IDA'S NON-CONCESSIONAL BORROWING POLICY: REVIEW AND UPDATE

IDA Resource Mobilization Department (DFIRM)

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Abbreviations and Acronyms

BOAD	West African Development Bank
CDB	China Development Bank
CEMLA	Center for Latin American Monetary Studies
CIRR	Commercial Interest Reference Rate
CNPC	China Petroleum Corporation
COMSEC	Commonwealth Secretariat
CPIA	Country Policy and Institutional Assessment
DECDG	Development Economics Data Generation
DeMPA	Debt Management Performance Assessment
DFIRM	Development Finance IDA Resource Mobilization
DLP	Debt Limits Policy
DMF	Debt Management Facility
DMN	Debt Managers' Network
DMPP	Debt Managers' Practitioners' Program
DRI	Debt Relief International
DRS	Debtor Reporting System
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EBID	ECOWAS Bank for Investment and Development
ECF	Extended Credit Facility
EIB	European Investment Bank
GSGDA	Ghana's Shared Growth and Development Agenda
GAFSP	Global Agriculture & Food Security Program
GDP	Gross Domestic Product
GPs	Global Practices
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
LICs	Low Income Countries
MDBs	Multilateral Development Banks
MDRI	Multilateral Debt Relief Initiative
MEFMI	Macroeconomic and Financial Management Institute for Eastern and Southern Africa
MFA	Master Facility Agreement
MFM	Macro Fiscal Management Global Practice
MTDS	Medium-Term Debt Management Strategy
NCBP	Non-Concessional Borrowing Policy
OECD	Organisation for Economic Co-operation and Development
OFID	OPEC Fund for International Development
OPCS	Operations and Policy Services
OPEC	Organization of the Petroleum Exporting Countries
PBA	Performance-Based Allocation
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPG	Public and Publicly Guaranteed
PSI	Policy Support Instrument
PV	Present Value
RCF	Rapid Credit Facility
SDGs	Sustainable Development Goals
SMP	Staff-Monitored Program
UNCTAD	United Nations Conference on Trade and Development
WAIFEM	West African Institute for Financial and Economic Management
WDI	World Development Indicators

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Executive Summary

i. **The Non-Concessional Borrowing Policy (NCBP) is an integral part of the International Development Association's (IDA's) broader dialogue with authorities in IDA-only non-gap countries on debt sustainability**. The country dialogue with IDA clients on debt sustainability is informed through the application of a range of mechanisms including the grant allocation framework, which determines the extent of grant provisioning, exchanges on non-concessional borrowing as well as through debt monitoring and capacity building in the area of debt management and fiscal policy. These mechanisms build on debt relief provided by IDA and the international community as part of the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), which enhanced considerably countries' borrowing space.

ii. **Non-concessional borrowing can be an important source of financing for the development needs of IDA countries.** Non-concessional borrowing is a useful complement to concessional financing, and can in particular help address the infrastructure gap in low income countries. The NCBP recognizes this complementarity and provides a flexible framework to assess the impact of non-concessional borrowing based on country- and project-specific factors. With the new implementation adjustments, the NCBP further enhanced its flexibility as well as transparency, and supports achieving sustainable development.

iii. **The NCBP also helps to safeguard IDA's fiduciary responsibility toward its contributors**. This responsibility requires that IDA ensure the effective and equitable use of IDA's scarce grant and concessional resources for developmental purposes in a manner that is consistent with long-term debt sustainability. In the context of the NCBP, this means factoring in the non-concessional borrowing undertaken by countries subject to the NCBP into decisions regarding the terms and allocation volumes provided by IDA. From this narrow perspective, the NCBP can be seen as a creditor policy.

iv. **In terms of outreach, the NCBP is a two-pronged policy** entailing collaboration with both creditors and borrowers to maintain the dialogue on the supply and demand side of debt flows. IDA-only non-gap debt relief recipients and IDA grant recipients are subject to the NCBP, and the policy applies on a continuous basis.[1]

v. **The main objective of this update paper is to inform Executive Directors about the implementation of the NCBP.** The update provides detailed information about NCBP cases reviewed by IDA Management since the last update in 2010, and takes stock of the lessons learned. It also provides information on recent developments and the debt outlook in countries subject to the NCBP, and efforts to strengthen debt management capacity. Lastly, the paper also notes the adjustments to the Fund's Debt Limits Policy (DLP) and outlines how the implementation of the NCBP will be adapted to harmonize the implementation of the two policies.[2]

vi. **Since the last Progress Report in 2010, 20 cases in 15 countries have been discussed in the context of the NCBP.** Several countries, such as Burundi, Chad, Ethiopia, Madagascar and Zambia had more than one case of non-concessional borrowing for NCBP Committee consideration since 2010. Non-

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[1] IDA gap and blend countries are not subject to the NCBP. A country enters gap status once its GNI per capita has been above the IDA operational cut off for more than two consecutive years, but it is not yet IBRD creditworthy; a country enters blend status when it is declared IBRD creditworthy.

[2] The paper establishing the NCBP was sent to Executive Directors for discussion (IDA (2006) "IDA countries and non-concessional debt: dealing with the 'free rider' problem in IDA14 grant-recipient and post-MDRI countries", IDA/R2006-0137/1, June), whereas the two subsequent updates (2008 and 2010) were sent to the Executive Directors for information only.

concessional loans were in line with IDA's NCBP based on country- and loan-specific circumstances in the following countries: Burundi, Cameroon, Chad, Comoros, Côte d'Ivoire, Ethiopia, Ghana, Guinea, Kyrgyz Republic, Madagascar, Mauritania, São Tomé and Príncipe, Togo, and Zambia. For three countries, IDA's financing terms and allocation volumes were adjusted in response to their non-concessional borrowing: Chad, Ethiopia, and Lao PDR. Chad's IDA allocation was reduced 20 percent in FY11; Ethiopia's grant portion for FY15 was converted to regular IDA credits, and the allocation was subject to a further 5 percent volume reduction; and 62 percent of Lao PDR's grant allocation was converted to credit terms in FY15. The adjustments to financing terms applied to Ghana in the form of hardening of IDA terms since FY09 were discontinued in FY12.

vii. **Adjustments to the implementation arrangements for the NCBP have been introduced with the aim of enhancing flexibility, harmonizing with the IMF's Debt Limits Policy (DLP), and augmenting transparency.** These adjustments relate to several areas:

a. **Capacity assessment**. A joint World Bank-International Monetary Fund (WB-IMF) streamlined capacity assessment narrows the focus from a wide range of debt and public financial management indicators to the authorities' ability to record and monitor external public and publicly guaranteed debt in a timely manner. Applying the streamlined capacity assessment, the number of countries with adequate capacity increases from four to approximately 15 (see Table A4 in Annex II). This compares to 39 countries that are subject to the NCBP.[3]

b. **Setting debt ceilings**. To enhance further the flexibility of the policy, countries at low or moderate risk of debt distress that have adequate capacity may request ceilings on total external public and publicly guaranteed debt in present value terms. While more complex to monitor, the ceiling in present value terms removes the differentiation between concessional and non-concessional loans. This option is in addition to the "old approach" of nominal ceilings on non-concessional borrowing or loan-by-loan considerations. Furthermore, countries at high risk of debt distress will continue to be able to borrow non-concessionally based on "loan-by-loan" considerations. Finally, if a deterioration in the risk of debt distress occurs under an IMF arrangement, a justification for IDA's grant allocation in the following fiscal year will be based on a case-by-case assessment with the goal of promoting equal treatment across IDA clients.

c. **Transparency**. In addition to regular Board notes on IDA measures taken based on the NCBP as well as detailed descriptions of all NCBP cases in Board updates, IDA measures will be reported as part of OP3.10 Annex D, comprising a table with aggregated loan information starting July 1, 2016. Annex D is a public document. In addition, a real-time table with agreed ceilings and IDA decisions will be established on IDA's external website. Lastly, borrowing plans will become part of the Country Notes sent to the Board.

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[3] The number of countries subject to the NCBP has declined from 46 in FY15 to 42 in FY16 as four countries have shifted to gap status starting July 1, 2015 (Côte d'Ivoire, Lao PDR, Nicaragua and Zambia).

I. Introduction

1. **The NCBP was introduced in 2006 following debt relief provided by IDA and the international community as part of the HIPC Initiative and the MDRI.** While this debt relief considerably enhanced countries' borrowing space, it gave rise to the concern that gains could be eroded through rapid re-accumulation of external public debt thus undermining borrowers' debt outlook. The latter was of concern particularly in countries without an IMF program, or in the period between two IMF programs. The NCBP fills this gap and supports debt policies and long-term external debt sustainability on a continuous basis in IDA-only non-gap countries by focusing on external non-concessional financing flows.[4]

2. **The NCBP is an integral part of IDA's broader dialogue with authorities in IDA-only countries on debt sustainability**. The policy dialogue with IDA clients on debt sustainability is informed through the application of a range of mechanisms including the grant allocation framework,[5] which determines the extent of grant provisioning, exchanges on non-concessional borrowing, as well as through debt monitoring and capacity building in the area of debt management and fiscal policy. The policy also helps to safeguard IDA's fiduciary responsibility toward its contributors. This responsibility requires that IDA ensure the effective and equitable use of IDA's scarce grant and concessional resources for developmental purposes in a manner that is consistent with long-term debt sustainability. In the context of the NCBP, this means factoring in the non-concessional borrowing undertaken by countries subject to the NCBP into decisions regarding the terms and allocation volumes provided by IDA. From this narrow perspective, the NCBP can be seen as a creditor policy.

3. **The policy recognizes that non-concessional borrowing can be an important source of financing for the development needs of IDA countries.** Non-concessional borrowing can be a useful complement to concessional financing, and can in particular help address the infrastructure gap in low income countries. The NCBP recognizes this complementarity and provides a flexible framework to assess the impact of non-concessional borrowing based on country- and project-specific factors.

4. **The NCBP is a two-pronged policy** entailing outreach to both creditors and borrowers to maintain the dialogue on the supply and demand side of debt flows. The policy applies to IDA-only countries that received debt relief from IDA, or are IDA grant recipients in the current fiscal year. The policy does not apply to countries in blend and gap status.

5. **The objective of this update paper is to inform Executive Directors about the implementation of the NCBP.** The update provides detailed information about NCBP cases reviewed by IDA Management since the last update in 2010 and takes stock of the lessons learned.[6] It also provides information on recent developments and outlook with respect to debt in countries subject to the NCBP, and efforts to strengthen debt management capacity. Lastly, the paper notes the adjustments to the Fund's Debt Limits Policy (DLP)[7] and outlines how the implementation of the NCBP will be adapted to harmonize the implementation of the

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[4] Unlike the DLP, which is part of a broader programmatic approach by the IMF when there is a program with the country, the NCBP focuses narrowly on non-concessional financing flows and applies continuously.

[5] The grant allocation framework (also known as the traffic light system) differentiates three groups of countries: green light countries are at low risk of debt distress according to the joint WB-IMF Debt Sustainability Analysis. These countries receive 100 percent of the annual IDA allocation on credit terms; moderate risk of debt distress implies a 50:50 split between credit and grants, while high risk of debt distress and in debt distress countries receive 100 percent grants. All grant allocations are discounted 20 percent in volume.

[6] IDA (2010) "IDA's Non-Concessional Borrowing Policy: Progress Update," IDA/SecM2010-0240, April.

[7] IMF (2014) "Reform of the Policy on Public Debt Limits in Fund-Supported Programs", SM/14/304, November.

two policies. This review takes place against the background of a number of important developments. First, ongoing international processes to formulate and agree on an ambitious development agenda embodied in the Sustainable Development Goals (SDGs) and how financing for this agenda can be secured. Second, improved fiscal and debt management tools and their systematic use has enhanced country dialogue on debt management and fiscal sustainability issues. Third, the Debt Management Facility (DMF) and other advisory work has helped strengthen country capacity to plan and manage public borrowing. Following the Executive Directors discussion on the updated NCBP, a Guidance Note describing operational procedures will be issued to staff in FY16.

6. **The paper is structured as follows.** Section II provides the institutional environment within which the NCBP operates and describes the operational aspects of the policy. Section III depicts the context of the policy represented by debt developments since 2006, the debt outlook, and corresponding challenges for low income countries that are subject to the NCBP. Section IV summarizes the capacity building activities undertaken by the Bank in the areas of debt sustainability (fiscal policy) and portfolio composition (debt management) since the last update in 2010. These capacity building activities are an important part of IDA's efforts to help maintain debt sustainability in low income countries. Section V describes the progress made and challenges faced with respect to the data reporting system, which helps monitor countries' borrowing policies, and thus complements the dialogue with the authorities. Section VI offers a detailed account on the implementation of the policy since 2010 and lessons learned, while Section VII describes adjustments to the NCBP, which also helps in harmonizing the Bank's NCBP and the IMF's DLP. Section VIII summarizes the conclusions.

II. Rationale and features of the NCBP

7. **Following the Multilateral Debt Relief Initiative (MDRI), the NCBP was approved in June 2006.**[8] With the HIPC Initiative completed in 36 out of 39 eligible countries, HIPC and MDRI debt relief has had a significant positive impact on debt dynamics in low income countries, and debt relief providers wish to preserve these gains (Box 1). Because of the commitment to compensate the Bank dollar-for-dollar for lost reflows due to debt relief and grant provisioning, IDA contributors face a notional cumulative cost of HIPC/MDRI debt relief and grant provisioning of roughly US$31.4 billion by FY25 (Figure A1 in Annex I).[9] The NCBP, thus, makes discretionary yet carefully-weighed decisions about its lending terms and/or lending volumes in response to borrower decisions on non-concessional debt accumulation.

