INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL MONETARY FUND

**G20 Operational Guidelines For Sustainable Financing diagnostic TOOL**

April 2021

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**II. Diagnostic Tool for Bilateral Creditors and their Agencies**

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| 1. **Adequacy of Financing.** | | | | |
|  | * 1. **Safeguarding debt sustainability.** | | | |
|  |  | Strong: The creditor has an internal framework for debt sustainability assessments, also informed by private sector or IFIs existing frameworks, which guides borrowing volumes or terms. | |
|  |  | Sound: The creditor has an internal framework for debt sustainability assessment in place, which guides borrowing volumes or terms. | |
|  |  | Room for Improvement: The creditor does not have a framework in place that informs lending based on debt sustainability considerations. | |
|  |  | Creditors should take the borrower’s debt sustainability situation into account when deciding on extending financial support to avoid raising debt vulnerabilities. This requires an internal governance structure that places debt sustainability as a leading consideration for all government agencies when providing financing to other governments or their agencies. Creditors may rely on various models for assessing debt sustainability, including the Joint  IMF/World Bank debt sustainability analysis (which is publicly available, based on extensive consultations and reviews, and reflects a broad understanding of debt risks in developing countries). | |
|  |  | *METHODOLOGICAL NOTES*  Practice 1.1 consists of two elements, the availability of a debt sustainability analysis, and whether the analysis guides borrowing volumes and terms or the provision of grants.  Debt sustainability assessments might include international credit rating reports (e.g., Euromoney, Institutional Investor International Country Risk Guide, Business Environment Risk Information); OECD country risk classifications; the Joint IMF/World Bank Debt Sustainability Framework. Relying on any of these but without an internal model would support a “sound” categorization.  As regards “guiding borrowing volumes or terms”, adjustments to the financing mix based on debt sustainability considerations could include: cancelling the loan provision; adapting the financing mix (e.g., by applying a higher grant element through applying lower interest rates); or other similar adjustments. If debt sustainability assessments do not guide borrowing terms and conditions, a rating of with *room for improvement* should be applied. For a sound rating, only one method of adjustments is offered (e.g., only the possibility of cancelling the loan provision), and for a strong rating more than one method is offered. | |
| **Please insert your self-assessment for practice 1.1 here:** … | | | | |
| **Change in the assessment of practice 1.1 compared to the preceding assessment:** … | | | | |
|  | * 1. **Providing various financing options - by making available various financing alternatives.** | | | |
|  |  | * + 1. **Flexible financing options.** | |
|  |  | Strong: The creditor provides a range of financing terms that enable borrowers to mitigate risks of the debt portfolio at reasonable costs. | |
|  |  | Sound: The creditor provides a limited menu of financing terms to borrowers. | |
|  |  | Room for Improvement: The creditor does not provide for much flexibility on financing terms. | |
|  |  | Creditors can offer a variety of financing instruments and lending terms to enable borrowing countries to contract grants, or loans that mitigate costs and risks of their existing debt portfolio. | |
|  |  | *METHODOLOGICAL NOTES*  The range of financing terms considered for the evaluation of this practice would sit broadly within three categories: grants, concessional financing, and non-concessional financing. If a creditors’ agencies offer at least two out of these three categories, the creditor is classified as sound. Creditors that in addition offer flexible financing options within at least one of the categories (e.g., lengthening maturities to avoid bunching of debt service with other loans; or adapting grace/ amortization periods; or offering loans in different currencies), are considered *strong.* | |
| **Please insert your self-assessment for practice 1.2.1 here:** … | | | | |
| **Change in the assessment of practice 1.2.1 compared to the preceding assessment:** … | | | | |
|  |  | * + 1. **Provision of collateralized debt.** | |
|  |  | Strong: The creditor uses best efforts to ensure a collateralization structure does not breach applicable NPCs, provides full transparency on the contractual terms of the collateralized debt (including the collateralization structure), focuses on related assets or revenue streams, and reflects the reduced risks resulting from collateralization in improved financial terms. | |
|  |  | Sound: The creditor uses best efforts to ensure a collateralization structure does not breach applicable NPCs, focuses on related assets or revenue streams, and provides full transparency on the contractual terms of the collateralized debt (including the collateralization structure). | |
