IFAD
Investing in rural people

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Proposed update to the Non-Concessional Borrowing Policy

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Action: The Executive Board is invited to approve the proposed update to the existing Non-Concessional Borrowing Policy, including its renaming as the Sustainable Lending Policy.

Technical questions:

Hernán Alvarado
Associate Vice-President and Chief Financial Officer
Financial Operations Department
e-mail: h.alvarado@ifad.org

Malek Sahli
Lead Development Finance Officer
Financial Operations Department
e-mail: m.sahli@ifad.org

For more information on IFAD Non-concessional Borrowing Policy please visit Non-Concessional Borrowing Policy (EB 2018/125/R.46/Rev.1).

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Executive summary

1. The development finance landscape has become more complex, particularly for low-income countries (LICs) and emerging markets (EMs), which have diversified their borrowing sources to include the international capital markets and bilateral loans. These types of financing, in addition to their complexity, do not carry the same requirements in terms of debt transparency and reporting as lending from multilateral development banks (MDBs) or official development assistance.

2. These changes have increased the incidence of unreported public sector debt and reduced public debt management capacity in borrowing countries, highlighting the need for sustainable borrowing practices and improved creditor coordination. In recent years, development finance institutions (DFIs) have renewed their commitment to improving debt management, transparency and fiscal sustainability by revising their non-concessional borrowing policies (NCBPs).

3. During the Twelfth Replenishment of IFAD's Resources (IFAD12) midterm review, IFAD Management proposed including a commitment under IFAD13 to update the existing NCBP. This document updates IFAD's current NCBP and will replace it in its entirety with the Sustainable Lending Policy (SLP).

4. In establishing the principles and arrangements for this update to the NCBP, IFAD considered the following:

   - A comprehensive consultation process with DFIs, aided by a peer review by the World Bank and the African Development Bank;
   - The need to simplify and harmonize policies and core principles, while tailoring the implementation arrangements to IFAD;
   - Promoting better debt management and transparency to enhance access to financing, without compromising IFAD's financial sustainability and current performance-based allocation system methodology; and
   - Advocating for stronger links between debt, governance and economic growth.

Figure 1
Update to the Non-Concessional Borrowing Policy and transition to the Sustainable Lending Policy

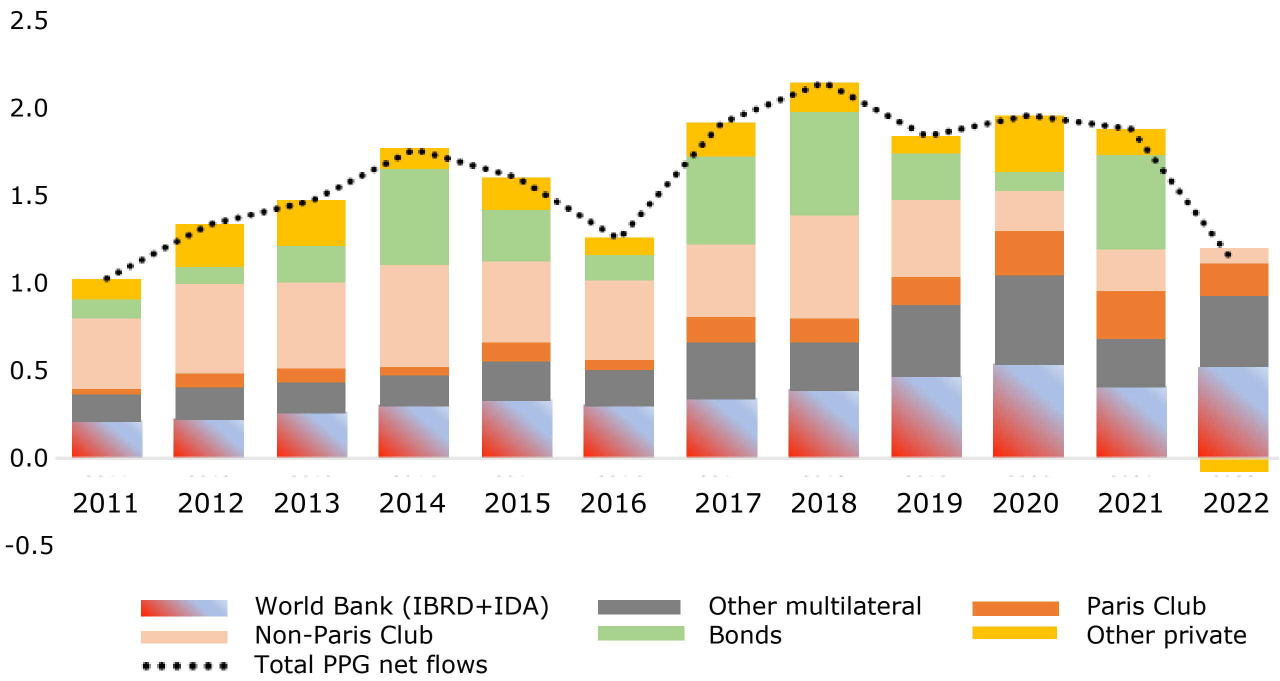
Topics	*NCBP*	*SLP*
Objective and coverage	Mainly debt sustainability with a focus on the risk of cross-subsidization Countries in debt or at high risk and countries post Multilateral Debt Relief Initiative	Enhanced focus on debt sustainability and transparency Countries eligible for concessional financing terms
Borrower remedies (arrangements)	**Disincentives.** Volume reductions and/or hardening of terms	**Incentives.** Satisfactory implementation of policy and performance actions may offer greater access to financing through the reallocation exercise, subject to IFAD's financial sustainability
Creditor outreach	**Limited** and not properly structured	Enhanced information-sharing, coordination
Governance	The Operational Transition Committee covered by another committee	**Integrated** into existing operational committees

