1. Introduction

1.1 The Independent Evaluation Group (IEG) is undertaking an early-stage evaluation of the Sustainable Development Finance Policy (SDFP) of the International Development Association (IDA), which came into effect on July 1, 2020. The SDFP, adopted in response to concerns about mounting external public debt vulnerabilities in IDA-eligible countries, seeks to create incentives to increase country-level debt transparency, enhance fiscal sustainability, and strengthen debt management. In light of significant past efforts to restore debt sustainability to heavily indebted poor countries (HIPCs), including through large-scale bilateral and multilateral debt relief, the World Bank Board of Executive Directors’ Committee on Development Effectiveness is seeking early feedback from the implementation of the SDFP to identify lessons to enhance its effectiveness. IEG will assess the relevance of the SDFP in addressing the sharp rise in debt stress in many IDA-eligible countries, as well as the early implementation of the policy.

2. Context: Rising Debt Vulnerabilities and the World Bank’s Response

2.1 IDA’s SDFP was adopted in response to mounting public debt vulnerabilities faced by IDA-eligible countries. Since 2015, the number of IDA-eligible countries at high risk of or in debt distress has almost doubled. More than a third of IDA-eligible countries have seen an increase in their debt vulnerability levels, with most of those countries falling into high risk of debt distress. As public debt levels grow, governments spend more on debt service and less on key public services like education, health, and infrastructure. Between 2013 and 2018, median interest payments among low-income countries (LICs) rose 128 percent. Heavy indebtedness also exposes already-vulnerable countries to rollover and to exchange rate and interest rate risks that present challenges to the implementation of longer-term development strategies.

2.2 The rising level of debt among LICs has several causes. After the global financial and economic crisis in 2009, with global interest rates at very low levels, many LICs (including beneficiaries of earlier, large-scale debt relief initiatives) used their newly acquired fiscal space to resume borrowing. Much of the borrowed funds were used to finance infrastructure spending, sometimes without the benefit of rigorous public
investment management practices to ensure quality and efficiency.\(^1\) Debt levels began to rise and commodity prices retreated, leading to increasing debt vulnerabilities in many IDA-eligible countries. Much of the new borrowing came from non–Paris Club and commercial creditors, often on nonconcessional terms. Many of these loans used complex lending arrangements under opaque terms. Some of the debt was collateralized, often reducing budget flexibility through the earmarking of revenues.

2.3 Higher public debt, persistent primary fiscal deficits, shifts toward more expensive and riskier sources of financing, commodity price shocks, and unexpected debt increases associated with contingent liabilities (including for state-owned enterprises) have contributed to increased debt vulnerabilities in LICs. Almost half of all IDA-eligible countries are now at high risk of, or in, debt distress.\(^2\) This is the result of a rapid increase in the number of IDA-eligible countries at high risk of, or in, debt distress from 19 in 2015 to 35 in 2020 (IMF 2015, 2020; see figure 1.1). Many countries in this group previously benefited from large-scale debt relief under the HIPC Initiative and Multilateral Debt Relief Initiative (MDRI; appendix C details the history of World Bank support for debt management and debt relief since 1996). These vulnerabilities predate the onset of the coronavirus pandemic (COVID-19), the impact of which most certainly has led to further increases in debt vulnerabilities.

2.4 In response to rising debt vulnerabilities, in 2018 the World Bank and IMF adopted the joint Multipronged Approach to Address Emerging Debt Vulnerabilities (World Bank and IMF 2020). The multipronged approach supports debt-related actions while acknowledging the need for broader reforms to reduce debt vulnerabilities. It consists of four interrelated work streams and objectives: enhancing debt transparency,
strengthening capacity, improving analytical tools, and reviewing debt policies (see details in box C.2 of appendix C; World Bank and IMF 2020).

