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PROPOSAL FOR THE ALLOCATION OF CONCESSIONAL RESOURCES 2021-2022

APRIL 1, 2021

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ANNEXES

ABBREVIATIONS

CIPE	Country Institutional and Policy Evaluation
COC	Concessional Ordinary Capital
CPIA	Country Policy and Institutional Assessment
DEO	Development Effectiveness Overview
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EPBA	Enhanced Performance-Based Allocation
FFF	Flexible Financing Facility
FSO	Fund for Special Operations
GCI-9	Ninth General Increase in the Capital of the IDB
GDP	Gross domestic product
GNI	Gross national income
IDA	International Development Association
IMF	International Monetary Fund
LIC	Low-income country
MDRI	Multilateral Debt Relief Initiative
MDB	Multilateral Development Bank
MfDR	Managing for Development Results Framework
OC	Ordinary Capital
PBA	Performance-Based Allocation
PCR	Project Completion Report
PMR	Progress Monitoring Report
PPI	Portfolio Performance Indicator
SCI	Synthetic Creditworthiness Indicator
SG	Sovereign Guaranteed

SIMPLIFIED OUTLINE OF STEPS IN CONCESSIONAL RESOURCE ALLOCATION

<table>
<tr><td>STEP 1</td><td>Which countries are <u>eligible</u> for concessional resources?

Two eligibility criteria:
1. Gross national income per capita
2. Synthetic creditworthiness indicator</td></tr>
<tr><td>STEP 2</td><td>How big should the <u>overall envelope</u> to be allocated to all eligible countries be?

Projection of <u>six indicators of absorption capacity</u> of the concessional-eligible countries:
A. Operational indicators
1. Allocation relative to disbursements (%)
2. Undisbursed loan or grant balances relative to GDP (%)
B. Debt sustainability indicators
3. Net loan flow as % of GDP
4. Change in IDB SG debt-to-GDP ratio (percentage points)
5. IDB debt ratio relative to pre-debt relief ration (%)
C. Relevance
6. Share of IDB in total public external debt (%)</td></tr>
<tr><td>STEP 3</td><td>Division of the overall envelope by country using the performance-based allocation (PBA) formula:

$POP^{0.5} \times GNIpc^{-0.125} \times [0.7 \times CIPE + 0.3 \times PPI]^2$

Where:
POP = population size
GNIpc = gross national income per capita (in current US$, Atlas methodology)
CIPE = Country Institutional and Policy Evaluation
PPI = Portfolio Performance Indicator</td></tr>
<tr><td>STEP 4</td><td>Determine the financing terms/level of concessionality of each country’s allocation

(GNI per capita + Vulnerability + Risk of debt distress)/3
-
Non-concessional borrowing levels</td></tr>
</table>

I. INTRODUCTION

1.1 The purpose of this document is to submit for the consideration and approval of the Board of Executive Directors Management's proposal for the allocation of concessional resources for 2021-2022.[1]

1.2 The proposal was prepared according to the methodologies and provisions of documents: (i) **GN-2442** entitled "*Implementation of multilateral debt relief and concessional finance reform at the IDB. Proposal for the implementation of a Debt Sustainability (DSF) and Enhanced Performance-Based Allocation (EPBA) framework*"; (ii) **GN-2442-69** entitled "*Proposal to Amend the EPBA Portfolio Performance Indicator*"; (iii) **GN-2442-71** entitled "*Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework*"; (iv) **GN-2442-72** entitled "*Proposal for a Revised Methodology to Determine the Enhanced Performance-based Allocation (EPBA) Envelope*"; and (v) **AB-3066-2** entitled "*Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets*", which was approved by the Board of Governors on September 1, 2016. Section II summarizes the application of country eligibility criteria. Section III presents the determination of the PBA envelope. Section IV summarizes the application of the Performance-Based Allocation (PBA) framework and Section V summarizes the determination of the financing blend and concessionality of the PBA allocations.

II. COUNTRY ELIGIBILITY

2.1 Country eligibility for concessional resources is determined by two criteria: (i) a **Gross National Income (GNI) per capita lower than the threshold** of US$2,834 in 2015 prices[2]; or (ii) **insufficient creditworthiness** for borrowing 100 percent on regular OC terms, as indicated by a country's score on a synthetic creditworthiness indicator (SCI).[3] The SCI is the sum of: (i) the percentage of concessional resources applicable to a country in the latest allocation of concessional resources period; and (ii) a numerical equivalent of the average of the long-term, foreign currency sovereign credit ratings available from S&P, Moody's and Fitch. As such, it combines two perspectives on debt sustainability – the risk of debt distress as assessed by a debt sustainability analysis using the World Bank/IMF

[1] Information on the utilization of concessional resources allocated for the 2019-2020 cycle was included in the 2021 report on the implementation of the DSF/EPBA framework.

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

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

Debt Sustainability Framework for Low-Income Countries and a market perspective from the principal rating agencies.

2.2 Application of the eligibility criteria yields the following conclusions:

- **Haiti:** had a GNI per capita of US$1,330 in 2019, which is below the per capita income threshold (Annex 1). Consequently, Haiti is eligible for concessional resources for the 2021-2022 allocation.[4]

- **Nicaragua**: had a GNI per capita of US$1,890 in 2019, which is below the per capita income threshold (Annex 1). Consequently, Nicaragua is eligible for concessional resources for the 2021-2022 allocation.

- **Honduras**: had a GNI per capita of US$2,390 in 2019, which is below the per capita income threshold (Annex 1). Consequently, Honduras is eligible for concessional resources for the 2021-2022 allocation

- **No other countries are eligible for concessional resources.** All other borrowing member countries either had a GNI per capita more than twice than the income threshold or a GNI per capita between one and two times the threshold and a score on the SCI indicating sufficient creditworthiness for borrowing 100 percent on regular OC terms (Annexes 1, 2 and 3).[5]

[4] The "Report on the Ninth General Increase in the Capital of the Inter-American Development Bank" (AB-2764) stated that "Beginning in 2011, the Bank's continued support for Haiti's reconstruction and development will include $200 million annually in transfers of OC income to the GF through 2020, subject to annual approvals of such transfers by the Board of Governors…". This was equivalent to US$2 billion for the decade. After the transfer of US$1.0 billion of Ordinary Capital ("OC") income to the IDB Grant Facility during 2011-2015, in 2016 the Board of Governors reaffirmed its support for Haiti's reconstruction and development by continuing to allocate resources to the Facility, up to a total amount not to exceed US$1 billion, over a time period and in amounts consistent with the disbursement needs of the Bank's operations with Haiti (Resolution AG-5/16). Also in 2016, the "Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets" (AB-3066-2) envisaged Haiti's return to the EPBA/DSF framework in 2021.

[5] Guyana had been eligible for concessional resources (Fund for Special Operations and Concessional Ordinary Capital) from 1976 to 2020. In 2020, Guyana's Bureau of Statistics revised the country's national income accounts following an exercise to rebase the accounts from 2006 to 2012. The exercise, which included the incorporation of new data sources, and the adoption of new international methodological and industrial classification standards, received technical assistance from the International Monetary Fund (IMF) Caribbean Regional Technical Assistance Centre (CARTAC). As a result of the rebasing and other methodological improvements, Guyana's GNI per capita is above twice the IDB income threshold for eligibility to concessional resources. (It is estimated that that has been the case for the years 2017, 2018 and 2019 (Annex I)).

III. DETERMINATION OF THE PBA ENVELOPE

3.1 Document GN-2442-72 governs the methodology for determining the size of the envelope for concessional resources in a biennial concessional resources allocation proposal.[6] Under this methodology the PBA envelope is guided by six indicators on country absorption, debt sustainability and IDB relevance and their trajectories:[7]

A. Operational indicators

1. Allocation relative to disbursements (%)
2. Undisbursed loan or grant balances relative to GDP (%)

B. Debt sustainability indicators

3. Net loan flow as % of GDP
4. Change in IDB SG debt-to-GDP ratio (percentage points)
5. IDB debt ratio relative to pre-debt relief ratio (%)

C. Relevance

6. Share of IDB in total public external debt (%)

3.2 Per GN-2442-71, the PBA covers the entire amount of resources to be allocated [Concessional Ordinary Capital (COC) and regular OC]. This section refers to the PBA envelope on a gross basis, consistent with section IV below. Nevertheless, the projections of the six indicators for Haiti and derivation of Graph 1 are based on the adjustment to Haiti's gross PBA allocation described in paragraphs 6.4 and 6.5.[8]

3.3 Key results from the projections of the six indicators over the period 2021-2026 for Haiti, Honduras, and Nicaragua include:

- There is an available range of PBA envelopes that, for Honduras and Nicaragua, would lead to the situation aspired to in GN-2442 where there is simultaneously a positive net loan flow and a stable or slightly declining IDB debt-to-GDP ratio.[9]
- Following concern with the elevated levels of undisbursed loan balances (ULB) in Nicaragua in late 2018, the amount of undisbursed loan balances in Nicaragua and Honduras is projected to enter or remain in the targeted green zone for much of the

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[6] "Proposal for a Revised Methodology to Determine the Enhanced Performance-based Allocation (EPBA) Envelope" (GN-2442-72).

