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**Statement by Ms. Mannathoko, Mr. Nakunyada, and Mr. Abdullahi on Reviews of the
Fund's Sovereign Arrears Policies and Perimeter
(Preliminary)
Executive Board Meeting
May 4, 2022**

We thank staff for the comprehensive report and the helpful outreach to our office. Heightened debt vulnerabilities and rising default and rollover risks, highlight the need for more effective processes for the restructuring of external debt obligations. This review of the policy on Fund's Lending into Arrears to Private Creditors (LIA) as well as the fine-tuning of the lending into Arrears to Official Bilateral Creditors (LIOA) policy are therefore welcome.

We agree that the Lending into Arrears (LIA) Policy remains broadly appropriate. We appreciate the simplification of requirements for engagement with creditor committees and support the update of principles for assessing “good faith” engagement.

On debt data transparency, it will be critical that market sensitive information be identified and protected early in the process. While we can support replacing the two-track approach with an expectation that relevant information will be shared with creditors, this must be subject to appropriate safeguards for market-sensitive information. Some authorities may hesitate to submit market sensitive information; thus we stress the need for a formal negotiating framework and a reasonable agreement on appropriate safeguards to provide the necessary assurances. We note the clarification of what constitutes "relevant" information; specifically creditor composition, major subcategories of instruments and main financial terms, upcoming debt service and collateralized debt, and note that contractually sensitive information may also be affected by this reporting. *Could staff clarify if the policy ensures that aggregated disclosure of debt by type of creditor or instrument would ensure the issue of commercially sensitive provisions of contracts that may not be disclosed is adequately addressed? Clarification, for example, on how sensitive financial terms will be treated if they relate to a single creditor that is the only user of a category of instrument, would be helpful.*

Capacity development (CD) to support data reporting capacity remains important. We appreciate staffs' clarification that provision of data for debt restructuring purposes would

not impose an additional burden on debtors as the required information is aligned with information members are expected to provide under different Fund debt policies and data provision initiatives. Nevertheless, continued Fund CD to support authorities' efforts to improve debt transparency under this and other Fund policies remains important.

The staff guidance note should address debates around appropriate program parameters. While the rationale behind the principle that the debtor should offer a debt restructuring proposal consistent with the parameters of the Fund-supported program is valid, the staff guidance note should ensure such program parameters are reasonable and do not delay debt restructuring and program engagement. It will be important for staff guidance to address concerns that staff discretion in program design, could, at times, imbed overly restrictive parameters requiring larger restructuring relief than can be negotiated and secured in a timely manner. In such cases, this would further delay debt negotiations and engagement in a Fund program. Such tradeoffs on timely restructuring versus the appropriate extent of relief should be presented as options to the authorities. Staff guidance could ensure that program discussions allow authorities to consider the implications of a range of debt relief asks – from the minimum required to ensure debt sustainability during the program, to larger amounts that would help to better entrench fiscal and debt sustainability but could end up delaying restructuring outcomes (e.g. for a year or more). *Staff comments are welcome.* We also urge staff to seek innovative ways to incentivize private creditor cooperation with sovereign debtors on such treatment.

As a general principle the Fund should not be seen to be overly involved in debt restructurings. As noted by staff, beyond establishing an expectation as part of the assessment of good faith, the Fund cannot (and should not) do more. Given the need for the Fund to refrain from dictating the perimeter of claims that a government chooses to set in its negotiations, carefully crafted staff guidance will be important to avert perceptions of undue Fund interference in restructuring negotiations.

Regarding conditions under which debtor countries engage with creditor committee(s), engagement with a representative creditor committee is doable for most LICs, however care should be taken that the proposal does not expect debtors to be able to engage with multiple creditor committees given the cost and resource implications for low-income countries with capacity constraints. We strongly encourage the creation of a steering committee, in instances where multiple creditor committees arise, to help reduce the burden on the debtor.

Preemptive engagement with creditors to restructure debt and avoid default has mutual benefits for debtors and creditors. Nevertheless, while we accept staffs' proposal to codify the existing practice on preemptive debt restructurings into a Fund policy, and to enhance clarity, certainty, and transparency, we highlight the point made that the policy should continue to allow for flexibility such that its application does not result in a delay of the debt restructuring and the incurrence of arrears. We encourage an emphasis of this point in the staff guidance note. On debt transparency, as noted above in the discussion on relevant information, market and contract sensitive information should be shielded by appropriate safeguards.

We agree that the LIOA policy remains broadly appropriate. Regarding LIOA, the G20 Common Framework, and a potential new representative standing forum, the ideal would be a forum that resolves current delays in creditor committee formation and ensures timely

creditor committee negotiations and decisions. To date, after a year and a half, the Common Framework (CF) has not delivered financing assurances in a timely and reliable manner and has yet to implement treatment for the one country that has received official sector financing assurances. *We agree, therefore, that it is too early to treat the CF as a representative standing forum and staff will need to monitor its evolution and advise the Board when the CF has evolved enough that appropriate procedures can be established. Do staff have a specific time frame in mind?*

We continue to support provision of flexibility in LIOA, to cater for exceptional circumstances, and to enable Fund engagement in the wake of disasters such as cyclones or the COVID-19 pandemic. On non-toleration of arrears to international financial institutions, we also urge flexibility in the application of NTP for members with arrears to IFIs when facing emergency financing needs such as those related to natural disasters. Zimbabwe, for example, could not access emergency financing following the pandemic or devastating impacts from Cyclone Idai, due to outstanding arrears to the World Bank and African Development Bank. *Could staff comment on the scope to allow some flexibility in the application of NTP for such exceptional events? Could staff also clarify what is meant in paragraph 56, given that countries such as Zimbabwe have not been allowed to access Fund resources for over two decades? Could staff also indicate when the NTP policy will be reviewed? We note that it has not been fully reviewed since its adoption in 1970.*

We support the proposed amendment on the treatment of arrears on secondary market purchases held by IFIs, and the proposed amendment and the three restatements with respect to the definition of Direct Bilateral Claims.

Finally, we note that staff is proposing to have all amendments come into force immediately. Although we are not opposed to this proposal, we seek assurance from staff that an immediate enforcement of the changes to the LIA policy without a transition period would not adversely impact any on-going or potential debt restructuring and program discussions. *Staff comments are welcome.*