2.5 With close to half of IDA-eligible countries at high risk of, or in, debt distress, rising debt stress was also a central topic for the 19th Replenishment of IDA (IDA19). This resulted in, as part of IDA19, a three-pronged proposal for incentivizing IDA countries to achieve and maintain debt sustainability (IDA 2019):

- Continue the implementation of the World Bank–IMF Multipronged Approach to Address Debt Vulnerabilities;

- Introduce new policy actions under the special themes of Jobs and Economic Transformation and Governance and Institutions to promote sustainable economic growth and improve debt management; and

- Replace IDA’s Non-Concessional Borrowing Policy (NCBP) to incentivize more prudent borrowing and debt management practices.3

2.6 The third prong—to replace IDA’s NCBP—builds on lessons learned during the policy’s implementation. IDA adopted the NCBP in 2006 to ensure that debt sustainability was maintained for countries that had benefited from extraordinary debt relief under the HIPC and MDRI.4 The NCBP discouraged nonconcessional external borrowing by grant-eligible IDA and non-gap MDRI countries,5 and it focused exclusively on nonconcessional external borrowing. Less attention was given to higher-income IDA-eligible countries with growing debt vulnerabilities. Moreover, the NCBP did not apply to increasingly significant domestic public debt. As such, the NCBP had only a limited ability to influence borrowers to pursue prudent borrowing practices (World Bank 2019). The NCBP also sought to enhance creditor coordination, but sporadic engagement with non–Paris Club bilateral and private creditors had limited influence on the overall debt incurred by IDA-eligible countries.6

3. Sustainable Development Finance Policy

3.1 The SDFP, which replaced the NCBP on July 1, 2020, was designed to address many of the previous policy’s shortcomings. The SDFP is intended to incentivize countries to move toward transparent and sustainable financing and to support increased coordination between IDA and other creditors. It has two pillars: (i) the Debt Sustainability Enhancement Program (DSEP) and (ii) the Program of Creditor Outreach (PCO).

- The DSEP is aimed at enhancing incentives to move toward sustainable borrowing and investment practices through the adoption of concrete performance and policy actions (PPAs). PPAs are to be informed by analysis of
country-specific debt vulnerabilities and a country’s implementation capacity, and they focus on three fronts: fiscal sustainability, debt management, and the coverage and timeliness of debt reporting. DSEP is expected to be implemented through an annual process of country screening, agreement on and implementation of policy actions, and, when agreed actions are not satisfactorily implemented, setting aside a portion of a country’s core IDA allocation until those actions are completed (figure 2.1). Countries could recover these set-asides the next year if they satisfactorily implement the agreed PPAs. If they do not implement the agreed PPAs in the second year, the set-asides will be eliminated.

- The PCO is aimed at promoting greater information sharing, dialogue, and collective action among the IDA-eligible country creditors, including traditional and nontraditional creditors (figure 2.2).

**Figure 3.1. Debt Sustainability Enhancement Program: Implementation Framework**

1. **Screening:** All IDA countries will be screened annually for debt-related vulnerabilities in order to identify those IDA countries for which PPAs will need to be defined and implemented.

2. **Defining PPAs:** PPAs for each country will be established based on a sound analytical framework that will help identify and prioritize areas critical in addressing debt vulnerabilities, such as strengthening debt transparency, fiscal sustainability, and debt management. These PPAs could take various forms, depending on the country context and the underlying factors that contribute to debt vulnerabilities. PPAs will be defined in consultation with IDA and updated each fiscal year.

3. **Implementing PPAs:** The World Bank will support the design and implementation of PPAs through analytical work and lending instruments. Progress made by countries in implementing their PPAs will be assessed relative to their defined milestones.

4. **Allocations:** Performance against the PPAs will have implications for IDA allocations. Countries that do not satisfactorily implement their PPAs would not be able to access 10 to 20 percent of their annual Country Allocations, depending on the level of their risk of debt distress. Those countries would also not be eligible for frontloading (other than for small states where limited access may be needed to facilitate operational delivery) and reallocations. Repeated or severe breaches of PPAs could lead to hardening of terms of IDA financing.

*Source: Independent Evaluation Group.*

*Note: IDA = International Development Association; PPA = performance and policy action.*
3.2 The World Bank–IMF Debt Sustainability Analysis is the primary tool for screening IDA-eligible countries for application of the SDFP (World Bank 2020). PPAs are identified using information about key drivers of debt dynamics, debt data issues, key sources of fiscal risk, and potential debt management challenges. At the time the SDFP was introduced, the indicative date for approval of country-specific PPAs was the end of October 2020.

