes.[34] Management has made a concerted effort to correct for optimistic biases in the DSAs prepared for this Proposal.

[34] Beaudry, P. and T. Willems, "On the Macroeconomic Consequences of Over-Optimism", NBER Working Paper 24685, June 2018, Cambridge, M.A.

GUYANA[35]

Summary of Debt Sustainability Analysis
October 2018

Risk of external debt distress:	Low
Overall risk of debt distress	Low
Granularity in the risk rating	Not applicable
Application of judgment	Yes. Two threshold breaches caused by a single shock scenario (exports) are being judged away on the grounds that they are implausible and artificially caused by a perverse interaction between the shock and the initial year of oil production. This is illustrated by creating an alternative scenario that simply assumes that oil production starts one year later, and which does not suffer threshold breaches.

1. **Guyana is classified as having a low risk of external debt distress, according to this debt sustainability analysis (DSA),** which was prepared by the IDB using the joint World Bank-IMF Debt Sustainability Framework for Low Income Countries (LIC DSF).

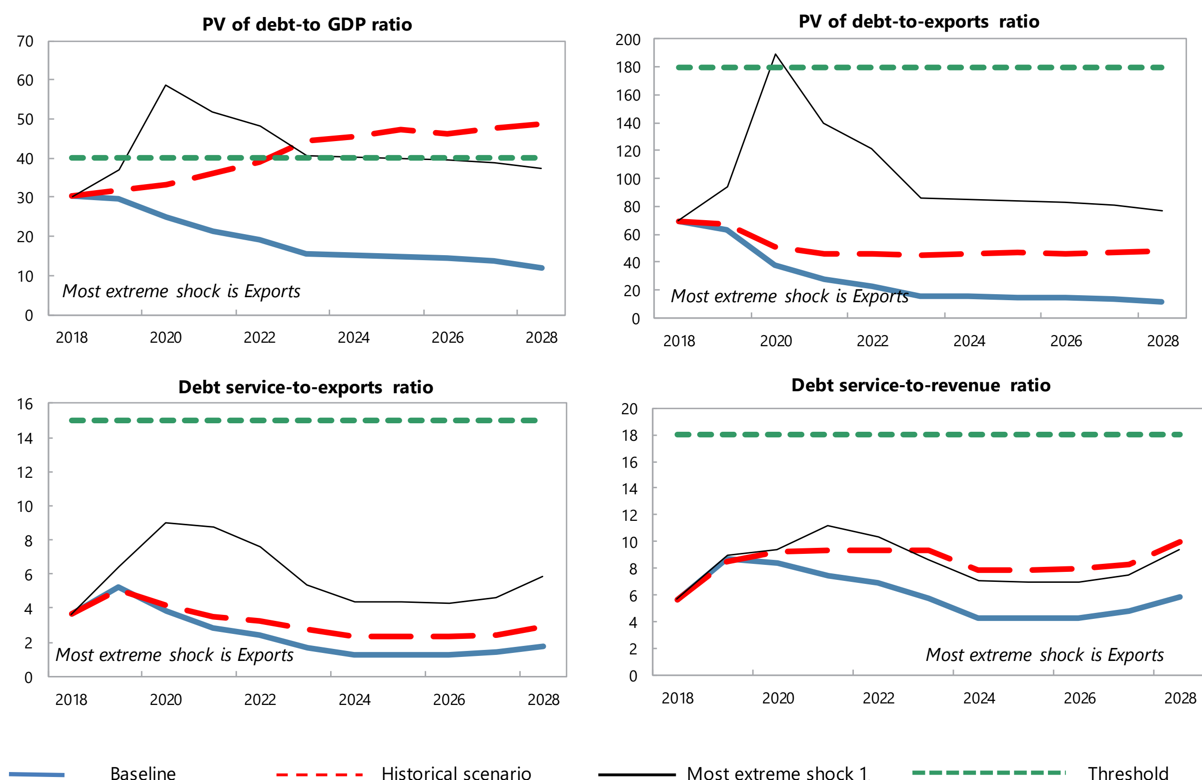
2. **Guyana's risk of external debt distress was previously classified as "moderate" for the period 2007-2017**. The change in the risk rating is due to changes in Guyana's macroeconomic outlook, above all the expected start of large-scale production and export of crude oil in less than two years' time, rather than any methodological changes arising from the introduction of the revised DSF. Debt dynamics are expected to improve significantly with the start of oil production in 2020.