|  |  | Room for Improvement: The creditor provides collateralized lending without improving financial terms and information is not made publicly available. | |
|  |  | Collateralized debt can be a means for providing financing on reasonable terms for countries with debt vulnerabilities. However, by delinking debt sustainability from repayment capacity, it also presents risks for delayed adjustment and overborrowing and, by earmarking future revenues, reduces future policy flexibility. In addition, the increased seniority may lead to increased borrowing costs for conventional credit and will complicate any debt resolution efforts if such are needed. | |
|  |  | *METHODOLOGICAL NOTES*  Collateralized lending should be understood as any lending where the borrower pledges an asset or a future receivable to the creditor as recourse in case the borrower defaults on the debt.  A negative pledge clause (NPC) is essentially a contractual clause that restricts the ability of a borrower to pledge an asset or future income stream to another creditor. This restriction takes different forms, including by outright prohibiting the granting of pledges or by requiring that the original creditor be treated equivalently.  Related assets or income streams are those which the collateralized lending directly gives rise to. For instance, trade credit is usually collateralized by the goods in question; and project finance is often collateralized by an income stream generated by the financed project (e.g., the tolls for a bridge project)  Improved terms and conditions should be understood in the context of 1.2.1: when options are offered by a creditor, if collateral is one option, then other terms and conditions (e.g., interest rate, maturity terms) should become more advantageous to the borrower compared to non-collateralized options. In the event the creditor does not offer non-collateralized financing options, the other terms and conditions should be more advantageous in relation to terms and conditions of available non-collateralized lending from other creditors. In all cases the comparison should consider the additional costs that are usually involved in collateralized debt such as export credit premia, remuneration of financial intermediaries, and legal costs.  Full transparency should be understood in the context of 2.1.1 to encompass publication of the size and the terms of the loan, the collateral arrangements that are being used and the amount of collateral provided.  If relevant creditor institutions do not provide any collateralized lending, this practice should be rated as *not applicable* (n/a). | |
| **Please insert your self-assessment for practice 1.2.2 here:** … | | | | |
| **Change in the assessment of practice 1.2.2 compared to the preceding assessment:** … | | | | |
| 1. **Information-sharing and transparency.** | | | | |
|  | * 1. **Building a common understanding of the macroeconomic and financial situation of the borrower country—by enhancing information sharing by creditors.** | | | |
|  |  | | * + 1. **Sharing information on existing and new lending.** | |
|  |  | | Strong: A government agency collects and publishes loan-by-loan information on its country’s official creditor agencies vis-a-vis borrowers yearly on a single website, and updates it within three months on new lending, including financial terms. | |
|  |  | | Sound: Government creditor agencies disclose all loan-by-loan information, including financial terms, to the IMF and the World Bank, on existing exposure to borrowers and new lending at least on an annual basis. | |
|  |  | | Room for Improvement: No or limited information on exposure and new lending is made available on a yearly basis. | |
|  |  | | Accurate and comprehensive information on borrower’ debt profiles is needed for creditors to make informed decisions regarding new financial operations. Therefore, creditors should facilitate information sharing among themselves and with the International Financial Institutions (IFIs) by disclosing comprehensive and updated information on their existing and new lending operations. The information provided should be sufficiently detailed to allow for accurate assessment of the structure of the debt and potential debt vulnerabilities. Contractual clauses that limit the disclosure of volume, terms or other conditions should be avoided. In this context, regular data reconciliation with the borrower is key to prevent operational errors or misinterpretation of the agreements that could undermine the soundness of the debt data. | |
|  |  | | *METHODOLOGICAL NOTES*  The type of data to be made available include (but should not be limited to): the amount; the beneficiary; the use of proceeds; the interest rate; the maturity and grace period; and the structure of the collateral and the amount of collateral provided if relevant.  Reporting options in line with sound practices include individual lenders’ public reports, information published on their websites, and others. Disclosure in line with strong practices, however, requires publishing relevant information on a single government web site.  Membership in the OECD should be used to assess compliance as consistent with *sound* practices, since OECD members report loan-by-loan information for their export credit agencies to the IMF and the World Bank. | |
