Sustainable Development Finance Policy (SDFP)

Abha Prasad, Lead Economist, IDA Strategy and Operations, World Bank

April 2022
Sustainable Development Finance Policy (SDFP)

Main Objective: Incentivize countries to move towards transparent, sustainable financing, and promote coordination between IDA and other creditors in support of countries’ efforts.

Debt Sustainability Enhancement Program (DSEP)

Program of Creditor Outreach (PCO)
Debt Environment in the Pacific Region

**Figure 1:** Public Debt in IDA and Pacific Island Countries (percent of GDP, average)


**Figure 2:** PPG External Debt Composition in Pacific IDA countries (share in total PPG external debt)

Source: Computed based on IDS 2022.
Figure 3a: Risk of External Debt Distress in IDA Countries
*(percentage share)*

* Percentage share of IDA countries that were rated under LIC-DSF

Source: World Bank-IMF DSA Database as of January 2022; Debt Management Monitor, 2021; and World Bank-IMF DSA reports
In FY21 and FY22, 8 countries had debt ceilings:
- 1 non-zero NCB
  - PNG
- 7 zero NCB

At least 1 PPA on Debt Transparency: 40% (FY21), 40% (FY22)
At least 1 PPA on Fiscal Sustainability: 20% (FY21), 20% (FY22)
At least 1 PPA on Debt Management: 80% (FY21), 80% (FY22)

*Data from Papua New Guinea, Fiji, Kiribati, Marshall Islands, Micronesia, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.*
SDFP and Non-concessional borrowing ceilings

Main Objectives: (i) ensure that non-concessional financing does not lead to unsustainable debt build-ups, and (ii) provide a clear signal to lenders and borrowers on the need for financing on adequate terms and volumes.

- **Unsustainable outlook -> zero ceiling by default**
  - High risk of, or in, debt distress with a sustainable outlook -> zero ceiling in principle

- **Moderate risk of debt distress -> ceilings to avoid downgrades**
  - Countries with limited space to absorb shocks are expected to have tighter ceilings

- **Low risk of debt distress -> normally no PPAs, but ceiling can be triggered (e.g., rapid and significant build up of non-concessional debt)**
Lessons and Early Findings

1. Protracted effect of COVID-19 made formulation and implementation of PPAs challenging.

2. Continuity of reforms is important to ensure implementation of PPAs to address debt vulnerabilities over medium to long term.

3. SDFP supports World Bank’s Debt agenda to strengthen client efforts on debt transparency.

   - 28 IDA-eligible countries improved debt data dissemination practices in 2021, and 75 percent of these countries implemented PPAs on debt transparency.

4. PPAs have continued to be part of DPF operations strengthening regular policy engagement in debt transparency and debt management with clients.
Program of Creditor Outreach (PCO)

Strengthening coordination of the SDFP implementation with the policies of other creditors

Selected engagements

- IMF
- MDBs
- Bilateral creditors
- Information sharing
Next Steps

**DSEP**

- FY22 PPA Implementation Assessments
- FY23 PPA Notes

**PCO - further strengthen coordination with other creditors for results**

- Enhancing the information sharing through IDA websites and ‘Lending to LICs’ Mailbox to support debt transparency
- Bi-annual high-level creditor outreach events at the global and regional level
- Scale up the effort of in-country creditor coordination, especially in countries and regions where non-Paris Club and private sector creditors are active