3. **This risk classification is derived from an application of judgment to overrule a mechanical rating of "moderate" risk of debt distress**. The full DSA write up presents two sets of model outputs to explain the "with" and "without" judgment results.

4. **The full DSA write up is available at Guyana DSA full write up**

[35] Prepared by CCB/CGY.

Figure 1. Guyana Indicators of Public and Publicly Guaranteed Debt, 2018 – 2028 Assuming Oil Production Starts in 2020



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

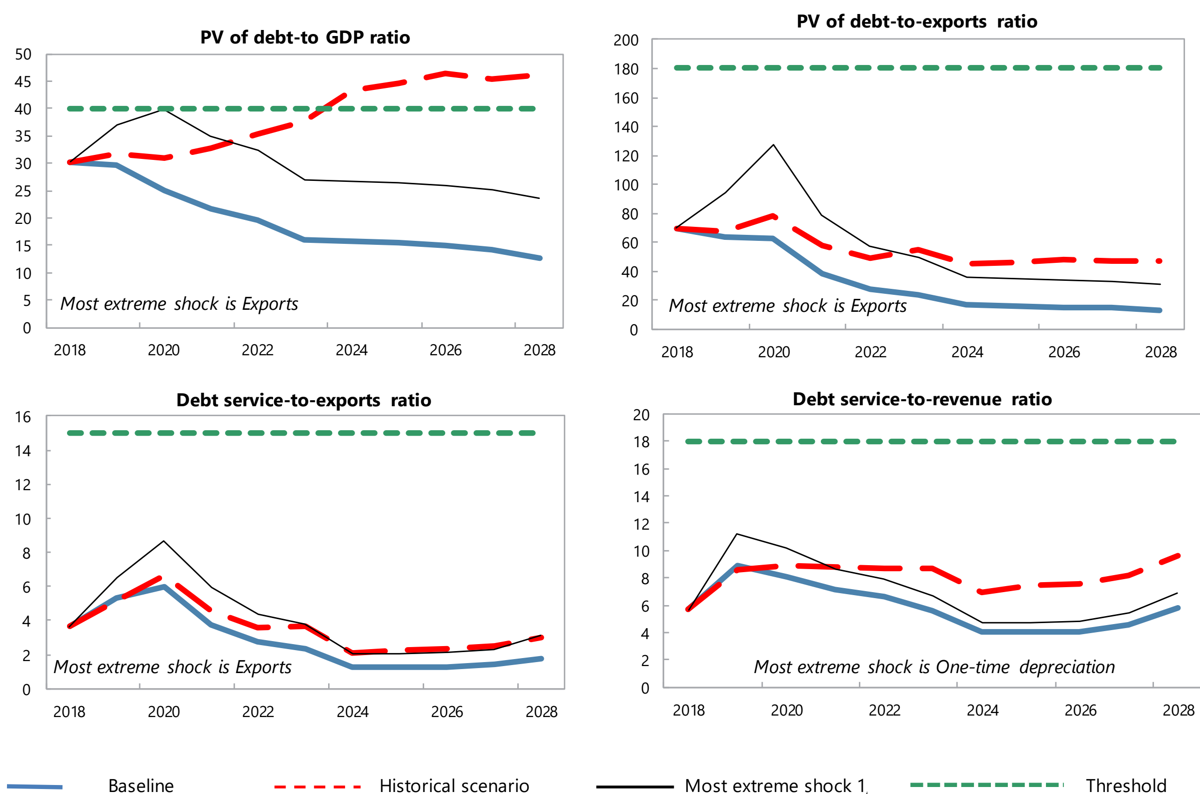
Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.5%	2.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	8	8

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Guyana: Indicators of Public and Publicly Guaranteed Debt, 2018 – 2028 Assuming Oil Production Starts in 2021



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices 2/	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.6%	2.6%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	8	8

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

HONDURAS
Summary of Debt Sustainability Analysis
October 2018

Risk of external debt distress:	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Limited space to absorb shocks
Application of judgment	No

1. **Honduras is classified as having a moderate risk of external debt distress, with limited space to absorb shocks, according to this debt sustainability analysis (DSA),** which was prepared by the IDB using the joint World Bank-IMF Debt Sustainability Framework for Low Income Countries (LIC DSF).[36] This is the same external risk rating as in October 2016.

