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A COMPILATION OF THE IDB's FRAMEWORK FOR CONCESSIONAL RESOURCES

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ABBREVIATIONS

AsDB	Asian Development Bank
AfDB	African Development Bank
CDB	Caribbean Development Bank
CIPE	Country Institutional and Policy Evaluation
COC	Concessional Ordinary Capital
CPIA	Country Policy and Institutions Assessment
DSF	Debt Sustainability Framework
EPBA	Enhanced Performance-Based Allocation
FSO	Fund for Special Operations
GAF	Grant Allocation Framework
GDP	Gross Domestic Product
GNI	Gross National Income
GRF	IDB Grant Facility
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDS	International Debt Statistics
IFF	Intermediate Financing Facility
IFI	international financial institution
IMF	International Monetary Fund
LIC	low-income country
MDB	multilateral development bank
MDRI	Multilateral Debt Relief Initiative
OC	Ordinary Capital
OECS	Organization of Eastern Caribbean States
PBA	Performance-Based Allocation
PPI	Portfolio Performance Indicator
ULB	Undisbursed loan balance

EXECUTIVE SUMMARY

This document is a compilation of the Bank's policy framework for country-based concessional resources, using the Bank's own resources. It responds to requests of the Programming Committee of the Board of Executive Directors for Management to consolidate all references to the concessional lending framework in a single reference document.

The document is for informational and reference purposes. It neither adds policies nor modifies approved policies. It seeks only to offer a compilation of all relevant policies and information regarding the Bank's concessional resources framework in a single location for the convenience of the reader.

The document covers the four major components of the Bank's concessional resources: (i) rules regarding country eligibility for concessional resources; (ii) a framework for determining the total amount of resources (envelope) to be allocated in a concessional allocation; (iii) the performance-based allocation (PBA) system; and (iv) the framework for determining the level of concessionality of a country's allocation. Within each chapter, section A. notes the document or source of the applicable policy, section B. outlines the current policy, and section C. provides background information on the evolution of the policy over time or other relevant observations.

The currently applicable policy governing eligibility for country-based allocations of the Bank's own, standard concessional resources were set out in the "Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets" (AB-3066-2). That proposal was approved by the Board of Governors on September 1, 2016. There are two eligibility criteria: per capita income and creditworthiness.

The currently applicable policy governing the determination of the envelope for an allocation of concessional resources is set out in the "Proposal for a Revised Methodology to Determine the EPBA Envelope" (document AB-3259), which was approved by the Board of Governors on March 11, 2021. The methodology places primary emphasis on eligible countries' absorption and debt sustainability, while financial affordability remains a *sine qua non* condition.

The currently applicable policies governing the performance-based allocation (PBA) are set out in two documents: (i) "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" (document GN-2442), which was approved by the Board of Executive Directors in February 2007; and (ii) the "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (document GN-2442-71), which was approved by the Board of Executive Directors on February 24, 2021. A third document — "A Proposal to Amend the EPBA Portfolio Performance Indicator" (document GN-2442-69) — contains the methodology for computing one variable in the PBA formula.

The currently applicable policy governing the financing composition and of the degree of concessionality of countries' PBA allocations is set out in the "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (document GN-2442-71).

I. INTRODUCTION

1.1 **This document is a compilation of the Bank's policy framework for country-based concessional resources, using the Bank's own resources.** It responds to requests from the Programming Committee of the Board of Executive Directors for Management to consolidate all references to the concessional lending framework in a single reference document.[1]

1.2 **The document is for informational and reference purposes**. It neither adds policies nor modifies approved policies. It seeks only to offer a compilation of all relevant policies and information regarding the Bank's concessional resources framework in a single location for the convenience of the reader. Although every effort has been made to ensure that current policies are reproduced here accurately, in case of any inconsistency between this document and the policy it is referring to, the corresponding policy document shall prevail.

1.3 **The Bank's concessional framework can be considered to have four major components[2]**: (i) rules regarding country eligibility for concessional resources; (ii) a framework for determining the total amount of resources (envelope) to be allocated in a concessional allocation; (iii) the performance-based allocation (PBA) system; and (iv) the framework for determining the level of concessionality of a country's allocation. This document is structured similarly, with a chapter on each of the aforementioned components. Within each chapter, section A. notes the document or source of the applicable policy, section B. outlines the current policy, and section C. provides background information on the evolution of the policy over time or other relevant observations.

1.4 **Table 1 illustrates these four major components** by summarizing the four principal steps involved in the process of a concessional resource allocation.

1.5 **For the purposes of this document, "concessional resources" is defined as resources deliberately intended to have an element of concessionality.[3]** Since 2007 the Bank has used the IMF's Concessionality Calculator and methodology for the purposes of calculating concessionality and uses the unified discount rate for low-income country debt sustainability analyses and concessionality calculations. Under these harmonized conventions, the Bank's regular Ordinary Capital resources has had a concessionality estimated at between 7% and 25% for the allocations from 2007 until 2022.[4] Nevertheless,

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[1] The Committee requested this document during its consideration of: (i) a Proposal for a Revised Methodology to Determine the Enhanced Performance-based Allocation (EPBA) Envelope (GN-2442-72) on February 11, 2021; (ii) a "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (GN-2442-71) on February 16, 2021; and (iii) the Proposal for the Allocation of Concessional Resources 2021-2022 (GN-2442-78) on April 22, 2021.

[2] IDB Technical Briefing "Overview of IDB Concessional Resource Framework" (PP-1027) presented to the Board of Executive Directors on January 28, 2020.

[3] "Grant element" and "concessionality" are synonymous (OECD 2017).

[4] Each biennial concessional allocation proposal contains an estimate of the concessionality of the country allocations and includes the concessionality of regular OC as well as concessional funds. Since 2014, COC resources have had a concessionality level/grant element of 81 percent.

regular OC resources are considered the "non-concessional" component of blended resource allocations.

TABLE 1: SIMPLIFIED OUTLINE OF STEPS IN CONCESSIONAL RESOURCE ALLOCATION

STEP 1	**Which countries are eligible for concessional resources?** Two eligibility criteria: 1. Gross national income per capita 2. Synthetic creditworthiness indicator
STEP 2	**How big should the overall envelope to be allocated to all eligible countries be?** Projection of six indicators of absorption capacity 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 ratio (%) **c. Relevance** 6. Share of IDB in total public external debt (%)
STEP 3	**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
STEP 4	**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

Source: "Proposal for the Allocation of Concessional Resources 2021-2022", (GN-2442-78).

1.6 **Also, for the purposes of this document, "concessional resources" is defined as concessional loans or grants for projects.** The document does not refer to policies relating to technical cooperation funding, even though technical cooperation can be in the form of concessional resources.

1.7 **Finally, this document only refers to sovereign funding from the Bank's own concessional funds/window.** The document does not refer to funding from co-financing facilities. Since 1959 the Bank has had three principal windows for concessional resources: (i) the Fund for Special Operations (FSO); (ii) the Intermediate Financing Facility (IFF); and (iii) the IDB Grant Facility (GRF). Since 2016, the provision of FSO resources has been replaced by Concessional Ordinary Capital (COC) resources.

1.8 **The focus of this document is to present the Bank's current framework for concessional resources.** Nevertheless, since the current framework has emerged from an evolution over time, the major points in that evolution are summarized below.

- **1959** – the FSO – the Bank's primary concessional window – is established in the Agreement Establishing the Inter-American Development Bank.
- **1972** – the A, B, C, and D groups of countries are created, reflecting the desire of IDB Governors to increase the importance of beneficiary country characteristics relative to sectoral and project criteria in the allocation of FSO lending.[5] Over the next decade, country eligibility for convertible FSO resources narrows as the A and B country groups agree to cease accessing convertible FSO resources.
- **1983** – as part of the Proposal for the Sixth General Increase in the Resources of the IDB (IDB-6), an IFF is established to subsidize part of the interest payments for some borrowers on OC loans.[6]
- **1994** – as part of the Eighth General Increase in the Resources of the IDB (IDB-8), the Board of Governors establishes a formal per capita income threshold for country eligibility to IFF resources. The income threshold is specified as US$1,600 in constant 1988 dollars (which is higher than the income thresholds at other MDBs). This is the initial step away from country groups and towards direct eligibility criteria (similar to other MDBs).
- **1994** – the Board of Executive Directors approves methodologies for allocating FSO and IFF resources that include country population size and income per capita.[7]

[5] A December 12, 2016, technical briefing to the Board of Executive Directors on Country Classification at the IDB (PP-774) reviewed the history of the country groups. A 2018 OVE Background note "Support for Small and Vulnerable Countries" in the evaluation "Ninth General Capital Increase Implementation and Results" also provides analysis of the country groups.

[6] A "Historical Reference of the FSO and IFF Concessional Resources of the IDB" (GN-2101), prepared in 2000 at the request of the Programming Committee of the Board of Executive Directors provides an overview of the history of the IFF from 1983 to 2000 (and of the FSO from 1959-2000).

[7] "Historical Reference of the FSO and IFF Concessional Resources of the IDB" (GN-2101). For reasons that are unclear, the two allocations used different measures of income per capita: the FSO used Gross National Product (GNP) per capita and the IFF used Gross Domestic Product (GDP) per capita.

- **2002** – The Bank adopts a performance-based allocation (PBA) system for concessional resources, becoming the fifth development bank to do so.[8] On June 19, 2002, the Board of Executive Directors approves a “Proposal for a Performance Based Allocation of FSO Resources”.[9] The document defines an allocation methodology based on population, Gross National Product per capita, a Country Institutional and Policy Evaluation (CIPE), and portfolio performance. One month later, the Board of Executive Directors approves a similar methodology for the Bank’s other arm of concessional resources – the IFF.[10]
- **2007** – the Boards of Governors and Executive Directors approve a package of major reforms to the Bank’s concessional resources framework that include: (i) additional multilateral debt relief for the Bank’s five heavily indebted poor countries (HIPCs) [Bolivia, Guyana, Haiti, Honduras and Nicaragua];[11] (ii) a significant upgrade to the PBA system, which is renamed the “Enhanced Performance-Based Allocation” (EPBA) system; (iii) the adoption of the joint World Bank-IMF Debt Sustainability Framework for Low Income Countries (DSF) and associated IDA Grant Allocation Framework principles as the determinant of the concessionality of allocations;[12] (iv) the establishment of the IDB Grant Facility (GRF) to provide grants to low-income countries at high risk of debt distress (Haiti); (v) the initiation of blended or parallel loans combining FSO and OC sub-loans; and (vi) the termination of new approvals of IFF resources (which are now replaced by blended OC/FSO loans).

[8] Table 1, "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework", (GN-2442-71).

[9] Strategic Planning and Budget Department (June 2002) “Proposal for a performance-based allocation of FSO resources. New revised version.” (GN-1856-31).