[7] The trajectory of indicators is compared with colored zones (green, yellow, orange and red) to indicate the whether the indicators are in a range considered as desirable (green zone) or outside of that range (termed "deviations"). The determination of the zones varies by indicator, with some related to objectives in document GN-2442 and others related to frequency distributions among all IDB borrowing member countries.

[8] Projected allocations to Honduras and Nicaragua are simply the assumed PBA envelope times each country's PBA share. This is the same for Haiti for the period 2023-2026. However, for 2021-2022, projected allocations to Haiti = (assumed PBA envelope times the country's PBA share) – 340.96 million.

[9] "Implementation of multilateral debt relief and concessional finance reform at the IDB. Proposal for the implementation of a Debt Sustainability (DSF) and Enhanced Performance-Based Allocation (EPBA) framework" (GN-2442), paragraphs 30 and 48.

2021-2026 period. Haiti's undisbursed balances are also expected to decline from very high levels after 2021.

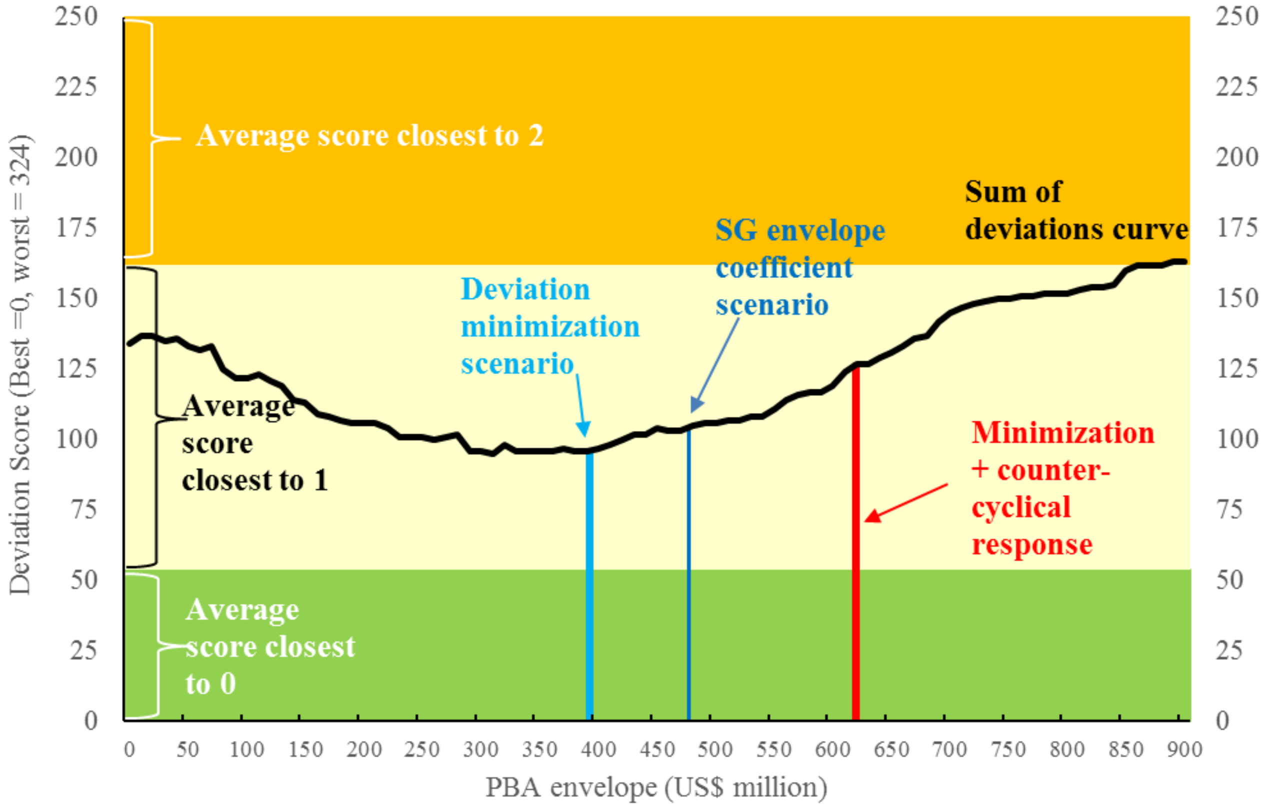
- Similarly, the rapid growth of public external debt to the IDB relative to levels prior to the Multilateral Debt Relief Initiative (MDRI) appears to be stabilizing in Honduras and Nicaragua, albeit at high levels.
- **The indicator projections highlight two principal risks with the PBA envelope (Annex IV)**. In the short term (2021-2023), the operational indicators show a risk of under-allocation in 2021-2022 and an unduly abrupt downward adjustment, particularly in the case of allocation relative to the level of disbursements (indicator 1). For the end of the period (2025-2026), the debt sustainability indicators (indicators 4, 5 and 6) indicate a risk of over-allocation.

3.4 **The sum of deviations from the projections of the six indicators for the three countries for all possible PBA envelopes between zero and US$900 million was calculated and plotted in Graph 1**. The deviations are calculated per GN-2442-72 and, for the sake of transparency and simplicity, assume that the PBA envelope chosen for the 2021-2022 allocation is repeated in 2023-2024 and 2025-2026.

3.5 **The annual PBA envelope (2021-2026) that would minimize indicators' deviations from green zones is US$390 million ("*deviation minimization scenario*").**[10] The deviation minimization scenario produces a deviation score of 96 deviations (with 324 deviations being the worst possible score). The annual PBA envelope (2021-2026) that would have occurred using the old methodology of using a coefficient of projected Bank-wide SG lending for 2021-2022 would have been US$480 million ("*SG envelope coefficient scenario*"). Under normal conditions, there would be an *a priori* case for a PBA envelope of US$390 million.

[10] There is a long, flat bottom to this sum of deviations' curve. Almost the entire range from US$290 million to US$390 million is at the deviation minimization score.

Graph 1. Total deviation scores for PBA envelopes between zero and US$900 million



Source: VPC based on GN-2442-72; CHA, CHO, and CNI disbursement projections; FINSOL, FIN; IMF World Economic Outlook database, October 2020; and World Bank International Debt Statistics, 2021.

3.6 **However, the extraordinary economic and social impacts of COVID-19 and hurricanes Eta and Iota in the concessional-eligible countries provide reason for a significant counter-cyclical boost in the allocation for 2021-2022**. As in nearly all countries in the region, COVID-19 from March 2020 to date caused a sharp contraction of economic activity, larger fiscal deficits and increased poverty in Haiti, Honduras and Nicaragua.[11] Hurricanes Eta and Iota in November 2020 caused additional economic losses and social impacts, in Nicaragua and particularly in Honduras. It has been estimated that the hurricanes caused damage and losses of US$1.76 billion (7.4 percent of GDP) in Honduras and US$0.74 billion (6.2 percent of GDP) in Nicaragua.[12] The combined impact

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[11] https://publications.iadb.org/en/inequality-and-social-discontent-how-address-them-through-public-policy-economic-report-central

[12] ECLAC-IDB (2021). "Evaluación de los efectos e impactos causados por la tormenta tropical Eta y el huracán Iota en Honduras." In process of publication; and https://reliefweb.int/report/nicaragua/nicaragua-2020-plan-de-acci-n-huracanes-eta-e-iota-enero-2021-one-pager.

of COVID-19 and hurricanes Eta and Iota led to an estimated contraction of GDP in 2020 of 9.5 percent in Honduras, 4.3 percent in Haiti, and 2.2 percent in Nicaragua.[13]