2. **All public and publicly-guaranteed (PPG) external debt burden indicators stay under their corresponding threshold under the baseline scenario.** External public debt is expected to gradually decrease over the projection period, closing at 30.8% and 27.2% in 2028 and 2038 respectively. PPG external debt remains between 85-87% of total public debt between 2018-2038.

3. **However, three of the four external debt burden indicators suffer breaches under alternative scenarios.** Four of the six standardized stress tests show breaches in the corresponding thresholds for the present value (PV) of debt to GDP ratio. These shocks are related to primary balance, exports, a one-time nominal depreciation and the combined shock of all scenarios. The tailored tests corresponding to contingent liabilities and natural disasters also exceed the thresholds. The breaches are temporary as they breach the threshold in 2019 and return to levels below the threshold in 2026. Breaches in debt-service to-exports and debt service-to-revenue ratios coincide with years of bond maturity (2020 and 2027) and thus high levels of debt repayments. Such breaches are temporary.

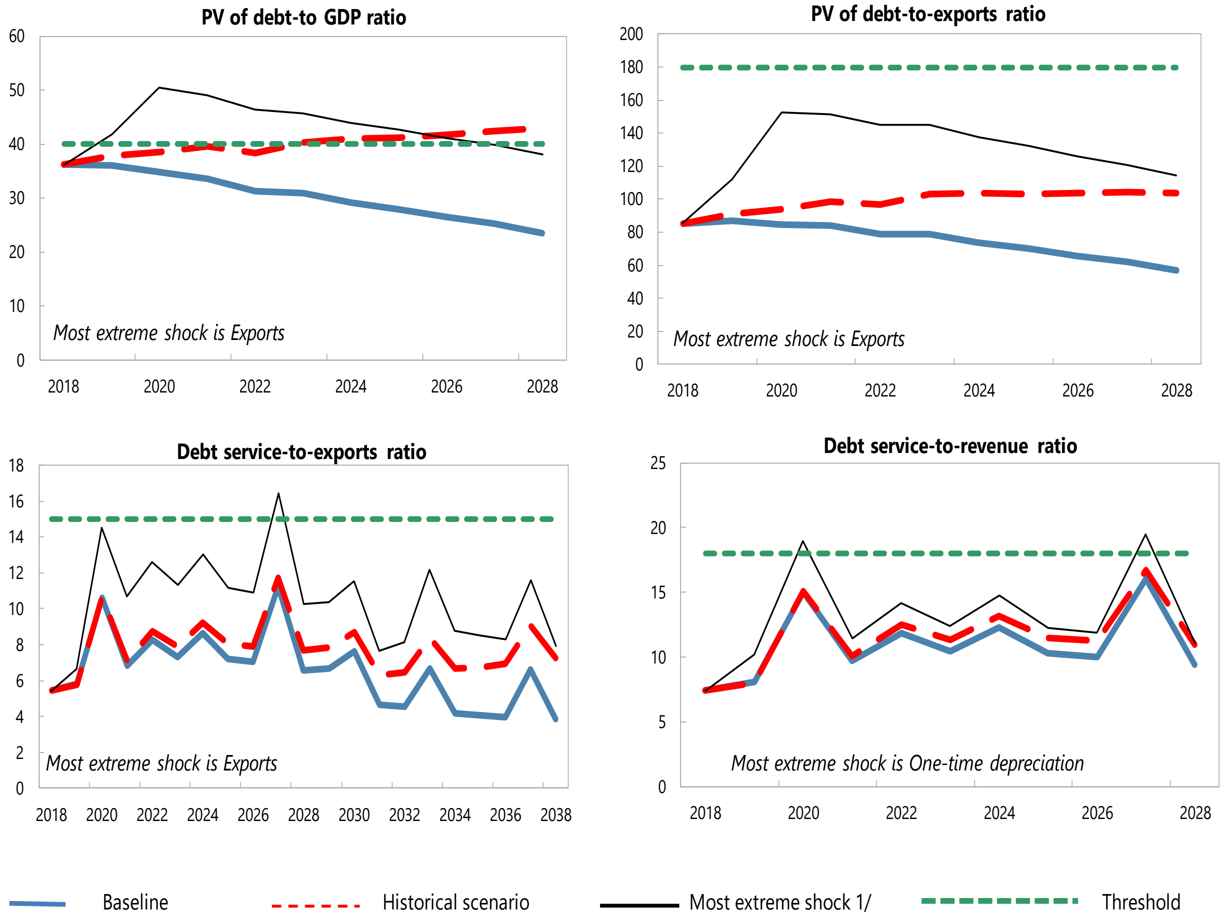
4. **Within the moderate risk category, Honduras' external debt is classified as having limited space to absorb shocks**, as the indicator of the present value of the debt is close to the threshold.

