PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REVIEW OF THE IMPLEMENTATION OF THE DEBT SUSTAINABILITY FRAMEWORK AND ENHANCED PERFORMANCE-BASED ALLOCATION 2019-2020

MARCH 10, 2021

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ABBREVIATIONS

CIPE	Country Institutional and Policy Evaluation
COC	Concessional Ordinary Capital
CPIA	Country Policy and Institutions Assessment
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EPBA	Enhanced Performance-Based Allocation
FSO	Fund for Special Operations
GCI-9	Ninth General Increase in Resources of the Inter-American Development Bank
GDP	Gross Domestic Product
GNI	Gross National Income
IDA	International Development Association
IMF	International Monetary Fund
LIC	Low Income Country
MDB	Multilateral Development Bank
MDRI	Multilateral Debt Relief Initiative
MFI	Multilateral financial institution
NCBP	Non-Concessional Borrowing Policy
OC	Ordinary Capital
OVE	Office of Evaluation and Oversight
PBA	Performance-Based Allocation
PBL	Policy-Based Loan
PMR	Progress Monitoring Report
SG	Sovereign Guaranteed
SPD	Office of Strategic Planning and Development Effectiveness
ULB	Undisbursed Loan Balances
WB	World Bank

I. INTRODUCTION

A. Objective

1.1 **On March 15, 2007, the Board of Governors approved Resolution AG-03/07, which states that every two years there shall be a review of implementation of the Debt Sustainability Framework and Enhanced Performance-Based Allocation (DSF/EPBA)**. Management has since presented six reviews for the consideration of the Board of Executive Directors (Board) and subsequent distribution to the Board of Governors for information at the IDB Annual Meeting: (i) in 2009 (Documents GN-2442-17 and AB-2646); (ii) in 2011 (Documents GN-2442-34 and AB-2646-1); (iii) in 2013 (Documents GN-2442-44 and AB-2646-2); (iv) in 2015 (Documents GN-2442-48 and AB-2646-3); (v) in 2017 (Documents GN-2442-55 and AB-2646-4); and (vi) in 2019 (Documents GN-2442-68 and AB-2646-5).

1.2 **The purpose of this document is to submit for the consideration of the Board Management's seventh review of the implementation of the DSF/EPBA framework**. Management also requests that the Board authorize transmission of this report for information to the Board of Governors.

B. The Debt Sustainability Framework and Enhanced Performance-Based Allocation

1.3 **On February 21, 2007, the Board approved document 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 (PBA) framework"**, which presented an enhanced performance-based allocation (EPBA) system for the distribution of Fund for Special Operations (FSO) resources [now Concessional Ordinary Capital (COC)], under a structure that blends COC and OC resources (blended structure), based on the DSF/EPBA criteria. Total allocation of concessional resources under the DSF/EPBA is determined by a combination of country needs and performance, which determines the allocation of concessional resources (first step); and the risk of debt distress, which defines the appropriate blend of Ordinary Capital (OC) resources (second step). The DSF/EPBA aims to ensure a link between concessional resource allocation and absorption capacity, while preserving debt sustainability.

1.4 **The EPBA for concessional resources has three major elements:** (i) population size; (ii) Gross National Income (GNI) per capita;[1] and (iii) performance, estimated as the weighted average of portfolio performance (30%) and the quality of the institutional and policy framework (70%), as measured by the Country Institutional and Policy Evaluation

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

(CIPE).[2] Each of these elements in the allocation formula has a defined exponent for the calculation of the distribution coefficient as determined in document GN-2442.[3]

1.5 **The DSF defines the risk of debt distress** (low, moderate, high or in debt distress), which in turn determines the appropriate level of concessionality for each country through the blended structure.[4]

1.6 **This EPBA/DSF review maintains the traditional review of the EPBA and DSF (sections II, III and IV).** It also follows up on issues raised in the last biennial review.[5] These issues were part of an extensive dialogue on concessional resource issues with the Board during 2020.[6] In order to comply with a request of the Board in 2016, this Review includes a table that tracks the cost of the provision of concessional assistance (Annex III).[7]

1.7 **Collaboration with other MFIs**. The Bank has continued to collaborate and exchange information with all multilateral financial institutions (MFI) that use a performance-based allocation system and that are harmonized with the DSF. During 2019 and 2020, the IDB continued to participate in the annual MDB/MFI Technical Meeting on Performance-Based Allocation (PBA) Systems, as well as the annual MDB Meeting on LIC Debt Issues.[8]

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[2] The contents of the CIPE are explained in Section III.B, paragraph 3.2.