3.7 **A one-time counter-cyclical response in 2021-2022 would also be consistent with addressing the time profile of risks, which show a risk of under-allocation for the period 2021-2023 and a risk of over-allocation for the period 2025-2026**. The proposed envelope would address the immediate risk of an unduly low allocation to the three countries for the period 2021-2023 in terms of the allocations relative to disbursement levels (indicator 1). The risks to the debt sustainability indicators in 2025-2026 should be reassessed in late 2022 and, if still material at that time, taken into account in consideration of the PBA envelope for 2023-2024. Not only is the risk of under-allocation more immediate than the risk of over-allocation, but also the risk of forecast errors is skewed towards under-allocation. The sum of deviations curve assumes that 100 percent of allocations are utilized (approved). In this sense the PBA envelope is a ceiling – it cannot be exceeded. In contrast, approved amounts may fall short of the size of the allocation.[14]

The Bank's experience with a counter-cyclical allocation in 2009-2010

The Bank has experience with a similar counter-cyclical allocation in the context of the global financial crisis of 2009. The initial allocation proposal for 2009-2010 that was approved in February 2009 proposed an annual allocation of US$349 million to the four concessional-eligible countries (Bolivia, Guyana, Honduras, and Nicaragua). Two supplementary allocations approved by June 2009 increased the annual envelope for 2009-2010 to US$603.9 million – a 73 percent increase.

The supplementary allocations were made using the Enhanced Performance-Based Allocation/Debt Sustainability Framework (EPBA/DSF), with the same country shares as indicated by the EPBA and the financing blends as indicated by the DSF.

The proposals for supplementary allocations analyzed countries' absorption capacity for higher disbursement levels and their debt sustainability. The analysis was on a country-by-country basis and there was no scoring methodology to analyze the impact on the countries as a group.

The level of allocations from 2011 onwards did not revert to the base established in Document GN-2442-16 (as envisaged in GN-2442-20). Rather, the "temporary, counter-cyclical" allocation for 2009-2010 became a new, higher base level.

Sources: GN-2442-16; GN-2442-20; GN-2442-22; and GN-2442-34.

[13] Central Bank of Honduras: "Latest Projections of the Effects of Covid-19 and Hurricanes Iota and Eta", December 15, 2020 and FocusEconomics "Consensus Forecast Central America and Caribbean", March 2021.

[14] All allocated resources were subsequently approved for the period 2007-2014, but this declined to 97% for 2015-2016, 88% for 2017-2018, and 72% for 2019-2020.

3.8 **Management assesses that the largest annual PBA envelope that would be prudent for 2021-2022 is US$620 million**. Beyond this level, the projected trajectory of two indicators (indicator 5: IDB debt relative to pre-debt relief levels and indicator 6: change in the IDB share of public external debt) would begin to rise in Honduras and Nicaragua in 2025 and 2026. The sum of deviations – if this level were to be maintained for the two subsequent allocations – is 127. The average deviation for each observation (3 countries, six indicators, and six years) would be 1.18 compared to 0.89 under the minimum deviation scenario. Based on current information, the total and average deviation scores for 2021-2026 would be reduced by bringing the PBA envelope for 2023-2026 back closer to the currently estimated minimum deviation scenario PBA envelope, following termination of the one-time counter-cyclical response.

3.9 **Management proposes an annual PBA envelope of US$620 million for the 2021-2022 allocation ("minimization plus counter-cyclical response")**. This envelope is 59 percent higher than the deviation minimization scenario because it contains an additional amount in order to support Haiti, Honduras, and Nicaragua in responding to the impact of COVID-19 and hurricanes Eta and Iota. Management views this additional amount as a one-time counter-cyclical response, and future PBA envelopes will need to converge to the deviation minimization scenarios calculated for those decision moments.[15]

IV. THE PERFORMANCE-BASED ALLOCATION (PBA)

A. Performance-Based Allocation

4.1 The PBA formula for concessional resources has two components: (i) **needs and economic strength**, comprised of population and Gross National Income (GNI) per capita;[16] and (ii) **country performance**, estimated as the weighted average of portfolio performance (30%) and the quality of the country's institutional and policy framework (70%), as measured by the CIPE. Each of these variables in the allocation formula has a defined exponent for the calculation of the distribution coefficient, as determined in document GN-2442-71.[17]

B. Country Institutional and Policy Evaluation (CIPE)

4.2 The criteria and methodology for calculating the CIPE were originally introduced in 2002 in the context of the first proposal for a performance-based allocation for Fund for Special Operations (FSO) resources (documents GN-1856-31 and CC-5819). CIPE criteria or variables are grouped into four major policy clusters, each with a specific weight in the total CIPE score: 1) Economic Management (15%); 2) Structural Policies (20%); 3) Policies for Social Inclusion/Equity (35%); and 4) Public Sector Management and Institutions (30%). The weights attached to each policy cluster were approved by the Board.

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[15] The next decision on a PBA envelope, as part of the "Proposal for the Allocation of Concessional Resources 2023-2024", is expected to be considered by the Board of Executive Directors in November 2022.

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

[17] The PBA formula is: $POP^{0.5} \times GNIpc^{-0.125} \times [0.7xCIPE + 0.3xPPI]^{2}$.

4.3 The CIPE was reformed in 2010 (document GN-2442-32) and 2012 (GN-2442-42) in order: (i) to update the variables and the respective rating guide; (ii) to include quantitative indicators to increase objectivity in the assessment, as recommended by OVE (documents RE-279 and RE-376); and (iii) to harmonize methodologies with other MDBs.[18] The CIPE variables and weights that have been applied for the 2021-2022 allocation cycle remain the same as the 2012, 2014, 2016 and 2018 CIPEs, approved in GN-2422-42. Annex V presents the CIPE variables, and the selected quantitative indicators, as well as the basic procedures and rating guide to calculate the ratings for each variable and thus the overall CIPE score. Annex VI presents the 2020 CIPE scores, disaggregated at the level of the 16 variables.

C. Portfolio Performance

4.4 **The portfolio performance indicator (PPI) for the PBA was derived in accordance with the Proposal to Amend the EPBA Portfolio Performance Indicator (GN-2442-69), approved by the Board of Executive Directors on February 17, 2021.** The percentage of undisbursed loan balances (ULB) represented by projects classified as "unsatisfactory" (i.e., either with an "on alert" or a "problem" classification) used the classifications in the Progress Monitoring Report (PMR) and loan balance data for December 31, 2019. The Project Completion Report (PCR) scores used in the calculation of the PPI were published in the Bank's annual Development Effectiveness Overviews 2017-2020 (Annex VII). Per GN-2442-69, PCR scores are being phased into the PPI and account for 25 percent of each country's PPI score for the 2021-2022 PBA. The PPI scores for the 2021-2022 allocation are: Haiti, 4.31; Honduras 5.57; and Nicaragua 2.28 (Table 1).

Table 1. Portfolio Performance on December 31, 2019

Country	Undisbursed loan balance (ULB)	Unsatisfactory ULB	Unsatisfactory ULB as % of total ULB	Unsatisfactory ULB 1-6 Scale	Average PCR rating (2017-2020 DEOs)	PPI score (=0.75*ULB+ 0.25*PCR)
Haiti	842.8	196.3	23.3%	4.84	2.75	**4.31**
Honduras	626.9	0.0	0.0%	6.00	4.27	**5.57**
Nicaragua	474.8	402.5	84.8%	1.76	3.82	**2.28**
Total	**1,944.6**	**598.8**	**30.8%**	**4.46**	**3.83**	

Source: VPC based on PMR March 2020 cycle database, provided by SPD; CHA; CHO; CNI; IDB Development effectiveness Overviews (DEOs) for 2018-2020; and OVE (October 2017) IDB and IIC Project Performance: OVE's Review of 2016 Project Completion Reports and Expanded Supervision Reports, Annex III.

D. Application of the PBA

4.5 The allocation of concessional resources for the 2021-2022 period (Table 2) was calculated according to the PBA formula set forth in document GN-2442-71 and the CIPE and PPI

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

performance components described above. Per GN-2442-71, the PBA formula is applied to the entire allocation of resources.