3.3 Several SDFP milestones were reached within the first six months of implementation. Governance arrangements for conceptualizing, reviewing, and approving PPAs have been established. These involve country teams developing PPAs, which are endorsed by Regional vice presidents and then reviewed by a World Bank–wide committee to advise on cross-country comparability. When the relevant vice presidents concur, the set of country-specific PPAs are then sent to the managing director of operations for approval. All 74 IDA-eligible countries have been screened for debt vulnerabilities using the LIC Debt Sustainability Framework. Of these, 55 countries (37 of which are IDA-only countries) are required to prepare and implement PPAs in fiscal year (FY)21. A PPA pilot covering 10 countries was undertaken in the first quarter of FY20 to inform the prioritization and calibration of PPAs. By December 31, 2020, an additional 27 countries had finalized their FY21 PPAs.

3.4 Reflecting the challenges of making progress on debt and fiscal sustainability in the midst of the COVID-19 pandemic, early PPAs have focused on measures to improve debt transparency and debt management. The majority of PPAs in the first cycle have focused on debt management (almost half of all PPAs), followed by debt transparency
(about a third of all PPAs for about two-thirds of countries). About half of countries have had their PPAs integrated into development policy financing operations, with at least one PPA as a prior action. About a quarter of all PPAs are directly supported by development policy financing. Other PPAs are being implemented through technical assistance, policy dialogue, and IMF-supported programs.

4. Evaluation Purpose, Scope, and Audience

4.1 IEG will undertake an early-stage evaluation with the aim of providing early, evaluative input into the implementation of the SDFP. The evaluation seeks to assess the design, early rollout, and initial country-level application of the SDFP to identify opportunities to strengthen the policy and its implementation.

4.2 Because of the early nature of the SDFP evaluation, its scope must be calibrated accordingly. Observable impacts from the first year of the DSEP rollout are expected to be very limited because the effects of PPAs on debt vulnerabilities will take time to materialize. Nor will it be possible to evaluate the impact of SDFP-related set-asides of IDA allocations because set-asides would only begin in the second year of SDFP. However, a review of the coverage and content of initial PPAs and channels and modalities of implementation can offer insights into their relevance to the SDFP’s objectives and country-specific debt challenges. Similarly, because the form and function of the PCO are still being elaborated (IDA 2020), the scope of the PCO evaluation will be limited to assessing its causal logic and its integration of lessons learned from relevant past creditor coordination efforts.

4.3 This SDFP evaluation is addressed to a mostly internal audience. The intended audience consists of the World Bank Board (through its Committee on Development Effectiveness), IDA deputies, and World Bank management and staff. It may also be of interest to government counterparts and other stakeholders interested in debt sustainability, and to other development partners and bilateral and multilateral creditors.

5. Evaluation Questions and Methods

5.1 The evaluation aims to answer questions regarding SDFP design, early rollout, and initial country-level implementation to identify ways to strengthen the policy.

- Q1: Policy design level. Does the SDFP as designed respond to the origins of the rise in debt distress in LICs during the past decade, and does it reflect lessons learned from past experience with managing debt stress in LICs?
• Q2: Process level. Has the initial rollout of the SDFP been consistent with the policy’s objectives (for example, in terms of country coverage, implementation modalities, analytical underpinnings, coordination with development partners, and creditor outreach)?

• Q3: Practice level. To what extent has the first cycle of PPAs meaningfully addressed country-specific drivers of debt stress? Is there emerging evidence of specific effects of the policy on country programming?

• Q4: Performance monitoring level. Is there an adequate monitoring and reporting system in place to assess the impact of the SDFP?

5.2 Using a theory-based approach, the evaluation will examine the causal logic underpinning the SDFP design against a review of the origins of debt vulnerabilities in IDA-eligible countries. The team will review relevant corporate strategy documents, Board presentations and documents, and evaluation reports. Country-level analysis to assess the relevance of PPAs will also be undertaken for a subset of affected countries, drawing on a review of country-specific diagnostic findings and analysis; and semistructured interviews as needed with relevant stakeholders, including World Bank country teams, members of the SDFP Committee, and, potentially, external partners. A review of PPAs approved to date will also be conducted and their analytical underpinnings reviewed. Case studies (up to eight) will be selected reflecting a diversity of key relevant characteristics (for example, levels and causes of debt), thus allowing for qualitative comparative analysis. They will also cover how implementation has adjusted to the COVID-19 pandemic and other relevant exogenous developments.