5. **These results are derived from the mechanical analysis, and no judgment has been applied to overrule the mechanical rating**.

The full DSA write up is available at Honduras DSA full write up

[36] Prepared by CID/CHO.

Honduras Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2018-2028

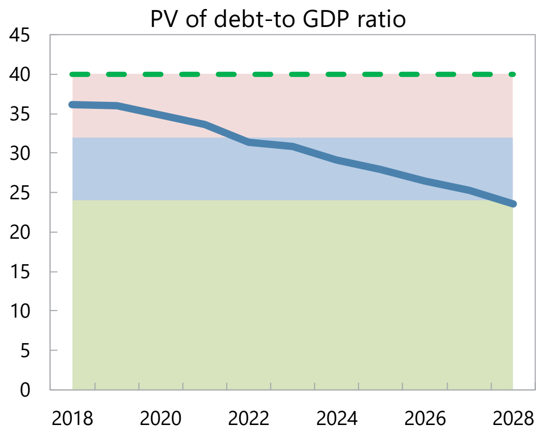


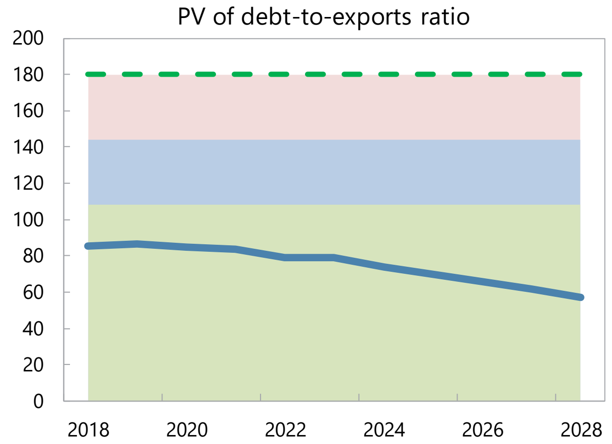
Sources: Country authorities; and staff estimates and projections.

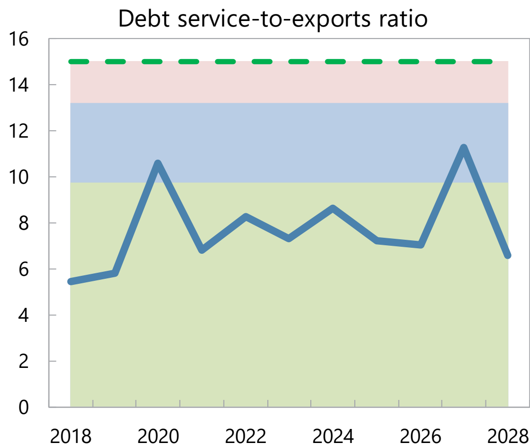
1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

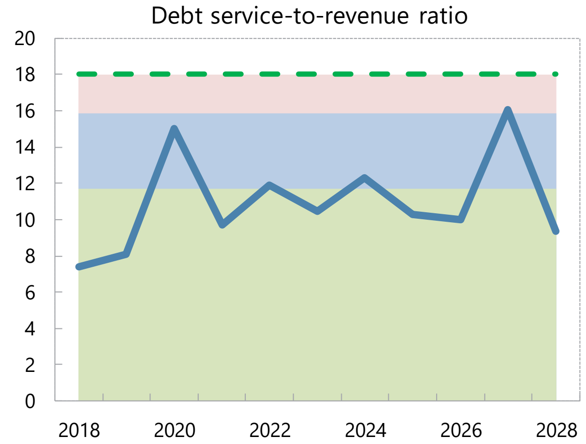
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Honduras: Qualification of Moderate Category, 2018-28