5. This document includes: (i) an overview of the context of the finance landscape in LICs and EMs; (ii) an analysis of the limitations of the existing NCBP; (iii) a snapshot of the current policies adopted by other MDBs; and (iv) the proposed update to the NCBP.

I. Proposed update to the Non-Concessional Borrowing Policy

1. The development finance landscape has become more complex in the recent past. Low-income countries (LICs) and emerging markets (EMs) have increasingly borrowed from the international capital markets and (public and private) bilateral lenders. From 2010 to 2022, the share of such debt in public and publicly guaranteed (PPG) debt as a proportion of an EM or LIC external debt increased from 22 to 45 per cent. This has occurred in tandem with reduced financing from multilateral development banks (MDBs) and official development assistance (ODA). Other recent trends include higher financing costs and global shocks.

Figure 1
Net flows to countries eligible for MDB concessional resources by creditor type as a percentage of total GDP



Source: World Bank International Debt Statistics (IDS)/Debt Reporting System (DRS) database.
IBRD: International Bank for Reconstruction and Development.

2. These changes have brought about situations of unreported public sector debt and low public debt management capacity across borrowing countries, which calls for a broader focus of sustainable borrowing beyond the non-concessional borrowing limits that were the primary focus of non-concessional borrowing policies (NCBPs).

3. More recently, to help address these challenges, the development finance institutions (DFIs) community has renewed its efforts to promote better debt transparency and fiscal sustainability, stronger debt management practices and creditor coordination. One major initiative is the revision, by many DFIs, of their respective NCBP. This shift aims to support countries' public debt management reform efforts and to encourage prudent lending decisions by DFIs.

II. Limitations of IFAD’s existing Non-concessional Borrowing Policy

4. **Background.** The implementation of IFAD’s existing NCBP, approved in 2019, has shown several limitations in terms of scope, governance and applicable remedies. Thus, the NCBP has been reviewed to provide a set of core principles and arrangements that are better suited to evolving best practices on sustainable development financing, in alignment with the trends adopted by other DFIs.

5. **Scope limited to breach of non-concessional borrowing limits.** The NCBP was established to address the risk of cross-subsidization of non-concessional debt with concessional debt. It focused on breaches of non-concessional borrowing limits, rather than fostering sustainable borrowing by Member States. In addition, its scope has limited debt coverage, which calls for an extension of the analysis of country debt coverage.[1] There is a need to support LIC and EM debt sustainability through sound debt transparency and management to enhance fiscal sustainability, as well as better coordination among all creditors.