Table 2: Application of the PBA for Concessional Resources for 2021-2022

COUNTRY		Haiti	Honduras	Nicaragua	Total
Total population 2019		**11,263,077**	**9,746,117**	**6,545,502**	**27,554,696**
GNI per capita (US$) 2019		**1,330**	**2,390**	**1,890**	
Performance indicator (1-6 scale) = [0.7*CIPE + 0.3 PPI]		**3.03**	**4.03**	**2.91**	
CIPE (1-6 scale)		2.48	3.37	3.18	
Portfolio (PPI) (1-6 scale)		4.31	5.57	2.28	
Population exponent	**0.5**	3,356	3,122	2,558	
GNI p/c exponent	**-0.125**	0.40693	0.37818	0.38944	
Performance exponent	**2.0**	9.18959	16.25243	8.45180	
Allocation value		12,550.0	19,188.2	8,421.0	40,159.2
Allocation shares EPBA		**31.25%**	**47.78%**	**20.97%**	**100%**
Annual allocation (US$ million)		193.75	296.24	130.01	620.00
Annual allocation/GNI (%)		1.29%	1.27%	1.05%	

Sources: Formula, GN-2442-71; population and GNI per capita data, World Bank, World Development Indicators (December 2020); CIPE scores, Annex VI; portfolio scores, Table 3.

V. DETERMINATION OF FINANCING COMPOSITION AND CONCESSIONALITY

A. Combined concessionality points

5.1 Per GN-2442-71, the financing composition of each country's performance-based allocation, and hence its grant element or degree of concessionality, is determined through the combination of concessionality points from four variables: (i) Gross National Income (GNI) per capita; (ii) vulnerability; (iii) the risk of debt distress; and (iv) the extent of non-concessional borrowing.[19]

i) GNI per capita

5.2 Per GN-2442-71, low GNI per capita contributes concessionality points. GNI per capita in 2019 yields the concessionality points presented in Table 3:

Table 3: Concessionality Points from low GNI per capita

Country	GNI capita ($)	
	Value	Points
Haiti	1,330	53.1
Honduras	2,390	15.7
Nicaragua	1,890	33.3

Source: GNI per capita in current US$ in 2019 data from World Bank, World Development Indicators; conversion formula from GN-2442-71.

ii) Vulnerability

5.3 Per GN-2442-71, high vulnerability, as indicated by a composite vulnerability index, contributes concessionality points. Vulnerability yields the concessionality points presented in Table 4:

Table 4: Concessionality Points from Vulnerability

Country	Vulnerability points
Haiti	63.0
Honduras	41.3
Nicaragua	41.8

Source: Vulnerability index, Annex IX.

iii) The Risk of Debt Distress[20]

5.4 A summary of the main results of the **debt sustainably analysis** according to the joint World Bank/IMF Debt Sustainability Framework for Low Income Countries methodology

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

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

is presented in Annex X. The country summaries contain links to the full write up for each country. Below are the respective risks of debt distress.

5.5 **Haiti's** risk of external debt distress is assessed as ***"low"*** (Annex X). Accordingly, Haiti receives 30 concessionality points from the risk of debt distress (GN-2442-71).

5.6 **Honduras'** risk of external debt distress is assessed as ***"moderate", with some space to absorb shocks*** (Annex X). Accordingly, Honduras receives 50 concessionality points from the risk of debt distress (GN-2442-71).

5.7 **Nicaragua's** risk of external debt distress is assessed as ***"moderate", with limited space to absorb shocks*** (Annex X). Accordingly, Nicaragua receives 65 concessionality points from the risk of debt distress (GN-2442-71).

iv) Non-concessional borrowing

5.8 Per GN-2442-71, the fourth concessionality variable – the extent of non-concessional borrowing – is a negative contributor to a country's combined concessionality score. The extent of non-concessional borrowing is measured as the sum of public and publicly guaranteed external debt from private creditors and non-concessional bilateral creditors as a share of GNI (Annex IX).

v) Combined Concessionality Points

5.9 The combination of concessionality points resulting from the four variables above is presented in Table 5:

Table 5: Combined Concessionality Points, January 2021

Country	GNI capita ($)		Vulnerability	DSF Risk of debt distress			Average of concessionality contributors	Non-concessional borrowing			Combined Concessionality Points
		A	B			C	D = (A+B+C)/3		E		F = D-E
	Value	Points	Points	Risk	Moderate Risk Granularity	Points	Points	% of GDP	Points	=	
Haiti	1,330	53.1	63.0	Low	Not applicable	30.0	**48.7**	0.9%	0.9		**47.8**
Nicaragua	1,890	33.3	41.8	Moderate	Limited space	65.0	**46.7**	0.2%	0.2		**46.5**
Honduras	2,390	15.7	41.3	Moderate	Some space	50.0	**35.6**	12.1%	12.1		**23.5**

Source: Table 3, Table 4, Annex IX, and Annex X.

B. Proposed Financing Combinations and Estimated Concessionality Levels

5.10 **The translation of combined concessionality points into a financing composition follows the matrix in Annex VIII**. The level of concessionality embedded in the financing composition is estimated as of December 2020, using the IMF concessionality calculator, and the characteristics of "Concessional-OC" loans and "Regular OC" loans:

5.11 These concessionality levels will be achieved through a combination of "Regular OC" loans and "Concessional OC" loans,[21] which have the following characteristics:

- **Concessional OC loans** with a 40-year bullet repayment and a fixed 0.25% interest rate.[22] Under the unified discount rate determined by the IMF for the LIC debt sustainability analyses and concessionality calculations, which has been 5% since 2013, COC loans have a grant element/concessionality of 81.5%.
- **Regular OC loans** under the Flexible Financing Facility (FFF), with a grace period of 5.5 years, a maximum maturity of 25 years for investment loans and 20 years for policy-based loans, and a LIBOR-based interest rate.[23] For the purposes of the concessionality calculation, it is assumed that the option for fixing the base rate has been exercised. As of December 2020, this would represent a 1.73% estimated fixed cost base. Adding the lending margin of 0.90%, applicable after January 1, 2021, gives an estimated total fixed interest rate of 2.63%. Using that interest rate, regular OC loans have an estimated grant element/concessionality of 24.8%.

5.12 **Haiti has 47.8 combined concessionality points.** Per Annex VIII, this falls in the range of 45-50 points and the corresponding financing composition is **65% Concessional-OC and 35% Regular-OC** for the 2021-2022 allocation of additional resources. As of December 2020, this combination was estimated to have a concessionality/grant element of **61.6**%.

5.13 **Honduras has 23.5 combined concessionality points.** Per Annex VIII, this falls in the range of 20-25 points and the corresponding financing composition is **35% Concessional-OC and 65% Regular-OC** for the 2021-2022 allocation. As of December 2020, this combination was estimated to have a concessionality/grant element of **44.6**%**.**

5.14 **Nicaragua has 46.3 combined concessionality points.** Per Annex VIII, this falls in the range of 45-50 points and the corresponding financing composition is **65% Concessional-OC and 35% Regular-OC** for the 2021-2022 allocation. As of December 2020, this combination was estimated to have a concessionality/grant element of **61.6**%**.**

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[21] Per AB-3066-2, concessional lending at the IDB is provided via a blending of loans from the OC. The portion of the Concessional OC loan and that of the Regular OC loan (the "parallel loans") are approved and disbursed simultaneously (*pari passu*). Parallel loans are considered as a single loan with one single loan contract and one source of funding from a pre-determined "blend" of Concessional OC and Regular OC resources.

[22] These terms are identical to those pertaining to the Fund for Special Operations (FSO) portion of blended loans approved between 2007 and 2015.

[23] From 2007-2016, the OC-portion of blended loan operations to concessional-eligible countries was under a Single Currency Facility (SCF) and mandatorily fixed. Following the approval of AB-3066-2, since January 1, 2017 the Regular OC portion of parallel loans to concessional-eligible countries has been subject to the FFF (and harmonized with non-concessional countries). Under the FFF, the borrower has the option to request modifications to the amortization schedule as well as to fix the interest rate or to convert the currency. Any of the options under the FFF may be offered to concessional-eligible borrowing member countries provided that such options are consistent with the concessionality levels approved for that biennial allocation. In considering such requests, the Bank will take into account operational, risk management considerations and market conditions, as well as the concessionality level of the loan in accordance with Bank's applicable policies.