[10] Strategic Planning and Budget Department (July 2002) “Proposal for a Performance-based allocation of IFF resources for the period 2002-2003.” (FN-263-24). The IFF methodology included population, GDP per capita, the CIPE, portfolio performance, and the ratio of debt service to official creditors to exports of goods and service. As of 2002, five countries were eligible for FSO resources (Bolivia, Guyana, Haiti, Honduras and Nicaragua) and seven countries were eligible for IFF resources (the Dominican Republic, Ecuador, El Salvador, Guatemala, Jamaica, Paraguay and Suriname).

[11] This was 100% debt relief on FSO loan balances outstanding as of December 31, 2004.

[12] “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.

- **2010** – as part of the Report on the Ninth General Increase in the Resources of the IDB (IDB-9), Haiti is allocated US$200 million of grants annually from 2011 until 2020.[13] [14]
- **2016** – The Board of Executive Directors approves a “Proposal for Optimizing the IDB Grant Facility Transfers from the Ordinary Capital. Revised version” (document GN-2442-51) that reaffirms the commitment to the US$1 billion of grants for Haiti remaining to be approved but modifies the manner in which OC transfers are made to the GRF.
- **2016** – The Board of Governors approves a “Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets” (AB-3066-2). Under the proposal, the FSO’s assets and liabilities are transferred to the balance sheet of the Ordinary Capital, and COC loans replace FSO loans. Country eligibility criteria for concessional resources are updated to: (i) have direct eligibility criteria rather than indirect criteria via a country group system (harmonizing with other MDBs); (ii) reconfirming, in real terms, the income threshold established in 1994; and (iii) introducing a creditworthiness criterion. A methodology is introduced to determine the size of the overall EPBA envelope for each biennial allocation.
- **2020** – The Board of Governors approves the termination of the IFF and the transfer of all the assets of the IFF to the GRF. As a result, the Bank’s principal funds have become consolidated into only two – the OC and GRF – and concessional resources have become consolidated into COC loans and grants.
- **2021** – The Board of Executive Directors approves three proposals for reforms to the Bank’s concessional resources framework: (i) a revised methodology for calculating the Portfolio Performance Indicator (PPI); (ii) a new methodology for determining the size of the PBA envelope; and (iii) reform of the core PBA/DSF framework.

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[13] Paragraph 3.27 in AB-2764, “Report on the Ninth General Increase in the Resources of the IDB” stipulated 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 GRF through 2020, subject to annual approvals of such transfers by the Board of Governors and the requirements of the Agreement Establishing the Inter-American Development Bank.”

[14] This fiat stipulation effectively removed Haiti from the DSF risk of distress determination of concessionality. Haiti was part of the PBA system from its introduction in 2002 until 2006. It was removed from the PBA system in 2007 but covered by the DSF from 2007-2010 (GN-2442). Haiti was not subject to the DSF from 2010-2020. Haiti rejoined the Bank’s standard concessional framework (performance-based allocations subject to DSF and other determinants of concessionality) in 2021. Haiti remains eligible for the remaining balance of the US$2 billion GCI-9 commitment, without a calendar cutoff.

II. ELIGIBILITY FOR CONCESSIONAL RESOURCES

A. Source of applicable policy

2.1 The currently applicable policy governing eligibility for country-based allocations of the Bank's own, standard concessional resources (COC and grants from the IDB Grant Facility) were set out in the "Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets" (AB-3066-2). That proposal was approved by the Board of Governors on September 1, 2016. This general policy on eligibility does not affect Haiti's eligibility for grant resources allocated in IDB-9 and remaining to be approved.[15]

2.2 Eligibility rules are set out in AB-3066-2, Chapter III "The Proposal", part C. Concessional Resources, section 3 "Eligibility for concessional resources", running from paragraph 3.13 to 3.22. The eligibility rules are reproduced in section B below.[16]

B. The Policy

2.3 **The IDB's criteria for eligibility to concessional resources have evolved over time**.[17] Since the establishment of the Bank in 1959 until the Fourth Replenishment all borrowing member countries were eligible for FSO resources, with preference in the distribution of concessional resources according to sector and beneficiary criteria. In 1983 (IDB-6), eligibility for convertible FSO resources was restricted to only group C and D countries. In 1993, as part of the Eighth Replenishment, the Board of Governors established a formal per capita income threshold for eligibility. The original income threshold was specified as US$1,600 in constant 1988 dollars.[18] The threshold has been updated to account for inflation several times in the intervening 23 years and stood at US$2,579 at 2009 prices.[19] Fourteen borrowing member countries had per capita incomes exceeding the threshold when it was introduced and nine borrowing member countries have subsequently lost eligibility for access to convertible FSO/COC resources due to their per capita incomes

[15] As of October 31, 2021, US$223 million remained.

[16] Language has been updated to reflect that AB-3066-2 was approved, and that Bolivia and Guyana have graduated from concessional resource eligibility since 2016 (in 2019 and 2021 respectively). Data in Graph 1 has also been updated to 2021.The inclusion of section B. in this document will disclose the eligibility policy to the public. Document AB-3066-2 is classified for disclosure after a period of 10 years (i.e., in 2026), largely due to the presence of sensitive financial information, including 10-year financial projections, in other sections of the document. Chapter III, part C., section 3 does not contain any information on the Access to Information Exceptions list and its public disclosure would facilitate its wider availability among Bank staff (GN-1831-36).

[17] GN-2442-16 "Fund for Special Operations. Allocations for 2009-2010", Annex VII – Origin and Evolution of the Bank Concessional Resource Program, February 18, 2009, IDB.

[18] Report on the Eighth General Increase in the Resources of the Inter-American Development Bank (document AB-1683).

[19] GN-2442-46 "Fund for Special Operations. Proposal for the Allocation of Resources 2015-2016", IDB. The deflator used to correct for inflation was the US GDP deflator and the source was the World Economic Outlook database of the IMF.

surpassing this threshold.[20] As a result, currently only three of the 26 borrowing member countries remain eligible for concessional resources.

2.4 **There had been lack of uniformity in the application of the income threshold.** When the threshold was introduced, it was specified as applying only to the 14 group C and D1 countries. On the one hand, Group A countries voluntarily agreed not to request lending in convertible currencies from the FSO in 1976 and this agreement was extended to group B countries by 1983. On the other hand, D2 countries had been eligible for concessional resources by virtue of their designation as HIPCs.[21] Under the current policy the coverage of the income threshold for eligibility to concessional resources applies uniformly to all small and vulnerable borrowing member countries. In other words, all small and vulnerable borrowing member countries are measured by the income threshold for purposes of eligibility for concessional financing.

2.5 **Under AB-3066-2, a safety margin for the threshold was introduced in order to avoid premature graduation.** Although to date no countries have "reverse-graduated" or become eligible for concessional resources after losing eligibility at the IDB, volatility in global macroeconomic conditions and discontinuities in the development process suggest that it is prudent to ensure that a country is firmly above the income threshold before it loses eligibility.[22] Most MDBs' graduation policies specify a minimum period after crossing the threshold before graduation can be considered.[23] Consistent with this, a country shall be above the eligibility threshold for a minimum of two consecutive years before losing eligibility for concessional financing.

2.6 **Under AB-3066-2, the income threshold was updated to 2015 prices (updating the threshold from its original base year of 1988).** The original income threshold was specified as US$1,600 in constant 1988 dollars. If indexed at 1988=100, the US GDP deflator reached 177.1 by 2015 (a dollar in 1988 was worth 177.1 cents at 2015 prices).[24] Consequently, in order to maintain the income threshold constant in real terms the equivalent of US$1,600 in 1988 dollars is US$2,834 in 2015 prices. Management will continue to adjust the income threshold for inflation during the two-year allocation exercise

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[20] Dominican Republic and Jamaica (2004); Ecuador, El Salvador, and Suriname (2009); Guatemala and Paraguay (2015); and Bolivia (2017). Guyana, whose eligibility from 2016-2020 was based on the creditworthiness criterion, lost eligibility in 2021 due to its income per capita surpassing twice the threshold.

[21] "Heavily-Indebted Poor Country" designation involves both a per capita income and a creditworthiness criterion.

[22] Of the 36 countries that have graduated from IDA and become IBRD-only borrowers since IDA's inception, adverse developments subsequently resulted in 11 countries becoming "reverse graduates". A further 17 countries that were at one point in time eligible for both IBRD and IDA financing ("blend" countries) subsequently reversed to IDA-only status. ("IDA 16 Mid-Term Review – Review of IDA's Graduation Policy", IDA Resource Mobilization Department, October 2012).

[23] IDA's graduation process normally starts when a blend country exceeds the IDA operational cutoff for at least two consecutive years (IDA 16 Mid-Term Review – Review of IDA's Graduation Policy", IDA Resource Mobilization Department, October 2012. In the ADB countries do not graduate immediately after exceeding the income threshold; they are normally given four years for observation and confirmation of creditworthiness (ADB "Proposal Paper: Enhancing ADB's Financial Capacity for Reducing Poverty in Asia and the Pacific", March 2015).

[24] With 2009=100, the index value of the US Gross Domestic Product deflator was 109.775 in 2015 and 57.241 in 1988, IMF World Economic Outlook database, April 2016.

of concessional resources and any updates will be submitted for the consideration and approval of the Board.

2.7 **Under AB-3066-2, the per capita income threshold was switched from the Gross Domestic Product (GDP) per capita to the Gross National Income (GNI) per capita.** This switch had the following advantages: first, on technical grounds, GNI per capita is a broader measure of the resources available to a country's citizens than GDP per capita because it takes into account income flows with the rest of the world relating to property income and compensation of employees. Since developing countries tend to host significant inward foreign direct investment and their external debts tend to exceed their claims on the rest of the world, GDP per capita overstates the incomes truly available to a country's citizens; second, a switch to GNI per capita has further harmonized the IDB's concessional assistance framework with those of other multilateral organizations. IDA, the AfDB, the AsDB and the IMF all use the GNI per capita data prepared by the World Bank according to the Atlas methodology[25]; and third, the adoption of GNI per capita for the purposes of the eligibility criterion has harmonized the criterion with the income variable used in the PBA formula and eliminated an internal discrepancy within the IDB's concessional framework methodology.[26] Switching the income eligibility criterion from GDP per capita to GNI per capita did not have any immediate operational implications, since in practice the GDP per capita and GNI per capita of the FSO-IV countries did not diverge significantly (Annex V of AB-3066-2). In the future, an eligible country's GNI per capita might cross the income threshold slightly later (probably in the range of 1-3 years) than its GDP per capita.

2.8 **The per capita income criterion for eligibility to concessional assistance is complemented by a creditworthiness criterion.** Creditworthiness is substantially but not perfectly correlated with GNI per capita, and it is possible that a country might have a GNI per capita above the threshold but not be sufficiently creditworthy to borrow 100 percent on regular OC terms. In particular, creditworthiness is somewhat correlated with country size and small countries tend to have weaker creditworthiness for a given level of per capita income. Other international financial institutions (IFIs) have a creditworthiness criterion as well as an income criterion for eligibility to concessional resources.[27] [28] The synthetic creditworthiness indicator (SCI) is a simple way of combining two perspectives on countries' creditworthiness into a single, quantitative indicator (Annex III). The first perspective is the risk of debt distress as assessed by a debt sustainability analysis using the World Bank/IMF Debt Sustainability Framework for Low Income Countries. The second perspective is a market perspective, from the principal credit rating agencies. A

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[25] The IDB now uses the same source as other MDBs – GNI per capita data according to the Atlas methodology as published by the World Bank's World Development Indicators.