8. **The NCBP is based on the premise that concessional financing remains the most appropriate form of financing for low income countries, in particular for those that have had or could have a debt distress episode.** The NCBP applies to MDRI recipients and IDA grant recipients (Table A1 and A2 in Annex II). Recipients of MDRI are subject to the NCBP even if they are at low risk of debt distress and do not receive grants. In addition, countries that receive grants in the current fiscal year are also covered by the NCBP. Countries that are not grant-eligible, such as gap and blend countries, are not subject to the policy. In terms of fiscal coverage, the NCBP applies to external public and publicly guaranteed central

[8] IDA (2006) "IDA countries and non-concessional debt: dealing with the 'free rider' problem in IDA14 grant-recipient and post-MDRI countries", IDA/R2006-0137/1, June.

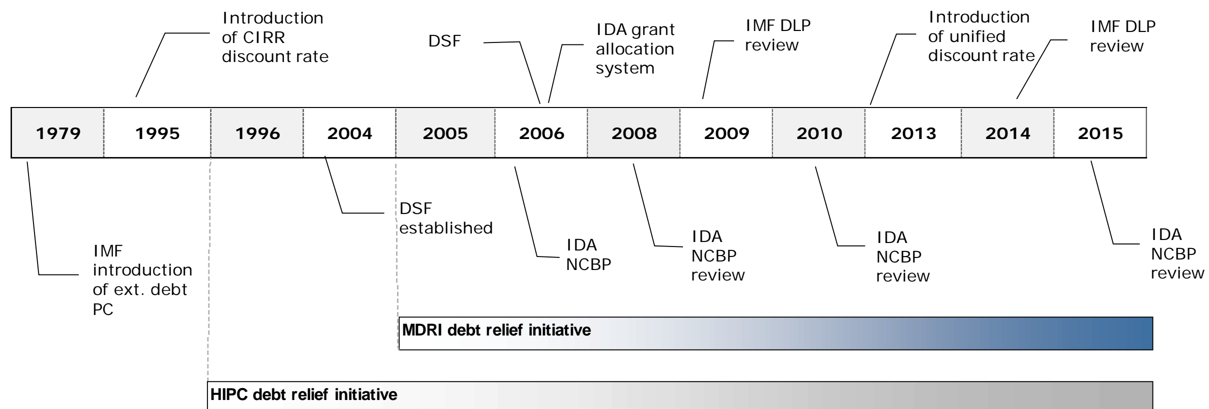
[9] The implied exchange rate SDR/US$ is 1.5. The amount in SDR terms totals SDR20.9 billion.

government debt, and corresponds to the fiscal coverage under the Debt Sustainability Framework (DSF).[10] Loans denominated in local currency are not covered by the NCBP.

Box 1. Some highlights from the evolution of debt relief and accompanying WB/IMF features

The Heavily Indebted Poor Countries (HIPC) Initiative was launched in 1996 by the World Bank (WB) and International Monetary Fund (IMF), with the objective of ensuring that poor countries do not face debt burdens they cannot manage. The HIPC Initiative was supplemented in 2005 by the Multilateral Debt Relief Initiative (MDRI). The latter goes further than the HIPC Initiative by providing full debt cancellation from participating multilateral institutions, which continues freeing up additional resources by reducing debt payments substantially. The MDRI was introduced by IDA Deputies in 2005 and provides 100 percent irrevocable debt service relief at the completion point on all IDA credits outstanding as of end-2003. Unlike the HIPC Initiative, however, the MDRI does not propose any systematic parallel debt relief on the part of official bilateral or private creditors, nor of other non-participating multilateral institutions. So far, 36 of the 39 potentially eligible countries have received HIPC/MDRI, with three countries still in the pre-decision point period (Eritrea, Somalia, and Sudan).

Figure B1: Timeline of HIPC and MDRI with accompanying tools



Formal monitoring of external debt accumulation has a long history at the WB and IMF. In 1979, the IMF adopted guidelines on performance criteria (PC) with respect to external debt in Fund Arrangements, which were subsequently fine-tuned to include different maturities of debt. In 1995, the DAC OECD discount rate was replaced with the OECD commercial interest reference rates (CIRRs) for the purposes of calculating present values of debt ratios, which was in place until the WB-IMF unified discount rate set at 5 percent was established in 2013.

The Debt Sustainability Framework (DSF), which represents the foundation of both the NCBP and DLP, was established in 2004 and reviewed several times thereafter to fine-tune debt calculations in present value terms, to include domestic debt and other features. The NCBP was introduced at the time of MDRI together with the IDA grant allocation framework, which links the provision of grants to the risk of debt distress rating emanating from the DSF.

[10] The differentiation between domestic and foreign public debt is currency based.

9. **The concept of a concessionality threshold is a building block of the NCBP.** [11] Non-concessional borrowing is seen as a useful complement to concessional financing, and can in particular help address the infrastructure gap in low income countries. The policy supports the dialogue with the authorities on how to balance the aspects of debt sustainability with the developmental component of non-concessional financing. This dialogue provides some complementary views on the implications of such non-concessional financing, which increase external debt service ratios more rapidly in present value terms compared to concessional lending for a given borrowing amount, and can result in maturity concentration, especially in the case of bullet bonds.

10. **Capacity and debt vulnerability assessments have been used to determine the concessionality requirements under the NCBP.** The objective of the assessment is to identify countries with enough capacity to handle more flexible options of financing. Against this background, countries are divided into four categories, which reflect a combination of lower/higher debt vulnerability and higher/lower capacity (Annex II, Table A3). This flexibility was envisaged to provide authorities with greater latitude in determining which projects should be implemented without or with little restrictions on modalities for financing. Sufficient capacity in the country to handle the consequences of non-concessional borrowing are critical to ensure adequate use of resources and planning for future debt servicing. This assessment has been undertaken in close collaboration with the IMF, and was also used as an integral part of the DLP.

11. **In terms of policy implementation, where countries are not under an IMF program, IDA takes the lead in establishing debt limits on non-concessional borrowing, in consultation with the IMF country team.** For IDA-eligible countries under an IMF program, the Fund takes the lead in setting debt limits following discussions with Bank country teams. Borrowing limits under the NCBP in such circumstances would be aligned in principle with the borrowing plan as well as any applicable debt limits envisaged under the Fund program. Even if under an IMF program, NCBP-eligible countries remain subject to the NCBP. Under the current policy, when countries are not under a Fund program there are several approaches countries can take when deciding to contract non-concessional debt:

- For countries with lower capacity and higher debt vulnerability non-concessional borrowing is reviewed case-by-case. The outcome of the loan-by-loan review determines IDA's decision on whether to take measures. The loan-by-loan assessment takes into account country-specific and loan-specific factors (see Box 2 for details).
- For countries with lower capacity and lower debt vulnerabilities there has been increased flexibility in setting non-zero limits on non-concessional external borrowing, if this is consistent with maintaining low debt vulnerability. These countries can request nominal non-concessional borrowing ceilings on external public and publicly guaranteed debt, based on contracted loans. These ceilings are determined through the application of the joint WB-IMF DSF, and are monitored on a quarterly basis.
- For countries with higher capacity and higher debt vulnerabilities an overall ceiling on the present value of external or total public debt could be applied. This option has not been utilized by a country to date.
- For countries with higher capacity and lower debt vulnerability a minimum average concessionality requirement to external or total public borrowing could be applied. This option has also not been utilized by a country to date.

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[11] Concessionality is established in terms of a minimum grant element requirement set under the NCBP at 35 percent. The grant element is the difference between the face value of a loan and its present value (PV), expressed as a percentage of the face value of the loan. The PV of a loan is the discounted value of the future debt service payments using the unified discount rate set currently at 5 percent. The IMF's DLP also uses a minimum grant element of 35 percent threshold, but this threshold could be set higher in some cases.

12. **IDA can use a range of measures to respond to a country's borrowing decisions.** To channel IDA resources to where they are most effective, IDA can decide to (a) reduce allocated IDA volumes, (b) introduce a hardening of credit terms by either reducing or removing access to grants in a given fiscal year or hardening the country's credit terms to blend or hard term lending[12], or (c) introduce a combination of these measures. Even in countries where the NCBP and its decisions may have limited impact on the borrowing choices by the authorities, other facets of IDA's role may nonetheless help shape decisions on non-concessional borrowing, especially in the context of signaling to other creditors and capacity building (Box 2).

13. **Since 2006, the NCBP has been reviewed twice to respond to implementation experience.**[13] The current review builds on adjustments undertaken in policy updates that have taken place in 2008 and 2010. These revisions led to enhanced flexibility in the implementation of the policy in recognition of the increasingly heterogeneous nature of the countries subject to the policy and improved policy environments in a number of NCBP countries. More prudent fiscal policies and better debt management, large financing needs and wider range of financing choices, as well as increased absorptive capacity in a number of countries motivated adaptation of the policy. In this context, the policy has been adapted to allow for project packages[14] instead of a purely loan by loan approach. Furthermore, the setting of ex-ante non-zero debt ceilings has been introduced in 2010, for countries that plan to access non-concessional financing on a more regular basis, and where appropriate within the country context. The latter went hand in hand with the introduction of the joint WB-IMF capacity assessment. Internal processes have also been streamlined to enable a faster decision-making process in the Bank for responding to non-concessional financing. Finally, communication between IDA and some creditors has become more systematic.[15]

14. **The timing of this review of the NCBP follows the reform of the Fund's DLP approved by the IMF Board in early December 2014.** Both policies deal with external non-concessional borrowing. The Fund's DLP is one element within a set of macro management conditionalities in countries with an IMF program in place, and therefore all decisions associated with the DLP are Board-driven. The NCBP, meanwhile, applies continuously for grant eligible and MDRI recipient IDA-only non-gap countries, and is therefore Management-driven. Since 2012, the Bank and the Fund collaborated closely on the DLP reform to ensure harmonization of the two policies, while taking into account institution-specific circumstances. The DLP applies under Fund programs, or under the Policy Support Instrument, which is typically used for balance of payments support or as a signaling device.[16] In contrast, IDA's NCBP is a continuous requirement for MDRI and IDA grant recipients and focuses on non-concessional borrowing. Furthermore, the DLP applies to the entire Fund membership (188 countries), while only 39 non-gap countries are currently subject to IDA's NCBP. A deterioration in the risk of debt distress triggers IDA's grant allocation and thereby increases the future cost of lost credit reflows and raises compensation to IDA from contributors. The latter is not a feature of the IMF's business model.[17]

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[12] Regular IDA terms: maturity 38 years; grace 6 years; service charge 0.75 percent; blend terms: maturity 25 years; grace 5 years, service charge 0.75 percent; interest rate of 1.25 percent; Hard term lending: same maturity, grace period, and service charge as for blends, with interest rate of 1.08 percent.

[13] IDA (2008) "IDA's Non-Concessional Borrowing Policy: Review and Update," June; IDA (2010) "IDA's Non-Concessional Borrowing Policy: Progress Update," April. Papers were sent to the Board for information only.

[14] A project package denotes a bundle of loans financing the same project. While these loans can have a different grant element, it is the weighted average of the grant element that is relevant in the context of the NCBP.

[15] See Box 1 and paragraph 28 for more details.

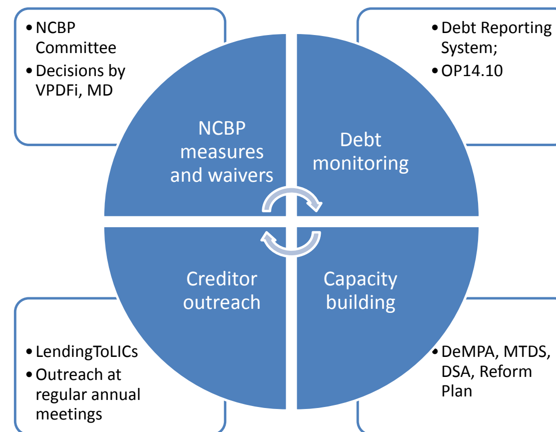
[16] PSI and SMP do not provide access to Fund financing, and are therefore used as signaling devices.

[17] For a list of institutional differences, please see Figure A2 in Annex I.

Box 2. Engaging borrowers and creditors on non-concessional borrowing

IDA has a two-pronged approach to non-concessional borrowing, which relies on addressing both sides of the financing transaction, borrowers (demand) and creditors (supply). The former is characterized by monitoring debt accumulation (by country teams and institutionally as part of the DRS and the Bank's Operational Policy OP14.10), analyzing non-concessional borrowing from a loan-specific and country-specific perspective, and building capacity in a wide range of debt management and fiscal policy areas, including the joint WB-IMF Debt Sustainability Analysis (Figure B2).
Creditor outreach includes an ongoing dialogue with the Export Credit Group of the OECD, which has developed its own Sustainable Lending Guidelines, the European Investment Bank (EIB), the Multilateral Development Banks (MDBs) and other creditors. One of the regular avenues of information sharing is the LendingToLICs@worldbank.org email account, which is widely used to obtain information on individual countries, fiscal coverage and projects. In addition, outreach associated with the DSF contributes to a broader application of the debt sustainability framework by creditors and assessments of what is likely to constitute prudent borrowing.