5.3 The early-stage evaluation will benefit from the analysis and findings of several recent IEG evaluations. These include World Bank Support for Public Financial and Debt Management in IDA-Eligible Countries (World Bank 2021) and Addressing Country-Level Fiscal and Financial Sector Vulnerabilities: An Evaluation of the World Bank Group Contributions (World Bank, forthcoming).


6.1 The evaluation will go through standard IEG quality assurance processes, including external peer review. The Approach Paper and final report will be peer-reviewed by Mark Lewis (assistant director, Institute for Capacity Development, IMF), Pamella McLaren (head of debt management, the Commonwealth Secretariat), and Sudhir Shetty (non-resident fellow, Center for Global Development). The work will be conducted under the guidance of Jeff Chelsky (manager, IEG), Oscar Calvo-Gonzalez (director, IEG), and Alison Evans (director-general, Evaluation, IEG)
6.2 The evaluation report will be submitted to the Committee on Development Effectiveness in September 2021. To ensure that this early-stage evaluation has its greatest impact, the timeline for the completion of the evaluation has been advanced to September 2021 so that it may inform discussions related to the October 2021 meeting of the Development Committee.

6.3 The evaluation team will be led by Jennifer Keller (senior economist, IEG). Team members include Yumeka Hirano (economist, IEG), Daniel Nogueira-Budny (public sector specialist, IEG), Patricia Acevedo (program assistant, IEG), and Malvina Pollock (consultant). The team will also work with other consultants, to be identified.

7. Expected Outputs, Outreach, and Learning

7.1 The main output will be a report that presents relevant findings and lessons to the Committee on Development Effectiveness of the IDA Executive Board. A dissemination and outreach strategy will be developed in consultation with World Bank management and other key stakeholders.

Notes

1 This issue and the extent of World Bank support to help International Development Association (IDA)–eligible countries improve the quality of public investment management are discussed in more detail in the recent Independent Evaluation Group evaluation World Bank Support for Public Financial and Debt Management in IDA-Eligible Countries: An Independent Evaluation (2021).

2 The International Monetary Fund (IMF) and World Bank’s Debt Sustainability Framework classifies countries based on their debt-carrying capacity and, within these categories, establishes thresholds and benchmarks for debt burden indicators. There are four levels of risk for external and overall indebtedness: low risk (no breaches of thresholds); moderate risk (thresholds are breached in risk scenarios); high risk (thresholds are breached in the baseline scenario); and in debt distress (a distress event, like arrears or a restructuring, has occurred or is considered imminent; IMF 2018).

3 See appendix C for more information.

4 See appendix C for a fuller description of the Heavily Indebted Poor Country (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI).

5 Gap (or blend) countries are IDA-eligible countries with gross national income per capita above the operational cutoff for more than two consecutive years, and which are also creditworthy for some International Bank for Reconstruction and Development borrowing (in addition to IDA financing).

6 The issue of creditor coordination had already been raised during the implementation of the HIPC Initiative (World Bank 2003, 2006, 2008) and the MDRI. Experience with the HIPC Initiative
showed that debtors could not oblige creditors to participate in debt relief under voluntary initiatives (World Bank 2015).

Of the 17 countries not required to prepare performance and policy actions (PPAs), 11 were rated at low risk of debt distress, and four are in non-accrual status (Eritrea, Sudan, the Syrian Arab Republic, and Zimbabwe). The Republic of Yemen and South Sudan were exempted from preparing PPAs as they are eligible for IDA’s Remaining Engaged in Conflict Allocation, and Nicaragua and Mali were exempted.