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

[27] Most MDBs and donors also use an absence of creditworthiness criterion to determine the eligibility for concessional resources as well a per capita income threshold. See Annex IV and "IDA 16 Mid-Term Review – Review of IDA's Graduation Policy", IDA Resource Mobilization Department, October 2012.

[28] The Addis Ababa Action Agenda (July 2015) called "on development banks to develop graduation policies that are sequenced, phased and gradual."

country's score on 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 credit ratings available from S&P, Moody's, and Fitch. The SCI is a simple, transparent and objective method of assessing creditworthiness. It uses information on the country's blending at the IDB and thereby incorporates the risk of debt distress rating under the DSF. It can be easily calculated every two years at minimal administrative cost. Any adjustments to the methodology for calculating the SCI will be approved by the Board.

2.9 **A country's score on the SCI serves as indicating a country's degree of creditworthiness for borrowing 100 percent on regular OC terms.** A score on the SCI above a higher threshold value would indicate that a country lacks sufficient creditworthiness for borrowing solely on regular OC terms. The level for the higher threshold is a score of 90 or greater. Per Annex III, this zone covers the countries with the highest risks of debt distress and lowest sovereign credit ratings.

2.10 A "**grey zone**" of creditworthiness is defined as the area with SCI scores between the higher threshold described above and a lower threshold value (Graph 1). The SCI score of the lower threshold is 80.[29] The Board of Executive Directors may approve adjustments in the values of the SCI thresholds.

2.11 **The per capita income threshold is the most important criterion for determining eligibility for concessional resources.** The creditworthiness criterion is subordinated to and conditional on the per capita income criterion in the following manner:

(i) All small and vulnerable borrowing member countries with a per capita income below the income threshold defined in paragraph 2.6 above will be eligible for concessional resources, irrespective of their creditworthiness.

(ii) Any borrowing member country with a per capita income higher than two times the threshold defined in paragraph 2.6 above will not be eligible for concessional resources, irrespective of its creditworthiness.

(iii) Any small and vulnerable borrowing member country with a per capita income above but not higher than two-times the threshold defined in paragraph 2.6 above, may be eligible for concessional resources based on the creditworthiness criterion:

a. If such a country has a score on the SCI higher than the high threshold, as defined in paragraph 2.9 above (90), it will automatically be eligible for concessional resources;

b. If such a country has a score on the SCI inside the "grey zone", as defined above, the country may be included in the corresponding proposal for the biennial allocation of concessional resources for the consideration of the Board of Executive Directors, provided that there is a sound justification on the basis of creditworthiness. A country eligible under this

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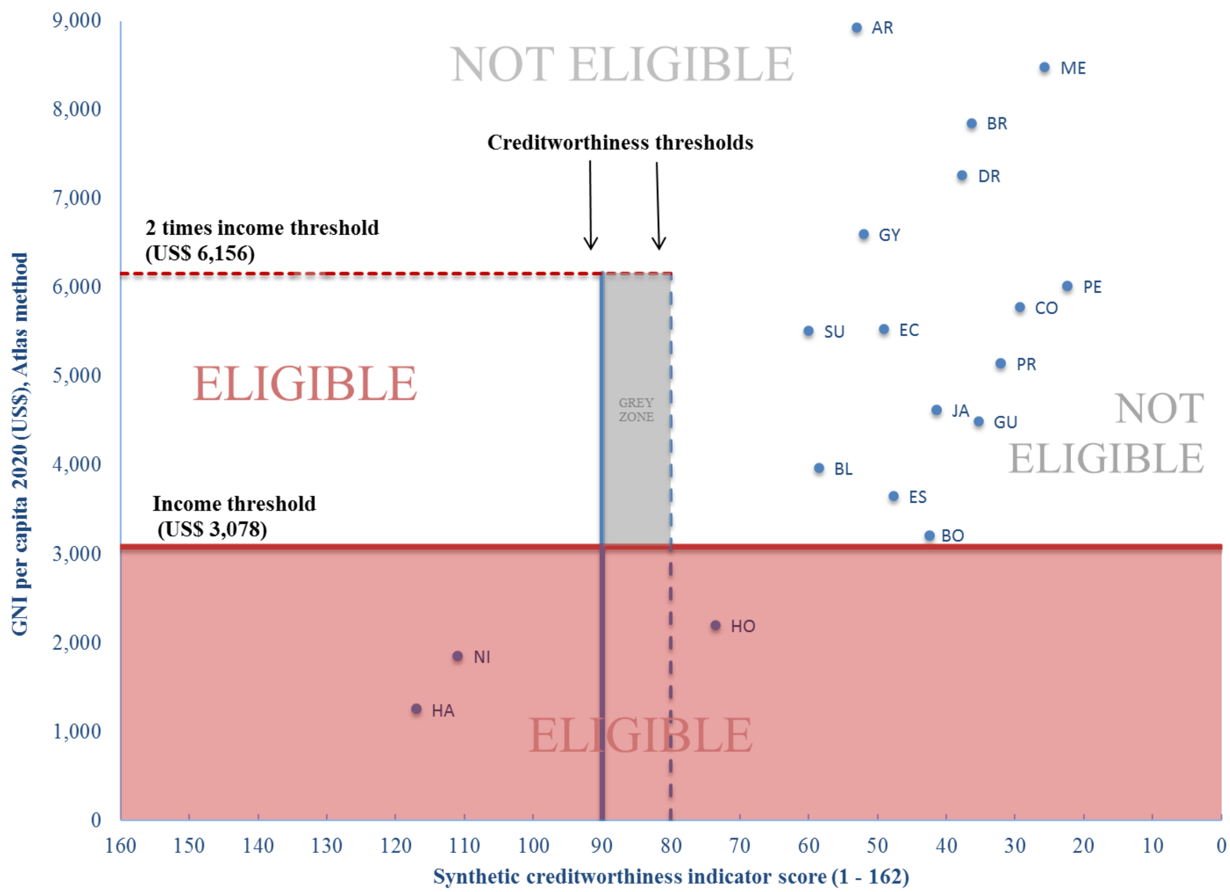
[29] The grey zone for SCI scores between 80 and 90 allows a margin of flexibility for borderline cases. SCI scores below 80 — i.e., countries with a low risk of debt distress and/or rated "BB" or higher) [Annex III] — more clearly have sufficient creditworthiness to borrow 100% on regular OC terms.

scenario would be eligible only for receiving concessional financing in the form of Parallel Loans;

c. If such a country has a score on the SCI lower than the low threshold, as defined above (80), it will not be eligible for concessional resources.

Graph 1: Interaction of Eligibility Criteria (2021)



Source: VPC update of Graph 10: Interaction of Eligibility Criteria (AB-3066-2) based on GNI per capita from World Bank World Development Indicators (September 2021) and credit ratings as of 09/10/2021 from Trading Economics.

2.12 **AB-3066-2 did not affect the Caribbean Development Bank's (CDB) eligibility to receive concessional resources, subject to its allocation by the Board of Executive Directors.** Pursuant to the GCI-9, the Board of Governors decided that the Bank would continue to work with the CDB, particularly in order to grant support to IDA eligible non-IDB member countries of the Organization of Eastern Caribbean States (OECS) [Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines].[30] These states' eligibility for IDA loans is based on IDA's small island state exemption and the IDB's

[30] Paragraph 3.25 (document AB-2764). In 2012 the Board approved a global loan program to the CDB of US$20 million, comprising US$14 million under the Single Currency Facility of the OC and US$6 million from the FSO.

framework for providing concessional resources to the CDB for on-lending to the IDA-eligible OECS countries — which was approved by the Board of Executive Directors on December 1, 2010 — states that COC-eligibility will mirror IDA eligibility for OECS.[31] Although the concessionality of such financing from the IDB follows the DSF/PBA framework, such financing is approved by the Board of Executive Directors on a case-by-case basis and is not part of the PBA exercise and biennial allocation proposals.

C. Background

2.13 **The IDB's criteria for eligibility to concessional resources (FSO, IFF and GRF) have evolved over time**. In broad terms, eligibility criteria have passed through four phases: (i) 1959-1971 – a sectoral focus; (ii) 1972-1993 – eligibility based on country groups; (iii) 1994-2016 – a hybrid model, with eligibility based partially on country groups and partially on income per capita; and (iv) from 2017 to date – eligibility based on two direct criteria.

2.14 **Since the establishment of the Bank in 1959 until the third replenishment all borrowing member countries were eligible for FSO resources**. During this period, concessional resources were distributed according to sector and beneficiary criteria rather than by country criteria.

2.15 **In 1972, the Bank introduced a country-based system, reflecting the desire of the Board of Governors to bias the availability of the FSO towards "relatively less developed countries" and countries with "limited markets.[32]** By means of resolution AG/11-72, adopted on May 11, 1972, the Board of Governors took note of the report of the Board of Executive Directors entitled "Fund for Special Operations — New Policy Guidelines and Preferential Treatment for Economically Less Developed Countries and Countries of Insufficient Market" (AB-300) — subsequently amended (AB-300-3) — and recommended to the Board of Executive Directors that the new policy guidelines be implemented immediately. Following the decision taken by the Board of Governors and the Board of the Executive Directors with respect to the new policy guidelines of the FSO and preferential treatment for economically less developed countries and those of insufficient market, the Executive Vice President issued instructions with respect to the terms and conditions applicable to loans financed with FSO resources as of June 1, 1972 (GN-870-4). Such terms and conditions were assigned to the Bank's borrowing member countries in four groups: a, b, c, and d.

2.16 **Initially, the A, B, C, and D country grouping was used to set the financing terms and level of concessionality** for the FSO financing to different groups rather than country eligibility.[33] All borrowing member countries retained access to concessional resources from the FSO.

[31] Paragraph 2.2 (document GN-2593) "IDB Lending to the Caribbean Development Bank for on-lending to IDA-Eligible OECS Countries", November 2010.

[32] Paragraph 5.05 of "Proposal for an Increase in the Resources of the Inter-American Development Bank" (document GN-626-1), approved by the Board of Governors through Resolution AG-4/70 at Punta del Este on April 24, 1970.

[33] The grace period, length of amortization and interest rate varied between the four groups (PP-774).

2.17 **However, over time the country groupings began to be used for restricting eligibility to concessional resources, with eligibility decisions taken at the time of replenishments of the Bank's resources**. In 1976, the four "Group A" countries voluntarily decided not to request FSO lending in convertible currencies for the period of the fourth replenishment (1975-1978).[34] In 1979, the Group A countries decided to continue this practice for the period of the fifth replenishment (1979-1982) and were joined by the three Group B countries.[35] Consequently, by 1979, only C and D group countries were eligible for FSO resources in convertible currencies.

