

SU/22/65

May 11, 2022

**The Acting Chairman's Summing Up  
Reviews of the Fund's Sovereign Arrears Policies and Perimeter  
Executive Board Meeting 22/41  
May 4, 2022**

Directors welcomed the comprehensive review of the Fund's policy on lending into arrears to private creditors (LIA policy), the Fund's policy on lending into sovereign arrears to official bilateral creditors (LIOA policy), and the Fund's non-toleration of sovereign arrears policy to official bilateral and multilateral creditors.

Directors agreed that, overall, the Fund's arrears policies have worked well in enabling the Fund to proceed with providing financing in cases of arrears. At the same time, they noted that practice in sovereign debt restructuring and the creditor landscape have evolved over the last 20 years and certain updates are in order. Directors agreed that the proposals endorsed today are accurately reflected in the Executive Board understandings in Supplement 2 of SM/22/47 to be issued shortly.

Directors agreed that the LIA policy remains broadly appropriate and agreed with staff's proposed updates to the principles guiding the Fund's assessment of good faith.

- First, Directors agreed that debtors would be expected to share "relevant" information, generally aligned with what the member would be required to share under the Debt Limits Policy. They noted that this expectation would replace the earlier two-track approach on confidential and non-confidential information. Directors emphasized, however, that decisions on an adequate macroeconomic framework and the design of the financing plan or the adjustment program that could form the basis for the Fund's lending into arrears will remain in the sole purview of the Fund.
- Second, Directors considered that any terms offered to the creditors by the member should be consistent with the parameters of the Fund-supported program.
- Third, Directors expected that the debtor should provide clarity on the perimeter of claims that would be subject to the private-sector debt restructuring at the outset of the debt restructuring process.
- Fourth, Directors decided to eliminate the expectation that debtors would engage with creditor committees under a "formal negotiating framework" and only "where warranted by the complexity of the case." That said, Directors continued to expect that the debtor would engage with a representative creditor committee or committees.

- Fifth, Directors reiterated their support for the use of flexibility in applying the LIA policy in emergency financing cases, in line with the flexibility provided under the LIOA policy.

Directors agreed that the current practice in preemptive restructuring cases remains appropriate and should be codified such that in those cases, the Fund may provide financing only if it has adequate assurances that such a restructuring will be successful. Such assurances are obtained by a judgment that a credible process for restructuring is underway and will result in sufficient creditor participation to restore debt sustainability and close financing gaps within the macroeconomic parameters of the program, taking into account official sector commitments. Directors welcomed the recommendation to add an expectation of enhanced transparency and information sharing in preemptive debt restructurings. A number of Directors cautioned against an overly prescriptive codification of the current practice.

With respect to claims held by official bilateral creditors, Directors broadly agreed that the Fund's nontoleration of arrears policy in cases where no official sector involvement is required (non-OSI cases) and the LIOA policy in cases where official sector involvement is required (OSI cases) continues to be appropriate and no amendments are needed. A number of Directors recalled the recent, novel application of the LIOA policy as a source of financing in the context of special circumstances, and emphasized that this approach could not be presumed to ensure debt sustainability outside these circumstances. Regarding the Fund's financing assurances policy, a number of Directors saw merit in conducting a review of the policy noting that it provides a critical safeguard for Fund lending. On the role of the Common Framework (CF), while a few Directors expressed a desire to recognize the CF as a representative standing forum now, most Directors agreed that more experience is needed and welcomed staff's plan to closely monitor the CF's evolution and revert to the Board on whether it emerges as a new representative standing forum.

Directors also concurred that new Fund-supported programs should continue to incorporate the assumption that old OSI-related claims would be restructured in line with the terms stipulated in the original Fund-supported program.

Directors agreed that application of the non-toleration of arrears policy with respect to multilaterals has worked well, but the policy needs to be updated to clarify how the policy applies to new international financial institutions (IFIs) and to ensure that the special treatment multilateral creditors receive under the Fund's arrears policy is not diluted. IFIs are defined as international financial institutions with at least two sovereign members (and no non-sovereign member). While many Directors expressed a preference for staff's original proposal on this issue, which would reduce scope for judgement in this area and provide for more clarity, a number of Directors could not support staff's original proposal. In the end, most Directors went along with the alternative approach set out in the Supplement in light of staff's expectation that implementation of the approach described in the Supplement would not fundamentally differ from that in the original proposal. Therefore, Directors endorsed the following:

- First, Fund financing in the face of arrears to the World Bank Group should continue to require an Agreed Plan between the debtor and the World Bank to clear the arrears over a defined period. Fund financing in the face of arrears to any other IFI should continue to require that a Credible Plan be in place in non-OSI cases.
- Second, in OSI cases:
  - Where the member is in arrears to an IFI, the Fund should judge whether a Credible Plan to resolve such arrears is required as a condition for lending. Factors informing the Fund's judgment in this regard will include: (i) global, rather than regional, membership of the institution; (ii) whether the institution is a regional financing arrangement or a reserve currency union central bank that forms part of the global financial safety net; (iii) the Paris Club's treatment of the institution, (iv) participation of the institution in the Heavily Indebted Poor Countries (HIPC) Initiative, and (v) whether the institution is being excluded from the scope of debt restructuring by official bilateral creditors through a creditor committee based on a representative standing forum recognized under the LIOA policy in the case at hand.
  - When arrears are owed to an IFI that is not captured under the above bullet, Directors agreed that the LIOA policy should be expanded to apply to these cases *mutatis mutandis*. In these cases, the Fund policy will also provide for the flexibility in extraordinary circumstances for emergency financing cases consistent with the LIOA policy.

Directors broadly agreed with staff's restatements of how a Direct Bilateral Claim is defined for purposes of the application of the Fund's arrears, financing assurances, and debt sustainability policies, with some Directors emphasizing that the Fund's definition should aim to align with the classifications of the World Bank and Paris Club. They also endorsed two amendments with respect to identifying official claims. First, to the extent that the IFI purchases securities in the secondary market as part of the global financial safety net, such claims can be treated as claims subject to the Fund's arrears policies as applicable to IFIs. However, the Fund would rely on the IFI's own representation in this regard. Second, any Direct Bilateral Claims or claims held by IFIs that are contractually part of a pooled voting mechanism with private creditors shall be subject to the LIA policy. Directors asked that staff reports include greater transparency on how staff assessed the perimeter of claims, including when the Fund's classifications differ from that of the Paris Club's. A few Directors called on the Fund to treat central bank swaps with utmost caution, considering its unique characteristics.

The above amendments and restatements will enter into effect immediately and will apply to all future purchases and disbursements (including under existing arrangements), with respect to existing and future arrears.

Directors agreed that the Fund's arrears policies should be reviewed on an as needed basis.