6. **Applicable remedies driven by disincentives in terms of volume and financing terms.** Similarly to other DFIs, the remedies for the breach of non-concessional borrowing limits in IFAD’s existing NCBP are centred around disincentives such as cutting volume or hardening terms. This approach does not affect the debt-related public policies of eligible borrowers. Now there is a greater focus on incentives and coordinated technical support to reduce debt vulnerabilities and enhance debt management capacities. Therefore, IFAD proposes to discontinue the disincentives approach in its NCBP and move towards a set of arrangements that are more suitable to its business model and internal capacities.

7. **Need for harmonized responses and enhanced exchange of information among DFIs to address non-concessional borrowing (NCB) breaches**. The application of remedies, as related to NCB breaches, had faced a general gap in the exchange of detailed information between DFIs, particularly in terms of qualitative assessment.

8. **Governance not fully aligned with IFAD’s corporate reforms**. While under the current NCBP, the Operational Transition Committee would be the internal mechanism to review cases of NCB breaches and examine remedies, given the ongoing corporate reforms and the implementation of the wider Enterprise Risk Management Framework, it is proposed that the Executive Management Committee should carry out these duties in consultation with relevant technical divisions.

III. Implementation experience of other multilateral development institutions

9. Since the International Development Association (IDA) introduced a Sustainable Development Finance Policy (SDFP) in 2020, several concessional arms of MDBs have updated their respective non-concessional borrowing policies, aligning them with the core principles and pillars of the IDA policy, with the arrangements tailored to each institution’s business model.

A. International Development Association

10. **Policy implementation.** The IDA’s SDFP[2] is more comprehensive and broader than its previous NCBP, addressing the outcomes of a review of the IDA’s Non-Concessional Borrowing Policy.

[1] State-owned enterprise debt has increased recently, leading to increased sovereign debt vulnerabilities. Such debt is often not covered in a country’s debt data considered by NCBP.
[2] Replacing the former IDA Non-Concessional Borrowing Policy.

11. The IDA review of its previous Non-Concessional Borrowing Policy highlighted:

    (i) The limited impact of the previous policy in helping countries reduce debt vulnerabilities;

    (ii) The need to improve some aspects of implementation related to a country's debt coverage, transparency and reporting; and

    (iii) The need to improve IDA's internal decision-making process, including transparency and communication of decisions on non-concessional borrowing to borrowers, other peer DFIs and international financial institutions (IFIs) and the public.

12. **Pillars.** In response to the review, IDA focused its SDFP on two pillars:

    (i) A Debt Sustainability Enhancement Program (DSEP) that provides incentives for countries to minimize debt vulnerabilities through the implementation of performance and policy actions (PPAs) to enhance fiscal sustainability, debt transparency and debt management;[3] and

    (ii) A Program of Creditor Outreach (PCO) to facilitate information-sharing, dialogue and coordination between creditors to help mitigate debt-related risks.

13. **Positive impact.** At the recent IDA20 midterm review,[4] IDA's SDPF implementation provided a positive outlook on shifting policy actions towards stronger fiscal sustainability, including domestic resource mobilization, and advancing actions on debt transparency and debt management. The midterm review highlighted the importance of complementing the implementation of these elements with technical assistance for capacity-building.

14. At the same time, it was acknowledged that there was a need to change the implementation arrangements towards incentives through top-ups of country's annual allocations (see the annex for a comparative table of the detailed arrangements of other DFIs).

B. Other peer development finance institutions

15. In 2020, the International Monetary Fund (IMF) also revised its Debt Limits Policy (DLP), in parallel to the IDA Non-Concessional Borrowing Policy, with close coordination with IDA in terms of broader objectives and design. The two multilaterals use a shared framework to establish debt limits. This facilitates the consistency of policy advice to countries. The level of coordination has been accelerated in the context of the new DLP and IDA's SDFP, including in setting debt ceilings for countries that are not grant eligible. To align with the IMF's DLP, IDA's SDFP adopted the same level of debt coverage beyond domestic debt, in addition to external non-concessional debt.

16. **Alignment on pillars.** Most DFIs have aligned their sustainable development finance policies with IDA's policy on several elements.