Figure B2: IDA's approach to borrowing in low income countries, including countries subject to the NCBP



When assessing non-concessional borrowing in the context of the NCBP, the NCBP Committee comprised of representatives of the Regions, Operational and Policy Services (OPCS), Macro Fiscal Management Global Practice (GMFDR), Development Economics Data Generation (DECDG), and Development Finance (DFi), with Legal participating in an advisory capacity, analyzes the following country- and loan-specific characteristics:

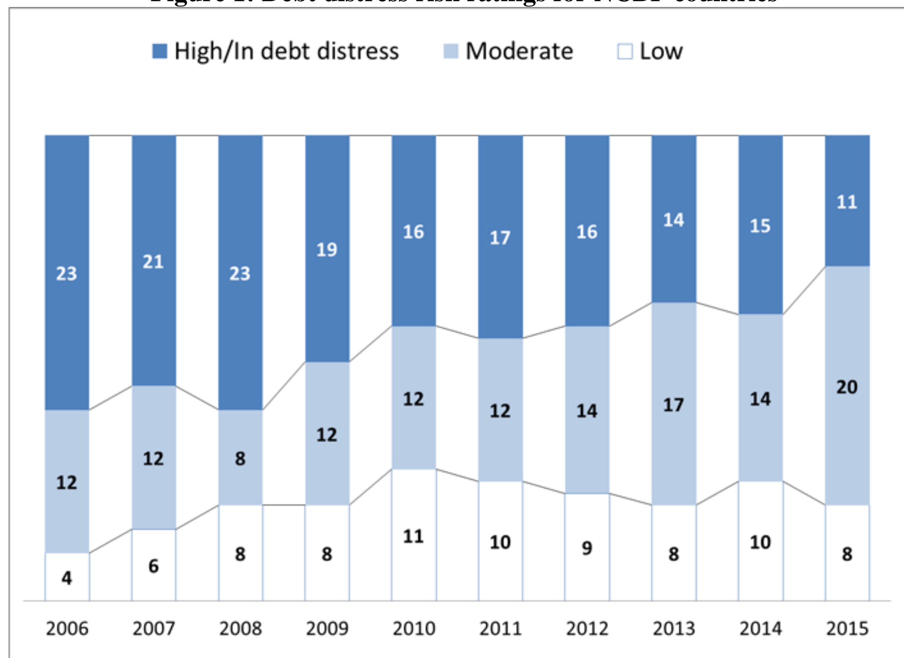
i. Country-specific: overall borrowing plan, impact of borrowing on macroeconomic framework, impact on risk of debt distress rating, which also entails the quality of policies and institutions through the application of the CPIA; and
ii. Loan-specific: development impact, financial and social returns of the project, available alternative concessional financing, additional borrowing costs (e.g., collateralization, hidden costs), and concessionality of overall financing package.

III. Debt developments and macroeconomic context

III.1 Debt developments

15. **The build-up of public debt ratios appears to be limited and manageable for the group of 39 NCBP countries as a whole (see Annex II).** [18] Since the launch of the MDRI in 2006, data suggests that recipients from 2006/2007 subject to the NCBP in FY16 have generally re-accumulated moderate levels of external public debt. For those countries, the simple average of PV of public and publicly guaranteed external debt-to-GDP ratio rose to 24 percent in 2015 from 17 percent of GDP after MDRI, while in nominal terms, this ratio increased to 36 from 27 percent of GDP.[19] For countries that received debt relief under MDRI in 2009 and later, external public debt has generally accumulated much less. Consequently, debt distress ratings for 39 countries that are subject to the NCBP in FY16 demonstrate a favorable trend since 2006: countries at high risk or in debt distress roughly halved to 11, while countries at low risk of debt distress doubled to eight (Figure 1). The majority of high risk countries in 2015 are either small island states with known challenges (Kiribati, Marshall Islands, and Micronesia) or post-conflict countries including Central African Republic and Afghanistan. This positive trend in debt distress ratings is largely the result of debt relief received as well as good macro policies, and until recently high commodity prices. The number of countries at moderate risk of debt distress has risen to 20 in 2015 from 12 in 2006. This is in part the result of improvements in some previously high risk countries (e.g., Haiti, Samoa) in FY16, and recent deterioration of debt burden trajectories in some low risk countries (e.g., Ethiopia, Tonga).

Figure 1: Debt distress risk ratings for NCBP countries



Source: various joint WB-IMF DSAs

[18] Forty-two countries are subject to the NCBP; risk ratings were not available for three inactive countries (Eritrea, Somalia, and Sudan).

[19] Countries that received MDRI in 2006 or 2007 and are subject to the NCBP in FY16 are as follows: Benin, Burkina Faso, Ethiopia, Gambia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Tanzania and Uganda. The median provides similar results.

16. **A broader look at HIPC/MDRI recipients, beyond the countries subject to the NCBP, reveals a moderate build-up of external PPG debt.** In these countries, the nominal external PPG debt build up amounted to a prudent 10 percent of GDP, after dropping from 112 percent of GDP in 2005 to 20 percent of GDP in the post-MDRI period. While such developments suggest an overall positive debt outlook, a few countries may warrant closer monitoring due to more pronounced increases in the external PPG debt in GDP terms.[20]

17. **Post-MDRI borrowing has seen a diversification of financing sources.** Since 2009, four countries (Ethiopia, Rwanda, Senegal and Tanzania), which are subject to the NCBP issued sovereign bonds totaling US$3.2 billion with a (simple) average coupon rate of 7.1 percent for 10-year bonds (Table 1).[21] This diversification, along with a wide range of bilateral semi-concessional and commercial loans, can be seen as a positive signal as well as recognized developmental progress and stability in these countries.

18. **Against the background of possible adverse changes in the international environment, commercial financing terms available to low income countries could carry some risks and may heighten the countries' vulnerabilities**. These risks include but are not limited to geopolitical risks caused by fragile situations and conflict and the significant number of first issuers that will be subject to increased market scrutiny and potential negative repercussions in case of a perceived lack of fiscal and debt discipline. Furthermore, sovereigns with issued bonds will not only be assessed based on their first debt issuance, but also by the terms of the first refinancing of their sovereign bonds.

Table 1. Sovereign Bonds Issuance in Low-Income Sub-Saharan Africa subject to the NCBP[22]

Timing	Issuer	Sovereign rating (S&P)	Face Value US$ (in mil)	Maturity Date	Coupon rate (%)	Spread to Government benchmark (bps) 1/
2014, Dec	Ethiopia	B	1000	2024	6.625	UST + 435
2013, Apr	Rwanda	B	400	2023	6.625	UST + 516
2009, Dec	Senegal	B+	200	2014	8.75	UST + 691
2011, May	Senegal	B+	500	2021	8.75	UST + 596
2014, July	Senegal	B+	500	2024	6.25	UST + 366
2014, Feb	Tanzania	NA	600	2020	6-mth Libor+600bp	-

1/ UST: US Treasury

Source: Bloomberg

III.2 Outlook and challenges posed by the international environment

19. **The Bank report on Global Economic Prospects[23] describes, inter alia, some key features of the economic outlook which entails possible adverse borrowing implications for low income countries of: a gradual tightening of global financial conditions; a continuing lackluster global recovery that**

20 In fact, six out of a total of seven of these countries are under an IMF program, while one country has defined ceilings under the NCBP.

21 The bond issuances by Côte d'Ivoire, Zambia, and Lao PDR are not part of Table 1 as these countries shifted to gap status in FY16 and are therefore not subject to the NCBP.

22 All countries have reached HIPC completion point either in 2004 or 2005, except Tanzania (2001)

23 WBG (2015) "Global economic Prospects – Having Fiscal Space and Using It", http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP15a_web_full.pdf

together with the slowdown in emerging markets output growth exerts downward pressure on commodity prices; and geopolitical risks possibly spilling over into larger fiscal outlays. The global recovery is likely to remain subdued, with slow output growth in the Euro area particularly impacting trade with Sub-Saharan Africa. Together with the slowdown in emerging markets output growth, commodity exporters will also be affected by the drop in commodity prices exposing possible fiscal weaknesses. These fiscal weaknesses may be compounded by geopolitical risks spilling over to larger fiscal outlays for defense purposes. Finally, the ease of financing possible wider fiscal deficits and refinancing maturity concentrations caused by sovereign bond issuances or other larger commercial financing deals will, inter alia, depend on investors' appetite for risk, the pace at which monetary policy tightens in the US, and the country's debt management preparedness to ensure smooth access to financing sources.

20. **The low interest rate environment benefited Sub-Saharan African sovereign bond issuances**. Interest rates at a historical low have played an important role in helping sovereign bond issuances in Sub-Saharan Africa as investors' appetite for yield exceeded risk considerations. However, with the expected tightening of monetary conditions in the US, a reversal of capital flows may ensue over time. The latter could have an impact on risk pricing and local currency movements. With most of the public debt buildup stemming from external loans, valuation effects may become significant. Also, the ability of investors to differentiate among Sub-Saharan sovereigns will become critical, if one of the larger economies with access to markets defaults on its external debt.

21. **The drop in commodity prices poses risks to fiscal and debt sustainability in many commodity exporters**. The sharp decline in oil and other commodity prices, such as metals, is in part driven by weaker demand from emerging markets. The likely adverse impact on fiscal revenues, if not addressed, could result in deteriorating fiscal balances, a depreciating exchange rate, and faster debt buildup. The drop in commodity prices will be felt most in economies dependent on single commodity exports.

22. **The challenges going forward require, inter alia, adequate fiscal and debt management capacity in low income countries**. Managing repayment profiles emanating from the confluence of external debt repayment spikes and short term domestic debt will remain one of the main challenges for debt management.

23. **Overall, there has been a moderate build-up in external public debt ratios since debt relief in countries subject to the NCBP, with certain exceptions**. Prudent external public borrowing in many countries allows for measured non-concessional flows complementing concessional financing. Despite reduced public debt, many of these economies continue to be commodity dependent and prone to shocks. As global interest rates and commodity prices revert to historically more customary levels, fiscal fundamentals will be as important for debt sustainability as how much is borrowed and on which terms.[24]

IV. Update on capacity building in low income countries

24. **In addition to monitoring of borrowing policies, IDA is engaged in an extensive program of capacity building in the area of debt management and debt sustainability.** The latter is part of IDA's two-pronged approach to address possible risks posed by non-concessional borrowing, and overall support of long term debt sustainability in low income countries (LICs).

25. **The Bank has scaled up its support to LICs to strengthen capacity to manage debt and facilitate sound borrowing.** This support is integrated through technical assistance and advisory services provided on public debt management, debt sustainability and domestic debt market development. Activities

[24] See Merotto, Stucka, Thomas (2014) "African debt since HIPC: How clean is the slate?" MFM Discussion Paper, No. 2.

include DSF training, formulating medium-term debt management strategy (MTDS), the application of the Debt Management Performance Assessment (DeMPA) tool, design of debt management reform plans, and knowledge generation via an extensive program of training and outreach, including the Debt Managers' Practitioners' Program (DMPP) and the Debt Manager's Network (DMN). Several of these are conducted in partnership with the IMF and with regional capacity building institutions (see details in Annex IV). In FY14, over 300 government officials were trained under roughly 13 DMF-supported training events.[25] In addition, the e-learning DeMPA course was offered to about 100 debt managers and Central Bank officials in client countries.

26. **Demand for the World Bank's debt management services has been strong (Annex IV).** After HIPC and MDRI debt relief the Debt Management Facility (DMF)[26] was set up in 2008. From its inception to end-FY14, the DMF supported 170 missions across 65 countries and seven subnational governments, and trained over 600 practitioners. In FY14, the Bank completed several Technical Assistance tasks in countries subject to the NCBP: a DeMPA[27] mission to Haiti; debt management reform plan missions to Ethiopia, Samoa, Togo, Madagascar, and Niger; a joint DeMPA/reform plan follow-up mission to Gambia; and MTDS missions to Burkina Faso, Liberia, São Tomé and Príncipe, and Tanzania. Annex I details the work program in the 39 countries subject to the NCBP.

27. **Early evidence indicates that the programmatic approach to debt management capacity building is yielding positive results (Figure 2).** Results obtained from the application of the DeMPA tool[28] help to track progress made and steps taken to improve debt management. Upgrades of scores in legal framework, managerial structure, debt management strategy, evaluation, and debt recording are observed. A small number of countries developed debt management strategy underpinnings by thorough cost-risk analysis including publication of the strategy. Some countries updated legislation and improved managerial structures by introducing formal coordination mechanisms between debt management entities. Key positives specific to NCBP countries are presented in Table 3.

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[25] Participants came from Benin, Burkina Faso, Chad, Comoros, Côte d'Ivoire, Ethiopia, Gambia, Guinea-Bissau, Kyrgyz Republic, Lao PDR, Liberia, Madagascar, Maldives, Mali, Mauritania, Mozambique, Nicaragua, Niger, Samoa, Senegal, Sierra Leone, Somalia, Sudan, Tajikistan, Tanzania, Togo and Uganda.

[26] The DMF is a multi-donor trust fund with the objective of providing capacity building to support growth and poverty reduction in eligible developing countries by strengthening their capacity to manage debt effectively. The DMF supports (a) systematic application of the DeMPA tool; (b) MTDS; (c) design of Debt Management Reform Plan; and (d) training and outreach. In April 2014, DMF Phase II launched with an expanded mandate in partnership with the IMF and (see Annex IV).

[27] The DeMPA findings help to (i) identify key areas for debt management reform across countries, and (ii) calibrate future capacity-building accordingly.

[28] DeMPA is used to assess countries' debt management through a set of 15 performance indicators that cover the full range of government debt management functions.