VI. PROPOSED ALLOCATION OF CONCESSIONAL RESOURCES FOR 2021-2022

6.1 **Country eligibility**: In accordance with the eligibility criteria set forth in document AB-3066-2, Haiti, Honduras and Nicaragua are eligible for concessional resources for the 2021-2022 allocation period.

6.2 **Total annual amount of concessional financing**. Per the methodology for determining the PBA envelope contained in GN-2442-72, Management proposes an annual allocation for the eligible countries of US$620 million for the 2021-2022 allocation period, on a gross basis. Following an adjustment proposed below, the net or actual annual allocation would be US$449.52 million. Per GN-2442-71, this PBA envelope covers the entire amount of the annual resource allocation (Concessional OC and regular OC resource allocation).

6.3 **Transitional arrangement for Haiti**. During 2021-2022, Haiti is transitioning from the commitment in the Ninth General Increase in the Capital of the IDB (GCI-9) of US$2 billion grant resources to concessional allocations under the Bank's regular concessional resources framework. The expectation in AB-3066-2 was that Haiti would return to the EPBA/DSF framework in 2021 and that Haiti would be reincorporated without penalty either to the existing eligible countries or to Haiti. Haiti meets the criteria for eligibility to concessional resources and this Proposal seeks to fulfill the expectations of AB-3066-2 both with respect to reincorporating Haiti in 2021 and to do so without penalty either to Haiti or to the existing eligible countries.

6.4 **On December 31, 2020, Haiti had a balance of USS$340.96 million of grant resources from the GCI-9 commitment that remain to be approved**.[24] This balance is US$46.55 million smaller than the US$387.51 million Haiti would receive from a standard PBA allocation, if it had no pre-existing allocation. On the other hand, the remaining balance is significant enough that absorption considerations rule out simply allocating the entire US$387.51 million PBA allocation for 2021-2022 on top of the existing US$341 million grant balance. The US$620 million PBA envelope on a gross basis was based on an adjustment to Haiti's allocation proposed below. If that adjustment is not made, the PBA envelope sum of deviations curve would shift to the left and a smaller overall PBA envelope would be necessary.[25] This would reduce the allocations for Honduras and Nicaragua. The adjustment proposed below seeks a good balance for all three countries.

6.5 **In view of the above, for this transitional period of 2021-2022 Management proposes to allocate to Haiti as a supplementary or additional allocation** the difference between the existing GCI-9 commitment and the amount that Haiti would have received if it had no pre-existing allocation.[26] As such, Haiti would be allocated an **additional US$46.55**

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[24] Nothing in this Proposal affects Haiti's eligibility for or access to those grant balances.

[25] The overall PBA envelope would have to be much smaller in order to limit the indicator deviations from an excessive allocation to Haiti.

[26] "Implementation of multilateral debt relief and concessional finance reform at the IDB. Proposal for the implementation of a Debt Sustainability (DSF) and Enhanced Performance-Based Allocation (EPBA) framework" (GN-2442) provides a precedent for transitional arrangements since GN-2442 itself proposed a transitional arrangement for the 2007-2008 biennial allocation.

million of concessional resources for the period January 1, 2021-December 31, 2022, under the financing composition determined in section V (Table 6).

Table 6. Proposed PBA Allocation for Haiti 2021-2022 (US$ million)

(1)	From Table 3	Annual PBA allocation 2021-2022	193.75
(2)	= (1) x 2	Biennial PBA allocation 2021-2022 1/	387.51
(3)		Balance of GCI-9 commitment pending approval	340.96
(4)	= (2) - (3)	Proposed PBA allocation for 2021-2022	46.55

Source: Table 3, CID, FIN/ACC and FIN/FPD.
1/ Under normal circumstances, without a pre-existing allocation.

6.6 **Furthermore, Management proposes that project proposals utilizing blended Concessional OC-regular OC loan resources under this additional allocation may be submitted for the consideration of the Board of Executive Directors only once the remaining balance of US$340.96 million grant resources has been approved**.[27] Approval of resources with a 100% grant element prior to those with a 62% grant element is preferable for supporting Haiti's debt sustainability. Administratively, it is useful to limit this transitional arrangement for Haiti to only one biennial allocation cycle and to finish the GCI-9 commitment made in 2010.[28]

6.7 **Application of the PBA**. The allocation of concessional resources for the 2021-2022 period was calculated according to the Performance-Based Allocation formula set forth in document GN-2442-71 and the respective performance components described in Section IV. The financing composition of country PBA allocations was calculated according to the respective methodology in document GN-2442-71 and described in Section V. Table 7 presents the proposed annual and biennial allocations for 2021 and 2022.

[27] Currently, US$245 million is programmed for approval in 2021. If this target is realized, this would leave a balance of nearly US$96 million of grants remaining on December 31, 2021. There is no time limit for the approval of the GCI-9 grants. If a grant balance remains for approval on December 31, 2022, then the 2023-2024 biennial allocation would become the transitional allocation.

[28] This arrangement refers only to a clear sequencing regarding grant and then loan approvals. Disbursement flows to Haiti for the rest of the decade will likely be a combination of grants and blended COC/OC loans. Grants from the not-yet-approved or approved-but-undisbursed GCI-9 balance (US$1,074 million in total) will represent the majority of disbursements over the medium term.

Table 7. Proposed Allocations for 2021-2022 (US$ million)

	(1)	(2)	(3)	(4)	(5)	(6)
	Annual PBA allocation	= (1) * 2 Biennial allocation	Blend		= (2) * (3) Concessional OC	= (2) * (4) Regular OC
			Concessional OC	Regular OC		
	US$ mn		% of total		US$ mn	US$ mn
Haiti 1/	23.27	46.55	65%	35%	30.26	16.29
Honduras	296.24	592.48	35%	65%	207.37	385.11
Nicaragua	130.01	260.02	65%	35%	169.01	91.01
Total	**449.52**	**899.04**			**406.63**	**492.41**

Source: Tables 2 and 6, paragraphs 5.12, 5.13, and 5.14.

1/ Haiti's gross allocation (US$193.75 million annual and US$387.51 million biennial) has been adjusted by US$340.96 million to provide a net allocation.

2/ The proposed allocation is consistent with the "Long-Term Financial Projections 2021" (document FN-271-1), which foresaw a concessional lending envelope at $405 million for 2021-2022.

6.8 **Carry-overs**. In 2011, the Board approved the elimination of the No-Carry-Over policy applicable to FSO resources within the biannual period, which allows countries to back-load or front-load resources within the allocation period in order to increase flexibility in the use of the resources (document GN-2442-34). Nonetheless, and in accordance with DSF/EPBA provisions, no reallocations or carry-overs of FSO country specific allocations between allocation periods were permitted in the five biennial concessional allocations from 2011-2020. Management proposes to maintain these carry-over rules (namely, flexibility to back-load or front-load within the two-year allocation period but no carry-over into subsequent allocation periods) for the 2021-2020 allocation of concessional resources.

VII. RECOMMENDATION

7.1 Management recommends that the Board of Executive Directors approve: (a) the allocation of Concessional-OC and Regular OC resources for the calendar years 2021 and 2022, as presented in Table 7; (b) the transitional arrangements for Haiti, as presented in Section VI; and (c) the continuance of existing carry-over rules, as presented in Section VI.

Annex I

Gross National Income per Capita, Atlas Methodology in Current US$, of IDB Borrowing Member Countries with GNI per Capita less than US$10,000 (2015-2019)

	2015	2016	2017	2018	2019
Mexico	10,160	9,390	8,920	9,180	9,480
Brazil	10,190	8,920	8,700	9,080	9,130
Dominican Republic 1/	6,580	6,860	7,090	7,760	8,080
Suriname 2/	8,690	6,590			
Peru	6,340	6,110	6,060	6,470	6,740
Guyana			5,910	6,290	6,630
Colombia	7,330	6,460	5,930	6,260	6,510
Ecuador 2/	5,970	5,810	5,860	6,090	6,090
Two times threshold	**5,668**	**5,727**	**5,835**	**5,975**	**6,082**
Paraguay 3/	5,620	5,390	5,390	5,620	5,520
Suriname 2/			5,390	5,210	5,420
Jamaica 1/	4,700	4,600	4,750	5,010	5,320
Guyana	5,470	5,600			
Belize	3,700	3,870	4,090	4,390	4,610
Guatemala 3/	4,400	4,330	4,390	4,450	4,480
El Salvador 2/	3,440	3,510	3,600	3,820	4,000
Bolivia /4	2,960	3,040	3,090	3,370	3,520
Eligibility threshold 5/	**2,834**	**2,864**	**2,918**	**2,988**	**3,041**
Honduras	2,060	2,120	2,250	2,320	2,390
Nicaragua	1,890	1,960	2,030	1,970	1,890
Haiti	1,390	1,330	1,310	1,360	1,330

Source: GNI per capita from World Bank, World Development Indicators (December 2020). Available online at http://data.worldbank.org/data-catalog/world-development-indicators; Threshold from AB-3066-2; US GDP deflator from IMF World Economic Outlook database, (WEO database 2020 October).