    (i) The Asian Development Fund (ADF) fully adopted the IDA's SDFP pillars (DSEP and PCO) and is heavily reliant on IDA's PPAs assessment and incentive system introducing set-asides for unmet PPAs;[5]

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[3] Under the DSEP pillar, for countries with unsatisfactory PPAs, IDA introduced a top-up incentive of the country's concessional allocation of 10 per cent of the IDA allocation for moderate-risk countries and 20 per cent for high-risk countries in each fiscal year. A breach of the non-concessional borrowing limit under debt management would result in a hardening of terms. IDA is aligned with the IMF DLP on non-concessional borrowing limits.

[4] IDA20 Mid-Term Review: IDA access, terms and graduation prospects, November 2023.

[5] For an unsatisfactory rating for an ADF grant country, 20 per cent of the subsequent year grant allocation is set aside. If progress is unsatisfactory in countries that are eligible for concessional ordinary capital resources loans (COL), 10 per cent or 20 per cent of the next indicative annual COL country allocation is set aside.

(ii) The African Development Bank (AfDB) aligns with IDA on core principles, and its agreed policy actions (APAs) are aligned with IDA's PPAs insofar as they are relevant to AfDB's operational objectives; and

(iii) The Inter-American Development Bank (IDB) Non-Concessional Borrowing Policy is partially aligned with IDA's DSEP pillar, focusing on debt sustainability analysis to allocate concessional resources, including grants.

17. **Tailored implementation arrangements.** Like IDA, AfDB and Asian Development Bank (ADB) also offer technical assistance and policy advice to enhance debt management and sustainability for Member States. In terms of sustainable development financing policies implementation mechanisms, the AfDB opted for a neutral impact on the country's allocation. Nonetheless, the implementation of APAs could be considered as a specific trigger for the disbursement of variable tranches of policies on programme-based operations (see detailed comparison in the annex).

IV. IFAD's Sustainable Lending Policy

A. Introduction

18. This update to IFAD's NCBP addresses the limitations described in section II above, broadening its scope beyond non-concessional limit breach. The policy will also be renamed the Sustainable Lending Policy (SLP), to harmonize taxonomy among DFIs.

19. In addition, this update to the NCBP uses the opportunity to codify several practices currently applied by IFAD. These elements, such as better and transparent debt management, harmonization and enhanced communication among creditors, are detailed further in the following sections.