2.18 **In 1983, eligibility for convertible FSO resources was restricted to group D countries for the sixth replenishment**.[36] At the same time, the Board of Governors approved the creation of an Intermediate Financing Facility (IFF) in order to provide certain borrowing member countries with resources that had a level of concessionality between that of the FSO and OC. Both C and D group countries were eligible for IFF resources, but the majority (60 percent) of IFF resources were targeted to the Group C countries.[37] The trend of focusing the most concessional resources on the lowest income countries continued in the seventh replenishment, when FSO resources were targeted to the five lowest income Group D countries and IFF resources were restricted to Group C and the other five Group D countries.[38]

2.19 **Importantly, the methodology the IDB used to determine eligibility for concessional resources, particularly between 1972 and 1993, was considerably different to that of other MDBs.** The IDB methodology was <u>indirect</u> — first assigning countries to four groups and then determining eligibility based on country group membership. The methodology for assigning countries into groups was complex, over-elaborate, essentially static, and with weak transparency.[39] The 15 indicators that determined the country groupings did include income per capita and, following revisions in 1976 and 1978, some measures of creditworthiness. In contrast, other MDBs used two direct criteria for eligibility: income per capita and creditworthiness to borrow from the non-concessional windows of their institutions. The criteria were applied on a country-by-country basis,

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[34] "Proposal for an Increase in the Resources of the Inter-American Development Bank" (Document AB-462-1), July 1975. "Group A" countries comprised Argentina, Brazil, Mexico, and Venezuela from 1972 to date.

[35] "Proposal for an Increase in the Resources of the Inter-American Development Bank" (Document AB-648), December 1978. "Group B" countries comprised Chile, Colombia, and Peru from 1972 to date.

[36] "Proposal for the Sixth General Increase in the Resources of the Inter-American Development Bank" (Document AB-910), February 1983.

[37] Group C, which in 1972 had comprised Barbados, Costa Rica, Jamaica, Panama, Trinidad and Tobago and Uruguay, was joined by The Bahamas in 1978 and Suriname in 1982.

[38] "Proposal for the Seventh General Increase in the Resources of the Inter-American Development Bank" (Document AB-1378), April 1989. In the period 1989-1993, the five lowest income Group D countries (referred to as "D2" countries in "Use of Concessional Resources 1989-93" [GN-1662], January 1990) were: Bolivia, El Salvador, Guyana, Haiti, and Honduras. The other five Group D countries (referred to as "D1" countries in GN-1662) were: the Dominican Republic, Ecuador, Guatemala, Nicaragua, and Paraguay. Upon joining the Bank, Belize was designated a Group D1 country in 1992.

[39] "Country Classification at the IDB - Technical briefing. Audiovisual presentation" (PP-774), December 2016.

generally annually.[40] For example, at IDA creditworthiness for IBRD lending was built into IDA's Articles of Agreement and a per capita income ceiling for IDA eligibility was introduced in 1964.[41] At the African Development Bank (AfDB), the eligibility criteria for the African Development Fund have long been closely aligned with those of IDA.[42] From 1977 until 1998, the Asian Development Bank (AsDB) used a three-tier country classification system to determine countries' eligibility to borrow from the Asian Development Fund (ADF), somewhat similarly to the IDB.[43] However, in 1998, the AsDB adopted GNP per capita and debt repayment capacity as its direct eligibility criteria for the ADF.[44]

2.20 **In 1994, the Bank began the third phase of country eligibility to concessional resources, which was a hybrid system that combined the previous country group system with a new direct eligibility criterion.** As part of the Eighth Replenishment, the Board of Governors definitively restricted FSO resources to the D2 countries.[45] In addition, the Board of Governors established a formal per capita income threshold for country eligibility to IFF resources – eligibility was limited to countries in the C and D country groups with GDP per capita below US$1,600 as shown in the 1993 IDB Annual Report.[46]

2.21 **The introduction of an income threshold for country eligibility was a key step and the beginning of a long transition away from country group-based eligibility to direct country eligibility criteria**. The income threshold established in 1994 would eventually become the most important criterion for country eligibility to concessional resources. Six Group C countries were above the per capita income threshold that was introduced in 1994 and immediately lost eligibility to concessional resources.[47] In 2004, The Dominican

[40] Country classifications reflected the application of these policies.

[41] IDA (2001) "IDA eligibility, Terms and Graduation Policies". IDA eligibility criteria also included a performance criterion: "the capacity to use IDA resources effectively" prior to 2002.

[42] Indeed, after 1995 the AfDB used the same criteria, classification, and credit policy as the World Bank. In 2014, the policy was modified to allow some concessional-only countries to access the non-concessional window on a case-by-case basis ["Diversifying the Bank's Products to Provide Eligible ADF-Only Countries Access to the ADB Sovereign Window-Appraisal Report", (May 2014)].

[43] AsDB (2016) "ADB Fourth Decade (1997-2006)". Similar to the IDB, classification was determined only once, and eligibility worked through the country groups. Unlike the IDB, only two criteria (GNP per capita and debt repayment capacity) were used for classification.

[44] AsDB (1998) "A Graduation Policy for the Bank's DMCs." Manila. Moreover, the AsDB adopted the IDA operational cutoff and the World Bank's income per capita data, using the *Atlas* methodology, as its data source.

[45] Report on the Eighth General Increase in the Resources of the Inter-American Development Bank (document AB-1683). Starting in 1994, Nicaragua joined the D2 country group and El Salvador joined the D1 country group.

[46] Report on the Eighth General Increase in the Resources of the Inter-American Development Bank (document AB-1683), paragraph 4.9. The 1993 Annual Report showed GDP per capita in US dollars at 1988 prices. The income threshold has been adjusted for inflation since that time.

[47] The six countries were: The Bahamas, Barbados, Costa Rica, Panama, Trinidad and Tobago, and Uruguay. Only Jamaica remained eligible initially. Suriname became eligible for IFF and FSO technical cooperation support in 1995, following a sharp downward revision to its estimated GDP per capita and the publication of the revised GDP per capita data in the 1994 Annual Report (CC-5275).

Republic and Jamaica also lost eligibility to IFF resources due to their per capita incomes surpassing the income threshold.[48] [49]

2.22 **The package of major reforms to the Bank's concessional resources framework approved by the Boards of Governors and Executive Directors at the end of 2006 and early 2007, among other things, changed the nature of non-FSO concessional resources.** First, the IFF ceased to make new commitments to buy-down the interest rate of OC loans. Instead, support to IFF-eligible countries began to be provided through blended or parallel loans combining FSO and OC sub-loans.[50] This switch in the form of concessional resources did not in itself affect country eligibility – the five C and D1 countries that had been eligible for IFF resources prior to 2007 remained eligible for concessional resources, and their eligibility still depended on having a GDP per capita under the income threshold for eligibility.[51] They subsequently lost eligibility to the parallel FSO/OC loans, when their GDP per capita rose above the income threshold. Ecuador, El Salvador, and Suriname graduated in 2009; and Guatemala and Paraguay graduated in 2015.[52]

2.23 **At the same time as the Bank began to phase out the IFF, it established a new modality for concessional resources – the IDB Grant Facility (GRF)**. The establishment of the GRF was part of the concessional finance reform package and consistent with the adoption of the Debt Sustainability Framework (DSF) for Low-Income Countries.[53] Specifically, under the Joint World Bank-IMF DSF and associated IDA Grant Allocation Framework, grants should be provided to low-income countries assessed to be at high risk of debt distress. Haiti was the only low-income IDB member country assessed to be at high risk of debt distress in 2006 and the concessional finance reforms contemplated providing Haiti

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[48] "Proposal for the allocation of IFF resources 2004-2005", (document FN-263-35), September 2004.

[49] In 2003 the Programming Committee of the Board considered but did not approve a proposal for the Bank to adopt the World Bank's income per capita and creditworthiness criteria for eligibility for FSO resources: "FSO. Future Eligibility Criteria" (GN-1856-39), May 2003; and "FSO. Future Eligibility Criteria. Revised Version" (GN-1856-40), September 2003.

[50] "Implementing Multilateral Debt Relief and Concessional Finance Reform at the Inter-American Development Bank", (document CA-474-2), December 2006 and Resolution AG-9/06. One effect of the cessation of new IFF commitments was a consolidation in concessional resources. The last separate allocations for D2 countries, on the one hand, and for C and D1 countries, on the other hand, was for 2007-2008. By 2009, a single proposed allocation covered all seven countries eligible for concessional resources, including Haiti ["Fund for Special Operations. Allocations for 2009-2010" (document GN-2442-16), February 2009].

[51] From this point until 2016, the income threshold for eligibility to concessional resources was not applied uniformly – it was not yet applied to D2 countries, who were receiving the same type of blended FSO/OC loans as the D1 countries.

[52] "Fund for Special Operations. Allocations for 2009-2010" (document GN-2442-16), February 2009; and "Fund for Special Operations. Proposal for the Allocation of Resources 2015-2016 GN-2442-46), December 2014.

[53] "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.

with grants rather than loans for 2007-2009.[54] The regulations for the IDB Grant Facility, which were approved by the Board of Executive Directors in May 2007 (GN-2442-11), limited country eligibility to the GRF to Haiti.[55] In 2010, the Ninth General Increase in the Resources of the IDB stipulated that Haiti would be eligible for grants from the GRF for the period of 2011-2020.[56] Hence, Haiti's eligibility to grants for that decade was based on a fiat decision by the Board of Governors, rather than based on the country's risk of debt distress and application of the DSF, with which the Bank had harmonized in 2007.[57]

2.24 **In January 2017, the Bank began the fourth phase of eligibility criteria, after completing the transition to direct eligibility criteria.** The "Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets" (AB-3066-2), which was approved by the Board of Governors in September 2016, updated country eligibility criteria for concessional resources in several ways. First, the Bank shifted to direct eligibility criteria rather than indirect eligibility via a country group system. The income threshold began to be applied to all small and vulnerable countries as opposed to just the C and D1 countries.[58] The income threshold established in 1994 was reconfirmed in real terms but updated to a new base year of 2015.[59] Second, the income threshold became defined as GNI per capita rather than GDP per capita. Last, the Bank introduced a creditworthiness criterion to complement the income threshold.[60]

2.25 **In this fourth phase of eligibility criteria, Bolivia graduated from eligibility to concessional resources in 2019 and Guyana graduated in 2021.** Also in 2021, Haiti

[54] "Implementing Multilateral Debt Relief and Concessional Finance Reform at the Inter-American Development Bank", (documents CA-474-2, December 2006; and CA-474-3, January 2007); "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; and Resolution AG-3/07.

[55] "Multilateral debt relief and concessional finance reform at the Inter-American Development Bank IDB Grant Facility New revised version" (document GN-2442-11), May 2007.