Notes:
1/ Ineligible for the Intermediate Financing Facility since 2004.
2/ Ineligible for blended FSO/OC loans since 2009.
3/ Ineligible for blended FSO/OC loans since 2015.
4/ Ineligible for blended COC/OC loans since 2019.
5/ Threshold is US$2,834 in 2015 prices. Threshold for 2015-2019 is 2015 level, adjusted for US GDP deflator.

ANNEX II

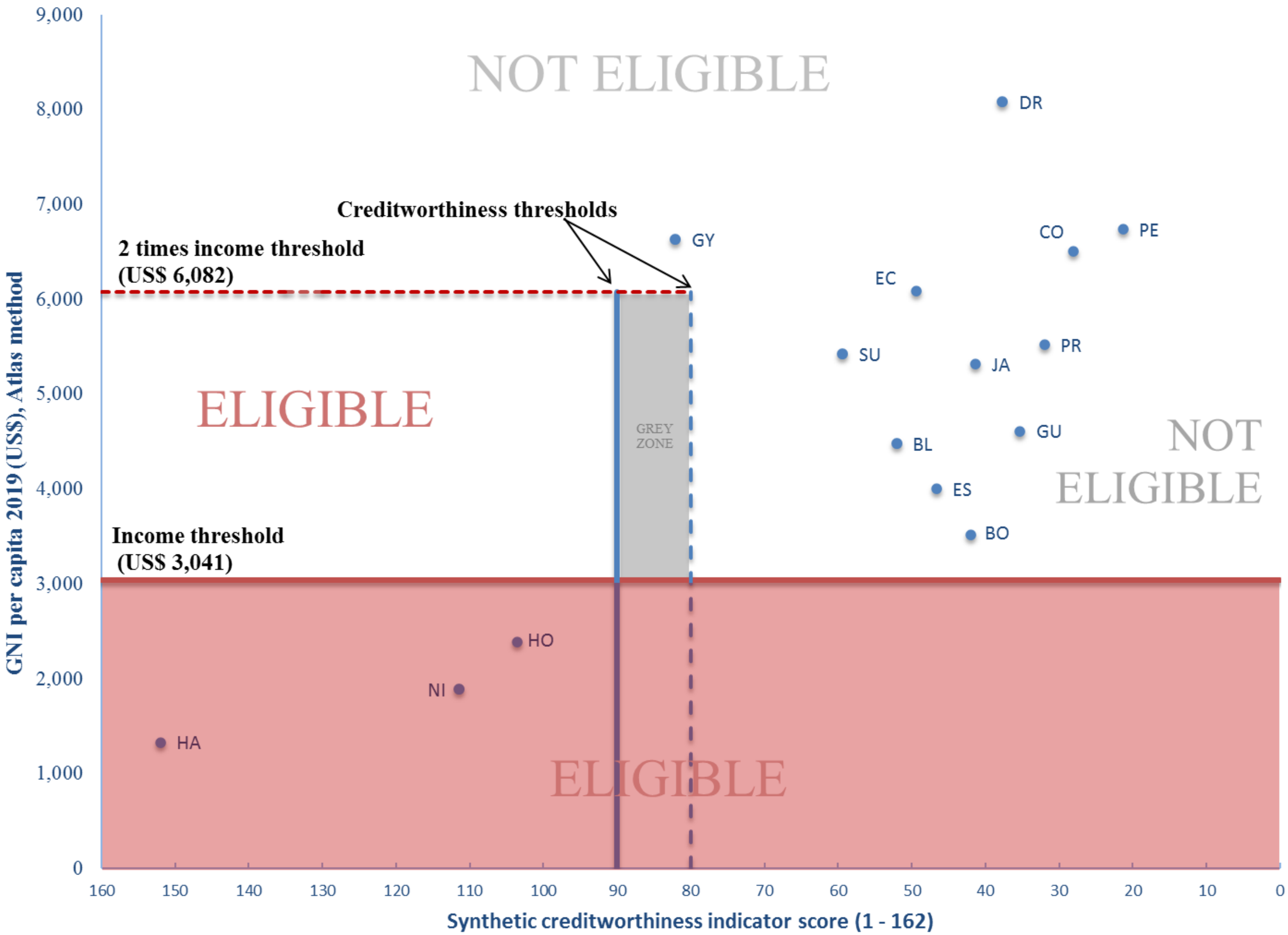
SYNTHETIC CREDITWORTHINESS INDICATOR (1-162) FEBRUARY 2021

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

Eligible (threshold >=90)   Grey zone (threshold >=80)

Source: Credit ratings from Trading Economics, February 24, 2021; numerical equivalent scale from RMG; risk of debt distress and blend (GN-2442-57).
Note: Countries without a rating are assigned "CCC" credit rating for the calculation of the SCI.

ANNEX III: INTERACTION OF ELIGIBILITY CRITERIA FEBRUARY 2021



Source: VPC based on Annexes I and II.

ANNEX IV: PBA ENVELOPE

Per the "Proposal for a Revised Methodology to Determine the Enhanced Performance-based Allocation (EPBA) Envelope" (GN-2442-72), six indicators were used to guide the determination of the PBA envelope. The projected trajectory of the six indicators over the period 2021-2026 is available for each eligible country.

The thresholds for the color zones and scoring methodology are those stated in GN-2442-72. The projections involve several assumptions, made for the purposes of simplicity and transparency:

- The PBA envelope is a constant size throughout the six years (i.e., it is assumed that the PBA envelope in 2021-2022 is repeated for the 2023-2024 and 2025-2026 allocations). If this assumption were not made, interpretation of the projections would become difficult. The constant size also accords with the general objective to reduce volatility in allocations. Nevertheless, a constant PBA envelope might not be optimal and the determination of PBA envelope sizes in future allocations will depend on circumstances at those times.

- The projections assume that 100% of concessional allocations are subsequently approved. While this assumption held traditionally, actually approved amounts fell short of allocated totals in the allocations for 2017-2018 and 2019-2020. This risk is asymmetric, and could lead to over-projection of disbursements, net flows and IDB debt stocks.

- The projections assume that loan approvals occur equally in both years of concessional allocations. Nevertheless, countries have the flexibility to front-load or to back-load approvals within the two-year allocation period. In the last allocation period (2019-2020), one-third of approvals occurred in the first year of the allocation and two-thirds in the second year. If there were to be a persistent pattern of backloaded approvals, this could lead to later than projected amounts of loan disbursements and movements in related indicators.

Some indicators may be susceptible to projection errors:

- If country offices are over-optimistic regarding future disbursements, this could lead to a downward bias on the trajectory of allocation relative disbursement levels (indicator 1) and an under projection of undisbursed loan balances.

- The change in the IDB share of public external debt (indicator 6) depends on projections of both IDB net loan flows as well as public external debt. If projections regarding overall public external debt are understated, projected increases in the IDB share will likely be overstated.

- Indicators 3 and 4, which are benchmarked against a large denominator (GDP) and indicator 5, which is benchmarked against a fixed historical level, appear to contain less risk of over or under projection than indicators 1, 2 and 6 mentioned above.

It will be important to measure how far outcomes deviate from projected amounts going forward. Such tracking of projection errors will allow learning about which indicators are more reliable and which are more susceptible to errors.