20. In adopting arrangements tailored to IFAD, the following has been considered:

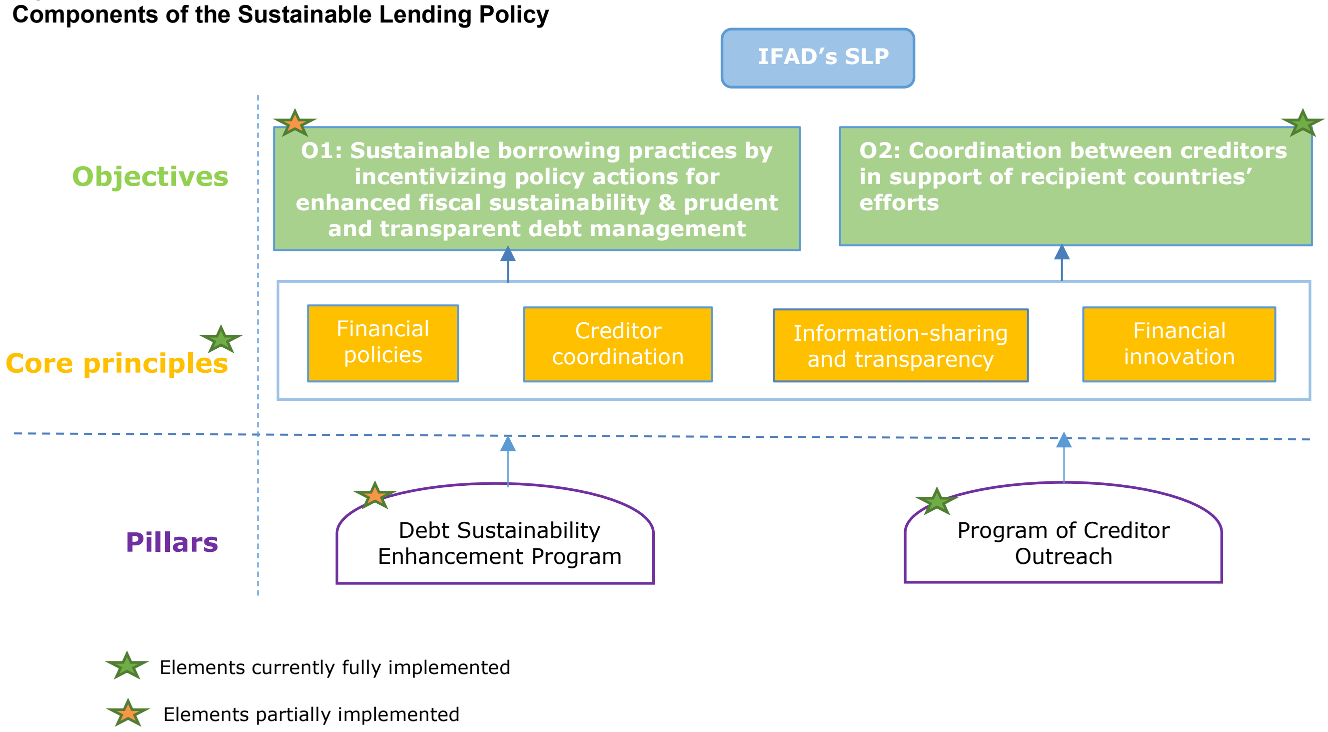
(i) IFAD's allocation to countries is much smaller than the IDA allocation. For IFAD, the cost of applying top-ups on annual country allocations to incentivize satisfactory implementation of PPAs is much higher than the benefits. For the borrower, the incentive to engage debt policy reforms could be minimal due to IFAD's limited allocation size. Therefore, IFAD's SLP arrangements will not consider PPA implementation in determining a country's allocation under the performance-based allocation system (PBAS).

(ii) As IFAD's allocations are based on a three-year cycle, applying PPAs annually and reflecting a potential percentage top-up[6] is impractical. IDA's business and financial model considers the release of the country's allocation in equal tranches (approximately one third each) over the three-year cycle. Considering IFAD's smaller envelope, a country may receive its full allocation during the first or second year of the cycle. Therefore, applying a systematic top-up (as a specific percentage) would bring complexity and unpredictability to programming and engaging with IFAD's country team.

(iii) IFAD's scope of interventions on investments in the first miles of sustainable food systems and smallholders limits its capacity to influence discussions on debt-related policy and macro-policy enhancement at the country level.

[6] IDA applies a 10 per cent top-up to a country's initial annual allocation.

Figure 2
Components of the Sustainable Lending Policy



B. Policy objectives

21. The objective of the SLP is to promote: (i) sustainable borrowing practices by incentivizing the implementation of policy actions that enhance fiscal sustainability and prudent and transparent debt management; and (ii) coordination between creditors in support of recipient countries' efforts to achieve these practices.

C. Scope

22. IFAD's update to the NCBP will be applicable to countries[7] eligible for funding on concessional terms[8] from IFAD's core resources.

D. Core principles

23. The core principles of IFAD's updated policy will incorporate the core principles of sustainable financing.[9] These principles were proposed, in 2020, by a group of IFIs and MDBs,[10] including IFAD, to promote information-sharing and coordination among signatories related to the implementation of resource allocation frameworks and similar debt/financing policies. These core principles are anchored in the G20 Operational Guidelines for Sustainable Financing.

24. In developing the core principles as high-level guiding elements, it was agreed that each institution would tailor the implementation arrangements to its own governance, specific development mandate, relevant capacities and financial architecture.

[7] Countries assessed as IDA-eligible countries given that the proposed approach below will draw on the IDA's assessment of PPAs.
[8] Currently loans provided in super highly concessional, highly concessional and blend terms, with a grant element equal to or greater than 35 per cent as per the IMF definition.
[9] https://ida.worldbank.org/en/financing/debt/core-principles-sustainable-financing.
[10] The World Bank's IDA, AfDF/AfDB, IMF, IFAD, ADB.