[56] "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank", (AB-2764), May 2010. GCI-9 took into account the devasting earthquake that struck Haiti on January 12, 2010. The US$2 billion GCI-9 commitment to Haiti does not have a calendar deadline and Haiti remains eligible for the remaining balance of the commitment. As of October 31, 2021, US$223 million of grant resources remained available for project proposals for Haiti.

[57] The distinction mattered little in practice — Haiti was rated at high risk of debt distress for the entire period of 2010-2020, except for a short period in 2015 — and so would have received grants anyway.

[58] 19 borrowing member countries were designated as "Small and vulnerable" in the "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank", Annex I, III.A Support development to small and vulnerable countries (AB-2764), May 2010. This group corresponds exactly with the "C and D" country groups. The principle of "universal application of rules" implied inclusion of the seven "A and B" countries also and uniform application of the two eligibility criteria across all 26 borrowing member countries. However, on this particular issue, application of this principle would have contradicted another principle that guided AB-3066-2 – minimizing change with respect to existing IDB frameworks and procedures. Senior Management determined that the second principle should prevail.

[59] Based on the principle of equal treatment of countries over time.

[60] This criterion is typically more important for small countries, since creditworthiness is somewhat affected by country population size. Very small countries typically have weaker assessed creditworthiness than larger countries with the same income level.

returned to access concessional resources under the standard eligibility criteria, while retaining eligibility for the balance of grants that had been allocated in 2010.

2.26 **The adoption of the two direct eligibility criteria (per capita income and creditworthiness) substantially harmonized the IDB eligibility criteria with those of other international financial institutions.** The exact criteria are not identical – the IDB's income threshold is higher than that of other MDBs and its creditworthiness indicator simpler. But the criteria are similar conceptually and produce similar results. In January 2019, country eligibility for concessional resources across the IDB, IDA and IMF became fully aligned for the first time, with four countries eligible (Guyana, Haiti, Honduras, and Nicaragua) [Annex II].

III. Determination of the Envelope for an Allocation of Concessional Resources

A. Source of applicable policy

3.1 **The currently applicable policy governing the determination of the envelope for an allocation of concessional resources** is set out in the "Proposal for a Revised Methodology to Determine the EPBA Envelope" (document AB-3259), which was approved by the Board of Governors on March 11, 2021.

B. The policy

3.2 The **principal objective of the policy** is to help allocations of concessional resources ensure that eligible countries always have sufficient allocations to promote development progress while avoiding problems of excess allocation (as manifested in operational/portfolio indicators or worsening debt sustainability).

3.3 **The PBA envelope for each biennial proposal for the allocation of resources will be guided by six indicators on country absorption, debt sustainability and IDB relevance**. Use of these indicators will allow Management to present to the Board of Executive Directors clear projections about the operational and debt implications of different PBA envelope scenarios.

3.4 **The six indicators listed below are to be used to guide the determination of the proposed PBA envelope** (Annex II of AB-3259 provides further technical specifications on each indicator). These indicators build upon document GN-2442, which identified four of the indicators, albeit more as goals than as components of a methodology.

A. Operational indicators

1. Allocation relative to disbursements (%)
2. Undisbursed loan/grant balances (ULB) 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. IDB relevance indicator

6. Change in IDB external debt as share of total public external debt (percentage points)

3.5 Use of the above-mentioned six indicators provides an optimal compromise that ensures that the projection of the operational and debt sustainability implications of different PBA envelopes is sufficiently comprehensive and robust, without becoming unwieldy. Data for all six indicators is available for all countries that are plausible candidates for eligibility for concessional assistance. Indicators could be amended, added or removed in the future, subject to the approval by the Board of Executive Directors.

3.6 ***Projection period.*** Given the lags for allocations to translate into loan approvals and then disbursements, indicators will be projected for a period of six years, which would cover the respective biennial allocation period and the subsequent two biennial allocation periods.[61]

3.7 **The six-year projected period of the six indicators will be presented for each eligible country in a graphical form.** In addition, akin to the graphical presentations in the Long-Term Financial Projections (LTFP), zones are colored to aid understanding. However, unlike the LTFP, the color zones are principally to aid the reader and are not automatically associated with possible operational consequences.

3.8 ***Debt Sustainability Framework*.** The aforementioned indicators on debt sustainability are focused on IDB debt, which is the debt variable that is directly influenced by decisions about the size of the PBA envelope. Nevertheless, the risk of debt distress and analysis of the debt sustainability analyses produced for the concessional resource allocation proposals will still be used to inform and guide assessment of an appropriate PBA envelope in a qualitative manner. The debt sustainability analyses will provide the context for the three debt sustainability indicators specific to the IDB.

3.9 **The use of multiple indicators rather than a single indicator leads to a question of how to aggregate the signals of different indicators**. In order to aggregate the signals from multiple indicators in several countries, as part of the methodology, a scoring mechanism will be used. This mechanism is a transparent, quantified and consistent method to compare multiple possible PBA envelopes within a large range. The scoring counts the number and distance of deviations from the "green zones" over a six-year period for each of the concessional eligible countries. This is determined by assigning a score of zero to an observation in a green zone, 1 to an observation in a yellow zone, 2 to an orange zone, and 3 to a red zone. Scores for each scenario would be summed for the six projection years. Lower scores reflect less deviation from green zones and are superior.

3.10 **The aggregation of scores can be replicated for many possible sizes of PBA envelope, allowing an easy comparison between different PBA envelope sizes**. Reflecting the two-tailed risks, comparison across all possible PBA envelopes likely follows a "U-shape". Small PBA envelopes have high scores (i.e., are sub-optimal). Scores then decline (i.e., improve) as the PBA envelope increases. Eventually, beyond a certain point, the scores start to rise again. PBA envelopes can be too small, well balanced, or too large.

3.11 **Proposals for the allocation of concessional resources will include a figure that "scores" different sizes of PBA envelope**, in order to provide the Board of Executive Directors with a transparent summary of the deviation scores across the entire plausible range of PBA envelope sizes. Furthermore, within that figure, Management may indicate the location of three possible PBA envelope sizes: (i) proposed PBA envelope for the concessional resource allocation; (ii) the "deviation-minimization scenario"; and (iii) the "SG envelope-coefficient scenario". These three PBA envelope scenarios may similarly be shown by indicator and country.

3.12 **The "Deviation-Minimization Scenario" is the PBA envelope in dollar terms that minimizes the number and distance of observations outside green zones**. This is the PBA envelope that would steer the optimal path between too small and too large envelopes.

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[61] Projections of these indicators for six years are indicative and only for the purposes of applying this methodology. They are not binding in any way and allocations continue to be determined on a biennial basis, as they have been since 2007.

As above, biennial proposals for the allocation of concessional resources will include the "deviation-minimization scenario", showing the operational and debt implications of that PBA envelope in terms of the indicators and its location in the summary figure.

3.13 For referential purposes only and when Management so determines, biennial proposals for the allocation of concessional resources may indicate the location of the PBA envelope size corresponding to an "SG envelope coefficient scenario" in the summary figure of the PBA envelope scoring.[62]

3.14 **Ensuring that the PBA envelope is consistent with the Bank's long-term financial capacity remains a *sine qua non* requirement**. Therefore, the determination of the PBA envelope will be coordinated with the Finance Department at an early stage in the process of preparing the Bank's Long-Term Financial Projections (LTFP). The Bank will also continue to report *ex post* on the cost of the provision of concessional assistance in the biennial reviews of the EPBA/DSF.

3.15 **There is a single PBA envelope to which the PBA formula is applied to derive country allocations**. Proposed PBA envelopes are an integrated part of biennial concessional resource allocation proposals. Projections of the indicators proposed will be included in the annexes of the biennial concessional resource allocation proposals. The PBA envelope methodology consists of an information-rich framework for dimensioning the PBA envelope, and Management's proposed PBA envelopes — like all other parts of the concessional allocation proposals — will be subject to consideration and approval by the Board of Executive Directors. Future changes to the methodology to determine the size of the PBA envelope are also subject to the consideration and approval by the Board of Executive Directors.

C. Background

3.16 **The determination of the size of the concessional allocation envelope has evolved over time**. At least four broad phases can be identified: (i) **pre-2010** – a traditional availability of funds approach; (ii) **2010-2016** – pre-set envelopes determined by a 10-year projection of demand made in 2010; (iii) **2017-2020** – a coefficient of projected non-concessional lending; and (iv) **from 2021** – envelope based on eligible countries' absorption and affordability for the Bank.

3.17 **Prior to 2010, the size of concessional allocations was anchored by the projected financial capacity of the Fund for Special Operations (FSO)**. The Agreement on Concessional Resources of the Bank and Related Matters (AB-1960), approved by the Board of Governors in December 1998, established the annual envelopes for the allocations of FSO and IFF resources until 2006. The envelopes for the two FSO allocations between 2007-2010 were guided by the financial scenario in Annex II of Implementing Multilateral Debt Relief and Concessional Finance Reform at the IDB (CA-474-2) and updated by the financial projections of Table 2 in "FSO. Proposal for the allocation of resources 2009-2010" (GN-2442-16).

[62] The SG envelope-coefficient scenario refers to a scenario where the amount of the PBA envelope used in the projection for 6 years corresponds to a percentage of the projected non-concessional SG lending envelope in the latest Bank Long-Term Financial Projections.

3.18 **The size of the concessional allocation envelopes for the period 2010-2016 were based on "demand projections"** discussed in the context of the Ninth General Increase in the Resources of the IDB (IDB-9).[63] Table 3 of the "Fund for Special Operations and IDB Grant Facility 2011 Long-Term Financial Plan" (FN-656-2) presented the projected FSO approvals for 2010-2020. In the demand projections, the concessional envelope was simply projected to grow by approximately 6 percent per annum for the period from 2011 until 2020. As a result, the envelope for 2011-2012 (GN-2442-32) was 15.8 percent larger than that of 2009-2010 (even though the 2009-2010 envelope had been increased twice as a counter-cyclical measure), and the envelopes for 2013-2014 (GN-2442-42) and 2015-2016 (GN-2442-46) each grew by 13 percent. This methodology was not linked to the countries' absorption capacity.

3.19 **For the two concessional allocations from January 2017 to December 2020, the PBA envelope was linked directly to the Bank's overall sovereign-guaranteed (SG) non-concessional lending envelope.** This methodology was approved by Board of Governors in September 2016.[64] Specifically, the PBA envelope was determined as a percentage of the Bank's non-concessional SG lending program as projected for the next two years in the Bank's latest Long-Term Financial Projections (LTFP). The benefits of this methodology were seen as: (i) embedding the PBA envelope in the Bank's broader financing decisions, thus ensuring coherence between Concessional OC and non-concessional OC lending; (ii) anchoring the growth in concessional financing to the growth in overall OC financing; and (iii) avoiding the EPBA envelope getting locked into a trajectory based on long-term macroeconomic projections.