Figure 2. Results from sequential DeMPAs
number of countries meeting minimum requirement

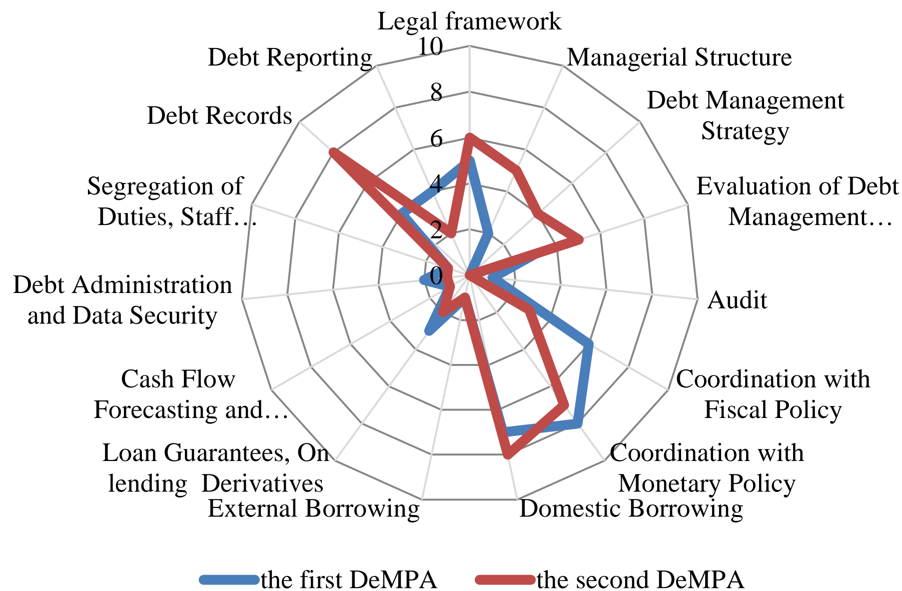


Table 3. Progress made in countries subject to NCBP

DeMPA Indicator	Steps taken	Country
Legal Framework	Drafted or revised debt management laws	Burundi, The Gambia, Malawi, São Tomé and Príncipe ,Senegal, Sierra Leone, Togo
Managerial Structure	Introduced formal coordination mechanism or strengthened structure	Burundi, The Gambia, Maldives, Malawi, Samoa, Senegal, Tanzania
Debt Management Strategy	Prepared debt management strategy and undertook cost-risk analysis of debt portfolio	Burkina Faso, Comoros, Ethiopia, The Gambia, Liberia, Malawi, Maldives, Mali, Mozambique, Nicaragua, Rwanda, Samoa, São Tomé and Príncipe, Tanzania
Audit	Strengthened internal and/or external audit function	Malawi, Mali
Coordination with Monetary Policy	Improved coordination mechanism	Burundi, The Gambia, Zambia
Domestic Borrowing	Deepening domestic market development	The Gambia, Mali
Cash Flow Forecasting & Cash Balance Management	Strengthened cash management	Burkina Faso, Malawi, Maldives
Operational Risk Management	Improved procedure rules and data security	Burkina Faso, The Gambia, Nicaragua, Samoa
Segregation of Duties, Staff Capacity and Business Continuity	Enhanced segregation and human resources arrangements	Burkina Faso, The Gambia
Debt Records and Debt Reporting	Improved debt recording and reporting	Burkina Faso, Burundi, Liberia, Malawi, Mali, Mozambique, Togo

Note: These are based on attempts made by countries and do not necessarily reflect completed outputs or outcomes.
Source: DMF Secretariat

28. **Despite positive results, some deficiencies remain.** As of end-2014, DeMPA assessments covered 86 countries, including 33 subject to the NCBP. Based on DeMPAs, key identified weaknesses include lack of strategy, operational risk management (related mainly to the absence of strong operational controls and well-articulated responsibilities for staff) and cash flow forecasting and management (impeded

by weak forecasting and management of aggregate cash balances in government bank accounts). Some weakness seems to exist in managing external borrowing, particularly considering that a number of countries have borrowed in the international capital markets. The DeMPA indicator on external borrowing shows that in a number of countries borrowing terms and conditions are not assessed in line with good practice.

29. **From a debt management perspective, non-concessional borrowing can raise a host of challenges.** Although first-time bond issuances have been at moderate interest rates, such type of financing raises refinancing and currency risks owing to the bullet (or lump sum) repayment structure. These risks underline the need for further enhancing debt management capacity and understanding of regulatory, credit rating, advertising and transparency requirements ahead of the international bond issuance. The MTDS tool provides a systematic and robust framework to evaluate the costs and risks of such sources of financing quantitatively and to assess the impact on the debt portfolio. In the last five years, the Bank and Fund have jointly provided TA to over 50 developing countries to develop debt management strategies. The process has been largely internalized, with some countries having published a formal strategy, while others sought approval from senior policy makers. Repetition is often required, in part due to staff rotation, and sustainable capacity building takes several years.

30. **A key lesson from debt management technical assistance is the need for client ownership of capacity enhancement and a reform champion, rather than supply-driven capacity building.** In addition, countries in which technical assistance for debt management has been integrated with public financial management (PFM) reforms and other lending activities have demonstrated greater sustainability of capacity building. Training events have built participants' knowledge and ability to utilize debt management tools, and promoted peer-learning and knowledge-sharing.

31. **To promote ownership and continuous peer-to-peer support, a debt management community of practice has been established.** The Debt Managers' Network provides a forum for peer-to-peer discussion and sharing of experience through a virtual network. Membership includes about 150 debt management practitioners from across the world that periodically share experience and deliberate on topics of interest. Under the auspices of the Debt Management Practitioners' Program, six practitioners from LICs are seconded to the World Bank for a three month period. This program has had a significant impact on capacity in client countries, with 24 graduates so far, many of whom are engaged in formulating debt strategies for their countries.

32. **Capacity building has been enhanced through strong collaboration with the IMF and other partners.** The Bank has collaborated with the Center for Latin American Monetary Studies (CEMLA), the Commonwealth Secretariat (COMSEC), Debt Relief International (DRI), the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), the United Nations Conference on Trade and Development (UNCTAD) and the West African Institute for Financial and Economic Management (WAIFEM). Feedback from clients in joint outreach and training events has been highly positive.

33. **Other outreach efforts toward creditors entail information sharing with export credit agencies, the European Investment Bank (EIB), and all MDBs.** An email account (*LendingToLICs@worldbank.org*) is used to respond to individual queries for guidance and clarification related to the NCBP as well as countries' classification and concessionality requirements. Creditors mainly request information on the NCBP, IMF debt limits policy, and application of tools and policies in countries they are interested in lending to. In addition, the Bank upholds an active dialogue with the EIB on the NCBP, takes part in Paris Club meetings, and participates in annual forums organized by the OECD's Export Credit Group as well as annual technical meetings with participation from all MDBs to exchange views on the application of the NCBP.

34. **Overall understanding of the policy has broadened.** There has been a significant dialogue between IDA staff and creditors during the last two years to clarify elements of the NCBP. IDA staff received and responded to 88 inquiries starting from January, 2013 to the end of 2014 (Table 4). Most of the inquiries referred to general NCBP or DLP related matters, such as concessionality requirements in countries of interest, ceiling limit for NCB, and remaining balance within a ceiling. In addition, technical support related to grant element calculation of the loans was also provided.

Table 4. Statistics on IDA's "Lending to LICs" Mailbox

	2008	2009	2010	2011	2012	2013	2014
Total number of requests	40	43	19	42	32	42	46
Number of countries discussed	19	19	9	16	17	14	24

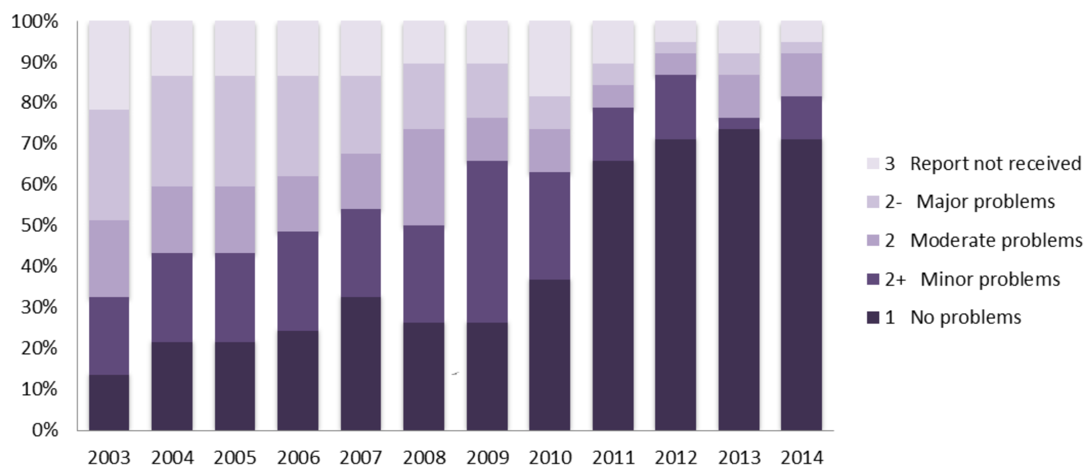
V. External Central Government Debt Monitoring

35. **The monitoring of central government debt in IDA countries is governed by the World Bank's Debtor Reporting System (DRS) used, inter alia, by country teams to monitor non-concessional borrowing, and complemented with country dialogue.** This system contains loan level data on public and publicly guaranteed (PPG) external debt. It is based on reports received from the borrower countries and multilateral creditors. The reporting is regulated by the Bank's Operational Policy OP 14.10.

36. **Under OP14.10, countries are required to disclose the external PPG debt portfolio to remain eligible for World Bank lending.** Specifically, countries must report quarterly and annual data providing information on new debt within one month after the end of each quarter. This said, non-compliant countries enter a process which helps them address reporting shortfalls and ensure the return to compliant status.

37. **The Bank regularly publishes a status report to monitor the quality of debt reporting to DRS.** The countries' reporting status is reflected in an online Status Table of Debtor Reporting System (DRS), maintained by the World Bank Financial Data Team. Overall, over 60 percent of the countries report regularly to the DRS, and more than three-quarters report with only minor problems (Figure 3). Over time, there has been a significant improvement in reporting and engagement with countries subject to the NCBP.

Figure 3: DRS rating, 2003 to 2014 for countries subject to the NCBP in FY15



38. **Aggregates and country tables from the DRS are produced and published annually in the International Debt Statistics publication,** which is the successor of the Global Development Finance and World Debt Tables. To keep abreast of increasing financing sources, DRS reporting requirements are continuously updated to reflect changes to borrowing instruments or debt restructuring. In particular, publicly accessible data include time series of stocks, disbursements, principal, and interest payments along with various breakdowns by creditors, such as multilateral, bilateral, official, private, concessional, non-concessional, bonds, commercial banks, and other sectors of the economy. Also included are average terms of new borrowings and their currency composition.

39. **Data is accessible to the public through the Open Data initiative.** This annual publication includes the aforementioned International Debt Statistics, the debt data portal, and as part of the WDI series.

VI. NCBP implementation update

VI.1 Update on NCB cases since 2010 progress report

40. **Since the last Progress Report, 20 cases in 15 countries have been discussed in the context of the NCBP.** Several countries, such as Burundi, Chad, Ethiopia, Madagascar and Zambia had more than one case of non-concessional borrowing for NCBP Committee consideration since 2010. Country- and loan-specific circumstances acknowledged that non-concessional borrowing was part of an adequate financing mix in 14 countries: Burundi, Cameroon, Chad, Comoros, Côte d'Ivoire, Ethiopia, Ghana, Guinea, Kyrgyz Republic, Madagascar, Mauritania, São Tomé and Príncipe, Togo and Zambia. Financing terms were adjusted for three countries: Chad, Ethiopia and Lao PDR. Chad's IDA allocation was reduced 20 percent in FY11; Ethiopia's grant portion for FY15 was converted to regular IDA credits, and the allocation was subject to a further 5 percent volume reduction; and 62 percent of Lao PDR's grant allocation was converted to credit terms in FY15. The adjustments to financing terms applied to Ghana in the form of hardening of IDA terms since FY09 were discontinued in FY12.

41. **Two countries – Cameroon and Ethiopia – have requested NCB ceilings since this possibility was introduced in the 2010 Progress report.** In the case of Cameroon, the NCB ceiling amounted to 4½ percent of GDP and was tied to a list of specific projects. Ethiopia requested a three-year ceiling, in principle, totaling roughly 2 percent of GDP per annum. The annual ceilings were tied to priority sectors defined under the government's Growth and Transformation Plan.

42. **The small number of NCB ceilings under the NCBP is closely related to the distribution of countries subject to the NCBP without an IMF arrangement.** Of the 45 countries subject to the NCBP, 20 countries have an IMF program as of June 2015, and of these almost half (11) have a non-zero ceiling. For most countries subject to the NCBP, continuous measured access to non-concessional borrowing is hindered by their risk of debt distress rating or limited debt management capacity (Table A1 in Annex).

43. **Individual non-concessional borrowing cases reviewed by IDA since 2010 are as follows:**

- **Burundi (2011-2013).** In 2011, Burundi contracted a loan with the Export-Import (Exim) Bank of India in the amount of US$80 million (4.8 percent of GDP) to finance the construction of the Kabu hydropower plant. The grant element of the loan (32 percent) is below the 50 percent threshold allowed under the IMF agreed supported program. The loan was assessed to be in line with the NCBP based on the unchanged risk rating, the economic viability of the project, and limited access to sufficient concessional funds for this critical energy generation investment during the energy crisis in the country.