25. The core principles are articulated around four elements:

    (i) **Financing policies**:

    - For countries with higher debt vulnerabilities,[11] limit non-concessional lending, where applicable.
    - Consider debt vulnerability in decisions about terms and financing conditions: Prioritize financing with higher concessionality, including grants, for countries with higher debt vulnerabilities, informed by the joint World Bank/IMF Debt Sustainability Framework.
    - Ensure that the terms of financing policies create incentives for addressing vulnerabilities by reflecting PPAs as defined under the World Bank's SDFP or similar policy at other DFIs and the IMF's DLP for both concessional and non-concessional financing.
    - Use the methodology and principles as agreed to in the World Bank/IMF Debt Sustainability Framework for calculating the grant element of financing.

    (ii) **Creditor coordination.** Ensure coordination among borrowing countries to take policy actions aimed at enhancing debt transparency, fiscal sustainability and debt management. Enhance stakeholder coordination and engage in dialogue on policies to reduce debt vulnerabilities, including in the form of dialogue at the country level. Promote regular dialogue among MDBs and other IFIs and client countries on financing and debt-related policies; including – when relevant – to harmonize creditors' positions in international forums.

    (iii) **Information-sharing and transparency.** Exchange relevant information to support adequate implementation of the core principles of sustainable financing.

    (iv) **Financial innovation.** Support international efforts regarding financing solutions that enhance borrower country resilience and, when consistent with the governing framework of the relevant institution and beneficial for client countries, consider the provision of such instruments to client countries.

E. Pillars

26. The pillars of IFAD's SLP will align with those of other MDBs to ensure harmonization of assessment criteria among DFIs. This alignment will also contribute to raising IFAD's institutional profile as a fully-fledged member of the MDBs working group on debt vulnerabilities and sustainable development financing.

27. The objectives of the SLP will be achieved through two pillars: (i) the DSEP; and (ii) the PCO.

    (i) **Debt Sustainability Enhancement Program.** This pillar focuses on enhancing, through incentives, debt transparency, debt management and fiscal sustainability through implementation of policies that will improve three areas of sustainable borrowing:

        (a) **Enhancing debt transparency.** The PPAs[12] in this area focus on fostering timeliness, frequency and completeness of public and publicly guaranteed debt data reporting;

        (b) **Debt management.** The PPAs will strengthen the country's legal framework for contracting public loans and guarantees and the management of contingent liabilities, the establishment of

[11] Based on the IMF debt sustainability assessment.
[12] As determined and assessed by IDA-World Bank in agreement with the country's authorities.

non-concessional borrowing ceilings to maintain debt sustainability, and the strengthening of the capacity of debt management institutions; and

(c) **Fiscal sustainability.** The PPAs will support fiscal sustainability, such as improving domestic revenue mobilization and the management of fiscal risks (such as state-owned enterprise debt).

Regarding the DSEP pillar and given its limited internal capacities and mandate, IFAD will align with IDA's PPAs as established in consultation with governments, and the assessment of their implementation as conducted by IDA.

(ii) **Program of Creditor Outreach.** This pillar focuses on facilitating information-sharing, increasing transparency and communication, coordinating with other creditors, and promoting dialogue on debt transparency with creditors, including the Paris Club, non-Paris Club and private creditors.

28. Regarding the PCO pillar, IFAD has already contributed to the launch of the core principles of sustainable financing. In addition, IFAD is committed to participating in MDB debt management working groups.[13] IFAD will continue engaging with other multilateral institutions, including the IMF, on discussions around the revision of Debt Sustainability Framework arrangements, measures to tackle the exacerbation of the debt vulnerabilities of specific countries, and the joint harmonized response of MDBs to issues related to the debt vulnerabilities.

29. In addition to these elements, IFAD is already engaged at country level with other creditors and the IMF, to support the identification of cofinancing opportunities and to advocate for improved access to sustainable financing.

30. At a global level, IFAD will continue dialogue with multilateral, bilateral and private creditors, under the G20 and Institute of International Finance frameworks, to promote debt transparency and countries' platforms as building blocks of the development architecture. As an example, IFAD is an active member of the MDBs working group led by the IMF and the World Bank for the review of the LIC debt sustainability analysis framework, including the definition of concessionality and the grant element calculator.