[3] ($POP^{0.5}$ x $GNIpc^{-1}$ x $[0.7*CIPE + 0.3\ PPI]^2$). The performance-based allocation formulas for concessional resources in other multilateral development banks (MDBs) also include the same two components although variable weights and exponents vary.

[4] The IDB is one of five multilateral development agencies that use the Low-Income Country Debt Sustainability Framework (LIC DSF) to determine the financing terms/grant element of concessional assistance. The others are: (i) the International Development Association (IDA); (ii) the International Fund for Agricultural Development (IFAD); (iii) the African Development Bank (AfDB); and (iv) the Asian Development Bank (AsDB).

[5] "Review of the Implementation of the Debt Sustainability Framework and Enhanced Performance-based Allocation 2017-2018. Final version." GN-2442-68.

[6] (i) Overview of IDB Concessional Resource Framework (PP-1027); (ii) Rules for Country Eligibility to Concessional Resources (PP-1036); (iii) The Enhanced Performance Based Allocation (EPBA) (PP-1075); and (iv) Concessionality/Debt Sustainability Framework (DSF) (PP-1094).

[7] Minutes CGA/16/15 and DEA/16/17.

[8] Note on "Collaboration between the IMF, the World Bank and regional development banks in the preparation of debt sustainability analyses for low-income countries", December 2007. Management reported on the process to develop this MoU in "Update on implementing multilateral debt relief and concessional finance reform at the IDB", (GN-2442-14), July 2007.

II. Concessional Allocations in 2019-2020

A. Concessional allocations under the EPBA/DSF in 2019-2020

2.1 Three countries (Guyana, Honduras and Nicaragua) were eligible for a concessional resource allocation under the EPBA/DSF for 2019 and 2020.[9] An EPBA envelope of US$203.1 million per year was approved initially (GN-2442-57). Following the approval by the Board of an increase to the 2019-2020 biennial SG non-concessional lending envelope, from the originally approved level of $20.4 billion, to a revised level of $23.8 billion, a revised allocation of concessional resources with an EPBA envelope of US$230.92 million was approved (GN-2442-64) (Table 1).

Table 1. Annual allocations to eligible countries, 2019-2020 (US$ million)

	(1) EFBA allocation	(2) DSF			(3)	(4) = (1) + (3)	(5) = (4) * 2
			Blend				
	COC	Risk of Debt Distress	COC	OC	OC	Annual allocation	Biennial allocation
Guyana	13.03	Low	30%	70%	30.40	43.43	86.86
Honduras	124.02	Moderate (Limited)	65%	35%	66.78	190.81	381.61
Nicaragua	93.87	Moderate (Limited)	65%	35%	50.55	144.42	288.83
Total	**230.92**				**147.73**	**378.65**	**757.31**

Source: "Revised Allocation of Concessional Resources 2019-2020", GN-2442-64, Table 3.

2.2 **The risk of debt distress, as determined in debt sustainability analyses prepared using the DSF, changed for all countries compared with the 2017-2018 allocation of concessional resources.** Guyana was classified as a "low" risk of debt distress country for the first time, and consequently its financing blend changed to 30% COC/70% OC. Honduras and Nicaragua were classified as having "moderate" risk of debt distress, with limited space to absorb shocks. The COC/OC blend applicable to Honduras and Nicaragua changed to 65% COC/35% OC for 2019-2020.

B. EPBA/DSF approvals in 2019-2020

2.3 **A total of 15 operations with blended resources amounting to US$546 million were approved during 2019-2020, of which US$324.7 million corresponded to COC resources (Table 2).** The total utilization represented 72% of the resources allocated in the biennial allocation for 2019-2020. Reflecting the flexibility to front-load or back-load resources within the two-year allocation period, one-third of total approvals occurred in 2019 and two-thirds in 2020. For the two years, approved policy-based loans (PBLs) accounted for 31% of the biennial allocation and for 43% of approved loan resources. Resolution AG-9/11 established a limit for approvals of PBL to be financed with COC resources up to the equivalent of 30% of the total allocation of COC resources for any

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

allocation period, starting with the 2011-2012 biennial allocation.[10] In 2020 the Board of Governors increased the limit to 40% for approvals of PBLs to be financed with the Bank's OC resources and COC resources until December 31, 2022, in order for the Bank to better support its developing member countries in their capacity to respond to COVID-19.[11]