Threshold Baseline Limited space Some space Substantial space

Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

NICARAGUA

Summary of Debt Sustainability Analysis
October 2018

Risk of external debt distress:	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Limited space to absorb shocks
Application of judgment	No

1. **Nicaragua is classified as having a moderate risk of external debt distress according to this debt sustainability analysis (DSA),** which was prepared by the IDB using the joint World Bank-IMF Debt Sustainability Framework for Low Income Countries (LIC DSF).[1] This is the same external risk rating as in October 2016.

2. **All public and publicly-guaranteed (PPG) external debt burden indicators stay under their corresponding threshold under the baseline scenario.** The indicators of Present Value (PV) of debt to GDP ratio and PV of debt to exports ratio show an increasing trend in the first 10 years projection period and then they decrease. On the other hand, the debt service indicators increase throughout the period of analysis, which shows the decline in concessional debt over the longer term.

3. **However, one indicator (the PV of debt to GDP ratio) is not robust to various stress tests.** The PV of debt to GDP ratio breaches the threshold for a prolonged period (2020-2035) in the most extreme shock, which is a shock in exports. Two of the six bound tests (Exports, Other flows and combinations of the other tests) and the two tailored tests (combined contingent liabilities and natural disaster) also show breaches of the threshold in this indicator. The other three debt burden indicators do not breach their thresholds under stress test scenarios.

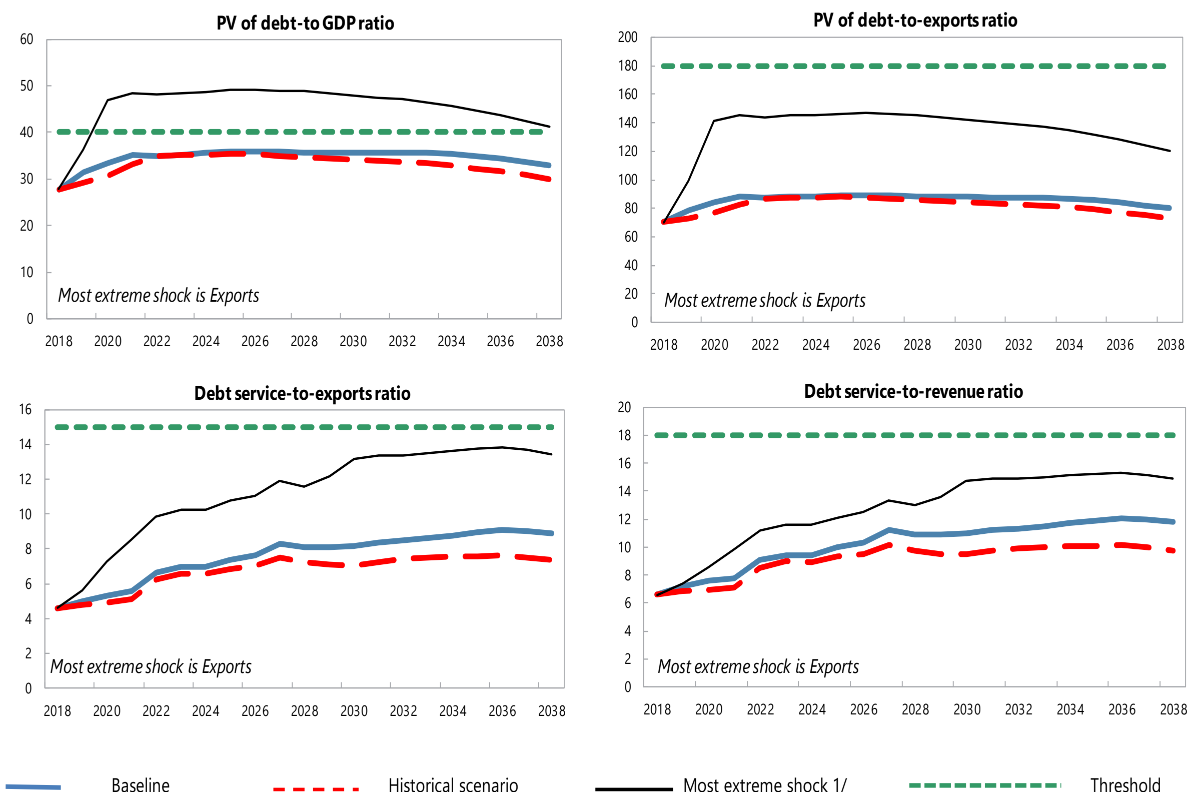
4. **Within the moderate risk category, Nicaragua's external debt is classified as having limited space to absorb shocks**, as the indicator of the present value of the debt is close to the threshold.