In addition, Burundi, which is currently under an IMF ECF program, contracted two loans (total of US$30 million) with the Saudi Development Fund and the OPEC Fund in 2013. The grant element of each of these two loans was marginally below the 50 percent policy threshold (48 percent). The IMF Board granted the waiver for the breach of the non-concessional borrowing ceiling in September 2013. These loans were also assessed to be in line with the NCBP based on the assessment of country- and loan-specific factors. In particular, the loan did not have a material impact on debt sustainability and the road project was aligned with the Poverty Reduction Strategy of addressing infrastructure bottlenecks. More precisely, the road project seeks to connect Burundi with Rwanda and Tanzania, and enhances the transportation network through improved access and trade facilitation.

- **Cameroon (2010-2012).** Twenty five loans totaling US$2.2 billion were contracted between 2010 and 2012. One third of these loans (US$747 million) refer to NCB that was not intended as such, but resulted from technical problems (e.g., changes in the CIRR-based discount rate) and had grant elements close to the threshold of 35 percent.[29] The remaining loans (US$1.5 billion with grant element of 13 percent) financed priority projects in the country's Poverty Reduction Strategy Paper in transport, energy, and telecommunication sectors. Given these factors, and the fact that the borrowing did not alter the risk of debt distress rating, the borrowing was assessed to be in line with the NCBP and a new ceiling totaling US$1.2 billion for FY13 was agreed. In FY15, Cameroon became creditworthy for IBRD and was reclassified as a blend country. Countries in blend status are not eligible for grants, and hence also no longer subject to the NCBP.

- **Chad (2010-2014).** In 2010, Chad contracted and guaranteed bilateral loans from Libya and China totaling US$650 million, with a combined grant element of 13 percent. The US$300 million from the Libyan Foreign Bank was provided as budget support (about 3.6 percent of GDP), while China's Petroleum Corporation's (CNPC) provided funding, with a government guarantee, to the local state-owned oil company totaling US$350 million (4.1 percent of GDP). The latter financed the construction of Chad's N'Djamena refining company (40 percent state-owned). Lack of clarity regarding the economic, social or financial returns of the two projects together with the adverse impact of the non-concessional borrowing on the risk of debt distress prompted a 20 percent reduction in IDA allocations, which is broadly consistent with the grant discount. This measure was considered to be more appropriate than the alternative of hardening the financing terms, given the country's risk of debt distress rating.

Since 2011, Chad has contracted an additional four non-concessional loans. The first non-concessional loan, a Master Facility Agreement totaling US$2 billion, contracted in August 2011 with Exim Bank China, was cancelled in December 2013 without disbursements taking place. The second and third non-concessional loans were oil sales' advances contracted in May and August 2013 with a commercial partner (Glencore Energy), for a total of US$600 million (4.5 percent of GDP). In June 2014, the government committed to a fourth operation totaling US$1.4 billion (9 percent of GDP), similar to a "carried equity" scheme, used to acquire equity participation in the largest oil consortium. Considering country- and loan-specific arguments, the four non-concessional loans amounting to US$2 billion contracted in 2013-2014 were assessed to be in line with the NCBP.

- **Comoros (2013).** Comoros signed a loan for a total amount of US$41.6 million (approximately 6.5 percent of 2012 GDP), signed with the Export-Import Bank of India to build a new heavy fuel electricity plant. The shortfall in concessionality for this loan (48 percent, marginally below the required 50 percent threshold) had a negligible adverse impact on debt sustainability. The IMF Board granted a waiver for the breach of the non-concessional borrowing ceiling in June 2013, and IDA also assessed the borrowing to be in line with the NCBP.

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[29] The Bank and the Fund shifted to a unified discount rate of 5 percent in 2013.

- **Côte d'Ivoire (2011).** In April 2011, the authorities signed an agreement for a loan of €350 million (US$500 million or 2.2 percent of GDP), with a grant element of 5.6 percent, from the Government of France. The loan was contracted in the context of urgent financing needs immediately following a 5-month political crisis and civil war and aimed at re-launching the economy and consolidating peace. Côte d'Ivoire's non-concessional borrowing was assessed to be in line with IDA's NCBP based on multiple factors, including (i) the contribution of the loan to macroeconomic stability and peace; (ii) the absence of alternative financing with better financing terms; (iii) the modest impact of this non-concessional loan on the country's debt sustainability; (iv) the support by the IMF Board for the government's emergency program that included this loan, while recognizing that the IMF debt policy did not apply at the time of loan signature; and (v) the commitment of the new government to avoid any further non-concessional borrowing until the HIPC Completion Point is reached.

- **Ethiopia (2011-2014).** Three non-concessional loans contracted during FY11 amounting to US$ 833 million, with a grant element of 18 percent, were assessed to be in line with IDA's NCBP. These loans financed infrastructure projects in transport and agriculture, in line with the government's Growth and Transformation Plan. In April 2013, at the request of the government, IDA established non-concessional borrowing ceilings of US$1 billion for FY13 and, in principle, US$1 billion in each of FY14 and FY15.

In FY13 and FY14 Ethiopia has contracted significant volumes of non-concessional debt amounting to US$5.8 billion and US$2.9 billion respectively. These volumes exceeded the annual limit, agreed with IDA, of US$1 billion set for FY13 and FY14. For FY15, Ethiopia's debt assessment shifted from low to moderate risk of debt distress and, as per IDA's Performance Based Allocation (PBA) system, Ethiopia became eligible to receive 50 percent of its IDA allocation in the form of grants. [30] In response to the contracted amounts exceeding the agreed limits under the NCBP, IDA has taken the following remedial measures: (a) converted the grant portion of the PBA allocated volume for FY15 into regular IDA credits in order to mitigate the moral hazard issues; and (b) applied a 5 percent volume cut to Ethiopia's FY15 allocation.[31] IDA also agreed to review the non-concessional borrowing towards the end of FY15; results of this review will be communicated to the Board in Q1 of FY16.

- **Ghana (2011).** In 2011, Ghana's NCB amounted to US$3.4 billion[32] (or 9 percent of GDP) of which US$3 billion was contracted with the China Development Bank (CDB). The remainder, US$0.4 billion, was borrowing from foreign commercial banks to procure police and defense equipment, build a power plant and undertake water and sanitation works. The average non-concessional loan carried a grant element of 9 percent.

At the request of the borrower, IDA reviewed the Master Facility Agreement (MFA) signed with the CDB in December 2011 for US$3.0 billion to finance projects that include the development of railways, gas infrastructure, and industrial zones in the Western region, commercial agriculture in Accra plains, multi-modal transportation in the Eastern region, fisheries infrastructure in coastal areas, urban transport in Accra, and nation-wide SME incubation. All projects were aligned with the Ghana Shared Growth and Development Agenda (GSGDA) approved by Parliament in December 2010.[33] The review concluded that the projects to be financed under the Agreement were in line with GSGDA's objectives and justified by expected high returns, particularly from the gas project. Based on the conclusions of the review as well as

[30] The April 2014 DSA was the latest available at the time of Senior Management deliberation and decision.

[31] The Government of Ethiopia does not agree with the assessment that it is in breach of the NCBP. Their argument is that the US$1 billion ceiling should be measured in terms of disbursement rather than commitment. FY13 and FY14 NCB disbursements did not exceed the annual ceiling.

[32] This amount is to be compared to US$750 million in 2007 (in the form of Eurobonds), US$617 million in 2008, US$448 million in 2009 and US$215 million in 2010.

[33] See Ghana Joint IDA-IMF Staff Advisory Note on the Ghana Shared Growth and Development Agenda, World Bank and International Monetary Fund, July 2011, Washington D.C.

the Joint DSA of November 2011, the IMF increased the limit on NCB to US$3.4 billion for 2011 (January 1-December 31). Since Ghana borrowing in 2011 was within this limit, the country had not breached IDA's NCBP requirements in 2011, and IDA regular volumes and terms were applied in FY12 and FY13. [34] Once Ghana's GNI per capita was above the IDA operational cutoff for more than two consecutive years, the country shifted to IDA lending on blend terms starting from FY14 and, therefore, is no longer subject to the NCBP.

- **Guinea (2012-2013).** Three loans signed with the India Eximbank and the OPEC Fund for International Development for a total amount of US$28 million (0.45 percent of GDP) with grant elements of 24 and – for two loans – 30 percent, were relatively small and had a negligible impact on debt sustainability. The contracting of non-concessional loans without prior consultations with either the World Bank or IMF was due in part to weak technical capacity. The fourth loan, for the Kaleta hydroelectricity project, was signed with Export-Import Bank of China and amounts to US$335 million (5.3 percent of GDP). Although initially expected to meet the 35 percent threshold at the time the final terms were negotiated in early-December 2012, a change in the discount rate later in the year, resulted in a drop in the grant element to 33 percent when the loan was signed on January 4, 2013. Hence, the concessionality breach was marginal and caused by external factors to the project financing arrangements. The assessment of country- and loan-specific factors for these four non-concessional loans contracted by Guinea during 2012-2013 led IDA to assess the borrowing to be in line with the NCBP.

- **Kyrgyz Republic (2013)**. A US$30 million loan (0.5 percent of GDP) was contracted by the state-owned Elektricheskiye Stantsii (Electrical Power Plants - EPP) with the Eurasian Development Bank to finance the fuel purchases of its Bishkek combined heat and power plant for the 2013-2014 heating season. The grant element of the loan amounts to zero. The loan amount is relatively small and has a negligible impact on debt sustainability. The contracting of the loan without consultations with either the World Bank or IMF was due to weak technical capacity. The IMF Board granted the waiver for the breach of the non-concessional borrowing ceiling on June 10, 2013. Based on country- and loan-specific criteria, IDA assessed the loan to be in line with the NCBP.

- **Lao People's Democratic Republic (2010-2014).** Lao's authorities contracted loans totaling US$3.1 billion (or 9 percent of GDP per annum) from 2010 to 2014, with a weighted grant element of 23 percent. No sector-specific information on the projects financed by non-concessional borrowing was available. In addition, debt sustainability has deteriorated in recent years, in part as a result of the significant levels of NCB. In the most recent DSA,[35] Lao's rating worsened from "moderate" risk of debt distress, to a borderline moderate risk verging on high risk. IDA responded to the borrowing by converting 62 percent of the allocated grants for Lao PDR into credits, reflecting the timing of the decision midway through the fiscal year, and the advanced stage of the project dialogue with the authorities.

- **Madagascar (2014).** A non-concessional loan equivalent to US$30 million (0.3 percent of GDP) was signed with the Abu Dhabi Fund to help rehabilitate the National Route 5 between Soanierana Ivongo and North Mananara Airport. The grant element was estimated to be 27 percent. The loan will have a negligible adverse impact on debt sustainability. Madagascar is currently under IMF's Rapid Credit Facility (RCF) program, and is in the process of shifting to the Extended Credit Facility (ECF) arrangement. The IMF granted a waiver for the non-concessional financing, and IDA assessed the borrowing to be in line with the NCBP.

In addition to the aforementioned borrowing, two further non-concessional loans totaling US$ 23.5 million (or 0.2 percent of GDP) and a grant element of 34 percent were signed with the OPEC Fund for International

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[34] IDA's financing to Ghana was on blend terms during FY09-FY11 in response to continued significant levels of non-concessional borrowing.

[35] November, 2014.

Development (OFID) to support two projects. The first project aims to create an irrigated area in the Melaky region in order to reduce poverty by increasing rice production. The second project focuses on the energy sector and would provide parallel financing to the growth poles project financed by IDA from 2006 to 2014. Considering the small size of the loans, their expected benefits in terms of development impact, their limited impact on the DSA as well as the types of projects financed by these two loans (irrigation and energy sector), IDA assessed the borrowing to be in line with the NCBP.

- **Mauritania (2010).** In November 2009, the government of Mauritania contracted an external loan from the Arab Monetary Fund in the amount of 9 million Arab Accounting Dinars (1.4 percent of GDP). The loan had a 4.7 percent grant element. IDA assessed the borrowing to be in line with the NCBP on the basis of the following factors: (i) the key role of this loan in helping the country implement critical crisis response measures to mitigate the impact of the global food and financial crises; (ii) the importance of the loan in assisting the country in maintaining macro-economic stability threatened by severe domestic and external shocks, while Mauritania sought to fully normalize its relationships with the international donor community; (iii) the lack of available concessional financing as also argued by the IMF team; and (iv) the limited impact on debt sustainability.

- **São Tomé and Príncipe (2014).** The authorities signed a US$40 million (about 10 percent of GDP) credit line with Angola. The original conditions specified in the agreement implied a grant element of 20 percent. The authorities renegotiated the terms and obtained a grant element of 45 percent (slightly below the IMF program target of 50 percent). The credit line is intended to primarily finance the public investment program. Specifically, US$ 15 million are expected to be disbursed to the Treasury in 2014, while the remaining amount is expected to be disbursed over the period 2015-2016 to support the public investment program via complementary agreements that establish the scope and the amount of the project to be financed. IDA assessed the borrowing to be in line with the NCBP.

- **Togo (2014).** The authorities contracted three non-concessional loans totaling US$26.4 million (0.6 percent of GDP). The average grant element of the loans amounts to 25 percent. The three loans financed the following projects: (i) the rehabilitation of the Lome-Cinkanse-Ouagadougou road (financed by the west African Development bank (BOAD) and ECOWAS Bank for Investment and Development (EBID)); (ii) enhancement of the capacity of electric energy distribution by creating a larger network of medium and low voltage in the hinterland of the country (financed by BOAD and EBID); and (iii) agricultural project with the objective to improve food security and increase the income of agricultural producers (financed by EBID, BOAD, the International Fund for Agricultural Development (IFAD) and the Global Agriculture and Food Security Program (GAFSP)). The borrowing was assessed to be in line with the NCBP based on the development viability of the projects, unavailable concessional financing for the projects, and minimal impact of the borrowing on the debt outlook.