2.4 **In addition to the regular biennial allocation, a Special Development Loan (SDL) was approved for Honduras in 2020.** The SDL total of US$76.2 million comprised US$49.5 million of COC resources and US$26.7 million of OC resources, under SDL financing terms.[12] Furthermore, additional concessional financing of US$57.1 million was approved for Honduras in 2019-2020.[13]

Table 2. SG Operations Approved by Country, 2019-2020 (US$ million)

	2019			2020			2019-2020
	COC	**OC**	**Total**	**COC**	**OC**	**Total**	**Total**
Guyana	**0.0**	**0.0**	**0.0**	**25.9**	**60.5**	**86.4**	**86.4**
Investment	0.0	0.0	0.0	15.7	36.7	52.4	52.4
PBL	0.0	0.0	0.0	10.2	23.8	34.0	34.0
Honduras	**123.0**	**66.2**	**189.2**	**125.1**	**67.3**	**192.4**	**381.6**
Investment	64.8	34.9	99.7	52.5	28.3	80.8	180.5
PBL	58.2	31.3	89.5	72.6	39.1	111.7	201.2
Nicaragua	**0.0**	**0.0**	**0.0**	**50.7**	**27.3**	**78.0**	**78.0**
Investment	0.0	0.0	0.0	50.7	27.3	78.0	78.0
PBL	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grand Total	**123.0**	**66.2**	**189.2**	**201.7**	**155.1**	**356.8**	**546.0**
Investment	64.8	34.9	99.7	118.9	92.2	211.2	310.9
PBL	58.2	31.3	89.5	82.8	62.9	145.7	235.2
PBL as % total	47%	47%	47%	41%	41%	41%	43%
SDL Honduras	0.0	0.0	0.0	49.5	26.7	76.2	76.2
Co-financing			40.7			16.4	57.1

Source: VPC based on Convergence.

2.5 **In terms of sectoral distribution, on a biennial basis, by value 46% of operations approved for 2019-2020 were in the Institutions for Development (IFD) sector, 31% were in the Social Sector and 23% were in the Infrastructure and Environment sector**

[10] "Review of the New Lending Framework" (AB-2971). Recommendation 4 was: "To establish FSO PBL approval limit, for consecutive two-year periods, of the equivalent of 30 percent of the **total biennial allocation** of FSO resources carried out by the BOD in accordance with document GN-2442, the first of which should begin with the 2011-2012 allocation (document GN-2442-32)." This limit was approved by the Board of Governors (Resolution AG-9/11).

[11] Resolution AG-8/20.

[12] The US$26.7 million of OC resources, under SDL financing terms was financed from the Bank's Enhanced Lending Capacity (ELC).

[13] This comprised: (i) US$30 million of co-financing of HO-1207 by the Korean Infrastructure Development Co-Financing Fund (KIF); (ii) US$16.4 million of co-financing of HO-L1203 by the Clean Technology Fund (CTF); and (iii) US$10.7 million financing of HO-L1200 by the Green Climate Fund (GRN).

(**Table 3**). This is a markedly different distribution to that of the three biennial allocations from 2013-2018, when Infrastructure and Environment was the largest sector. By value, a quarter of the allocation was directed to support for response to the COVID-19 pandemic and almost 6% responded to hurricanes Eta and Iota.

Table 3. Operations Approved by Sector, 2019-2020 (US$ million)

	2019-2020				
	Sector			Emergency response	
	*Inst. for Development	**Infrastructure & Environment	Social Sector	COVID-19	Hurricanes
Guyana	56.0	0.0	30.4	86.4	
Honduras	195.9	143.3	118.7	20.0	
Nicaragua	35.0	0.0	43.0	43.0	35.0
Total	**286.9**	**143.3**	**192.1**	**149.4**	**35.0**
% total	46.1%	23.0%	30.9%	24.0%	5.6%
% in 2017-2018	13.0%	45.7%	41.3%	n.a.	n.a.

* Includes Trade and Integration.
** Includes CSD.
Table includes SDL for Honduras.

Source: VPC based on Convergence.