5. **These results are derived from the mechanical analysis, and no judgment has been applied to overrule the mechanical rating**.

The full DSA write up is available at Nicaragua DSA full write up

[1] Prepared by CID/CNI.

Nicaragua: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2018 – 2038



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	Yes	No
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.1%	4.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	9	9

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Nicaragua: Qualification of the Moderate Category, 2018-2028

Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

ANNEX IX: EPBA ENVELOPE COEFFICIENT SCENARIOS

1. Passive AB-3066-2 No adjustment

This scenario takes the 3.18% coefficient from the 2017-2018 allocation and subtracts 0.73 percentage points to compensate for Bolivia's loss of eligibility.

2. Historical average (2007-2016)

This scenario presents the simple average of EPBA coefficients relative to the total approvals of Ordinary Capital, sovereign-guaranteed, non-concessional loans for the five EPBA allocations from 2007-2016. It considers only Bolivia, Guyana, Honduras and Nicaragua.

3. AB-3066-2 Base case ("low scenario")

This scenario uses the projected concessional assistance "OC LTFP Base case" in AB-3066-2 (Annex II). It takes the US$ value of the projected EPBA envelope for 2019-2020 [US$188 million for 2019 and US$188 million for 2020] under the "*Early Graduation Scenario*", which assumed that Bolivia would graduate in 2019. It calculates the EPBA coefficient based on the current projected amount of OC SG loan approvals in 2019-2020.

4. AB-3066-2 OC LTFP Growth case ("high scenario")

This scenario uses the projected concessional assistance "OC LTFP Growth Scenario" in AB-3066-2 (Annex II). It takes the US$ value of the projected EPBA envelope for 2019-2020 [US$206 million for 2019 and US$212 million for 2020] under the "*Early Graduation Scenario*", which assumed that Bolivia would graduate in 2019. It calculates the EPBA coefficient based on the current projected amount of OC SG loan approvals in 2019-2020.

5. Honduras Public Debt Policy 2019-2022 – constant IDB external debt share

The GOH's Public Debt Policy 2019-2022 stipulates a maximum of US$450 million in new external debt from all creditors per annum. This scenario assumes that the IDB accounts for 30% of this, in line with the IDB's 30% share of external public debt in 2017. It scales up possible IDB lending to allow for 30% of the lending being in PBLs, which are not subject to the debt ceiling, and then determines the overall EPBA envelope based on: (i) US$ approvals to Honduras per above; and (ii) Honduras' 53.7% share of the EPBA.

6. Honduras Public Debt Policy 2019-2022 – constant IDB share of MDB

This scenario assumes that multilateral creditors provide 75% of the US$450 million financing and that the IDB accounts for 50% of MDB financing, in line with the IDB's 50% share of MDB public debt in 2017. It scales up possible IDB lending to allow for 30% of the lending being in PBLs, which are not subject to the debt ceiling, and then determines the overall EPBA envelope based on: (i) US$ approvals to Honduras per above; and (ii) Honduras' 53.7% share of the EPBA.