- **Zambia (2011-2012).** The authorities contracted loans amounting to US$1.25 billion (roughly 5.3 percent of GDP), including a bond issued in September 2011 in the amount of US$750 million or 3.2 percent of GDP (following the discontinuation of an IMF program in June 2011). The combined grant element of the loans was about 13 percent. The loans were earmarked for infrastructure projects. The borrowing was assessed to be in line with the NCBP based on the following considerations: (i) the development viability of the projects as assessed by the World Bank country team; (ii) no shift in the risk rating.

Zambian authorities signed a number of new non-concessional loans in 2013 in the amount of US$545, of which US$360 million (65 percent of the NCB) was from the China Development Bank and the Exim Bank of China, and the remainder was provided by, the Saudi Fund for Development, and EIB. In addition to these loans totaling US$545 million, the Government issued a Eurobond in the amount of US$1 billion in April 2014. Zambian authorities requested (i) a consideration under the NCBP for loans contracted in 2013 for a total amount of US$545 million; and (ii) the establishment of a non-concessional borrowing (NCB)

ceiling of US$3 billion over a three year period (2014-2016). While no shifts in the risk rating occurred at this stage, an agreement on a non-zero ceiling has been complicated by the ongoing IMF negotiations and the need to avoid situations of setting parallel ceilings. In FY16, Zambia is no longer subject to the NCBP as it has shifted to gap status.

VI.2 Lessons learned

Scope of the policy

44. **The implementation of the NCBP has demonstrated flexibility in assessing the merits of specific cases of non-concessional borrowing, and has displayed signaling capability.** The implementation record demonstrates that the NCBP is applied flexibly in support of sustainable non-concessional borrowing. Where IDA has determined that the non-concessional borrowing would undermine the debt sustainability objective of IDA grant policies, measures taken under the NCBP helped safeguard IDA concessional resources by reducing grant provisioning and redistributing resources.

45. **The NCBP may have limited ability to affect borrowing decisions, in particular when IDA financing is small relative to other external financing sources.** Anecdotal evidence suggests that authorities have changed initially agreed terms of financing or cancelled loan agreements after discussions with the Bank and the IMF. This typically occurs in countries in which IDA plays a significant role. In addition, the NCBP provides IDA with a tool to help safeguard its scarce, highly concessional resources and apply it in situations where it may help to preserve debt sustainability.

46. **The NCBP has an impact on creditors' lending decisions.** Some creditors rely heavily on the NCBP, especially in cases where there is a zero-ceiling in place. For such countries, a legal case can be made to blend non-concessional loans with grants. In a similar manner, the Export Credit Group has developed its own Sustainable Lending Guidelines, which draw parallels to the IMF's DLP and IDA's NCBP affecting lending terms to countries subject to the NCBP.

47. **The existing capacity assessment uses a wide range of debt and public financial management indicators that limits the number of countries where increased flexibility can be provided.** Under the current capacity assessment, only four countries qualified as having higher capacity. In addition, from an operational perspective the two-by-two assessment based on the combination of lower/higher vulnerability and lower/higher capacity has proven to be overly complex and has not been applied to the full extent.

48. **While the possibility to request an NCB ceiling is a relatively new feature of the policy, this mechanism appears to have helped deepen the dialogue on debt sustainability and debt management.** Most of the countries without an IMF arrangement and which are expected to borrow repeatedly on non-concessional terms have either requested or are in the process of determining a ceiling. The establishment and monitoring of ceilings provides the potential to deepen the dialogue on debt sustainability and debt management, for instance outlining debt sustainability risks emanating from the state-owned enterprise (SOE) sector, as well as enhancing the capacity to evaluate public investment. Additional efforts need to take place to intensify the collaboration in the area of public investment management.

49. **In some cases, newly-created borrowing space is being filled rapidly, potentially resulting in deteriorating risk of debt distress ratings and increased grant provisioning by IDA.** A boost in non-concessional debt accumulation is a sign of improved market perceptions of IDA countries that is rewarded by external capital market access, diversification of financing sources, and absorption of needed funds for development purposes. This is a welcome development. At the same time, in some instances including in countries with low risk ratings, this boost in commercial financing has also meant a shift in external public

debt ratios resulting in a deterioration in the risk rating or moving into borderline status. Adverse shifts in the risk rating have also occurred after adjustments in debt ceilings under IMF arrangements. Given the mechanics of IDA's grant allocation system, this has led to an IDA response to increased grant provisioning, which may not be in line with prudent management of concessional resources.

50. **Enhancing authorities' awareness of the NCBP and internal outreach activities is desirable to improve further the policy's scope.** To avoid instances of NCBP breaches due to lacking technical capacity and awareness, external outreach activities will need to follow the discussion by Executive Directors of this paper. Internal outreach activities should ensure that country economists are equipped with a broad understanding of the policy in order to have an informed dialogue with the authorities.

51. **IDA country teams often face difficulties in obtaining project-specific quantitative information, such as expected rates of return especially in projects where the World Bank Group (WBG) is not a participant.** The assessment of individual projects where the WBG is not a participant has proven difficult. Building capacity in the government to undertake project assessments is, however, essential and the NCBP will keep the requirement of assessing a project's development impact and rates of return in its toolkit. At the same time, where data is not available, provisions for a more flexible approach will need to be introduced.[36]

Clarifications and increased transparency

52. **Setting of non-zero debt ceilings seems to require further clarification.** In some instances, more ground work was needed to explain the principles and rationale for setting debt ceilings on a contracting/commitment rather than disbursement basis. Non-zero debt ceilings are set on a commitment basis, while the level of adequate commitment is determined based on conservative disbursement profiles of planned non-concessional loans. The latter is assessed using the joint WB-IMF DSF.

53. **Streamlining internal processes is required to adapt to the change process.** The organizational restructuring in the Bank requires an adaptation of existing procedures, with the Global Practices (GPs), typically represented by GMFDR,[37] taking an active role in preparing the technical requirements for NCBP requests (in collaboration with the authorities), while Regions will be responsible for the strategic dialogue with the authorities.

54. **There is scope for enhancing transparency**. Some stakeholders have raised the issue of enhancing transparency of information-sharing in real time. The review of the policy is an opportunity to establish a systematic framework to inform outside parties of the decisions taken by senior management in relation to the NCBP.

VII. Adjustments to NCBP implementation

55. **Based on lessons learned and the importance of a harmonized approach with the IMF, adjustments to the NCBP build on enhancements established in 2010.** These adjustments are motivated,

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[36] Assessing the impact of public investment on growth, however, is not a straightforward task. The empirical literature offers some general conclusions, most of which caution against excessive optimism: prolonged growth accelerations are rare, and even if individual projects have high rates of returns, the macroeconomic returns (notably the impact on GDP, government revenues and exports) tend to be considerably lower than the rates of return on individual projects. For further references see paragraphs 47 to 50 and Annex 2 in IDA and IMF (2013) "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries", SecM2013-0443, November.

[37] If warranted, in collaboration with other GPs.

inter alia, by the following factors: an overly complex capacity assessment, shifts in risk ratings under Fund arrangements, review of the DLP, difficulty in obtaining quantitative project information if the Bank is not involved in a project (e.g., rates of return), and addressing requests for enhanced transparency.

56. **The IMF revised its DLP in December 2014.** The new DLP keeps a focus on incentives for concessional borrowing by using ceilings in present value (PV) terms for countries with sufficient capacity (Box 3). In some instances, for low risk of debt distress countries, the DLP need not require debt conditionality. The use of targeted debt limits may be warranted to address specific debt vulnerabilities (e.g., borrowing by non-commercial state-owned enterprises, and other agencies outside the budget framework) or to cover domestic borrowing where public debt vulnerabilities are high and are not fully captured by fiscal conditionality.[38] The Bank's NCBP harmonizes with these new principles, bearing in mind the institutional differences between the Bank and the IMF (see Figure A2 in Annex I).

57. **Adopting a simplified joint WB-IMF capacity assessment (Annex V) distinguishes two types of countries based on debt monitoring and management capacity:** (i) those countries with adequate or sufficient capacity and therefore eligible for PV ceilings on total external public and publicly guaranteed debt; and (ii) countries with weak or limited capacity that would maintain the previous system of nominal ceilings on external public and publicly guaranteed borrowing with a grant element below 35 percent during a transition period building up to adequate capacity. The simplified joint WB-IMF capacity assessment replaces the current two-by-two capacity assessment, which divides countries into four categories based on a combination of lower and higher debt vulnerability and lower and higher capacity. According to the joint Bank-Fund new capacity assessment 15 out of 39 countries subject to the NCBP are considered to have adequate capacity and could be subject to debt ceilings in PV terms. This significant broadening of the scope of countries able to utilize debt ceilings in PV terms may help further facilitate a further deepening of the dialogue with authorities on fiscal and debt management as well as public investment management. The update of this assessment will take place annually when CPIA data become available.

58. **Adjustments to design of non-zero ceilings based on the new capacity assessment are provided in Table 5 below.**

[38] For countries that normally rely on official external financing, such as all of the 39 countries subject to the NCBP, the Fund and the Bank are aligned in setting public debt ceilings (see IMF Board paper SM/14/304 page 2 and 21). For countries with little or no access to concessional financing, the DLP allows for setting performance criteria on total nominal public debt, which by definition includes domestic debt.

Table 5: Adjustments to the design of non-zero debt ceilings[39]

Risk of debt distress	Capacity	Current approach 1/	Enhanced approach 1/	NCBP-only examples for FY16
low risk	inadequate	two options: L by L considerations; or nominal, external non-concessional PPG debt ceiling	no change	Madagascar
low risk	adequate	two options: L by L considerations; or nominal, external non-concessional PPG debt ceiling	three options: L by L considerations; ceilings on total external PPG debt in PV terms; or nominal, external non-concessional PPG debt ceiling	Benin
moderate risk	inadequate	two options: L by L considerations; or nominal, external non-concessional PPG debt ceiling	no change	DRC, South Sudan, Togo
moderate risk	adequate	two options: L by L considerations; or nominal, external non-concessional PPG debt ceiling	three options: L by L considerations; ceilings on total external PPG debt in PV terms; or nominal, external non-concessional PPG debt ceiling	Ethiopia, Samoa
high risk/ debt distress	adequate/inadeq.	L by L considerations	no change	Mauritania, Micronesia

1/ In the current and enhanced approach, country authorities can choose between the options

Memo: L by L – loan by loan; PV – present value

59. **Countries at low risk of debt distress would have the option of voluntary requests for external public borrowing ceilings, including in PV terms, and based on their assessed capacity.** Alternatively, considerations based on individual non-concessional loans will be the norm. Compared to the current practice, this group of countries could request debt ceilings in PV terms, if warranted by their capacity. As an example, in FY16 Madagascar and Benin could consider requesting a PV ceiling (see Table 5 and Table A1 in Annex II).[40]

60. **Countries at moderate risk of debt distress with adequate debt monitoring capacity would have the option to request ceilings on external public borrowing in PV terms rather than nominal terms for non-concessional loans.** In other words, the PV ceiling would cover concessional and non-concessional debt, and would not be tied to loan-by-loan considerations. This replaces the current practice of requesting ceilings only in nominal terms for non-concessional debt, and help ensure consistency with the revised DLP approach. This said, a careful assessment of disbursement profiles and more broadly the

[39] These adjustments to the design of non-zero debt ceilings apply in principle when there is no IMF program in place. When there is an IMF program in place, the Bank will seek to harmonize with the programmatic IMF approach.

[40] Under the DLP, if countries have adequate fiscal statistics and when the coverage of fiscal statistics does not warrant ceilings, debt limits are generally not required for low risk countries (see also Box 3). Note, however, the IMF has additional instruments at disposal under a program to limit the external public debt buildup (see Figure A2 in Annex I). Furthermore, under IDA a shift from low to moderate risk of debt distress triggers the grant allocation framework, a feature that does not exist within the Fund's business model. The Bank's responsibility to manage prudently concessional resources implies a close dialogue with country authorities on the external debt buildup, even for low risk countries. The latter is difficult to satisfy, if IDA weakens the basis for continuing the dialogue with authorities that plan to borrow non-concessionally.

macro framework is key to maintaining debt ratios on a sustainable trajectory. As an example, in FY16 this policy applies, among others, to Ethiopia and Samoa (Table 5).

61. **Countries at moderate risk of debt distress with limited capacity could request a nominal ceiling on non-concessional borrowing with a grant element threshold at 35 percent as per current practice.** Applying a nominal debt ceiling on non-concessional loans for countries with limited monitoring capacity aligns with the new DLP approach. The latter entails also a memorandum item on concessional borrowing, which is not binding as the performance criterion setting the ceiling on non-concessional external public debt (see also Box 3). In FY16, this policy applies to, for example, Togo and DRC (Table 5).

62. **Countries at high risk/in debt distress would be able to borrow non-concessionally under exceptional circumstances.** Merits of the non-concessional borrowing will be assessed on a case-by-case basis. The NCBP implementation record shows that non-concessional borrowing has been feasible under such circumstances based on a loan-by-loan approach, such as, for example, in the event of critical infrastructure projects for which concessional financing was not available. This is consistent with the new DLP approach. In FY16, this criterion could be applied for instance to Micronesia and Mauritania (Table 5).