III. REVIEW OF THE ENHANCED PERFORMANCE-BASED ALLOCATION (EPBA)

A. The EPBA

3.1 **While the EPBA worked well for the 2019-2020 biennial allocation, looking to the future, in February 2021 the Board of Executive Directors approved two modifications to the EPBA.** One modification changes the way the portfolio performance indicator is calculated for concessional resource allocations (see III.C below) and the second modification changes an exponent in the EPBA formula, in order to accommodate the reintegration of Haiti into the EPBA/DSF framework.[14]

B. Country Institutional and Policy Evaluation (CIPE)

3.2 **The CIPE assesses the quality of a country's current policy and institutional framework.** CIPE criteria or variables are grouped into four major policy clusters, each with a specific weight in the total CIPE score: (i) Economic Management (15%); (ii) Structural Policies (20%); (iii) Policies for Social Inclusion/Equity (35%); and (iv) Public Sector Management and Institutions (30%). The weights attached to each policy cluster were approved by the Board when the CIPE was introduced in 2002 (GN-1856-31).

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

[14] "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (GN-2442-71).

indicators to increase objectivity in the assessment, as recommended by the Office of Evaluation and Oversight (OVE) (documents RE-279 and RE-376); and (iii) to harmonize methodologies with other MDBs.[15] Seven of the 16 CIPE variables have quantitative indicators, which account for 25% weight of the respective variables. Overall, the quantitative indicators have a weight of approximately 10% of the overall CIPE rating. In practice, countries' overall CIPE scores with and without the quantitative indicators have been similar, indicating that the incorporation of the quantitative indicators has not significantly changed overall CIPE ratings. The CIPE variables have not changed since 2012. Annex I includes the evolution of total CIPE scores by country.

C. Portfolio Performance

3.4 **Under the EPBA framework portfolio performance has been assessed as the percentage of undisbursed loan balances (ULB) represented by projects classified as "problem" and "on alert"**. At the aggregate level for the concessional-eligible countries, the share of undisbursed loan balances in "Unsatisfactory" projects (those "on alert" or with "problem" status) increased from 11% of total ULB on December 31, 2017 to 32% by December 31, 2019 (Figure 1). 62% of the increase in the weighted average share of "unsatisfactory" ULB was due to the sharp rise in "unsatisfactory" ULB in Nicaragua.[16]

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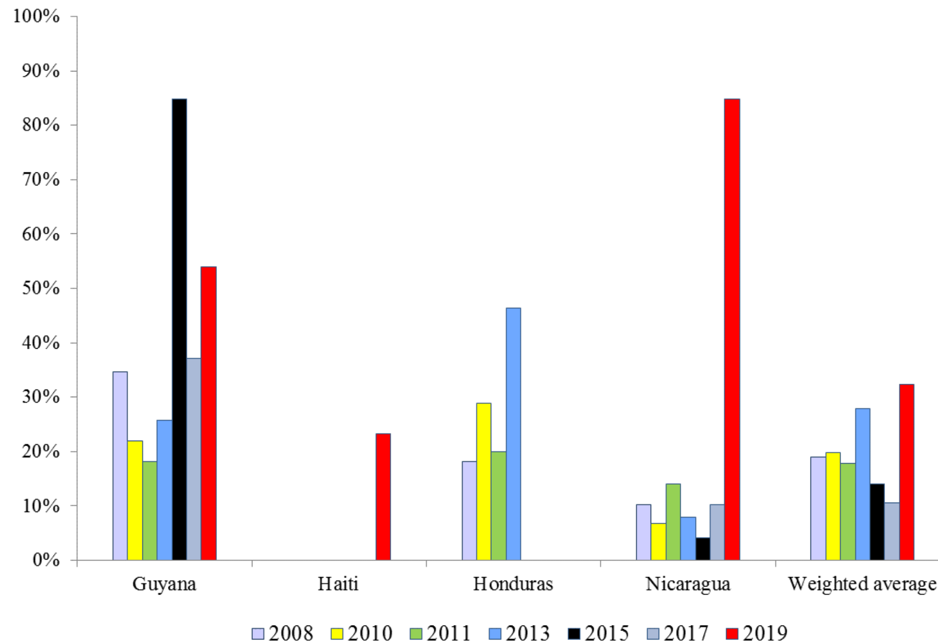
[15] Since 2004 most MDBs harmonized with the World Bank's Country Policy and Institutions Assessment (CPIA). Harmonization was recommended by an Independent Panel that reviewed the CPIA and found little value added in having similar, highly correlated methodologies among MDBs. Harmonization was also consistent with the Managing for Development Results Framework (MfDR) objective of minimizing duplication in multilateral assessment approaches. See also A Brief History of the CIPE at the IDB.