ANNEX V: COUNTRY INSTITUTIONAL AND POLICY EVALUATION (CIPE)

Policy Cluster	Variables	Indicator (Source)
A. Economic management 15%	1. Monetary and Exchange Rate Policies	
	2. Fiscal Policy	
	3. Debt Policy and Management	
B. Structural policies 20%	4. Trade	The logistic performance index (World Bank)
	5. Financial Sector	
	6. Business Regulatory Environment	Starting a Business [50%] (World Bank)
		Regulatory Quality index [50%] (Worldwide Governance Indicators)[29]
	7. Policies and institutions for environmental sustainability	Environmental Performance Index (EPI)
C. Social inclusion/equity policies 35%	8. Gender equality, indigenous peoples and people of African descent	The Gender Inequality Index (UNDP)
	9. Equity of Public Resource Use	
	10. Building human resources	
	11. Social Protection and Labor	
D. Public sector management and institutions 30%	12. Property rights and rule-based governance	Rule of law indicator (Worldwide Governance Indicators)
	13. Quality of budgetary and financial management	
	14. Efficiency of revenue mobilization	
	15. Quality of public administration	Government effectiveness index (Worldwide Governance Indicators)
	16. Transparency, accountability and corruption in the public sector	Control of corruption index (Worldwide Governance Indicators)

- **Basic Procedures and Questionnaire 2020**

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

ANNEX VI: CIPE Ratings 2020[30]

Policy Cluster and Weight	Variable	HAITI Score	HONDURAS Score	NICARAGUA Score
A. Economic management (15%)	1. Monetary and exchange rate policies	3.00	3.50	4.00
	2. Fiscal policy	2.50	3.50	4.00
	3. Debt policy and management	2.50	4.50	3.75
	Policy Cluster A Score	**2.67**	**3.83**	**3.92**
B. Structural policies (20%)	4. Trade	3.03	3.75	3.73
	5. Financial sector	2.50	3.83	2.83
	6. Business regulatory environment	2.03	2.82	2.75
	7. Policies and institutions for environmental sustainability	2.03	2.96	2.70
	Policy Cluster B Score	**2.40**	**3.34**	**3.00**
C. Social inclusion/equity policies (35%)	8. Gender equality, indigenous peoples, and people of African descent	2.73	3.53	3.49
	9. Equity of public resource use	2.67	3.67	3.33
	10. Building human resources	2.75	3.25	3.50
	11. Social protection and labor	2.30	3.60	2.70
	Policy Cluster C Score	**2.61**	**3.51**	**3.26**
D. Public sector management and institutions (30%)	12. Property rights and rule-based governance	2.25	2.63	2.37
	13. Quality of budgetary, procurement and financial management	2.38	3.75	3.75
	14. Efficiency of revenue mobilization	2.50	3.50	3.50
	15. Quality of public administration	2.14	2.74	2.56
	16. Transparency, accountability, and corruption in the public sector	2.20	2.40	1.98
	Policy Cluster D Score	**2.29**	**3.00**	**2.83**
	Total Score	**2.48**	**3.37**	**3.18**

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

ANNEX VII: PORTFOLIO PERFORMANCE INDICATOR (PPI) FOR 2021-2022

- **The portfolio performance indicator (PPI) for the PBA was derived in accordance with the Proposal to Amend the EPBA Portfolio Performance Indicator (GN-2442-69),** approved by the Board of Executive Directors on February 17, 2021.

- **The percentage of undisbursed loan balances (ULB) represented by projects classified as "unsatisfactory" (i.e., with either an "on alert" or a "problem" classification)**. The classification of projects as "satisfactory", "on alert" or "problem" follows the Bank's corporate measure for project performance during the project execution stage - the Progress Monitoring Report (PMR). Projects are classified by the PMR as "satisfactory", "on alert" or "problem". Per GN-2442-69, a second filter used only for the purposes of the PPI in concessional allocations is being phased out. Two of the three indicators in the second filter – the time elapsed from Bank approval to legal effectiveness and the time elapsed from legal effectiveness to project eligibility – have been eliminated. This elimination had no impact on PPI scores because no projects were classified as unsatisfactory on December 31, 2019 due to these indicators. The third indicator of the second filter – extensions of the final disbursement date beyond 24 months – was retained for the PPI scores for the 2021-2022 allocation.

- **Per GN-2442-69, the simple average of a country's scores in Project Completion Reports (PCR) in the last four Development Effectiveness Overviews (DEOs) are included in the calculation of the PPI**. For the 2021-2022 allocation, 29 PCR ratings were available from the DEOs from 2020, 2019 and 2018, and OVE (2017), per below.[31]

		Bank			Concessional 3 total			Haiti		Honduras		Nicaragua	
	Score	Count	points	share	Count	points	share	Count	points	Count	points	Count	points
Highly successful	**6**	5	30	3%	1	6	3%	0	0	0	0	1	6
Successful	**5**	40	200	22%	9	45	31%	0	0	5	25	4	20
Partly successful	**4**	61	244	34%	10	40	34%	1	4	5	20	4	16
Partly unsuccessful	**3**	54	162	30%	3	9	10%	1	3	2	6	0	0
Unsuccessful	**2**	17	34	9%	5	10	17%	2	4	0	0	3	6
Highly unsuccessful	**1**	5	5	3%	1	1	3%	0	0	0	0	1	1
Total		**182**	**675**	**100%**	**29**	**111**	**100%**	**4**	**11**	**12**	**51**	**13**	**49**
Average			**3.7**			**3.8**			**2.8**		**4.3**		**3.8**

Source: OVE ratings in Development Effectiveness Overview (2020), Annex C; Development Effectiveness Overview (2019), Appendix C; Development Effectiveness Overview (2018), Appendix C; IDB and IIC Project Performance: OVE's Review of 2016 Project Completion Reports and Expanded Supervision Reports, Annex III (October 2017).

Per GN-2442-69, the use of PCR ratings is being phased in over two allocation cycles. The PCR ratings have a weight of 25% in the PPI in the allocation for 2021-2022 (with 75% weighting for the PMR-based ULB measure) and will start to have a weight of 50% for the 2023-2024 allocation.

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[31] There was not a DEO (2017), so OVE (2017) was used as the source of OVE's PCR ratings. For the 2023-2024 allocation, DEOs for 2019-2022 will likely be available.

ANNEX VIII: CONCESSIONALITY POINTS AND FINANCING COMPOSITION MATRIX

Range of combined concessionality points	Proposed financing composition			Estimated Concessionality (December 2020)
	Grant share	Concessional OC share	Regular OC share	
>70	100%	0%	0%	100.0%
65<X<70	0%	100%	0%	81.5%
60<X<65	0%	90%	10%	75.8%
55<X<60	0%	80%	20%	70.2%
50<X<55	0%	70%	30%	64.5%
45<X<50	0%	65%	35%	61.6%
40<X<45	0%	55%	45%	56.0%
35<X<40	0%	50%	50%	53.1%
30<X<35	0%	45%	55%	50.3%
25<X<30	0%	40%	60%	47.5%
20<X<25	0%	35%	65%	44.6%
15<X<20	0%	30%	70%	41.8%
10<X<15	0%	20%	80%	36.1%
<10	0%	10%	90%	30.5%
N/A	0%	0%	100%	24.8%

Source: Annex IV, "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (GN-2442-71).

ANNEX IX: VULNERABILITY INDEX AND NON-CONCESSIONAL BORROWING

Countries	Vulnerability index	Small population		Island or landlocked (100 or 0)		Remoteness			Natural hazard exposure (World Risk Index 2020 - Exposure)		Climate change vulnerability		Fragile states index	
		Value	Max-min	Value	Score	Average distance	Adjusted value	Max-min	Value	Score	Exposure score	0-100 score	Rank	Percentile rank
Haiti	63.0	10,847,334	34.2	I	100	5,543	52.9	53.6	21.43	21.43	2.14	78.6	13	90
Honduras	41.3	9,112,867	36.8		0	6,564	61.6	64.5	20.25	20.25	2.73	72.7	64	53
Nicaragua	41.8	6,149,928	42.9		0	6,669	62.5	65.6	25.67	25.67	3.81	61.9	62	55

Sources: "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (GN-2442-71); (i) United Nations DESA Least Developed Country Category data; (ii) World Risk Report 2020 online; (iii) CAF/Maplecroft Vulnerability Index to climate change in the Latin American and Caribbean Region; and (iv) the Fund for Peace Fragile States Index.