3.20 **Nevertheless, Management's review[65] of the initial experience with the new mechanism for determining the size of the EPBA envelope** concluded that the mechanism was insufficiently related to country needs and absorption capacity, given its exclusive focus on the Bank's financial supply capacity, which, in turn, is sensitive to changes in external variables.

3.21 **The current methodology, which was approved by the Board of Governors on March 11, 2021, places primary emphasis on eligible countries' absorption and debt sustainability.** Financial affordability in terms of the consistency of proposed PBA envelopes with the Bank's long-term financial capacity remains a *sine qua non* requirement. This methodology was used for the concessional allocation from January 1, 2021-December 31, 2022.

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[63] "FSO. Proposal for the allocation of resources 2011-2012" (GN-2442-32) mentions that the projections were discussed in the context of GCI-9. However, the "Report on the Ninth General Increase in the Resources of the IDB" itself does not include the projections or refer to them.

[64] "Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets" (AB-3066-2), Recommendation III of Resolution AG-9/16, approved by the Board of Governors on September 1, 2016.

[65] "Review of the Implementation of the DSF and EPBA 2017-2018. Final version", GN-2442-68. Although the Review identified issues with the new mechanism for determining the size of the PBA envelope, it also concluded that the vast majority of the reforms and changes implied by AB-3066-2 had been implemented smoothly.

IV. THE PERFORMANCE-BASED ALLOCATION

A. Source of applicable policy

4.1 **The currently applicable policies governing the performance-based allocation (PBA) are set out in two documents:** (i) "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" (document GN-2442), which was approved by the Board of Executive Directors in February 2007**;** and (ii) the "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (document GN-2442-71), which was approved by the Board of Executive Directors on February 24, 2021. A third document — "A Proposal to Amend the EPBA Portfolio Performance Indicator" (document GN-2442-69) — contains the methodology for computing one variable in the PBA formula.

B. The policy

4.2 **The PBA envelope is the entire amount of resources to be allocated in a biennial resource allocation to countries eligible for concessional resources.** The PBA envelope is divided between eligible countries into individual country allocations through the application of a PBA formula that includes performance and needs variables.

4.3 **The PBA formula for concessional resources has three major elements: (i) population size; (ii) Gross National Income (GNI) per capita; and (iii) performance**. Performance is estimated as the average of the quality of the institutional and policy framework (with a 70% weight) and portfolio performance (with a 30% weight). The population size variable has an exponent of 0.5, in order to favor countries with relatively small populations. The GNI per capita variable has an exponent of -0.125, in order to steer, on the margin, larger allocations to poorer countries. The performance variable has an exponent of 2, in order to steer larger allocations to countries with higher measured performance.

PBA formula

$$\text{Country allocation score} = POP^{0.5} \text{ x } GNIpc^{-0.125} \text{ x } [0.7xCIPE + 0.3xPPI]^2$$

$$\text{Country allocation share} = \frac{\text{Country allocation score}}{\text{Sum of allocation scores of all eligible countries}}$$

Where:
POP = population size
GNIpc = Gross National Income per capita in current US dollars
CIPE = Country Institutional and Policy Evaluation
PPI = Portfolio Performance Indicator

4.4 Data for **population** and **GNI per capita** are taken from the World Bank's World Development Indicators (WDI) database.[66]

4.5 **The quality of the institutional and policy framework is measured by biennial Country Institutional and Policy Evaluations (CIPE)**. The criteria and methodology for calculating the CIPE were originally introduced in 2002. CIPE criteria were grouped into four major policy clusters or categories, each of which had a specific weight in the total CIPE score: (i) Economic management (15%); (ii) Structural policies (20%); (iii) Policies for social inclusion/equity (35%); and (iv) public sector management and institutions (30%). The four policy clusters and weights have been unchanged from 2002 to date. The 2002 CIPE had only 10 variables (GN-1856-31). This was expanded to 16 variables in 2010, when the CIPE was substantially harmonized with the World Bank's Country Policy and Institutional Assessment (CPIA). The World Bank's 16 CPIA criteria and the detailed rating guide form the basis for the CIPE. In most cases, CIPE criteria are identical to the CPIA criteria. In several cases, notably the criterion for gender equality, indigenous people and people of African descent, criteria have been tailored to developmental conditions in Latin America and the Caribbean. The basic procedures and questionnaire for the CIPE is included in an annex to each biennial allocation proposal.

4.6 In 2010, **quantitative indicators** (with a weight of 25% within a criterion) were introduced for some criteria in the CIPE (GN-2442-32), as recommended by the Office of Evaluation and Oversight (OVE) [documents RE-279 and RE-376]. The IDB is the only MDB that mixes quantitative scores with the scores from the comprehensive qualitative assessment. See A Brief History of the CIPE at the IDB for information on the evolution of the CIPE over time.

4.7 **The portfolio performance indicator (PPI) measures portfolio performance of IDB-supported projects in a concessional eligible country**. When the PBA system was introduced in 2002, as approved by the Board of Executive Directors in June 2002 (document GN-1856-31), "portfolio performance" was defined as the amount of undisbursed loan balances (ULB) in projects classified as "*problem*" projects and "*on alert*" projects as a percentage of the total undisbursed amount of all projects in execution in a country.[67] The PPI has evolved over time but until 2020 fundamentally it focused mainly on progress in project execution.[68]

4.8 **On February 17, 2021, the Board of Executive Directors approved "A Proposal to Amend the EPBA Portfolio Performance Indicator"** (document GN-2442-69), which introduced development outcomes to complement project execution and which contains the current methodology for computing the PPI. The PPI is a score between 1 and 6 comprised of two components that are related to project execution and development outcomes.

[66] GNI per capita is in current US dollars and uses the Atlas method. This is the same series used for the income criterion of country eligibility rules.

[67] Strategic Planning and Budget Department (June 2002) "Proposal for a performance-based allocation of FSO resources. New revised version." (GN-1856-31).

[68] The evolution of the PPI since 2002 can be found in "A Proposal to Amend the EPBA Portfolio Performance Indicator", (GN-2442-69).

4.9 **The first component of the PPI, which is related to progress in project execution, is the percentage of undisbursed loan or grant balances (ULB) represented by projects classified as "problem" and "on alert" in the Bank's portfolio monitoring system**. The measurement point is December 31st of the year prior to the submission of a biennial allocation proposal and project classifications come from the Progress Monitoring Reports (PMR) completed by March 31st of the following year. The PMR classification is complemented by a "second filter", solely for the purposes of concessional resource allocations. This second filter is a binary indication of extensions of the final disbursement date beyond 24 months. The second filter has no impact on a project's PMR classification itself, but it provides an extra check on a "satisfactory" rating under the PMR. A project's ULB is classified as satisfactory for the PPI only if it is classified as satisfactory in both the PMR and the second filter. If the PMR flags the project "on alert" or "problem" or the second-filter indicator flags the project as "unsatisfactory", the ULB of that project is counted towards the unsatisfactory ULB of the portfolio. PMR sub-scores range from a minimum of 1 (if unsatisfactory ULB accounts for 100% of the country's ULB) to a maximum of 6 (if none of a country's ULB is in projects classified as "unsatisfactory").

4.10 **Per GN-2442-69, the second-filter indicators are being phased out**. Two indicators were phased out prior to the 2021-2022 concessional allocation and the last second-filter indicator — disbursement extensions beyond 24-months — will be phased out when Management is confident that it is no longer of value. Management will inform the Board of its termination in the respective proposal for the allocation of concessional resources.

4.11 **The second component of the PPI, which is related to development outcomes in project execution, is the simple average of a country's ratings for project performance and results for sovereign-guaranteed (SG) operations at project closure**. These ratings are provided in Project Completion Reports (PCRs) and are published in the Bank's annual Development Effectiveness Overview (DEO). The average overall rating of a country's PCRs in the latest four annual DEOs are used in order to generate a greater number of total PCR rating scores.[69] The validated OVE rating scores are used to ensure complete independence in ratings.

4.12 **PCRs are also rated between 1 and 6**. The PPI rating of between 1 and 6 is the weighted average of the PMR-rating component and the PCR-rating component. As a transitional measure, the PCR rating had a weight of 25% in the PPI for the biennial allocation for 2021-2022 (with 75% weighting for the PMR-based ULB measure). PCR ratings and PMR-based ULB will start to have an equal 50% weight for the 2023-2024 allocation.

C. Background

4.13 **The IDB adopted a performance-based allocation system for concessional resources in 2002**. On June 19, 2002, the Board of Executive Directors approved document GN-1856-31 "**Proposal for a Performance Based Allocation of FSO Resources**".[70] The

[69] As such the PCR ratings from the DEOs for 2017-2020 were used as inputs to the PPI for the "Proposal for the Allocation of Concessional Resources 2021-2022" and the PCR ratings from the DEOs for 2019-2022 will be used as inputs to the PPI for the "Proposal for the Allocation of Concessional Resources 2023-2024".

[70] Strategic Planning and Budget Department (June 2002) "Proposal for a performance-based allocation of FSO resources. New revised version." (GN-1856-31).

document defined an allocation methodology based on population, Gross National Product per capita, a Country Institutional and Policy Evaluation (CIPE), and portfolio performance. Shortly afterwards, the Board of Executive Directors approved a similar methodology for the Bank's other arm of concessional resources – the IFF.[71]

4.14 On February 21, 2007, the Board of Executive Directors approved document GN-2442 **"Implementation of multilateral debt relief and concessional finance reform at the IDB. Proposal for the implementation of a Debt Sustainability (DSF) and Enhanced Performance-Based Allocation (EPBA) framework".** GN-2442 significantly reformed the PBA, introducing an exponential formula, similar to the one used by IDA and other multilateral organizations.

4.15 On February 24, 2021, the Board of Executive Directors approved the "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (document GN-2442-71). GN-2442-71 retained the formula approved in 2007 except for changing the exponent on GNI per capita from -1 to -0.125. This change harmonized the IDB with the GNI per capita variables in the formulas of IDA and of the AfDB. GN-2442-71 also changed the definition of the PBA envelope to include the entire amount of resources allocated in a concessional allocation instead of just the concessional portion of the overall resources allocated.

4.16 A **Technical Briefing on the Performance-Based Allocation** (PP-1075) for the Board of Executive Directors on July 28, 2020 provided an overview of: (i) the rationale for using a PBA system; (ii) the contents of the IDB's PBA system; and (iii) an evaluation of the strengths of the IDB's PBA, including a comparison with the other six institutions that use a PBA system.

4.17 After a nearly 20-year process of harmonization, the IDB's PBA has become arguably the part of the concessional framework that is most harmonized with the other six international organizations using a PBA system. The IDB's PBA has several notable features:

- the PBA formula is the simplest, most succinct, and easiest to understand formula among the PBA systems;[72]
- almost all the variable weights and exponents on variables are at the modal/median level among the seven organizations' PBAs;[73]

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[71] Strategic Planning and Budget Department (July 2002) "Proposal for a Performance-based allocation of IFF resources for the period 2002-2003", (FN-263-24). The IFF methodology included population, GDP per capita, the CIPE, portfolio performance, and the ratio of debt service to official creditors to exports of goods and service. As of 2002, five countries were eligible for FSO resources (Bolivia, Guyana, Haiti, Honduras and Nicaragua) and seven countries were eligible for IFF resources (the Dominican Republic, Ecuador, El Salvador, Guatemala, Jamaica, Paraguay and Suriname).