[16] The inclusion of Haiti accounted for 34% of the increase in the weighted average share of "unsatisfactory" ULB. The increase in the share of unsatisfactory ULB in Guyana accounted for 4% of the increase in the weighted average. Honduras did not account for any share of the increase in unsatisfactory ULB.

Figure 1. "Unsatisfactory" Project Classification for the EPBA (as % of ULB)



Source: VPC based on GN-2442-57, GN-2442-53, GN-2442-46, GN-2442-41, GN-2442-32, GN-2442-16.
Note: No column appears for Honduras in 2015, 2017 and 2019 because the unsatisfactory ULB was 0%.

3.5 **In February 2021, the Board of Executive Directors approved a "Proposal to Amend the EPBA Portfolio Performance Indicator" (GN-2442-69)**, which changes the way the portfolio performance indicator is calculated for concessional resource allocations. The Proposal recognized that the PPI has worked as designed in terms of its role in allocations and that it has provided incentives for improved portfolio performance. However, the PPI had been too narrowly focused on disbursement speed – as opposed to broader development effectiveness – and overly-sensitive to large individual projects. Consequently, per the Proposal each country's ratings in Project Completion Reports published in the Bank's annual Development Effectiveness Overview will now be included as a complement to the PMR ratings.

IV. REVIEW OF THE DEBT SUSTAINABILITY FRAMEWORK (DSF)

A. The DSF

4.1 **The World Bank and IMF completed a fourth review of the DSF for Low-Income Countries (LICs) in late 2017 and the framework became operational in the second half of 2018**.[17] The Bank used the revised DSF for the "Proposal for the Allocation of Concessional Resources 2019-2020" (GN-2442-57), including the new disaggregation of the "moderate risk of debt distress" 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.[18]

4.2 **One important aspect of the revised DSF was to be phased in, with possible impact on IDB concessional resource allocations after the 2019-2020 allocation.** Under the revised DSF, the basis for classifying countries into the strong, medium and weak debt carrying capacity groupings (which determines which thresholds are used to assess the projected trajectory of a country's debt burden indicators) changed from the World Bank's Country Policy and Institutional Assessment (CPIA) to a composite indicator, that includes reserve coverage, remittances, and economic growth. The last biennial review highlighted that although this methodological change in the DSF had improved the statistical accuracy of the underlying model,[19] it carried operational implications for MDBs, like the IDB, that were harmonized with the DSF.[20] In particular, GN-2442-68 advised that the pattern from 2008-2018 whereby poorer and more fragile countries tended to receive higher levels of concessionality in their concessional allocations might end after introduction of the new composite indicator. As such, GN-2442-68 stated that there was:

> "*a non-trivial risk that over the medium term continued reliance on the risk of debt distress as the sole determinant of concessionality might lead to a situation where the degree of concessionality is positively correlated with per capita income and inversely correlated with variables such as perceived fragility*."

4.3 **This revision to the methodology for determining debt carrying capacity groupings has had an uneven impact on IDB LIC debt sustainability analyses (DSA)**. Guyana and Nicaragua were relatively unaffected by the methodological change and they maintained their "***medium***" debt carrying capacity classification in 2020.[21] In late-2020,

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[17] IMF, "Review of the Debt Sustainability Framework for Low Income Countries: Proposed Reforms", October 2017.

[18] "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.

[19] Improved accuracy refers to a reduction in the rate of both "missed crises" and "false alarms". IMF "Review of the Debt Sustainability Framework for Low Income Countries: Proposed Reforms", October 2017.

[20] "Review of the Implementation of the Debt Sustainability Framework and Enhanced Performance-based Allocation 2017-2018. Final version. (GN-2442-68).

[21] The external debt burden thresholds for a "***medium***" debt carrying capacity country are: (i) a present value of public and publicly guaranteed (PPG) external debt of 40% of GDP; (ii) a present value of PPG external debt equivalent to 180% of exports; (iii) PPG external debt service of 15% of exports; and (iv) PPG external debt service of 18% of government revenue.

both countries had the same risk of debt distress as in late-2018.[22] In contrast, Honduras and Haiti moved to a new, higher debt carrying capacity classification. Honduras' assessed debt carrying capacity was upgraded from "***medium***" to "***strong***".[23] The use of higher thresholds offset the adverse impacts on the DSA resulting from COVID-19 macroeconomic impacts and hurricanes Eta and Iota.[24] In part due to high levels of remittances, Haiti's assessed debt carrying capacity was upgraded from "***weak***" to "***medium***", with the result that, for the first time, Haiti's projected debt burden indicators are now benchmarked against the same thresholds as Guyana and Nicaragua.[25] The 2020 IDB DSA for Haiti classifies the country as having a "low" risk of external debt distress, in contrast to the "high" risk classification the country maintained from 2007-2018.