63. **As in the past, where debt ceilings are set for countries under a Fund arrangement, the Bank would seek to observe those ceilings.** IDA's decisions regarding non-concessional borrowing for countries with Fund-supported programs will seek to harmonize with debt ceilings specified in those programs. Specifically, this approach would apply to both Fund arrangements and policy Support Instruments. This will helps ensure consistency between the NCBP and the new DLP. For other Fund programs, a case-by-case assessment would need to take place as standard conditionality is not required (e.g., Staff Monitored Program and Rapid Credit Facility, see Annex VI).

64. **A deterioration of the risk rating under an IMF program due to non-concessional borrowing would warrant a case-by-case consideration of corresponding grant provisioning**. Taking into account heightened risks under a more flexible framework, the Bank retains the right to de-link the financing terms it provides under the grant allocation system from the risk of debt distress rating. More precisely, for countries under IMF programs where there is a shift from low to moderate or to high risk of debt distress, IDA retains the right to reassess the automatic provisioning of grants based on the risk rating.

65. **Project-specific information, such as returns on investment, will remain part of the NCBP when considering non-concessional borrowing, albeit within a more flexible framework compared to the current application.** In particular, project-specific information will be mandatory for projects where the Bank is participating in the sector.[41] When hard data is not available, the project-specific rationale will be provided in a more descriptive form, with a special emphasis on sectors and expected benefits.

66. **In response to changes in the organizational structure of the Bank, adjustments to internal processes need to take place to account for shifts in responsibilities and technical execution.** With the Country Economist no longer mapped to the specific Country Director in the new Global Practice (GP) structure, this calls for the involvement of the country director on the regional, practice managers on the GP side as well as relevant program leaders. NCBP requests and related documentation will continue to be cleared by the country director. Deliberations within the NCBP Committee have been adjusted to include the country director on the regional side, as well as the program manager for the GP, and the country economist. The final decision will continue to reside with the Managing Director.

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[41] Barring cases where project-specific information is covered by legal agreements that remain confidential.

A summary of adjustments to the NCBP in the area of capacity assessment, debt ceilings and transparency

Current policy application	New policy
1. capacity assessment	
assessed on wide range of debt and public financial management indicators	narrower focus: assessment based on ability to record and monitor external PPG debt in timely manner -- countries with adequate capacity roughly triple
2. debt ceilings	
nominal ceiling on NCB only	more flexibility: nominal and PV ceiling for countries at low and moderate risk with adequate capacity
zero ceilings with loan by loan exceptions	no change: zero ceilings with loan by loan exceptions
if set debt limits under IMF programs lead to deterioration in risk rating, then IDA provides grants.	justification for grant allocation is based on case-by-case assessment, when a country's risk rating deteriorates under an IMF program as a result of set debt limits.
3. transparency	
NCBP measures reported in real time to IDA Board; granted waivers reported in periodic updates to the NCBP	NCBP measures reported in real time to IDA Board, with included borrowing plans; summary of granted waivers and NCBP measures reported annually as part of OP3.10 Annex D, and on IDA's external website in real time

67. **Experience in responding to requests for non-zero ceilings on non-concessional borrowing has raised the need to clarify that the NCBP non-zero ceilings are based on contractual borrowing.** Staff's assessment regarding the appropriate size of an NCB ceiling is undertaken through the DSF. It is linked to a projected disbursement profile and the overall impact of a level of borrowing on the risk of debt distress for a given country. However, in terms of the application of the NCBP, the ceiling is monitored on a contractual basis, given uncertainties around disbursement timing. Hence a ceiling of US$1 billion in FY15 would be breached once borrowing contracted in FY15 exceeds this amount.

68. **Transparency can be further enhanced through more frequent publications and real-time information on IDA's external website.** Executive Directors are provided with notes outlining cases of NCBP breaches, which includes loan-by-loan information. Every update to the NCBP sent to the Executive Directors on a regular basis contains a detailed account of all the cases discussed in the context of the policy. Based on the Access to Information Policy, these documents are deliberative in nature and not available for public consumption, unless the authorities provide consent to publishing. However, to address stakeholders' requests for more frequent information, senior management decisions regarding discussed cases under the NCBP, and measures taken will be published through OP3.10 Annex D which is publicly available and is typically updated in June of each year. In addition, a real-time table with agreed ceilings

and IDA decisions will be established on IDA's external website. Lastly, borrowing plans will become part of the Country Notes sent to the Board.

Box 3. Changes to the IMF's DLP

For countries that normally rely on concessional official external financing, the following IMF policy changes were adopted for countries with an IMF arrangement:

- For countries assessed as being at low risk of debt distress, external debt limits are generally not warranted. Debt conditionality may be warranted when the quality and/or coverage of fiscal statistics favors the use of debt conditionality instead of, or as a complement to, 'above-the-line' fiscal conditionality. For example, debt limits may be set as a complement to fiscal budgetary targets in cases where important public-debt creating activities are not adequately captured by the fiscal accounts (e.g., bank recapitalization, issuance of government guarantees, non-commercial state owned enterprises and other agencies outside the budgetary framework), and the scale of these operations poses a risk to program objectives.
- For countries assessed as being at moderate risk of debt distress but with sufficient capacity for monitoring public debt, program conditionality would include a performance criterion (PC) on total public external debt contracted (i.e., covering both concessional and non-concessional external public borrowing) specified in present value terms. For countries assessed to have weak monitoring capacity, debt conditionality would take the form of a performance criterion, specified in nominal terms on non-concessional external borrowing, coupled with an agreed target on the level of concessional borrowing to be included as a memorandum item.
- For countries assessed as being at high risk of debt distress (or in debt distress), debt conditionality takes the form of a PC on the nominal level of new non-concessional debt contracted, normally set at zero, except under exceptional circumstances. This is coupled with a PC or an indicative target on the nominal level of new external concessional debt contracted (for countries with sufficient monitoring capacity) or an agreed target on concessional borrowing indicated as a memorandum item (for countries with weak capacity).
- In cases where there is significant integration with international capital markets, the DLP allows for the PC to be set on total nominal public debt rather than on external debt based on the residency definition for countries with moderate risk of debt distress. Countries at high risk of external debt distress would, however, have a PC on nominal non-concessional borrowing coupled with a PC/IT on nominal concessional borrowing, both specified in terms of foreign currency debt, rather than on a residency-based definition of external debt.
- A target on domestic borrowing would be required where there are significant risks related to domestic public debt, and where these risks are not adequately covered by fiscal conditionality.

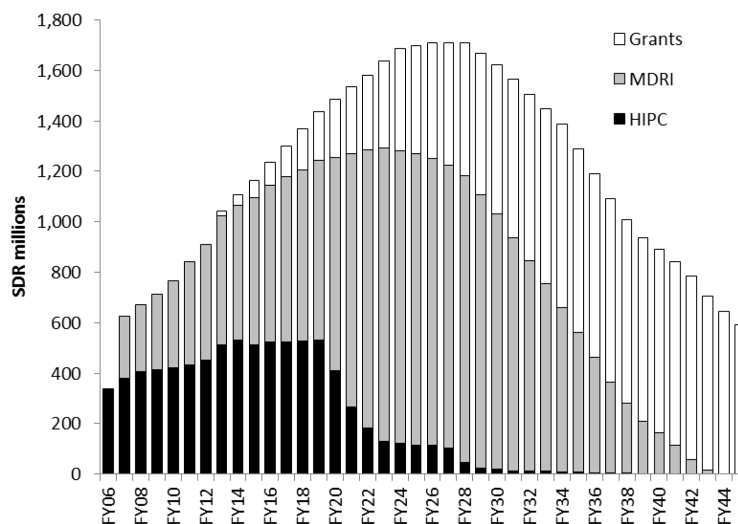
VIII. Next steps

69. **A Guidance Note outlining operational procedures of the NCBP will be circulated in FY16 following the Board discussion on the update to the NCBP.**

70. **Management will update the policy in the customary cycle or earlier if warranted by circumstances**.

Annex I: IDA compensation for forgone reflows

Figure A1: Estimated HIPC and MDRI debt relief and total forgone principal due to grant provisioning



Source: IDA Finance team

Figure A2: Institutional differences between the Bank and the Fund relevant for the NCBP/DLP harmonization debate

Area	*NCBP*	*DLP*
DURATION	Applies continuously	Applies exclusively under IMF program
CONTEXT of SETTING LIMITS	Debt sustainability and macro dialogue; IDA's fiduciary responsibility to its contributors; prudent management of scarce concessional IDA resources	Within programmatic macro approach limits are set in the form of performance criteria and indicative targets, and are part of wider range of parameters
COUNTRY COVERAGE	IDA-only non-gap countries that are either MDRI recipients or IDA grant recipients (**39 countries**)	IMF membership (**188 countries**)
SCOPE OF CEILINGS/LIMITS	External PPG non-concessional borrowing (inadequate capacity); external total PPG debt (adequate capacity)	External PPG non-concessional borrowing (inadequate capacity); external total PPG debt (adequate capacity); total nominal PPG borrowing (for adequate capacity with significant links to int. capital markets)
AVAILABLE INSTRUMENTS	Loan-by-loan exceptions; ceilings on external public debt build up	Under IMF program: Ceilings on external public debt, budgetary targets, ceiling on net domestic financing of the government, etc
INSTITUTIONAL PROCESS	Management-driven given nature of continuous application	Board-driven as debt limits are an integral part of IMF programs only

Annex II: List of countries subject to the NCBP as of July 2015

Table A1. Grant eligible[42] and post-MDRI countries subject to the NCBP as of July 2015 [1/]

Fund financial arrangements		**NCBP-only (without Fund arrangement)**	
Low risk		Low risk	
Liberia	Tanzania	Benin	
Rwanda	Uganda	Madagascar	
Senegal			
Moderate risk		Moderate risk	
Burkina Faso	Mali	Congo, Democratic Republic of	Tonga
Gambia, The	Mozambique	Comoros	Vanuatu
Guinea	Niger	Ethiopia	
Guinea Bissau	Sierra Leone	Maldives	
Haiti	Solomon Islands	Samoa	
Kyrgyz Republic	Yemen, Republic of	South Sudan	
Malawi		Togo	
High risk		High risk	
Burundi	Sao Tome and Principe	Afghanistan	Mauritania
Central African Republic		Kiribati	Micronesia
Chad		Marshall Islands	Tuvalu
# of countries	**21**		**18**

1/ Limited to active IDA-only countries and excludes countries in nonaccrual status as of July 1, 2015 (Eritrea, Somalia and Sudan); other countries may become subject to the NCBP in FY16.

Source: IDA, IMF, and various joint WB-IMF DSAs

[42] High risk of debt distress countries receive grants only; moderate risk receive half of their allocation in loans and the other half in grants.

Table A2: IDA-Only Countries subject to the IDA Non-Concessional Borrowing Policy in FY16 [1/, 2/]

"Red Light" Countries (10) (high risk of debt distress)	"Yellow Light" Countries (22) (moderate risk of debt distress)		MDRI Recipient "Green Light" Countries (7) (low risk of debt distress)
Afghanistan	Burkina Faso	Mali	Benin
Burundi	Comoros	Mozambique	Liberia
Central African Republic	Congo, Democratic Republic of	Niger	Madagascar
Chad	Ethiopia	Samoa	Rwanda
Kiribati	Gambia, The	Sierra Leone	Senegal
Marshall Islands	Guinea	Solomon Islands	Tanzania
Mauritania	Guinea Bissau	South Sudan	Uganda
Micronesia	Haiti	Togo	
São Tomé and Príncipe	Kyrgyz Republic	Tonga	
Tuvalu	Malawi	Vanuatu	
	Maldives	Yemen, Republic of	

1/ Limited to active IDA-only countries and excludes countries in nonaccrual status as of July 1, 2015 (Eritrea, Somalia and Sudan); other countries may become subject to the NCBP in FY16.

2/ Based on countries' risk of debt distress and list of HIPCs and MDRI Status (as of June 16, 2015).

Notes: The list is updated annually and is subject to change should other IDA-only countries qualify for IDA grants and/or MDRI. The list includes all IDA-only countries that are currently eligible for IDA grants on grounds of debt-sustainability (moderate and high risk of debt distress) as well as post-MDRI green light countries (low risk of debt distress). It excludes gap or blend countries that receive hardened or blend terms from IDA and are not eligible for IDA grants. If a country's IDA-only status changes mid-year, the list will be updated at that time to reflect the change.

Table A3. NCBP Countries: FY15 Eligibility for different financing options[1/]

Capacity	Debt Vulnerability: Lower		Debt Vulnerability: Higher
Lower	*Minimum concessionality requirement based on loan-by-loan approach, but with added flexibility on nonconcessional external debt (e.g., higher and untied nonzero limits, if consistent with maintenance of low debt vulnerabilities)*		*Minimum concessionality requirement based on loan-by-loan approach, likely higher than 35 percent, with limited or no room for non nonconcessional external borrowing debt*
	Benin	Nicaragua	Afghanistan
	Burkina Faso	Niger	Burundi
	Congo, Dem. Rep. [2/]	Sierra Leone	Central African Republic [6/]
	Cote d'Ivoire	Solomon Islands	Chad
	Gambia, The	South Sudan	Comoros
	Guinea	Tajikistan [3/]	Haiti
	Guinea-Bissau	Tanzania	Kiribati
	Kyrgyz Republic	Togo	Maldives
	Lao PDR	Tonga	Marshall Islands
	Liberia	Uganda	Mauritania [7/]
	Madagascar	Yemen, Rep. [4/]	Micronesia, Fed. Sts.
	Malawi	Zambia	Sao Tome and Principe
	Mali		Tuvalu
	Mozambique		
Higher	*Minimum average concessionality requirement applied to total external or total public borrowing. For most advanced IDA countries, no concessionalility requirements and overall nominal debt limit if needed.*		*Overall limit on the Present Value of external or total public debt. For most advanced IDA countries, ceilings on nominal external or public debt.*
	Ethiopia	Senegal	Samoa
	Rwanda [5/]		

1/ Limited to active IDA-only countries that are subject to the IDA NCBP and excludes countries in nonaccrual status as of July 1, 2014 (Eritrea, Somalia, Sudan and Zimbabwe).