Case studies will be determined after consultation with the World Bank to optimize learning value.
Bibliography


### Appendix A. Evaluation Design Matrix

#### Table A.1. Evaluation Design Matrix

<table>
<thead>
<tr>
<th>Key Questions</th>
<th>Information Sources</th>
<th>Data Collection and Analysis Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy design level:</strong>&lt;br&gt;Does the SDFP as designed respond to the origins of the rise in debt distress in LICs over the past decade, and does it reflect lessons learned from past experience with managing debt stress in LICs?</td>
<td>• SDFP Board documents&lt;br&gt;• Other relevant debt strategies and policies&lt;br&gt;• Country government development strategies and vision documents&lt;br&gt;• Core country diagnostic work, data to assess drivers of debt vulnerabilities, country context</td>
<td>• Reconstruction of theories of change underpinning the DSEP and PCO to allow for theory-based testing of causal pathways&lt;br&gt;• Content analysis of relevant documents from World Bank, IMF, UN, and client government databases&lt;br&gt;• Structured literature review of documentation on emerging debt challenges in IDA-eligible countries and past policy responses</td>
</tr>
<tr>
<td><strong>Process level:</strong>&lt;br&gt;Has the initial rollout of the SDFP been consistent with the policy's objectives (for example, in terms of country coverage, implementation modalities, analytical underpinnings, coordination with development partners, and creditor outreach)?</td>
<td>Key data on SDFP country coverage, implementation modalities, diagnostic underpinnings, coordination with partners, outreach to creditors, and so on</td>
<td>• Semistructured interviews with SDFP committee members/DFI, Bank Group staff, government counterparts, development partners, and nontraditional creditors&lt;br&gt;• Content analysis of correspondence and actions from SDFP committee</td>
</tr>
<tr>
<td><strong>Practice level:</strong>&lt;br&gt;To what extent has the first set of PPAs meaningfully addressed country-specific drivers of debt stress? Is there emerging evidence of specific effects from the policy on country programming?</td>
<td>• Approved PPAs/PPA notes&lt;br&gt;• Analytical underpinnings of country/debt strategies and PPAs&lt;br&gt;• Country risk profiles</td>
<td>• Systematic review of approved PPAs&lt;br&gt;• Case-based analysis of country diagnostics of debt vulnerabilities (such as SCDs, CEMs, DeMPAs, PEFAs, PERs, and IMF Article IV consultation reports) to assess the extent to which objectives reflected priority issues and took into account country context&lt;br&gt;• Assessment of early effects by reviewing the causal logic underpinning PPAs in selected countries and comparative analysis across selected countries to assess PPA relevance and implementation</td>
</tr>
</tbody>
</table>
### Key Questions

**Performance monitoring level:**

**Is there an adequate monitoring and reporting system in place to assess the impact of the SDFP?**

- Information on M&E systems of DSEP
- Project data (where relevant)

### Information Sources

- Content analysis of documentation from SDFP committee/DFI (to establish instruments for implementation at the country level)
- Stocktaking and analysis of embedded M&E systems of the DSEP at the country level (depending on the instrument for implementation)

---

**Note:** CEM = Country Economic Memorandum; DeMPA = Debt Management Performance Assessment; DFI = ; DSEP = Debt Sustainability Enhancement Program; IDA = International Development Association; IMF = International Monetary Fund; LIC = low-income country; M&E = monitoring and evaluation; PCO = Program of Creditor Outreach; PEFA = Public Expenditure and Financial Accountability; PER = Public Expenditure Review; PPA = performance and policy action; SCD = Systematic Country Diagnostic; SDFP = Sustainable Development Finance Policy; UN = United Nations.
Appendix B. IDA-Eligible Countries that Meet Criteria for Preparing PPAs over FY21

Table B.1. IDA-Eligible Countries that Meet Criteria for Preparing PPAs over FY21