4.4 **The Bank has addressed the operational implications of this methodological revision in the DSF by adapting its concessional resources framework to** incorporate GNI per capita and vulnerability alongside the risk of debt distress in the determination of concessionality in biennial concessional resource allocations.[26]

B. Debt sustainability of IDB Low Income Countries bucks the global trend

4.5 **The last two biennial reviews noted that at a global level there had been a clear deterioration in debt sustainability among low-income countries since 2013.[27]** The review of the 2015-2016 allocation also projected that the deteriorating trend was likely to continue and stated that the Bank would "monitor whether IDB LICs start to follow the global trend over the next two years."

4.6 **Unfortunately, the expectation that the deteriorating trend would continue has proved correct.** At the global level, the risk of debt distress, as measured by the LIC DSF, has continued to increase, due in part to the lagged effect of accumulations of non-concessional debt in some countries over the last decade[28] and the macroeconomic impacts of COVID-19 in 2020. The proportion of low-income countries in debt distress or at high

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[22] "Low" risk of debt distress for Guyana, and "moderate – limited space" for Nicaragua ("Proposal for the Allocation of Concessional Resources 2019-2020", GN-2442-57).

[23] The external debt burden thresholds for a "***strong***" debt carrying capacity country are: (i) a present value of public and publicly guaranteed (PPG) external debt of 55% of GDP; (ii) a present value of PPG external debt equivalent to 240% of exports; (iii) debt service of 21% of exports; and (iv) debt service of 23% of government revenue.

[24] Honduras had a "moderate" risk of debt distress, with **limited space** to absorb shocks in 2018 ("Proposal for the Allocation of Concessional Resources 2019-2020", GN-2442-57) and a "moderate" risk of debt distress, with **some space** to absorb shocks in 2020.

[25] From 2007-2018, Haiti was assessed to have a "***weak***" debt carrying capacity. The external debt burden thresholds for a "**weak**" debt carrying capacity country are: (i) a present value of public and publicly guaranteed (PPG) external debt of 30% of GDP; (ii) a present value of PPG external debt equivalent to 140% of exports; (iii) PPG external debt service of 10% of exports; and (iv) PPG external debt service of 14% of government revenue

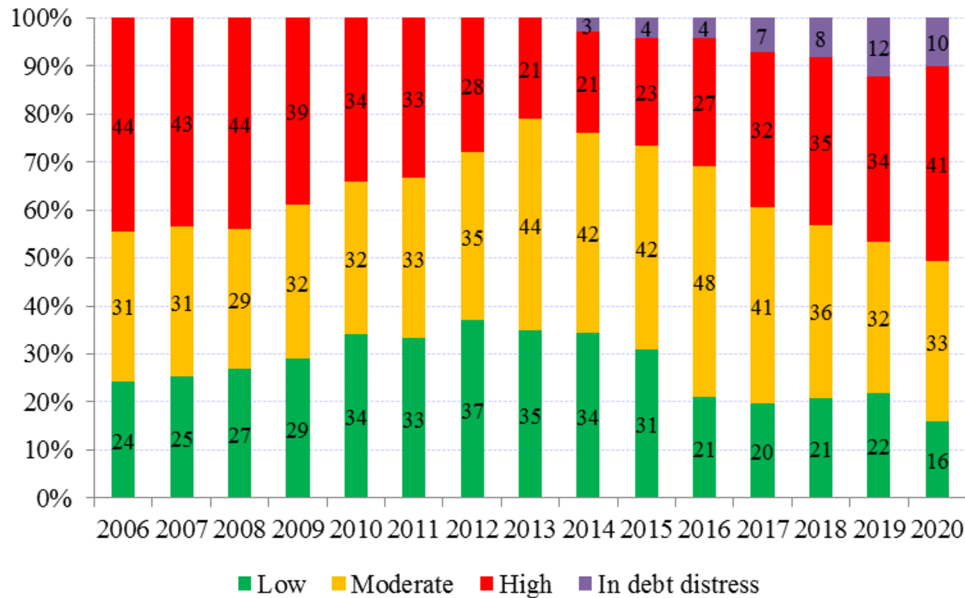
[26] "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework." (GN-2442-71).