| **Please insert your self-assessment for practice 2.1.1 here:** … | | | | |
| **Change in the assessment of practice 2.1.1 compared to the preceding assessment:** … | | | | |
|  |  | | * + 1. **Creditors reconciling data with borrowers and IFIs.** | |
|  |  | | Strong: The creditor undertakes data reconciliation with borrowers at least on an annual basis and with IFIs upon request. | |
|  |  | | Sound: The creditor undertakes data reconciliation with borrowers on an annual basis. | |
|  |  | | Room for Improvement: The creditor does not undertake regular data reconciliation with borrowers. | |
|  |  | | Accurate data is necessary for debt analytics, including medium-term debt management strategies and debt sustainability analysis. Differences in the underlying data between creditors and borrowing country introduce uncertainties, weaken the quality of analysis, and may damage creditor-borrower relationships. Hence, all possible efforts should be undertaken by creditors and borrowers to eliminate data inaccuracies and inconsistencies. | |
|  |  | | *METHODOLOGICAL NOTES*  Creditors should reconcile all debt instruments and guarantees with borrowers to ensure that they were recorded in the same way in their respective debt monitoring systems. Discrepancies can arise due to recording errors, including when there are changes in loan terms and conditions.  Data reconciliation should be conducted periodically as a standard exercise; upon request by the authorities; in case of arrears; in the context of a IMF/World Bank program; upon detection of missing large public liabilities in the DSA of a borrower country; or upon some other eventuality. Such exercise should comprise all contractual obligations and include all lending agencies.  Creditors that do not conduct annual reconciliations with the authorities (except upon request or in the event of arrears) should be rated with *room for improvement*. Creditors that report conducting annual reconciliations with borrowers should be rated *sound*. Countries that conduct periodic data reconciliations with borrowing authorities and check data recorded by IFIs in the context of an IMF program, and additionally also conduct reconciliations at the request of borrowers and IFIs should be rated as *strong*.  Membership in the Paris Club may help a country achieve sound or strong practices (since the Paris Club periodically conducts data reconciliations), but more regular actions are necessary to secure such an assessment. | |
| **Please insert your self-assessment for practice 2.1.2 here:** … | | | | |
| **Change in the assessment of practice 2.1.2 compared to the preceding assessment:** … | | | | |
|  |  | | * + 1. **Contractual Clauses.** | |
|  |  | | Strong: The creditor uses publicly available templates for financing agreements and refrains from confidentiality clauses. | |
|  |  | | Sound: The creditor refrains from using confidentiality clauses with respect to information sharing with the IMF and the World Bank. | |
|  |  | | Room for Improvement: The creditor uses comprehensive confidentiality clauses. | |
|  |  | | Contractual clauses imposing confidentiality can cause problems for the efficient allocation of capital. Both creditors and borrowers can face problems in evaluating and assessing loans in the absence of comprehensive information. Transparent and publicly available contractual information would over time result in more favorable financing terms for borrowers. | |
|  |  | | *METHODOLOGICAL NOTES*  A confidentiality clause specifies information that cannot be disclosed by the borrower. Such clauses may simply protect trade secrets (i.e. commercially sensitive information) but can take on more blanket forms. Creditors should avoid clauses that prevent borrowers from reporting details on the amount and the terms of financing, as well as the use of proceeds, to the IMF and the World Bank.  Publicly available loan templates, required for a *strong* rating, are standardized loan contracts which are publicly disclosed, e.g., on lending agencies’ web sites, and provide details on the standard terms and conditions of different agencies.[[1]](#footnote-1) | |
| **Please insert your self-assessment for practice 2.1.3 here:** … | | | | |
| **Change in the assessment of practice 2.1.3 compared to the preceding assessment:** … | | | | |
|  | * 1. **Encouraging borrowing countries to continue to enhance fiscal transparency and public debt management.** | | | |
|  |  | | Strong: The creditor, in addition to ensuring that the borrower meets its own legal requirements (and only proceeding if it does), verifies that lending operations are adequately disclosed ex-post in public debt statistics. | |
|  |  | | Sound: The creditor verifies that the lending operation is in adherence with the borrower’s primary and secondary legislation and that the amount of financing appropriately reflects the value of the project. If this is not the case, the creditor does not proceed with the operation. | |