Public and publicly-guaranteed debt outstanding, 2019

(Current US$ million)

			IDS code	Haiti	Honduras	Nicaragua
1		Bilateral	DT.DOD.BLAT.CD	1,871.8	1,066.9	1,173.0
2		Bilateral concessional	DT.DOD.BLTC.CD	1,840.9	401.9	432.0
3	=1-2	Bilateral, non-concessional		30.9	665.0	741.0
4		Private creditors	DT.DOD.PRVT.CD	44.2	2,144.9	25.7
5		Pending bilateral creditor HIPC relief				740.0
6	**=3+4-5**	**Total non-concessional borrowing**		**75.1**	**2,809.9**	**26.7**
7		Gross National Income (GNI)	NY.GNP.MKTP.CD	8,446.0	23,180.7	12,199.5
8	=6/7	**Non-concessional borrowing/GNI (%)**		**0.89%**	**12.12%**	**0.22%**

Sources: World Bank International Debt Statistics 2021; Nicaragua Joint World Bank IMF Debt Sustainability Analysis, February 2020; and "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (GN-2442-71), Annex IX.

ANNEX X: DEBT SUSTAINABILITY ANALYSIS BY COUNTRY

Since 2007, the IDB has used the joint World Bank-IMF Debt Sustainability Framework for Low Income Countries (LIC DSF) to assess debt sustainability in the concessional eligible countries and the preparation of biennial concessional allocation proposals.[32] The harmonization is absolute and the IDB follows any changes in the methodology due to revisions in the DSF.[33] IDB Country Economists use the WB/IMF LIC DSA Excel template as the base for their debt sustainability analyses (DSAs) and follow the rules, conventions and staff guidance of the LIC DSF.[34] In particular, the "*Review of the Debt Sustainability Framework for Low Income Countries: Proposed Reforms*" (August 2017) and the "*Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries*" (February 2018) are the primary sources of guidance on the application of the DSF.

Using the DSA template, a baseline projection is constructed using official historical data and projections to the extent possible, and then the baseline is subjected to stress tests to assess the vulnerability to shocks. Standardized stress tests are applied to all countries and tailored stress tests are required whenever a country meets a specified trigger. The country's current and projected **public external debt indicators** under the baseline scenarios and stress test scenarios are compared with indicative thresholds, in order to classify a country as:[35]

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

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

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

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

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

[33] In September 2017, the Executive Boards of the IMF and World Bank approved the fourth revision of the Low-Income Country Debt Sustainability Framework (DSF) since its introduction in 2004.

[34] World Bank and IMF staff have provided periodic training courses to IDB Country Economists on producing DSAs under the WB/IMF LIC DSF. IMF and World Bank staff provided training to IDB staff in the revised framework in mid-September 2018.

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

In 2016 and 2017 the IMF and World Bank undertook the fourth review of the LIC DSF.[36] The IMF Executive Board reviewed the Proposed reforms on September 27, 2017.[37] A **guidance note** on the revised DSF was published in February 2018 and the new DSF started to be effective in July 2018.[38] The adjustments to the methodology are intended to improve the accuracy of the framework, including by better identifying debt distress episodes and enhancing the statistical accuracy of predicting debt distress. While much of the core DSF was retained in the revised DSF, the revised DSF incorporated a number of important reforms, including but not limited to:

- The assessment of countries' debt carrying capacity, which determines which thresholds apply to the country, is now based on several macroeconomic variables (international reserves, remittances, and economic growth) in addition to the World Bank's Country Policy and Institutional Assessment (CPIA). This new aggregate is called the "*Composite Indicator*".

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

- Tailored stress tests were introduced to better capture particular risks for countries.[39]

- The projection horizon was shortened from 20 to 10 years.[40]

The IDB's DSAs and this concessional allocation proposal apply all the reforms undertaken as a result of the fourth review of the LIC DSF, notably:

- ***Composite Indicator***. IDB DSAs use the WB/IMF-determined Composite Indicator and the resulting "weak, medium or strong" debt carrying capacity thresholds.

- ***Disaggregation of the moderate risk of debt distress category***. Since July 2018, IDB DSAs have disaggregated the moderate risk of debt distress category.

- ***Mechanical risk rating versus Judgment.*** The default risk rating is the "*mechanical risk rating*" produced by the DSA template. Application of judgment to propose an alternative risk classification rating must be based on a strong and legitimate reason for overriding the mechanical risk rating.

[36] The framework was previously reviewed in 2006, 2009, and 2012.

[37] IMF (2017) "Review of the Debt Sustainability Framework for Low Income Countries: Proposed Reforms".

[38] IMF (2018) "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries".

[39] For IDB LICs, these are: Haiti: natural disaster shock; Honduras: natural disaster, commodity price and market financing; Nicaragua: natural disaster shock.

[40] The 11–20 year projection period can be brought in under certain circumstances.

HAITI

Summary of Debt Sustainability Analysis

November 2020

Risk of external debt distress:	Low
Overall risk of debt distress	Moderate
Granularity in the risk rating	Not applicable
Application of judgment	No

1. **Haiti is classified as having a low risk of external debt distress, according to this debt sustainability analysis (DSA),** which was prepared by the IDB using the joint World Bank-IMF Debt Sustainability Framework for Low Income Countries (LIC DSF).[41] Although Haiti is a fragile country frequently affected by sociopolitical conflict and is one of the IDB member countries most exposed to natural disasters, deep debt relief and more than a decade of grant financing from most multilateral and bilateral creditors have resulted in Haiti starting the DSA projection period with a low public external debt burden. For example, the present value (PV) of public external debt starts the projection period at only 20% of GDP in 2020.

2. **Under the baseline scenario, all four public and publicly guaranteed (PPG) external debt burden indicators stay below their respective threshold.** Similarly, all public external debt burden indicators remain under their respective thresholds under the various stress tests.

3. **Given that no public external debt burden indicator breaches its respective threshold either in the baseline scenario or in stress tests, the mechanical rating is "low" risk of external distress.** Judgement was not applied to overrule the mechanical rating.

4. **The full DSA write up is available at LIC DSA Haiti 2020 Write up.**

[41] Prepared by CID/CHA.

HONDURAS

Summary of Debt Sustainability Analysis

January 2021

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

1. **Honduras is classified as having a moderate risk of external debt distress according to this debt sustainability analysis (DSA),** [42] which was prepared by the IDB using the joint World Bank-IMF Debt Sustainability Framework for Low Income Countries (LIC DSF). Within the moderate risk category, Honduras' external debt is classified as having ***some space*** to absorb shocks.

2. **This classification is minor upgrade from the external risk rating in October 2018, when Honduras was classified as having "*moderate risk, with limited space*".** Following the phase in of the revised LIC DSF, Honduras' assessed debt carrying capacity increased from "medium" to "strong". This has raised the thresholds against which Honduras' debt burden indicators are measured. However, much of the benefit of the higher thresholds was offset by the macroeconomic impact of COVID-19 and hurricanes Eta and Iota in 2020.

3. **All public and publicly guaranteed (PPG) external debt burden indicators stay under their corresponding threshold under the baseline scenario.** The indicator of Present Value (PV) of debt-to-GDP breaches its threshold for two years under one stress test (a combination shock).

4. **This risk of debt distress rating is the mechanical rating, and no judgment has been applied to overrule the mechanical rating**.

5. **The full DSA write up is available at LIC DSA Honduras 2021 Write up.**

[42] Prepared by CID/CHO.

NICARAGUA
Summary of Debt Sustainability Analysis
October 2020

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

6. **Nicaragua is classified as having a moderate risk of external debt distress according to this debt sustainability analysis (DSA),**[43] which was prepared by the IDB using the joint World Bank-IMF Debt Sustainability Framework for Low Income Countries (LIC DSF). This is the same external risk rating as in October 2016 and in October 2018.

7. **All public and publicly guaranteed (PPG) external debt burden indicators stay under their corresponding threshold under the baseline scenario.** The indicator of Present Value (PV) of debt-to-GDP ratio remains at an elevated level, close to threshold until after 2026.

8. **One indicator (the PV of debt-to-GDP ratio) breaches its indicative threshold under various stress tests.** The PV of debt-to-GDP ratio breaches the threshold for a prolonged period (nearly the entire projection period) under the export and exchange rate depreciation shocks. The PV of debt-to-GDP also breaches its threshold in two tailored tests (combined contingent liabilities and natural disaster) and in the "Historical scenario". The other three debt burden indicators do not breach their thresholds under stress test scenarios.

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

10. **This risk of debt distress rating is the mechanical rating, and no judgment has been applied to overrule the mechanical rating**.

11. **The full DSA write up is available at LIC DSA Nicaragua 2020 Write up**.

[43] Prepared by CID/CNI.