[27] "Review of the Implementation of the Debt Sustainability Framework and Enhanced Performance-based Allocation 2015-2016" (GN-2442-55) and "Review of the Implementation of the Debt Sustainability Framework and Enhanced Performance-based Allocation 2017-2018. Final version" (GN-2442-68).

[28] IMF "Macroeconomic Developments and Prospects in LIDCs: 2018", March 2018.

risk of debt distress has steadily increased from 21% in 2013 to 51% by November 2020 (Figure 2). The proportion of countries at low risk peaked at 37% in 2012 and declined to only 16% by November 2020. By the end of 2020, debt risk ratings at the global level were worse than at the time of the MDRI debt relief initiative.

Figure 2. Global Evolution of the Risk of Debt Distress 2006-2020
(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.

4.7 **In contrast to the global trend,** since the last review the risk of debt distress has been stable in two IDB borrowing member countries (Guyana and Nicaragua) and is lower at the end of 2020 than two years earlier in Haiti and Honduras, as noted above.

C. Non-Concessional Borrowing Policy

4.8 **GN-2442-68 noted that Management would continue to monitor moral hazard and "free-riding" issues,** in compliance with resolution AG-3/07, and would stay abreast of non-concessional borrowing policy (NCBP) developments in other MFIs.

4.9 **In 2019 IDA completed its review of its NCBP, which had been in place since 2007, and decided to eliminate the policy as of July 1, 2020.** IDA replaced the former NCBP with a Sustainable Development Finance Policy of the International Development Association (SDFP). The SDFP has two pillars: (i) a Debt Sustainability Enhancement Program (DSEP); and (ii) a Program of Creditor Outreach (PCO). Unlike the previous NCBP, the SDFP will apply to all IDA-eligible countries. Under the DSEP, IDA will screen all IDA countries annually to determine those countries for which a Performance and Policy Action (PPA) plan towards transparent and sustainable borrowing will need to be

defined and implemented. Progress in implementing PPAs will be assessed annually. Countries that do not satisfactorily implement their PPA in one year will have 10 percent (if at medium risk of debt distress) or 20 percent (if at high risk of debt distress) of their country allocation for the year set aside. If performance on a country's PPA is lagging for two years in a row, the amount of the allocation set aside in year 1 is automatically lost. Through the PCO, IDA will seek to promote stronger collective action, greater debt transparency and closer coordination among borrowers and creditors to mitigate debt-related risks. Under the PCO, IDA has developed core principles of sustainable-financing, which establish principles for international financing institutions related to: (i) consideration of debt vulnerability in resource allocation decisions; (ii) creditor coordination; (iii) information sharing and transparency; and (iv) financial innovation. The IDB has supported and been harmonized with the bulk of the core principles of sustainable financing since 2007 and will continue to be harmonized with them. The IDB will address the fiduciary aspect of non-concessional borrowing with a simple and low-cost mechanism that has been incorporated into the regular biennial allocation proposal process.[29]

V. CONCLUSIONS

5.1 **Allocation**. Three countries (Guyana, Honduras, and Nicaragua) were eligible for a concessional resource allocation under the EPBA/DSF for 2019 and 2020. A total of 15 operations with blended resources amounting to US$546 million were approved during 2019-2020, of which US$324.7 million corresponded to COC resources.

5.2 **Follow up and dialogue process**. Since the last biennial review, Management has undertaken an extensive process of dialogue with the Board on concessional resource issues. In the context of this dialogue, and as part of the follow up on issues raised in the "Review of the Implementation of the (DSF/EPBA) 2017-2018" (GN-2442-68), in February 2021 the Board approved two proposals to address such issues and strengthen the EPBA/DSF.[30]

5.3 **Risk of debt distress**. Since the last Review, the risk of debt distress in low-income countries has continued to rise globally. In contrast to the global trend, the risk of debt distress has declined in two IDB borrowing member countries (Haiti and Honduras) and remained stable in the other two low-income borrowing member countries (Guyana and Nicaragua).

[29] "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (GN-2442-71).

[30] "Proposal to Amend the EPBA Portfolio Performance Indicator" (GN-2442-69) and "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (GN-2442-71).