F. Arrangements

31. IFAD will remain focused on its scope of investments in the first mile of sustainable food systems and smallholders. IFAD will not embed specific debt-related policy actions as specific components of IFAD-funded projects. At the same time, in engaging with governments, IFAD as a development partner will continue advocating for the importance to strengthen linkages between transparent debt management, governance and economic growth, including in rural areas.

32. IFAD's SLP arrangements will be tailored to its business model, financial capacities and internal expertise. The application of PPAs will not affect country allocations, which will continue to be guided by the current PBAS methodology. Therefore, the integrity of PBAS methodology and outcomes will be preserved.

33. **Operational arrangements.** Under the Debt Sustainability Enhancement Program pillar, operational arrangements have been developed to promote developing Member States' actions towards better debt management and debt transparency. This could translate into the possibility of accessing a higher volume of financing, subject to the preservation of IFAD's financial sustainability, and will cover:

(i) **Access to additional financing from core resources through the PBAS reallocation exercise.** The implementation of PPAs will inform Management's discussions, particularly in the case of significant and repetitive

[13] These activities led to IFAD's participation in the first in-country creditor outreach conference and other virtual PCO events, organized by the World Bank as one of the major pillars of the World Bank's SDFP in 2022.

non-implementation of PPAs. Countries demonstrating an effective implementation of PPAs could benefit from priority access to reallocated PBAS resources. However, PPA implementation criteria are not expected to be the primary criteria of this process, as the emphasis will remain on IFAD's financial sustainability and development priorities. The detailed arrangements will be developed as part of IFAD's Operations Manual.

(ii) **Review of eligibility and qualification for (additional) resources under the Borrowed Resource Access Mechanism (BRAM).** As per current practices,[14] which take into account primarily credit considerations, this review will take into consideration the debt sustainability analysis carried out by the IMF, including the IMF external Debt Limits Policy, and the assessment of PPAs implementation (particularly related to access to non-concessional resources).

34. **Governance.** To streamline the operational processes, the assessment of the implementation of PPAs will be integrated within the regular reallocation exercise arrangements.

35. When deemed necessary, Management will inform the Executive Board of the application of SLP measures, within the regular budget exercise.

36. This updated policy and the application of proposed arrangements will be made available on IFAD's website.

V. Implementation of and amendments to IFAD basic documents

37. The implementation of the updated policy, as described in section IV above, will take place at the start of IFAD13 without retroactive effect. The updated policy and its arrangements will entirely amend and supersede the NCBP. The approval of these amendments falls within the purview of the Executive Board.

38. These changes will not call for a revision of the Policies and Criteria of IFAD Financing[15] as article 16 stipulates as follows: "Eligible Member States are also subject to the Non-Concessional Borrowing Policy, its consecutive updates to be decided by the Executive Board and associated remedies." No other IFAD official document will require revision.

VI. Conclusion and way forward

39. The Executive Board is invited to approve the proposal contained in section IV above.

40. The updated policy will take effect on 1 January 2025, at the start of the IFAD13 period.

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[14] Currently, this review takes into consideration the debt sustainability analysis carried out by the International Monetary Fund (IMF), compliance with the IMF external Debt Limits Policy and IFAD's Non-Concessional Borrowing Policy.

[15] As amended by the Governing Council at its forty-fifth session on 16 February 2022 (resolution 225/XLV, 226/XLV and 227/XLV).

Comparison of sustainable development finance policies of other development finance institutions

Institution	*IDA*	*IMF*	*AfDB*	*ADB*	*IDB*
Name of policy	**Sustainable Development Finance Policy (SDFP)**	**Debt Limit Policy**	**Sustainable Borrowing Policy**	**Concessional Assistance Policy**	**No corresponding policy**
Year	2020	2020	2022	2020	2021
Countries affected	All IDA-eligible countries	IMF membership (189 countries)	AfDF – only and blend countries	ADF countries under concessional lending (grants and concessional ordinary capital resources loans [COL])	IDB offers concessional lending only to three countries: Haiti, Honduras and Nicaragua.
Objective	Create incentives to move towards transparent, sustainable financing and to promote coordination between IDA and other creditors in support of countries' efforts	Establish the framework for using quantitative conditionality to address debt vulnerabilities in IMF-supported programmes	Support sustainable borrowing practices by recipients of AfDF resources through use of financial resources, operational support and convening power	Allocate concessional resources to eligible countries that have access to ADF grant resources and concessional ordinary capital resources	Support responsible borrowing
Pillars	– Debt Sustainability Enhancement Program (**DSEP)** – Program of Creditor Outreach (**PCO**)	– Debt transparency – Debt conditionality	– Debt management and transparency – Coordination and partnerships	Same as IDA SDFP two pillars	-