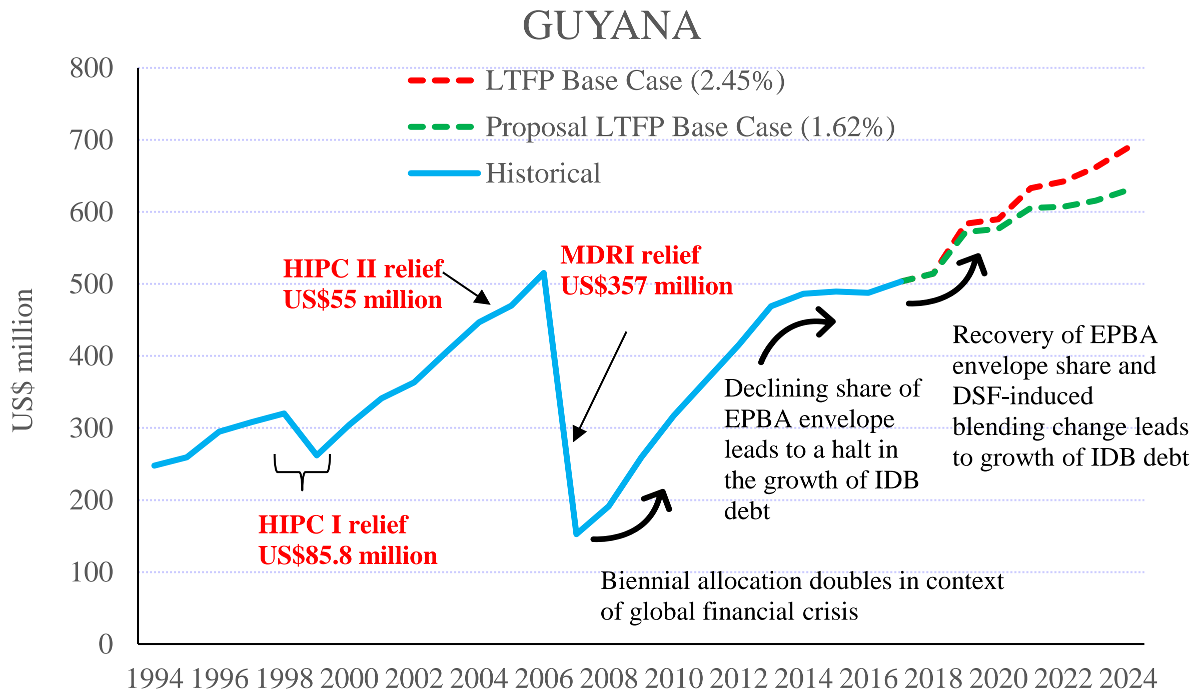
7. Guyana average disbursements (2007-2018)

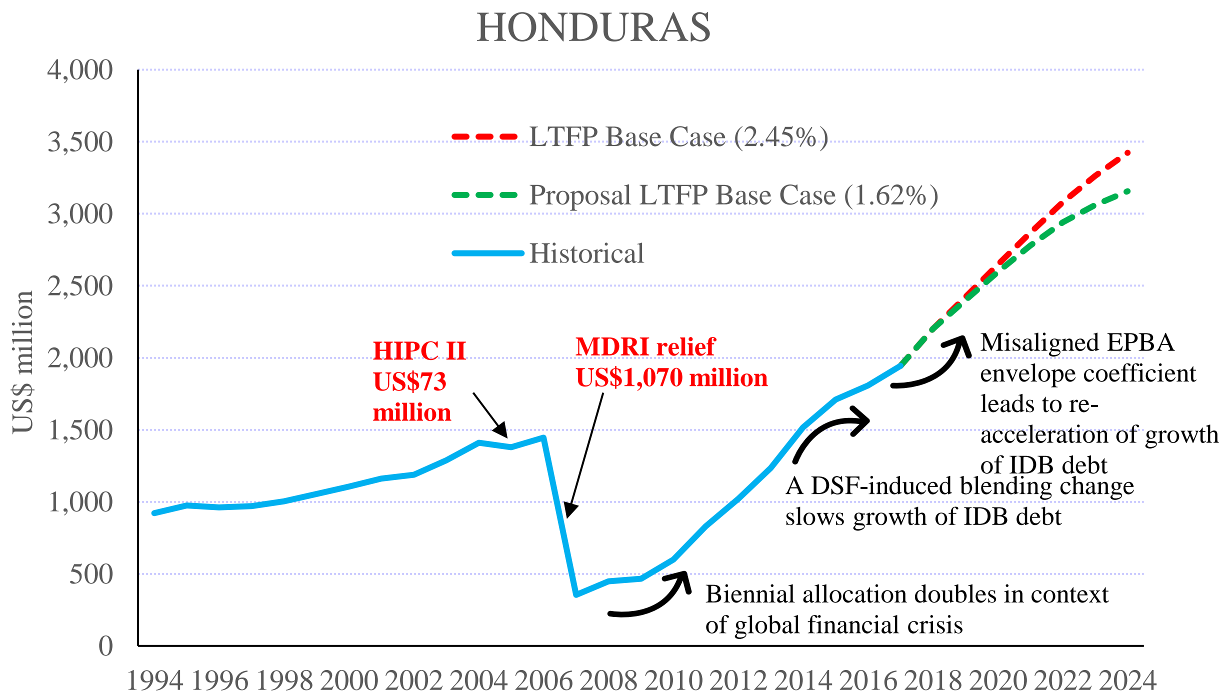
This scenario derives the EPBA envelope coefficient that would set the annual total allocation to Guyana for 2019-2020 at the average level of IDB disbursements for 2007-2018 (US$38.8 million).