|  |  | | Room for Improvement: The creditor proceeds with lending operations without enquiring whether the lending operation is in adherence with the borrowing country’s primary and secondary legislation and that the amount of financing appropriately reflects the value of the project. | |
|  |  | | The responsibility for enhancing fiscal transparency and strengthening public debt management rests primarily with the borrowing authorities. However, creditors can contribute by verifying that decisions by borrowing countries to contract new loans are taken in accordance with the country’s legal frameworks and debt management requirements. In particular, the creditor could clarify that the operation is: (i) approved by the relevant authorities following a transparent decision-making process; and (ii) adequately accounted for in the country’s debt statistics. | |
|  |  | | *METHODOLOGICAL NOTES*  There are several aspects to verifying that transactions are consistent with a country’s legal framework. These include checking whether: the borrowing entity/individual has the authority to commit the country to a loan, the loan is consistent with any debt limit a country might have, and the country is following its stated procedures for contracting loans (including on disclosure).  Verifications that legal requirements are met can be sought in writing from the authorities. An independent view, for instance from the legal advisors to the transaction, should also be sought if needed.  Verifications of adequate disclosure can be assumed if the creditor has written procedures requiring such (e.g., requiring that an assurance of publication be obtained from the authorities). | |
| **Please insert your self-assessment for practice 2.2 here:** … | | | | |
| **Change in the assessment of practice 2.2 compared to the preceding assessment:** … | | | | |
|  | * 1. **Promoting disclosure of information on past restructurings.** | | | |
|  |  | | * + 1. **Post-restructuring data reconciliation.** | |
|  |  | | Strong: The creditor conducts a post-debt restructuring data reconciliation with the borrower, ensuring accurate reflection and public availability of changed terms and conditions in the official debt data. | |
|  |  | | Sound: The creditor conducts a post-debt restructuring data reconciliation with the borrower, ensuring accurate reflection of changed terms and conditions in the official debt data. | |
|  |  | | Room for Improvement: The creditor does not undertake post debt restructuring data reconciliation with the borrower. | |
|  |  | | Comprehensive information on past debt restructurings is key to promoting a collaborative approach among creditors and facilitating a sound understanding of the implications of the debt restructurings. Such information is also important to ensure that borrower’s debt data accurately reflects the terms of past restructurings. | |
|  |  | | *METHODOLOGICAL NOTES*  Data reconciliation involves data checks between the creditor and the borrower on loans and guarantees as defined in practice 2.1.2. As opposed to practice 2.1.2., this practice specifically evaluates data reconciliation exercises after debt restructuring was undertaken.  Post-restructuring information could be disclosed in public reports; on creditor agencies’ websites; on the single government website; to IFIs and other fora; or in other ways. | |
| **Please insert your self-assessment for practice 2.3.1 here:** … | | | | |
| **Change in the assessment of practice 2.3.1 compared to the preceding assessment:** … | | | | |
|  |  | | * + 1. **Public disclosure of participation in debt restructuring.** | |
|  |  | | Strong: The creditor publishes information about its participation in debt restructurings, and details on its contribution, including amounts and changes in terms, on the agency’s website. | |
|  |  | | Sound: The creditor makes public its participation in debt restructuring on the agency’s website. | |
| l |  | | Room for Improvement: The creditor does not make public its participation in debt restructuring. | |
|  |  | | *METHODOLOGICAL NOTES*  Disclosure regarding the participation in debt restructuring could be made in public reports, through press releases, on creditor agencies’ web sites; on the single government website etc. | |
| **Please insert your self-assessment for practice 2.3.2 here:** … | | | | |
| **Change in the assessment of practice 2.3.2 compared to the preceding assessment:** … | | | | |
| 1. **Consistency of financial support** | | | | |
|  | * 1. **Providing financing consistent with IMF/World Bank debt limit policies.** | | | |
|  |  | | Strong: The creditor seeks, on a best effort basis, assurances with the appropriate borrowing country authorities that the new financing is consistent with the International Development Association’s (IDA) Sustainable Development Finance Policy (SDFP), the IMF’s Debt Limits Policy (DLP), and the World Bank’s Negative Pledge Clause (NPC), and clarifies any technical questions with the IMF and/or World Bank as needed. | |
|  |  | | Sound: The creditor seeks, on a best effort basis, assurances with the appropriate borrowing country authorities that the new financing is consistent with IDA’s SDFP, the IMF’s DLP, and the World Bank’s NPC. | |