[72] See Annex I, "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework", (document GN-2442-71).

[73] See IDB Technical Briefing on the Performance-Based Allocation (PBA) (PP-1075) and "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (document GN-2442-71). The only exception is the exponent on the population variable, where the IDB exponent is close to but not at the median level (which is the 0.6 of the AsDB).

- the IDB PBA gives "clean" allocations. It is the only PBA system where allocations for all countries are driven only by the PBA formula and are unaffected by minimum allocations or caps.[74]

[74] See Annex II, "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (document GN-2442-71).

V. Determination of Concessionality of Country Allocations

A. Source of applicable policy

5.1 **The currently applicable policy governing the determination of the composition of financing and thereby the level of concessionality of countries' PBA allocations is set out in** the "Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework" (document GN-2442-71), which was approved by the Board of Executive Directors on February 24, 2021.

B. The policy

5.2 **Four variables are used to determine the composition of financing (blending) and thereby the level of concessionality for each country's PBA allocation.** The four variables are: (i) relative poverty (as determined by an inverted GNI per capita scale); (ii) an index of vulnerability; (iii) the risk of debt distress, using the joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries (LIC DSF); and (iv) an index of non-concessional borrowing. The four variables are combined using a points system, which is then mapped into a proposed composition of financing (blending) for each country's PBA allocation.

5.3 **Three variables contribute to a country's combined concessionality points score: (i) low GNI per capita; (ii) vulnerability; and (iii) the LIC DSF risk of debt distress.**

5.4 **Concessionality points from <u>GNI per capita</u>** are calculated on a 0-100 scale by subtracting a country's latest GNI per capita from the GNI per capita threshold established in 2016 (US\$2,834):

$$\text{MAX}\left[0, \left[\frac{(2{,}834 - \text{GNI per capita}_i)}{2{,}834} \ast 100\right]\right]$$

5.5 **Consequently, concessionality points decline as GNI per capita increases.** A country with a low GNI per capita receives high concessionality points while countries with a GNI per capita above US$2,834 receive zero concessionality points from this variable.

5.6 **Concessionality points from <u>vulnerability</u> are calculated by using a vulnerability index.** This index is a composite index using six existing indices already publicly available and external to the Bank covering different facets of vulnerability (small population size, island or landlocked status, remoteness from world markets, exposure to natural hazards, vulnerability to climate change, and fragility) [Annex VIII of GN-2442-71]. Considerations regarding the selection of these indices are elaborated in Annex VII of GN-2442-71. More vulnerable countries, as reflected by higher scores on the vulnerability index, receive more concessionality points.

5.7 **Concessionality points from the <u>risk of debt distress</u>** are assigned by following the percentage of COC in the "Proposal for the Allocation of Concessional Resources 2019-2020" (GN-2442-53) (Table 2):

Table 2. Concessionality points from the risk of debt distress

Risk of debt distress in Debt Sustainability Analysis under the LIC DSF	**Concessionality points**
High risk of debt distress or in debt distress	100
Moderate risk of debt distress (limited space to absorb shocks)	65
Moderate risk of debt distress (some space to absorb shocks)	50
Moderate risk of debt distress (substantial space to absorb shocks)	40
Low risk of debt distress	30

5.8 **The fourth concessionality variable — the extent of non-concessional borrowing —** serves as 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 in US dollars divided by that country's gross national income (GNI) (Annex IX of GN-2442-71). The concessionality points score on non-concessional borrowing is the same as the share of non-concessional borrowing/GNI, i.e., non-concessional borrowing amounting to 5.2% of GNI is scored as 5.2 points.

5.9 **Concessionality points from the three contributing variables (GNI per capita, vulnerability and risk of debt distress) are summed and divided by three to average their contribution of concessionality points.** The score from non-concessional borrowing is subtracted from this average of the three concessionality contributing variables in order to generate a **<u>combined concessionality points score</u>** (column F, Annex V of GN-2442-71). The combined concessionality points score are mapped into a proposed financing blend and level of concessionality for each country's PBA allocation (Annex IV of GN-2442-71). By design, the highest levels of concessionality for PBA allocations will be accorded to countries with lower incomes, a high level of vulnerability, higher risk of debt distress, and lower levels of non-concessional borrowing.

C. Background

5.10 **Policies for the determination of concessionality have evolved over time**. From 1959-1972, IDB concessional resources (FSO) were directed on a sectoral basis (broadly, towards the social sectors). From 1972-2006, a country group system — primarily based on income per capita and country size – determined concessionality.[75] The risk of debt distress was not a factor.

5.11 **In 2007, under GN-2442, the IDB aligned with IDA's Grant Allocation Framework (GAF) and adopted the central GAF principle of adjusting its financing composition and concessionality in accordance with the LIC DSF risk of debt distress** ("traffic light system").[76] The risk of debt distress became the sole criterion for determining financing composition and concessionality. Income per capita and country size ceased to affect concessionality (once a country was determined to be eligible).[77] As part of the multilateral debt relief and concessional finance reform, the IDB established the IDB Grant Facility, in order to provide grant financing to low-income countries rated at "high risk of debt distress".[78]

5.12 **The current policy can be viewed as a synthesis of the two previous policies for the determination of concessionality.** It combines the per capita income and country size (albeit in a broader vulnerability concept) of the 1972-2006 policy with the risk of debt distress variable of the 2007-2020 policy. This broader combination of variables therefore more completely represents member country preferences and is more robust than either of the previous two policies. Also, it will facilitate less abrupt changes in the level of concessionality between countries' biennial allocations and ensure smooth concessionality transitions over time.[79]

5.13 **The IDB is the first of the five IFIs using the IDA GAF approach to complement the GAF so comprehensively with additional variables, and to do so on a continuous scale rather than stepwise manner.** Two MDBs partially use income or vulnerability variables to determine concessionality. IDA has long provided higher concessionality in its allocations to countries with one aspect of vulnerability — small size.[80] In addition, the CDB — which has a PBA system but is not harmonized with the GAF — adjusts its financing composition and concessionality based on income per capita-based country groupings. Since 2007, the IDB has been the only IFI to apply the IDA GAF approach to

[75] Per IDB Technical Briefing Country Classification at the IDB (PP-774), although the methodology stated that 15 indicators were used to assign countries to the country groups, the per capita income and country population size appear to have dominated and been sufficient to explain the classification.

[76] IDA (2004a) "Debt Sustainability and Financing Terms in IDA14"; IDA (2004b) "Debt Sustainability and Financing Terms in IDA14: Further Considerations on Issues and Options and IDA (2005) "Summary of IDA 14 Policies for Operational Staff", Washington, D.C.: World Bank Group.

[77] The practice of the risk of debt distress being the sole determinant of the level of concessionality started in 2007, following multilateral debt relief and with debt sustainability concerns paramount.

[78] "Multilateral debt relief and concessional finance reform at the Inter-American Development Bank IDB Grant Facility. New revised version." (GN-2442-11). Haiti was the only low-income IDB member country to be rated at high risk of debt distress from 2007-2020.

[79] Ensuring smooth concessionality transitions was a priority of the Board of Executive Directors. A very gradual concessionality transition had been achieved for Bolivia but was not guaranteed for other concessional-eligible countries.

[80] States with a population of 1.5 million or less have lending terms that have lower interest rates and longer maturities than the regular IDA loans. Traditionally, these terms applied only to small island states (i.e., with two aspects of vulnerability — small population size and island status). However, effective July 1, 2017, small economy terms were extended to all Small State Economies that are not island states (Financial Terms and Conditions of Bank Financing, World Bank, July 2021).

countries with incomes per capita above the IDA income eligibility cut-off. Hence, the risk of debt distress affects the financing blend and concessionality of allocations to all IDB concessional-eligible countries.[81]

5.14 An **IDB Technical Briefing on the Concessionality and the Debt Sustainability Framework (DSF)** (PP-1094) was provided to the Board of Executive Directors on October 19, 2020. The technical briefing provided an overview of: (i) concessionality definition and calculations; (ii) the LIC DSF; (iii) the IDA GAF; (iv) what has worked well for the IDB's concessionality framework; and (v) challenges.

[81] In this way, the IDB observes the principle of "prioritizing financing with higher concessionality, including grants, for countries with higher debt vulnerabilities, informed by the joint World Bank-IMF Debt Sustainability Framework" in IDA's Core Principles of Sustainable Financing.

ANNEX I

LIST OF PRINCIPAL CONCESSIONAL RESOURCE DOCUMENTS

(In reverse chronological order)

DATE	DOCUMENT NUMBER	DOCUMENT TITLE
Framework/methodological documents		
March 2021	GN-2442-72 / AB-3259	Proposal for a Revised Methodology to Determine the EPBA Envelope
February 2021	GN-2442-71	Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework
February 2021	GN-2442-69	A Proposal to Amend the EPBA Portfolio Performance Indicator
March 2020	FN-263-51	Proposal to Transfer the Assets and Liabilities of the IFF to the IDB Grant Facility and to Terminate the IFF. Revised version
September 2016	AB-3066-2	Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets
March 2016	GN-2442-51	Proposal for Optimizing the IDB Grant Facility Transfers from the Ordinary Capital. Revised version
April 2011	FN-656-2	FSO and IDB Grant Facility. 2011 Long-Term Financial Plan. Revised version
May 2010	AB-2764	Report on the Ninth General Increase in the Resources of the IDB
June 2007	GN-2442-11 /AB-2565	IDB Grant Facility
February 2007	GN-2442	Implementation of multilateral debt relief and concessional finance reform at the IDB. Proposal for the implementation of a Debt Sustainability (DSF) and Enhanced Performance-Based Allocation (EPBA) framework
December 2006	CA-474-2	Implementing Multilateral Debt Relief and Concessional Finance Reform at the IDB
November 2006	CA-474-1	Debt relief and permanency of the concessional window of the IDB
June 2006	CA-474	Concessional resources and debt relief
September 2003	GN-1856-40	FSO Future Eligibility Criteria. Revised version
July 2002	FN-263-24	Proposal for a Performance-based allocation of IFF resources for the period 2002-2003
June 2002	GN-1856-31	Proposal for a performance-based allocation of FSO resources. New revised version
June 2001	GN-1856-21	Alternatives for a Performance-based allocation of FSO resources
November 2000	FN-263-21	IFF Eligibility and Allocation Framework. Proposal for Distribution for the Period 2000-2001. New version