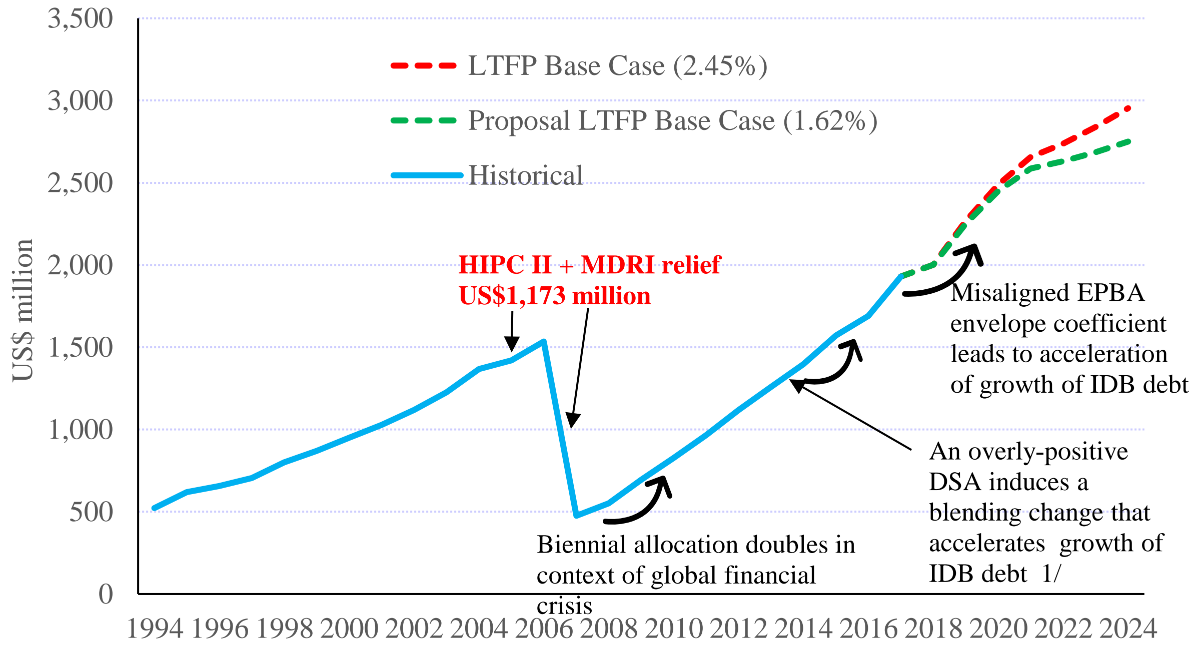
8. Guyana maximum annual disbursement (2007-2018)

This scenario derives the EPBA envelope coefficient that would set the annual total allocation to Guyana for 2019-2020 at the maximum level of IDB disbursements for 2007-2018 (US$66 million in 2009).

ANNEX X: OUTSTANDING PUBLIC DEBT TO THE IDB 1994-2024 (US$ millions)







Sources: VPC, FIN/ACC, IDB Annual Reports.
Note 1/ In October 2013, the IMF increased the discount rate for the DSF from 3% to 5%, which sharply reduced the present value of debt for the DSAs produced in 2014. Global interest rates were at low points 2011-2014.