|  |  | | Room for Improvement: The creditor does not seek on a best effort basis to ensure compliance with IDA’s SDFP, the IMF’s DLP, and the World Bank’s NPC, when contemplating new financing operations. | |
|  |  | | The responsibility to adhere to the policies attached to the financing from the IMF/World Bank lies squarely with the borrowing member country. However, as shareholders in the IMF and the World Bank, official bilateral creditors should also on a best effort basis seek assurances with the appropriate borrowing country authorities that the new financing is consistent with the IMF’s DLP and IDA’s SDFP and the World Bank’s NPC. The World Bank and the IMF offer technical support to bilateral official borrowers and creditors in these efforts, notably, through the Lending-to-LICs mailing box. | |
|  |  | | *METHODOLOGICAL NOTES*  The consistency of financing with the IMF and World Bank debt limits and NPC could be verified with the authorities directly; or be assumed by the direct involvement in the transaction of the Ministry of Finance of the borrower country.  Examples of seeking clarifications from the IMF and/or the World Bank include interactions through the Lending-to-LICs mailboxes. For reference, creditors who use these tools provide information on future loans or on a loan agreement that has already been signed; inquire about whether loans would be considered concessional, or non-concessional; and inquire about any debt limits in place under a IMF/World Bank program (among other issues). | |
| **Please insert your self-assessment for practice 3.1 here:** … | | | | |
| **Change in the assessment of practice 3.1 compared to the preceding assessment:** … | | | | |
|  | * 1. **Committing to the long-term debt sustainability of borrowing countries – by facilitating smooth debt restructurings when needed.** | | | |
|  |  | | Strong: The creditor has a debt restructuring framework in place, that is conducive to providing required relief in a timely fashion, and participating in a collaborative approach with other creditors, when appropriate. | |
|  |  | | Sound: The creditor has a debt restructuring framework in place. | |
|  |  | | Room for Improvement: The creditor does not have a debt restructuring framework in place. | |
|  |  | | Debt restructurings – when necessary – should be carried out as swiftly and efficiently, with a treatment that would be consistent with restoring debt sustainability. A protracted process will further deteriorate the economic situation of the borrower, weaken its repayment capacity, and delay the restoration of macroeconomic viability. While an inadequate treatment – one that falls short of what is required to restore sustainability – will lead to future payment difficulties and the need for repeated restructurings. To this end, creditors should promptly engage with the borrower when a borrower seeks a consensual debt restructuring, and when appropriate, creditors should seek to collaborate with other creditors in good faith. | |
|  |  | | *METHODOLOGICAL NOTES*  A country’s debt restructuring framework should have several attributes including: a provisioning policy (or some equivalent way for a creditor government to provide resources to its own lenders who are affected by the restructuring); a policy about when and how to conduct a restructuring through government majority-controlled creditors; a mandate for their respective Boards to implement debt restructuring; a framework to coordinate its own lenders internally and to coordinate externally; and a framework to monitor on delivery of restructuring commitments by its lenders.  Participating in a collaborative approach can be achieved via membership in existing international fora, i.e., the Paris Club; or having in place procedures for ad hoc coordination with other creditors (e.g., coordinating with the Paris Club on an ad hoc basis, or hiring advisors to facilitate coordination with other creditors). | |
| **Please insert your self-assessment for practice 3.2 here:** … | | | | |
| **Change in the assessment of practice 3.2 compared to the preceding assessment:** … | | | | |
|  | * 1. **Providing technical assistance on debt related issues.** | | | |
|  |  | | Strong: The creditor, when encountering insufficient understanding of financing terms or capacity on the borrower’s side, provides technical assistance in coordination with the IMF and World Bank or requests such from IFIs. | |
|  |  | | Sound: The creditor takes steps to ensure the borrower’s understanding of the financing terms of the loan in every lending operation, including on associated costs and the risks. | |
|  |  | | Room for Improvement: The creditor does not ensure the borrower’s understanding of financing terms of lending, including associated costs and risks. | |
|  |  | | In the absence of adequate debt-related technical capacity, Governments may not be in a position to take informed decisions regarding appropriate borrowing options from a cost/risk perspective. The degree of sophistication in modern finance further increases the complexity of such decisions. These factors underscore the need for technical assistance (TA) to borrowing countries to narrow the information asymmetry between creditors and borrowers on various aspects of public debt management, financing options, and risk assessment. | |