ANNEX I

EVOLUTION OF COUNTRY INDICATORS OF THE ENHANCED PERFORMANCE-BASED ALLOCATION (BY ALLOCATION PERIOD)

	Period 2007-2008	Period 2009-2010	Period 2011-2012	Period 2013-2014	Period 2015-2016	Period 2017-2018	Period 2019-2020
	Population						
Bolivia	8,986,396	9,518,000	9,862,860	10,088,108	10,671,200	10,724,705	
Guyana	772,056	739,000	762,498	756,040	799,613	767,085	777,859
Honduras	7,141,464	7,091,000	7,465,998	7,754,687	8,097,688	8,075,060	9,265,067
Nicaragua	5,604,000	5,605,000	5,742,800	5,869,859	6,080,478	6,082,032	6,217,581
	GNI p/c (Atlas method)						
Bolivia	960	1,260	1,620	2,040	2,550	3,080	
Guyana	990	1,300	1,450	2,900	3,750	4,090	4,460
Honduras	1,030	1,600	1,820	1,970	2,180	2,270	2,250
Nicaragua	790	980	1,000	1,170	1,780	1,940	2,130
	Portfolio performance (1-6 scale)						
Bolivia	3.27	3.97	4.51	4.63	5.22	4.04	
Guyana	4.95	4.27	4.90	5.09	4.71	1.75	4.15
Honduras	4.95	5.09	4.55	5.00	3.69	6.00	6.00
Nicaragua	5.36	5.49	5.66	5.29	5.60	5.79	5.49
	CIPE (1-6 scale)						
Bolivia	3.10	3.23	3.75	3.75	3.68	3.37	
Guyana	2.75	3.39	3.75	3.62	3.30	3.27	3.27
Honduras	3.85	3.95	3.72	3.58	3.38	3.43	3.38
Nicaragua	3.58	3.55	3.53	3.49	3.44	3.39	3.21

Source: GN-2442-57, GN-2442-53, GN-2442-46, GN-2442-42, GN-2442-32, GN-2442-16.

ANNEX II

PORTFOLIO PERFORMANCE 2008-2019

Evolution of the Percentage of Undisbursed Loan Balances (ULB) represented by Projects Classified as "Unsatisfactory" (on alert and problem)

Country	2008	2010	2011	2013	2015	2017	2019
Guyana	34.7%	22.0%	18.1%	25.8%	84.9%	37.1%	53.9%
Haiti	..	..	..	..	..	..	23.3%
Honduras	18.1%	28.9%	20.1%	46.3%	0.0%	0.0%	0.0%
Nicaragua	10.2%	6.7%	14.1%	8.0%	4.1%	10.3%	84.8%
Weighted average	**19.0%**	**19.7%**	**17.8%**	**27.8%**	**14.0%**	**10.6%**	**32.3%**

Source: GN-2442-57; GN-2442-53, GN-2442-46, GN-2442-42, GN-2442-32, GN-2442-16.

Annex III

Estimated Cost of the Provision of Concessional Assistance

(US$ million unless otherwise indicated)

	PRE-TRANSFER		POST-TRANSFER			
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
I. CONCESSIONAL OC						
End-of-year Concessional OC loans outstanding [2]	n.a.	n.a.	288	539	752	1,051
Average Concessional OC outstanding	n.a.	n.a.	112	373	645	902
Costs						
Average cost of funding (%)[1]	n.a.	n.a.	1.38%	2.42%	2.60%	1.22%
Cost of funding (US$ million)[1]	n.a.	n.a.	1.5	9.0	16.8	11.0
Interest income and fees from concessional OC loans outstanding [2]	n.a.	n.a.	0.09	0.28	0.47	0.82
Net interest cost of funding Concessional OC loans	**0.0**	**0.0**	**1.5**	**8.7**	**16.3**	**10.2**
II. LEGACY FSO LOANs						
Legacy FSO loans outstanding [2]	4,502	4,510	4,351	4,170	3,991	3,824
Legacy FSO loan interest income and fees[2]	**61.0**	**60.0**	**60.7**	**58.3**	**54.7**	**51.7**
III. NET ESTIMATED COST OF PROVISION OF CONCESSIONAL	**-61.0**	**-60.0**	**-59.3**	**-49.6**	**-38.4**	**-41.5**

[1] As presented in the IDB's Annual Report, MD&A

[2] Provided by ACC/FIA.

Source: FIN/ACC.