<table>
<thead>
<tr>
<th>Country</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>Lesotho</td>
</tr>
<tr>
<td>Benin</td>
<td>Liberia</td>
</tr>
<tr>
<td>Bhutan</td>
<td>Malawi</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>Maldives</td>
</tr>
<tr>
<td>Burundi</td>
<td>Mali</td>
</tr>
<tr>
<td>Cabo Verde</td>
<td>Marshall Islands</td>
</tr>
<tr>
<td>Cameroon</td>
<td>Mauritania</td>
</tr>
<tr>
<td>Chad</td>
<td>Mozambique</td>
</tr>
<tr>
<td>Comoros</td>
<td>Nicaragua</td>
</tr>
<tr>
<td>Congo, Rep.</td>
<td>Nigeria</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>Pakistan</td>
</tr>
<tr>
<td>Djibouti</td>
<td>Papua New Guinea</td>
</tr>
<tr>
<td>Dominica</td>
<td>Samoa</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>São Tomé and Príncipe</td>
</tr>
<tr>
<td>Fiji</td>
<td>Senegal</td>
</tr>
<tr>
<td>Gambia, The</td>
<td>Sierra Leone</td>
</tr>
<tr>
<td>Ghana</td>
<td>Solomon Islands</td>
</tr>
<tr>
<td>Grenada</td>
<td>Somalia</td>
</tr>
<tr>
<td>Guinea</td>
<td>St. Lucia</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>St. Vincent and the Grenadines</td>
</tr>
<tr>
<td>Guyana</td>
<td>Tajikistan</td>
</tr>
<tr>
<td>Haiti</td>
<td>Togo</td>
</tr>
<tr>
<td>Kenya</td>
<td>Tonga</td>
</tr>
<tr>
<td>Kiribati</td>
<td>Tuvalu</td>
</tr>
<tr>
<td>Kosovo</td>
<td>Vanuatu</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>Zambia</td>
</tr>
<tr>
<td>Lao PDR</td>
<td></td>
</tr>
</tbody>
</table>

Source: FY = fiscal year; IDA = International Development Association; PPA = performance and policy action.

Note: FY = fiscal year; IDA = International Development Association; PPA = performance and policy action.

a. Mali and Nicaragua were exempted from preparing PPAs due to exceptional circumstances.
Appendix C. A Recent History of World Bank Support for Debt Management and Debt Relief since 1996

In 1996, the Bretton Woods Institutions, alongside bilateral and other multilateral creditors, began to implement the Heavily Indebted Poor Country (HIPC) Initiative. The HIPC Initiative sought to address the unsustainable external debt burden of many low-income countries. This effort was augmented by the Multilateral Debt Relief Initiative (MDRI) in 2005. To date, 36 countries (30 of which are in Sub-Saharan Africa) have benefited from debt service relief amounting to $76 billion. Taken together, the initiatives cut the external public and publicly guaranteed debt of beneficiary countries in half between 2000 and 2006 (from 96 percent to 48 percent) and helped several countries clear arrears to international financial institutions.

As part of efforts to ensure that debt sustainability was maintained, in 2006, the International Development Association (IDA) adopted the Non-Concessional Borrowing Policy (NCBP) for debt relief recipients and, in 2008, launched the Debt Management Facility (DMF). The NCBP sought to support longer-term debt sustainability in IDA-eligible countries by enhancing creditor coordination and encouraging appropriate borrowing behavior by discouraging nonconcessional external borrowing by grant-eligible and post-MDRI countries. The DMF is a multidonor trust fund established by the World Bank and bilateral donors to help eligible countries strengthen public debt management. Since its establishment, the DMF (which is now administered jointly with the International Monetary Fund [IMF]) has been the World Bank’s main vehicle for providing nonlending support to improve debt management in eligible countries, including through diagnostics, capacity building, and training. Since 2008, 80 countries have received support from the DMF. Since its launch, the DMF has broadened its support to adapt to changes in the financing landscape of IDA-eligible countries (see box C.1).
Support from the Debt Management Facility (DMF) has expanded alongside changes to financing practices among eligible countries.

Phase I (2008–13) focused on supporting debt management through three core advisory and analytic products: debt management performance assessments, medium-term debt strategies, and reform plans.

To accommodate the increasing number of countries issuing domestic and international bonds, the DMF expanded its program. Phase II (2014–18) began providing additional support: domestic debt market development, risk management, contingent liabilities, issuance of guarantees, access to international capacity markets, and low-income country Debt Sustainability Framework analysis.