Institution	IDA	IMF	AfDB	ADB	IDB
Mechanism	**DSEP:** – Every year countries are screened to identify if debt vulnerabilities justify the implementation of performance and policy actions (PPAs), mostly through the information contained in debt sustainability analyses – Performance determines top-up of resource allocations. Incentives will be equivalent to 10 per cent of a country's annual allocations – For countries implementing PPAs, the PPAs will need to be assessed as met by the end of the fiscal year for them to receive the incentive – In case of PPAs unmet for two consecutive years, the country will lose the incentive – Frontloading and reallocation to be de-linked from SDFP implementation – Lack of compliance with SDFP may lead to a hardening of financing terms and implementation of additional PPAs **PCO:** – More coordination between borrowers and creditors – Promote coordination among development partners – Enhance debt transparency and information-sharing	**Debt transparency:** – Enhancing debt data disclosure – Enhancing transparency on debt holders' profile **Debt conditionality:** – Low-income countries eligible for Debt Sustainability Framework (LIC-DSF) at low risk of debt distress: Ceiling not required (option for targeted if needed) – LIC-DSF at moderate risk of debt distress: performance criterion on present value (PV) limit of external borrowing (in most cases) calibrated to avoid external debt distress downgrade – LIC-DSF at high risk of debt distress (sustainable outlook): zero non-concessional borrowing (NCB) for countries with no significant access to international financial markets (with NCB exceptions allowed under limited circumstances). PV on external borrowing for countries with significant access to international financial markets – LIC-DSF in debt distress or at high risk of debt distress (unsustainable outlook): N.A. (IMF lending prohibited) – Market access countries with debt sustainability analysis: Tailored limits if there are significant debt vulnerabilities	**Debt management and transparency:** – Agreed policy actions (APAs) will be implemented with member countries. They will target specific measures linked to debt management and transparency according to the countries' needs. They will complement or be strongly aligned with the World Bank's PPAs. AfDB will provide tailored technical support. - All ADF recipients at moderate or high risk of debt distress will need to define APAs on debt management and transparency with the Bank. However, APAs will not affect upstream AfDF allocations. For allocation purposes, the AfDF operational framework will continue to be the guiding document – There is no action taken based on performance of APAs. Debt sustainability assessment status and performance on debt management and transparency affect: • The volume and terms of financing (per AfDF guidelines) • Eligibility for programme-based operations and access to AfDB resources (under the 2014 policy) • Overall resources linked to graduation **Coordination and partnerships**: – Intensify dialogue with non-traditional creditors and private lenders – Promote coordination among development partners – Enhance debt transparency and information-sharing	– ADB explicitly aligns to IDA's SDFP – Since the ADF cycle is longer than the IDA cycle by one year, countries have an extra year to recover eventual set-asides – If policy actions are not implemented satisfactorily, 20 per cent of the next indicative annual grant country's allocation will be set aside. In some cases, concessional financing terms can be hardened and grants replaced with concessional lending – ADB intends to substitute the fixed 20 per cent reduction in allocation with an interactive incentive scheme in ADF 13 – For countries with a borrowing ceiling agreed by the World Bank and the IMF, policy actions will include this borrowing ceiling. Borrowing ceilings under the SDFP will primarily take the form of nominal limits on non-concessional external public and publicly guaranteed debt	– IDB allocates concessional resources based on the IMF/World Bank Debt Sustainability Framework, to which it adds three variables: GNI per capita, an index of vulnerability and non-concessional borrowing. – IDB reduces the concessionality of its allocations in direct proportion to the extent of a country's non-concessional borrowing relative to its GDP. – Full alignment with IDA's DSEP pillar was deemed not feasible due to shorter replenishment cycle (two years) and increased bureaucratic costs