|  |  | | *METHODOLOGICAL NOTES*  Limited capacity on a borrower’s side could be the result of an inadequately resourced debt management function. The support from legal and financial advisors may help the borrower but is not necessarily a sign of adequate capacity.  Steps to ensure borrower understanding could include procedures to allow adequate time for country authorities to review documentation, and procedures to jointly review documentation and legal, financial and economic risks.  Country authorities must request TA from IFIs. IFI TA can be coordinated with bilateral TA efforts on request. | |
| **Please insert your self-assessment for practice 3.3 here:** … | | | | |
| **Change in the assessment of practice 3.3 compared to the preceding assessment:** … | | | | |
| 1. **Coordination of Stakeholders** | | | | |
|  | * 1. **Conducting regular dialogue with stakeholders** | | | |
|  |  | | Strong: The creditor, in addition to participating in regular dialogue with other stakeholders through international meetings on debt related issues, promotes discussions on specific methodological or operational issues where relevant. | |
|  |  | | Sound: The creditor participates in dialogue with other stakeholders through international meetings on debt related issues. | |
|  |  | | Room for Improvement: The creditor does not engage in regular dialogue with other stakeholders. | |
|  |  | | A continuous dialogue among stakeholders can help enhance creditor coordination and help safeguard debt sustainability. There are numerous fora devoted to public debt. Creditors, borrowers and IFIs should take advantage of these events to address topics of mutual interest. | |
|  |  | | *METHODOLOGICAL NOTES*  Dialogue with other stakeholders includes events such as debt conferences (including those held by UNCTAD; the Paris Forum); IMF or World Bank seminars on debt issues; or other relevant meetings. Engagement by both economic oversight ministries and lending agencies should be considered.  Methodological/operational issues could include emerging risks and how to address them, as well as developing methods, standards, and guidance for debt data management and reporting. Identifying these and asking for them to be put on the agenda of debt conferences would meet the *strong* categorization. | |
| **Please insert your self-assessment for practice 4.1 here:** … | | | | |
| **Change in the assessment of practice 4.1 compared to the preceding assessment:** … | | | | |
|  | * 1. **Facilitating dialogue among international financial institutions to promote coordinated policies** | | |
|  |  | | Strong: The creditor takes steps to encourage interaction between the IMF, the World Bank, and other IFIs, and takes an active role in promoting coordination on debt related issues. | |
|  |  | | Sound: The creditor takes steps to encourage interaction between the IMF, the World Bank, and other IFIs. | |
|  |  | | Room for Improvement: The creditor does not promote inter-agency coordination. | |
|  |  | | Inter-IFI cooperation is important to develop effective policies and foster strong practices, while avoiding duplication of efforts. Creditors, as members of the Executive Board at these institutions, have an important role in directing their activities, and can encourage the strengthening of collaborations among the IFIs. | |
|  |  | | *METHODOLOGICAL NOTES*  Assessing whether the creditor facilitates dialogue among IFIs to promote coordinated policies can include whether steps were taken to encourage interaction between the IMF, the World Bank, the regional development banks, and other financial development institutions. For instance, identifying issues for joint IFI work, and requesting information on synergies between new IFI policies. An active role could involve financially supporting joint IFI debt capacity development efforts (and participating in the oversight thereof). | |
| **Please insert your self-assessment for practice 4.2 here:** … | | | |
| **Change in the assessment of practice 4.2 compared to the preceding assessment:** … | | | |
| 1. **Promoting of contractual and financial innovation and minimizing litigation issues to strengthen resilience** | | | |
|  | * 1. **Continuing to work on financial innovation in lending and enhancing resilience to shocks** | | |
|  |  | | Strong: The creditor, in addition to supporting initiatives that explore and develop financing solutions to enhance resilience to shocks as a member of international fora, offers and promotes, when relevant, financial instruments that embed more resilience into the debt structure of the borrower country. | |
|  |  | | Sound: The creditor, as a member of international fora, supports initiatives that explore and develop financing solutions enhancing resilience to shocks. | |
|  |  | | Room for Improvement: The creditor does not actively engage in exploring new innovative financing options. | |
|  |  | | G-20 countries could help borrowing countries preserve debt sustainability in the face of natural disasters or other adverse shocks (both external and domestic) by promoting and facilitating the use of new instruments specifically designed to promote resilience. | |