2/ Congo, Democratic Republic's risk of debt distress has improved from “high” to "moderate".

3/ Tajikistan's risk of debt distress has improved from “high” to "moderate".

4/ Yemen Republic's risk of debt distress has improved from “high” to "moderate".

5/ Rwanda's risk of debt distress has improved from “moderate” to "low".

6/ Central African Republic's risk of debt distress has worsened from "moderate" to “high”.

7/ Mauritania's risk of debt distress has worsened from "moderate" to “high”.

Table A4: NCBP Countries: new capacity assessment for FY16 -- eligibility for different types of ceilings

	Adequate capacity	Weak capacity
	Ethiopia	Afghanistan
	Kyrgyz Republic	Benin
	Liberia	Burkina Faso
	Mozambique	Burundi
	Rwanda	Central African Republic
	Samoa	Chad
	Senegal	Comoros
	Sierra Leone	Congo, Dem. Rep.
	Solomon Islands	Gambia, The
	Tanzania	Guinea
	Tonga	Guinea-Bissau
	Uganda	Haiti
		Kiribati
		Madagascar
		Malawi
		Maldives
		Mali
		Marshall Islands
		Mauritania
		Micronesia, Fed. Sts.
		Niger
		Sao Tome and Principe
		South Sudan
		Togo
		Tuvalu
		Vanuatu
		Yemen, Rep.
total	12	27

Annex III: Activities financed under the DMF II

(a) Application of the Debt Management Performance Assessment (DeMPA) is a benchmarking exercise that assesses a country's debt management strengths and weaknesses through a comprehensive set of 15 debt performance indicators that cover the full range of government debt management operations.

(b) Design of Debt Management Reform Plan lays out a detailed and sequenced country-owned capacity building project plan detailing expected outputs and outcomes, actions, sequencing and costs.

(c) Assistance in the joint Bank-IMF Medium Term Debt Management Strategy (MTDS) toolkit. The MTDS provides a framework for formulating and implementing a debt management strategy for the medium term.

(d) Strengthening capacity in the application of the Joint Bank-IMF Debt Sustainability Framework (DSF). This provides regional training and knowledge activities related to the DSF in Eligible Countries.

(e) Domestic Debt Market Development. This builds on the "Local Currency Bond Market–A Diagnostic Framework" (developed jointly by EBRD, IMF, OECD, and World Bank (2013)).

(f) Subnational Debt Management. This applies the subnational DeMPA tool to provide training on the subnational DSAs and technical assistance on subnational debt management.

(g) Risk Management. This aims at building capacity to better address macro-financial risks involved in managing public debt portfolios and establishing a well-defined framework to manage and mitigate those risks.

(h) International Capital Markets Access. This assists eligible countries to fully assess the likely impact of issuance in the international capital markets on the debt portfolio and understand the relative costs and risks and provides advice to country authorities on the operational systems that need to be put in place to transact effectively and manage risks through the life of the transaction.

(i) Debt Managers' Network (DMN) Program. The DMN provides a platform for peer learning on technical issues, knowledge-sharing and technical support regarding debt management-related issues. The network focuses on creating a peer community of government debt management practitioners' to share experiences, exchange information, have regular conversations, and learn from each other.

(j) Supporting knowledge activities such as the Debt Managers Practitioners' Program (DMPP). This program enables government officials from debt management offices in eligible countries to be seconded to the Bank for three-month assignments and participate directly in the DMF work program. The objective of the DMPP is to facilitate knowledge sharing, exposing officials from debt management offices to a wide range of cross-country practices and allowing debt management practitioners and Bank staffs to share experiences.

(k) Knowledge Products. This includes, for example, developing guidance notes on accessing international capital markets and use of derivatives.

(l) Organization of regional training events: the Annual Stakeholders' Forum, the DMF website and the quarterly DMF Newsletter; the mid-term review and related program management and administration. Under the auspices of the DMF, Annual Stakeholders' Forum - an international conference on debt management-related issues - is organized each year, giving debt managers and other stakeholders from around the world a forum to interact and share experiences on some of current and pertinent issues in debt management and public finance.

Annex IV: DMF missions in low-income countries subject to the IMF/IDA concessionality

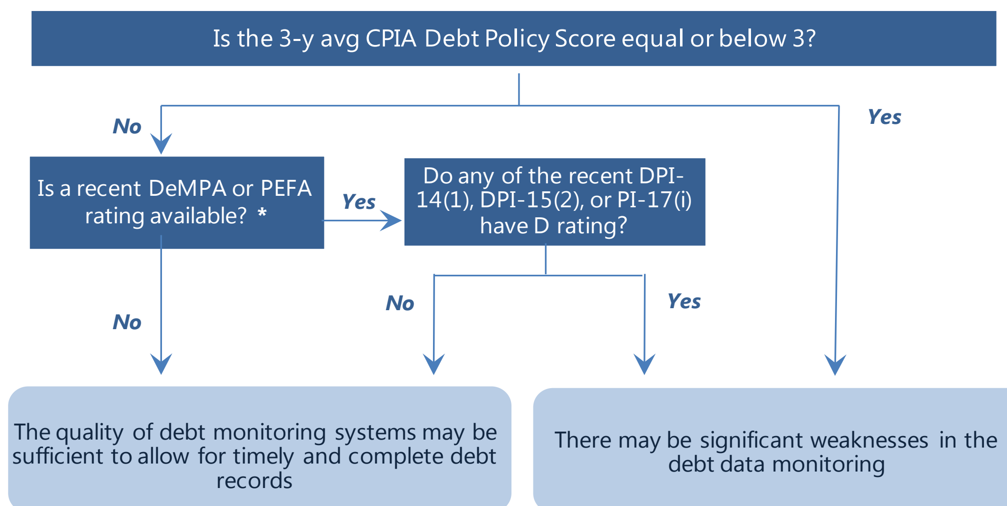
IMF and IDA Country	Missions (July 1, 2008 - December 31, 2014)
Burkina Faso	DeMPA (2), MTDS (2), Reform Plan
Burundi	DeMPA (2), Reform Plan, MTDS
Chad	DeMPA
Côte D'Ivoire	DeMPA, Reform Plan, MTDS, Domestic Debt Markets
Gambia	DeMPA (2), Reform Plan (2), MTDS (3)
Guinea	DeMPA
Guinea-Bissau	DeMPA
Liberia	DeMPA, Reform Plan, MTDS (2)
Malawi	DeMPA (2), Reform Plan (2), MTDS (2)
Mali	DeMPA (2)
Mozambique	DeMPA, MTDS (3)
Niger	DeMPA, Reform Plan
Rwanda	DeMPA (2), MTDS
São Tomé and Príncipe	DeMPA (2), Reform Plan, MTDS
Sierra Leone	DeMPA, Reform Plan, MTDS
Solomon Islands	DeMPA, Reform Plan
Tanzania	DeMPA, Reform Plan, MTDS (3)
Uganda	DeMPA, SN DeMPA
Yemen, Republic of	DeMPA
IDA-only Country	
Afghanistan	DeMPA
Benin	DeMPA
Central African Republic	DeMPA (2), Reform Plan
Congo, Democratic Republic of	DeMPA, Reform Plan
Comoros	DeMPA, Reform Plan, MTDS
Ethiopia	DeMPA, Reform Plan, MTDS (3)
Haiti	DeMPA
Kyrgyz Republic	MTDS
Madagascar	DeMPA, Reform Plan
Maldives	DeMPA, Reform Plan
Mauritania	DeMPA, Reform Plan, MTDS
Nicaragua	DeMPA (2), Reform Plan (2), MTDS (2)
Samoa	DeMPA, Reform Plan (2)
Senegal	DeMPA, MTDS
Sudan	DeMPA, Reform Plan
Tajikistan	DeMPA, Reform Plan, MTDS
Togo	DeMPA (2), Reform Plan
Tonga	Reform Plan, MTDS (2)
Zambia	DeMPA, Reform Plan, MTDS (2)

Annex V: New joint WB-IMF capacity assessment

The objective of the new capacity assessment by the Bank and the Fund is to identify weakness in debt monitoring and reporting. These indicators are part of a wider framework developed and applied regularly by the World Bank to assess, inter alia, debt management practices.

In assessing capacity, staff will draw on various sources of information available. The capacity assessment will focus on a country's ability to adequately capture and monitor the contracting and disbursement of all new public external loans and will be guided by the methodology discussed in the IMF's reform of the DLP undertaken in 2014 relying on CPIA, published DeMPA and PEFA indicators. Considering the confidential nature of some DEMPA reports, information from debt management scores may not always be available to support a capacity assessment, therefore more weight will be given to CPIA indicators, which are updated annually and are publicly available. However, where DEMPA reports are available, teams may use it to support or reject a preliminary classification as set by the CPIA. In addition, to confirm or reject the assessment based on the quantitative methodology, Bank and IMF staff also draw on other information including the country's track record, relevant technical assistance reports, and recent experience from surveillance or debt management TA engagement.

The Figure below provides a step by step process in producing the capacity assessment. The capacity assessment will be determined by DFIRM in close collaboration with IMF's Strategy, Policy, and Review Department (SPR). Every year, DFIRM will provide the preliminary classification to debt experts in MFM based on the updated CPIA scores. Debt experts will assess the country's preliminary classification and make the case for any deviation from this assessment supported by additional relevant information (recent DEMPA reports, MTDS or other relevant technical assessment reports). DFIRM, in close collaboration with the IMF, will review the experts' assessment and take into considerations the assessment provided by IMF country teams. The joint exercise implies that the Fund and the World Bank would arrive at a common capacity assessment for all countries subject to the NCBP. In the event of any material differences in the analysis, the same dispute resolution mechanism as discussed in the Annex 5 of the LIC DSF guidance note



applies.

Annex VI: Summary of facilities and instruments for low-income countries

Appendix I. Summary of Facilities and Instruments for Low-Income Countries

Facility 1/	Duration of adjustment and BoP needs 2/	UCT conditionality standard 3/	Size and nature of balance of payments need 4/	Access	Other aspects
Extended Credit Facility (ECF)	Protracted BoP problem. Time needed to achieve stable and sustainable macro position ≧ 3 years (in any case > 2 years).	Required.	Present or prospective BoP needs exist (even if minimal) over course of 3-year arrangement, but a present need is not necessary for each disbursement.	Norm is 120% of quota (or 75% if outstanding PRGT credit >=100% of quota). Annual/cumulative limit: 100/300% of quota.	3-year duration, extendable to 5 years. PRS document required by 2nd review.
Standby Credit Facility (SCF)	Time needed to achieve stable and sustainable macro position ≦ 2 years (in any case < 3 years).	Required.	SCF can be approved based on present, prospective, or potential short-term BoP needs. Precautionary use possible. Disbursements require a present need.	Norm is 120% of quota (or 75% if outstanding PRGT credit >= 100% of quota) for 18-month arrangement. Annual/cumulative limit: 100/300% of quota.	1-2-year duration. Episodic use the norm; i.e., no more than 2.5 out of every 5 years.
Rapid Credit Facility (RCF)	Could be short term or protracted.	UCT conditionality not needed or not feasible. No ex-post conditionality or reviews. Can help build track record.	Urgent (present) BoP need must exist. Prospective or potential needs may also exist.	No norm. Annual/cumulative limit: 25/75% of quota, or 50/100% in case of sudden exogenous shocks. 5/	One-off disbursements. Repeated use possible based on sudden exogenous shocks or 6-monthly track records.
Policy Support Instrument (PSI)	Broadly stable and sustainable macroeconomic position.	Required.	At the time of approval, BoP needs may exist, but would be expected to be met through financing from non-Fund sources.	No access. On-track PSI facilitates rapid approval of SCF or RCF, without need to cancel PSI.	1-3 year duration, extendable to 4 years. PRS document required by 2nd review.
Staff-Monitored Program (SMP)	Could be short term or protracted.	Not required. SMP's purpose is to build a track record toward a UCT-quality program.	Any type or size of BoP need may exist.	No access.	Duration normally 6-18 months. No Board endorsement.

1/ For PRGT-eligible countries meeting the blending criteria, any concessional financial support should be blended with GRA financing, normally resulting in ECF-EFF, SCF-SBA, and RCF-RFI blends.

2/ Time needed to establish a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

3/ UCT conditionality standard implies that the authorities have the commitment and capacity to implement a set of policies that is adequate to correct external imbalances and enable repayment to the Fund.

4/ Balance of payments (financing) needs can be present, prospective (i.e., a need that is expected/projected to arise in the future, including during the implementation of Fund program), or potential (i.e., a need that may arise under an alternative, typically downside, macroeconomic scenario, but is not expected to arise based on baseline/program projections).

5/ An exogenous shock is defined in the same manner as under the ESF: an event beyond the control of the authorities of the member, with a significant negative impact on the economy. In view of these considerations, qualifying exogenous events could include inter alia terms-of-trade shocks, natural disasters, shocks to demand for exports, or conflict or crisis in neighboring countries that has adverse balance of payments effects.

Source: IMF (2012) "Review of Facilities for Low-Income Countries", July. www.imf.org/external/np/pp/eng/2012/072612.pdf