WBG SCORECARD FY24-FY30 METHODOLOGY NOTE

WBG Client Context & Vision Indicators

The purpose of this note is to ensure the rigor, transparency, and reproducibility of the WBG client context and vision indicators included in the new WBG Scorecard FY24-FY30, as well as their alignment with the WBG's vision. Technical teams were asked to provide a sufficiently detailed methodology so that anyone who reads this note can understand its rationale, theory of change, data sources, and method of calculation.

Definitions included in this template are aligned to the WBG Scorecard paper endorsed by the Board on Dec 19th, 2023. The methods notes are living documents and will be subject to updating and revision pending operational inputs and implementation lessons over time.

OVERVIEW		
INDICATOR NAME	**Countries at high risk of or in debt distress**	
SUB-INDICATORS	N/A	
VISION / CLIENT CONTEXT	☐Vision indicator	☒Client context indicator
OUTCOME AREA	☐Protection for the Poorest ☐Healthier Lives ☐Green and blue planet and resilient populations ☐Sustainable food systems ☐Affordable, reliable, and sustainable energy for all ☐Digital services ☐More and Better Jobs	☐No Learning Poverty ☒Effective Macroeconomics and Fiscal Management ☐Inclusive and equitable water and sanitation services ☐Connected Communities ☐Digital connectivity ☐Gender equality and youth inclusion ☐Better Lives for People in Fragility, Conflict, and Violence ☐More private investments
SDG ALIGNMENT	**See https://sdgs.un.org/ for further details on SDGs:** ☐ 1. No Poverty ☐ 2. Zero Hunger ☐ 3. Good Health and Well-being ☐ 4. Quality Education ☐ 5. Gender Equality ☐ 6. Clean Water and Sanitation ☐ 7. Affordable and Clean Energy ☒ 8. Decent Work and Economic Growth ☐ 9. Industry Innovation and Infrastructure List of specific UN targets (if applicable):	☐ 10. Reduced Inequalities ☐ 11. Sustainable Cities and Communities ☒ 12. Responsible Consumption and Production ☐ 13. Climate Action ☐ 14. Life Below Water ☐ 15. Life on Land ☐ 16. Peace, Justice and Strong Institutions ☒ 17. Partnerships for the Goals
UNIT OF MEASURE	☐Number of people ☒Number of countries ☐USD ☐GW ☐Hectares ☐tCO2eq/year ☐Other: _______________ [Please specify]	
LEGACY INDICATOR NAME	☐WB Old Scorecard indicator: ☐WBG Old Scorecard indicator: ☒N/A	
RATIONALE		
DEFINITION	The number of countries eligible for borrowing from IDA and IBRD in or at high risk of debt distress in the previous year. Risk ratings are assigned in Debt Sustainability Analyses (DSAs) that are produced and updated by the World Bank and the IMF.	

THE WORLD BANK IBRD • IDA | WORLD BANK GROUP   IFC International Finance Corporation WORLD BANK GROUP   MIGA Multilateral Investment Guarantee Agency WORLD BANK GROUP