|  |  | | *METHODOLOGICAL NOTES*  Financial instruments that embed more resilience include (but are not limited to): debt instruments with extendible maturities, commodity price- or GDP-indexed contracts, and provision of insurance against climate change/pandemics.  Supporting initiatives may involve undertaking or supporting research into instruments that enhance resilience, supporting efforts to develop model contracts/term sheets, and supporting/subsidizing regional initiatives to advance the use of such instruments. | |
| **Please insert your self-assessment for practice 5.1 here:** … | | | |
| **Change in the assessment of practice 5.1 compared to the preceding assessment:** … | | | |

|  |  |  |
| --- | --- | --- |
|  | * 1. **Promoting enhanced contractual clauses in foreign-law sovereign bond issuances** | |
|  |  | Strong: The creditor, in addition to meeting sound practice, promotes enhanced contractual clauses (modified *pari passu* and enhanced collective action clauses) by providing or supporting coordinated technical assistance in this area. | |
|  |  | Sound: The creditor includes enhanced contractual clauses (modified *pari passu* and enhanced collective action clauses) when it issues international sovereign bonds. | |
|  |  | Room for Improvement: The creditor does not actively engage in supporting enhanced contractual clauses. | |
|  |  | The precise design of international bond contracts is a decision of the sovereign issuer, in consultation with its legal and financial advisers. However, enhanced contractual features can render the system much less vulnerable to delayed and drawn out restructurings, and minimize the risk of holdouts and costly litigation. The IMF and the World Bank have endorsed such contractual features to promote stability of the international financial system. | |
|  |  | *METHODOLOGICAL NOTES*  In assessing the level of compliance, it is useful to explain the ways in which the update of new contractual clauses in sovereign bond issuances (modified *pari passu* and enhanced collective action clauses) have been implemented. Specific inclusion of such clauses in contracts support a *sound* rating. Promoting bilateral or IFI TA in debt management and financial market development can provide an opportunity for borrowing countries to learn about the enhanced features. | |
| **Please insert your self-assessment for practice 5.2 here:** … | | |
| **Change in the assessment of practice 5.2 compared to the preceding assessment:** … | | |
|  | * 1. **Addressing the challenges posed by some litigating creditors.** | |
|  |  | Strong: The creditor, in addition to supporting initiatives to enhance monitoring of litigation by non-cooperative minority creditors and seek appropriate ways to take action, provides or supports technical assistance to countries with limited capacity in addressing litigation challenges. | |
|  |  | Sound: The creditor supports initiatives to enhance monitoring of litigation by non-cooperative minority creditors and to seek appropriate ways to take action. | |
|  |  | Room for Improvement: The creditor does not support initiatives to enhance monitoring of litigation by non-cooperative minority creditors and to seek appropriate ways to take action. | |
|  |  | Distressed debt investment funds have a role to play in resolving debt crisis, mainly, they can provide liquidity in secondary markets for sovereign bonds. However, a subset of these funds that buy distressed debt at a large discount with the intent to recover the full-face value through litigation has made restructurings extremely difficult. Thus, legislative efforts to curtail this type of investing could help and should aim to strike the right balance between further discouraging disruptive behavior and preserving secondary-market liquidity. Many developing countries also have limited technical capacity in addressing challenges with litigation. G20 members can also help addressing challenges by litigating creditors by providing technical support as needed to affected countries. | |
|  |  | *METHODOLOGICAL NOTES*  Monitoring and seeking appropriate ways to take action generally means having in place procedures to: observe the actions of non-cooperative litigating creditors and to come to a view about when their actions are disruptive; and to have tools available to assist the smooth implementation of the market-based approach to debt restructuring (e.g., methods to stay the execution of judgments when appropriate).  In assessing these ratings, it would be useful to explain the ways in which the challenges posed by some litigating creditors were addressed. Specific identified actions in this area would support a *strong* rating. | |
| **Please insert your self-assessment for practice 5.3 here:** … | | |
| **Change in the assessment of practice 5.3 compared to the preceding assessment:** … | | |

1. An example of such a standard publicly available template can be found on USAIDs web site, at: <https://www.federalregister.gov/documents/2016/09/22/2016-22856/usaid-sovereign-loan-guarantees-standard-terms-and-conditions> [↑](#footnote-ref-1)