DATE	DOCUMENT NUMBER	DOCUMENT TITLE
November 2000	FN-263-19	Intermediate Financing Facility (IFF). Eligibility and allocation framework. Proposal for distribution for the period 2000-2001. New version
December 1998	AB-1960	Agreement on Concessional Resources of the Bank and Related Matters
September 1995	FN-263-8	Allocation Framework of Intermediate Financing Facility (IFF) resources under the Eighth General Increase in Resources of the Bank. New version
November 1994	GN-1856	Distribution of FSO Resources during the Eighth Replenishment Period
August 1994	AB-1704	Report on the Eighth General Increase in the Resources of the IDB
April 1989	AB-1378	Seventh General Increase in the Resources of the Bank
February 1983	AB-910	Proposal for the Sixth General Increase in the Resources of the IDB
August 1975	GP-34	Criteria for Establishing the Terms and Conditions of the Bank's Operations by Country
May 1972	AB-300	FSO-New Policy Guidelines and Preferential Treatment for Economically Less Developed Countries
Allocations since 2000		
May 2021	GN-2442-81	Proposal for the Allocation of Concessional Resources 2021-2022. Management's Note Regarding the Operational Implications of the Application of the Debt Sustainability Analysis for Haiti
April 2021	GN-2442-78	Proposal for the Allocation of Concessional Resources 2021-2022
April 2019	GN-2442-64	Revised Allocation of Concessional Resources 2019-2020
January 2019	GN-2442-57	Proposal for the Allocation of Concessional Resources 2019-2020
December 2016	GN-2442-53	Proposal for the Allocation of Concessional Resources 2017-2018
December 2014	GN-2442-46	FSO. Proposal for the Allocation of Resources 2015-2016
November 2012	GN-2442-42	FSO. Proposal for the allocation of resources 2013-2014. Revised version
February 2012	GN-2442-39	FSO. Bolivia. Proposal for Changing the Blend Composition of Resources from the FSO and OC for 2012
November 2010	GN-2442-32	FSO. Proposal for the allocation of resources 2011-2012
May 2009	GN-2442-22	FSO. Options for providing additional resources to the D2 countries in 2009-2010
April 2009	GN-2442-21	Proposal for additional financing for Haiti for 2010
April 2009	GN-2442-20	FSO. Supplementary allocation for 2009-2010
February 2009	GN-2442-16	FSO. Allocations for 2009-2010

DATE	DOCUMENT NUMBER	DOCUMENT TITLE
March 2007	FN-263-47	Proposal for the allocation of concessional resources for the IFF countries in 2007-2008
February 2007	GN-2442	Implementation of multilateral debt relief and concessional finance reform at the IDB. Proposal for the implementation of a Debt Sustainability (DSF) and Enhanced Performance-Based Allocation (EPBA) framework (included proposed FSO allocation for 2007-2008)
March 2006	GN-1856-48	Proposal for the 2006 allocation of FSO resources. Revised version
December 2005	FN-263-43	Proposal for the 2006 allocation of IFF resources
September 2005	GN-1856-45	Proposal for the 2005 reallocation of FSO resources
September 2005	FN-263-39	Proposal for the 2005 reallocation of IFF resources
September 2004	FN-263-35	Proposal for the allocation of IFF resources for the period 2004-2005. Revised version
June 2004	GN-1856-43	Proposal for the allocation of FSO resources 2004-2005. Revised version
December 2003	FN-263-32	Proposal for the 2003 reallocation of IFF resources
October 2003	GN-1856-41	Proposal for the 2003 reallocation of FSO resources
July 2002	FN-263-24	Proposal for a Performance-based allocation of IFF resources for the period 2002-2003
June 2002	GN-1856-33	Proposal for the allocation of FSO resources 2002-2003
November 2000	FN-263- 19	Intermediate Financing Facility (IFF). Eligibility and allocation framework. Proposal for distribution for the period 2000-2001. New version
May 2000	GN-1856-17	FSO. Resource allocation proposal for the period 2000-2003. Revised version
Reviews and evaluations		
April 2021	GN-2442-77	Review of the Implementation of the DSF and EPBA 2019-2020
May 2019	GN-2442-68	Review of the Implementation of the DSF and EPBA 2017-2018. Final version
March 2017	GN-2442-55	Review of the Implementation of the DSF and EPBA 2015-2016
February 2015	GN-2442-48	FSO. Review of the Implementation of the DSF and EPBA 2013-2014
March 2013	GN-2442-44	FSO. Review of the Implementation of the DSF and EPBA 2011-2012
September 2012	RE-409-1	Evaluation of the FSO during the Eighth Replenishment (1994-2010) Part II
February 2011	GN-2442-34	FSO. Review of the Implementation of the DSF and EPBA 2009-2010
October 2010	RE-376	Evaluation of the FSO during the Eighth Replenishment (1994-2010) Part I

DATE	DOCUMENT NUMBER	DOCUMENT TITLE
February 2009	GN-2442-16	FSO. Allocations for 2009-2010 (included historical review of concessional resources)
February 2009	GN-2442-15	FSO. Review of the Implementation of the DSF and EPBA 2007-2008
July 2007	GN-2442-14	Update on implementing multilateral debt relief and concessional finance reform at the IDB
June 2003	RE-279	Oversight Note on the Performance Criteria for Allocating Concessional Resources
December 2000	GN-2101	Historical Reference of the FSO and IFF Concessional Resources of the IDB
Technical presentations to the Board		
April 2021	PP-1140	Concessional Resources' Debt Sustainability Analyses, with a Special Focus on Haiti
February 2021	PP-1116-1	A Comprehensive Overview of the Three Methodological Proposals for Concessional Resources
October 2020	PP-1094	Concessionality and the Debt Sustainability Framework (DSF)
July 2020	PP-1075	The Enhanced Performance-Based Allocation (EPBA)
March 2020	PP-1036	Rules for Country Eligibility to Concessional Resources
January 2020	PP-1027	Overview of IDB Concessional Resources Framework
December 2016	PP-774	Country Classification at the IDB
July 2016	PP-729-3	Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets
June 2016	PP-729-2	Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets
March 2016	PP-729-1	Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets. Consultation Paper. Part II
March 2016	PP-729	Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets. Consultation Paper.
January 2007	CA-474-3	Implementing multilateral debt relief and concessional finance reform at the IDB

ANNEX II

"GRADUATION" YEAR BY IDB BORROWING MEMBER COUNTRY
(As of October 2021)

	IDB Concessional	IDA	IMF PRGT
Argentina	1976	--	--
Brazil	1976	--	--
Mexico	1976	--	--
Venezuela	1976	NM	--
Chile	1979	FY1964	--
Colombia	1979	FY1964	--
Peru	1979	--	--
The Bahamas	1994	--	--
Barbados	1994	--	--
Costa Rica	1994	FY1964	--
Panama	1994	--	--
Trinidad and Tobago	1994	--	--
Uruguay	1994	NM	--
Belize	--	--	--
Jamaica	2004	NM	--
Dominican Republic	2004	FY1973 1/	1995
Suriname	2009	NM	--
Ecuador	2009	FY1974 1/	--
El Salvador	2009	FY1977 1/	--
Guatemala	2015	--	--
Paraguay	2015	FY1977 1/	--
Bolivia	2019	FY2017	2015
Guyana	2021	IDA only/gap ("Small economy" terms)	2020
Honduras	Eligible	IDA only/gap	Eligible
Nicaragua	Eligible	IDA only/gap	Eligible
Haiti	Eligible	IDA only	Eligible

Sources: IDB: documents FN-263-35; GN-2442-16; GN-2442-46; GN-2442-57; GN-2442-78; IDA Review of IDA's Graduation Policy, October 2012; World Bank: Financial Terms and Conditions of Bank Financing, June 29, 2021; IMF Finance Department list (September 2018) "Countries Eligible for IMF Concessional Assistance Since 1986" and IMF (2020) "Eligibility to Use the Fund's Facilities for Concessional Financing 2020".
NM = non-member. There are 189 member countries of the IBRD but only 173 members of IDA.
1/ Fiscal year of last IDA credit.

ANNEX III

SYNTHETIC CREDITWORTHINESS INDEX (as of September 2021)

			% Concessional resources in last allocation									
			Grants	Concessional OC								Regular OC only
S & P equivalent	Outlook	Numerical equivalent	100	80	70	65	50	40	35	30	20	0
BB+	P	30	130	110	100	95	80	70	65	60	50	30
BB+	S	31	131	111	101	96	81	71	66	61	51	T&T
BB+	N	32	132	112	102	97	82	72	67	62	52	PR
BB	P	33	133	113	103	98	83	73	68	63	53	33
BB	S	34	134	114	104	99	84	74	69	64	54	34
BB	N	35	135	115	105	100	85	75	70	65	55	GU
BB-	P	36	136	116	106	101	86	76	71	66	56	BR
BB-	S	37	137	117	107	102	87	77	72	67	57	BH
BB-	N	38	138	118	108	103	88	78	73	68	58	DR
B+	P	39	139	119	109	104	89	79	HO	69	59	39
B+	S	40	140	120	110	105	90	80	75	70	60	40
B+	N	41	141	121	111	106	91	81	76	71	61	JA
B	P	42	142	122	112	107	92	82	77	72	62	BO
B	S	43	143	123	113	108	93	83	78	73	63	43
B	N	44	144	124	114	109	94	84	79	74	64	CR
B-	P	45	145	125	115	110	95	85	80	75	65	45
B-	S	46	146	126	116	NI	96	86	81	76	66	46
B-	N	47	147	127	117	112	97	87	82	77	67	47
CCC+	P	48	148	128	118	113	98	88	83	78	68	BA, ES
CCC+	S	49	149	129	119	114	99	89	84	79	69	EC
CCC+	N	50	150	130	120	115	100	90	85	80	70	50
CCC	P	51	151	131	121	116	101	91	86	81	71	51
CCC	S	52	152	132	122	HA	102	92	87	82	72	GY
CCC	N	53	153	133	123	118	103	93	88	83	73	AR
CCC-	P	54	154	134	124	119	104	94	89	84	74	54
CCC-	S	55	155	135	125	120	105	95	90	85	75	55
CCC-	N	56	156	136	126	121	106	96	91	86	76	56
CC	P	57	157	137	127	122	107	97	92	87	77	57
CC	S	58	158	138	128	123	108	98	93	88	78	58
CC	N	59	159	139	129	124	109	99	94	89	79	BL
C	S	60	160	140	130	125	110	100	95	90	80	SU
C	N	61	161	141	131	126	111	101	96	91	81	61
SD	S	62	162	142	132	127	112	102	97	92	82	VE

Eligible (SCI score ≥90) Grey zone (80≤ SCI score <90)

Sources: Methodology from "Proposal for Sustaining Concessional Assistance by Optimizing the IDB's Balance Sheets", (AB-3066-2, November 2016; scale of numerical equivalent of average ratings runs from AAA=1 to SD=62, provided by the Office of Risk Management (RMG); country ratings by S&P, Moody's and Fitch from Trading Economics, 09/10/2021; % of concessional resources in last allocation from "Proposal for the allocation of concessional resources 2021-2022", April, 2021. Unrated countries assigned "CCC Stable" rating.