DEVELOPMENT RELEVANCE	Countries that are at high risk of debt distress, or are already in debt distress, face severe limitations to access financing at terms and volumes to adequately meet their development objectives and address risks from global challenges, including climate change and pandemics. The indicator will provide a list of countries in which the World Bank Group should focus its activities to help reduce debt vulnerabilities. The indicator is available annually for all EMDEs and results from a rigorous process of analysis and review conducted by the World Bank and the IMF on the signals of debt distress in client countries or uses publicly- available information backed by publicly available methodologies to assign a risk rating. The indicator is a key measure of macroeconomic adequacy as a necessary enabling condition to allow countries to pursue the SDGs, and is aligned with SDGs 8, 12 and 17.
LIMITATIONS	Currently, not all countries have annual risk of debt distress assessments provided by the World Bank and the IMF. Following the introduction of a new framework to rate debt sustainability for countries with regular access to international markets - the Sovereign Risk and Debt Sustainability for Market Access Countries (MAC SRDSF) - a period of transition to the new framework is ongoing. However, this period will come to an end in FY25. In addition, some countries may not have DSA produced annually. These are countries that have no IMF program and no World Bank DPOs and have an "Article IV" review cycle in the IMF that is longer than one year. These limitations will affect a limited number of countries, mainly those borrowing from IBRD. In the two cases described above, it is proposed to assess the debt risk base be assessed on available sovereign credit ratings from international credit rating agencies; the presence of arrears, in case a default event has taken place; and elevated gross financing needs. Finally, risk rating assessments may miss the build-up of vulnerabilities and fail to assess countries in high risk. While this is a tangible risk, inherent in the forward-looking nature of the DSA exercise, the available frameworks for DSA analysis have a solid track record of avoiding missed crisis signals.
DATA AND CALCULATION	
DATA SOURCE(S)	Risk ratings are assigned in DSAs that are produced by the World Bank and the IMF. The World Bank is responsible for maintaining an up-to-date database of the latest risk ratings that is updated quarterly. For those countries that do not have a DSA produced in the fiscal year prior to the release of the WBG Scorecard, the risk assessment will be based on the sovereign rating assigned by the three international credit rating agencies (Moody's, S&P, and Fitch) at the time of the cut-off for the assessment (e.g. end of the previous FY). In the event that no DSA and sovereign credit rating is available from any of the three agencies, the risk assessment will be based on the presence of arrears on their external debt (if amounting to more than one percent of GDP, as a standard *de minimis* threshold) as reported by the World Bank' International Debt Statistics, and on the size of gross financing needs (GFNs) (if GFNs are above 15 percent of GDP) based on World Bank macroeconomic reporting (e.g. the Macro-Fiscal Model) and IMF Article IV Staff Reports.
METHOD OF CALCULATION (CORE)	The indicator counts the number of countries that are eligible to borrow at IDA, Blend, and IBRD terms, which are assessed either at high risk of or in debt distress in the fiscal year prior to the WBG Scorecard release year. The number of those countries is calculated based on the following process to identify all countries that are considered at high risk of debt distress or in debt distress according to a DSA published in year *t-1:* • For countries for which a LIC DSA is prepared and published within the fiscal year t-1, the overall rating (on total public debt) in the DSAs is used. DSAs include an assessment of the risk of external and overall debt distress based on four categories: low risk; moderate risk; high risk; and in debt distress (when a distress event, like arrears or the debt restructuring process has occurred or is considered imminent). • For countries for which a "MAC DSA" using the IMF SR-DSF for market-access countries is prepared and disclosed withing the fiscal year *t-1*, the overall final assessment of the risk

	of sovereign stress will be used. The MAC DSAs include an assessment of risk of sovereign stress on total public debt based on three categories (low; moderate; and high). • For countries for which a DSA is not prepared, the sovereign credit rating by a major credit rating agency (S&P, Moody's, or Fitch) as of the cut-off date for fiscal year t-1 would be used, with ratings corresponding to substantial risk (CCC+/Caa1/CCC) or below as a proxy for high risk; or a sovereign rating of "in default" (CCC-/Caa3/CC) or below as a proxy for in debt distress. • For countries with no DSA and no sovereign credit rating by any of the three agencies, the risk rating will be assigned looking at the level of gross financing needs (GFNs) and the presence of external arrears in year t-1 or t-2: ○ Countries will be considered in debt distress if external arrears are above one percent of GDP. ○ Countries will be considered in high risk of debt distress if external arrears are less than one percent of GDP but GFNs are above 15 percent of GDP.
METHOD OF CALCULATION (DISAGGREGATION)	The risk rating is country-specific and share of high risk/in debt distress risk ratings can be calculated for any country groupings, including by Region, FCV status, income, lending, size, etc.
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