Phase III (2019–) focuses on delivering customized advice to eligible countries on sovereign debt management through the application of analytical tools, trainings, webinars, and peer-to-peer learning. This phase has also included the expansion of the DMF’s program to add support for debt reporting and monitoring, debt transparency, contingent liability, and fiscal risks.

Source: Debt Management Facility website; World Bank, forthcoming.

In 2018, in response to significant debt accumulation by low-income countries after the global financial crisis, the World Bank and IMF adopted the joint Multipronged Approach to Address Emerging Debt Vulnerabilities (World Bank and IMF 2020). The multipronged approach supports debt-related actions while acknowledging the need for broader reforms to reduce debt vulnerabilities (box C.2)

The Joint World Bank–International Monetary Fund multipronged approach represents a strategy to address public debt vulnerabilities in low-income client countries. It consists of four interrelated work streams and objectives:

1. Enhance debt transparency. This includes support for the production and publication of comprehensive and consistent data by borrowers, improving access to data from borrowers and creditors, and enhancing creditor outreach.

2. Strengthen capacity. This includes strengthening the capacity of borrowers to manage and prevent debt vulnerabilities, enhancing coordination across capacity providers, and developing strategies for sustainable development.

3. Improve analytical tools. This includes improving debt and fiscal sustainability assessments and providing tools to support macrofiscal debt analysis.

4. Review debt policies. This includes review of the role of international financial institution policies and broader architecture, incentives in international financial institution programs to contain debt vulnerabilities, and incentives in debt restructuring situations.

The 19th Replenishment of IDA (IDA19; completed in December 2019) also recognized the rising debt vulnerabilities of IDA-eligible countries, concluding that they represented a critical threat to IDA’s development goals. IDA19 therefore included several policy commitments to reduce debt vulnerabilities (box C.3) and adopted a three-pronged proposal to incentivize IDA countries to achieve and maintain debt sustainability:

- Continued implementation of the World Bank–IMF Multipronged Approach to Address Debt Vulnerabilities, including through improved monitoring of debt vulnerabilities, enhanced early-warning systems, support for structural reforms to help reduce debt vulnerabilities, improved debt transparency, increased debt management capacity building, and additional outreach to creditors and borrowers to raise awareness of debt issues.

- Introduction of new policy actions under the IDA19 special themes of Jobs and Economic Transformation and Governance and Institutions to promote sustainable economic growth and improved debt management policies (box C.3). These actions focus on improving the denominator of debt ratios, promoting growth-enhancing macroeconomic and structural policies, and strengthening public investment management to ensure that borrowed resources are used for investment projects with sufficiently high rates of economic and social return.

- Replacement of IDA’s NCBP, which had been effective since 2006, with a Sustainable Development Finance Policy that was broader in scope and included reinforced incentives to adopt appropriate measures to promote debt transparency, debt management, and fiscal sustainability.
Box C.3. IDA19 Policy Commitments to Reduce Debt Vulnerabilities

The 19th Replenishment of the International Development Association (IDA19), completed in December 2019, recognized the shift in the composition of external public debt among IDA-eligible countries toward more nonconcessional loans, which are costlier and riskier sources of financing. This was a result of increased access to international markets and to bilateral financing from new, non–Paris Club creditors, such as China (IDA 2020, 19). In response, IDA19 established several public financial management and debt management commitments to address the fiscal sustainability side of debt vulnerabilities. They include (but are not limited to):

- Support at least 25 countries to implement an integrated and programmatic approach to enhance debt transparency through increased coverage of public debt in debt sustainability analyses or by supporting debt transparency reforms, including requirements for debt reporting to increase transparency, or both;
- Support at least 25 IDA-eligible countries to bolster fiscal risk assessments and debt management capacity through an increase in fiscal risk monitoring or implementation of debt management strategies, or both; and
- Support at least 20 countries to identify the governance constraints on the development, financing, and delivery of quality infrastructure investments to inform the adoption of policies and regulations for enhanced infrastructure governance.

Source: IDA 2020.

References


Notes

1 DMF III, which started in 2019, is funded by the African Development Bank; the European Commission; and the governments of Austria, France, Germany, Japan, the Netherlands, Norway, Switzerland, the United Kingdom, and the United States.