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To: Members of the Executive Board

From: The Secretary

Subject: **Note for the G20 International Financial Architecture Working Group—Update on the Implementation of the Debt Service Suspension Initiative**

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Questions:	Mr. Beaumont, SPR (ext. 37411) Ms. Hakura, SPR (ext. 36721)

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Update on the Implementation of the Debt Service Suspension Initiative

On April 15, G20 Finance Ministers endorsed the COVID-19 Debt Service Suspension Initiative (DSSI) for International Development Association (IDA) and United Nations Least Developed (UN LDC) countries (Annex 1), in response to a call by the World Bank and the International Monetary Fund (IMF) to grant debt service suspension to the poorest countries to manage the severe impact of the pandemic. The pandemic and economic shutdown are causing severe economic stress for these countries, overwhelming weak health systems, heavily impacting their fiscal positions and exacerbating an already challenging public debt situation, while increasing the risk of social unrest and fragility. Financing from International Financial Institutions (IFIs) and Multilateral Development Banks (MDBs) alone will not be sufficient to enable these countries to manage the severe health, economic, and social impacts of the pandemic. In this context, the DSSI plays an important role to help eligible countries meet their increased financing needs to respond effectively to the COVID-19 crisis.

The IMF and the World Bank are supporting the implementation of the DSSI, including through monitoring of spending, enhancing public debt transparency, and ensuring prudent borrowing. A key objective of the DSSI is to enable an effective response to the crisis, and borrowers therefore commit to use the created space to increase social, health, or economic spending in response to the COVID-19 crisis. Beneficiaries also commit to disclose all public sector financial commitments (debt and debt-like instruments).[1] Sound data on public sector financial commitments will underpin assessments of debt sustainability and financing needs, and enhanced debt transparency will help countries make more informed borrowing and investment decisions, which is critical in the current crisis context. Countries also commit to restrict their non-concessional borrowing as supported by ceilings under IMF programs and the World Bank's non-concessional borrowing policies. Moreover, IDA continues to support countries' fiscal positions by transferring large net flows of concessional financing. Indeed, reflows through 2021 to IDA amount to US$4 billion, while planned disbursements are more than six times this amount, at US$27 billion.

The following sections summarize progress with and the challenges of the implementation of DSSI as of mid-May 2020; outline how the IMF and the World Bank seek to implement the debt transparency and fiscal monitoring components of the initiative; and, propose next steps.

[1] Debt disclosure refers to comprehensive reporting to IMF and World Bank. Public disclosure should be in aggregate form in line with sound practices, providing information by creditor, residency classification, instrument, currency, interest rate basis, original, and residual maturity (see, for example, World Bank Debt Management Performance Assessment, 2015).

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I. Debtor Participation in DSSI

As of May 25, 26 countries had formally requested to benefit from the DSSI[2]:

Afghanistan	Djibouti	Mozambique
Burkina Faso	Dominica	Myanmar
Cabo Verde	Ethiopia	Nepal
Cameroon	Gambia, The	Niger
CAR	Guinea	Pakistan
Chad	Grenada	Sao Tomé &Príncipe
Comoros	Kyrgyz Republic	Togo
Congo, Dem. Rep. of	Mali	Vanuatu
Congo, Republic of	Mauritania	

The participation rate of the 73 countries eligible for the DSSI is currently at 35 percent. Among countries that have formally requested the DSSI, four are frontier or market-access countries. More than half are assessed at high risk of debt distress or already in debt distress. Thirteen of these are fragile states and 7 are small states. Two countries, Grenada and Chad, have requested debt service suspension from private creditors.

Of the remaining 47 countries, 35 have indicated they are interested in or considering applying, while eleven countries indicated they are not interested. A range of issues, discussed below, have been raised as concerns.

II. Issues Arising During DSSI Implementation

Effective implementation of the initiative requires some clarifications. Some issues have arisen during the initial phases of DSSI implementation, as discussed below. Dealing with these issues would help ensure inter-creditor equity and would also likely remove hurdles to the participation of eligible countries in the DSSI.

The key areas of uncertainty observed in recent weeks are as follows:

- ***Participation of borrowers***. In some countries, the authorities have concerns about the benefits of DSSI owing to the composition of their debt (no or limited exposure to official bilateral creditors) or the fact that they have not requested Fund financing.[3] Some countries have indicated concerns that application for DSSI participation might send a negative signal about their creditworthiness. **Further analysis will be useful in addressing these concerns, especially in light of the deepening crisis in growth and access to financial markets. Non-participation in the DSSI means that some of the concessional funding countries receive from IDA and other sources will be diverted to servicing debt rather than addressing the pandemic implications.**

[2] As of May 25, the Paris Club had received 21 formal requests and had approved 5 MOUs.
[3] The G20 term sheet states that access to the DSSI will be limited to countries that either are benefitting from, or have made a request to IMF Management for, IMF financing, including emergency facilities.

- ***Participation of lenders***. Some official lending institutions from G20 creditor countries appear to be taking the view that the DSSI does not apply to them, or that it applies only with respect to a subset of DSSI-eligible borrowers, such as the 47 UN LDCs. Also, headquarters and local offices of the official lending institutions seem to not coordinate actions well. Such uncertainties prompted at least one eligible country to withdraw its DSSI request. **It is important that the G20 creditor countries communicate the terms of the initiative to their official lending institutions and require them to take prompt action.**

- ***The precise terms of participation by non-Paris Club creditors***. The Paris Club has articulated a Memorandum of Understanding (MoU) explaining in detail how the broad parameters of the DSSI are to be translated into revised lending agreements. We understand some non-Paris club creditors also intend to use this MoU. Other non-Paris Club creditor countries have not yet been clear about their detailed parameters, and, as a consequence, their lenders appear to be asking for conditions not currently being required by Paris Club creditors (e.g. asking debtors to pay off all arrears in order to be eligible or stating that the DSSI would only apply to countries which do not contract new loans). This and other potential inconsistencies need to be understood and resolved. **It is important that the non-Paris Club G20 creditors either use the Paris Club MoU or articulate clearly a common MoU to avoid demands by different creditors that are not in line with the G20 term sheet and communiqué.**

- ***Private sector participation***. To meet the G20's call for private creditors to participate in the initiative on comparable terms, the IIF has engaged in ongoing discussions but has not been able to agree on terms of reference. A key difficulty is to allow private creditors to participate in a manner that helps debtor countries without violating the fiduciary duties or damaging the long-term commercial interests of creditors. These terms of reference would increase the potential for broad participation by private creditors and encourage DSSI countries to request private sector participation, in part by providing clarity to credit rating agencies on the call for participation by private creditors in the DSSI. **It is important that the Institute of International Finance (IIF) endorses a standardized terms of reference for private creditor participation in line with the G20 term sheet.**

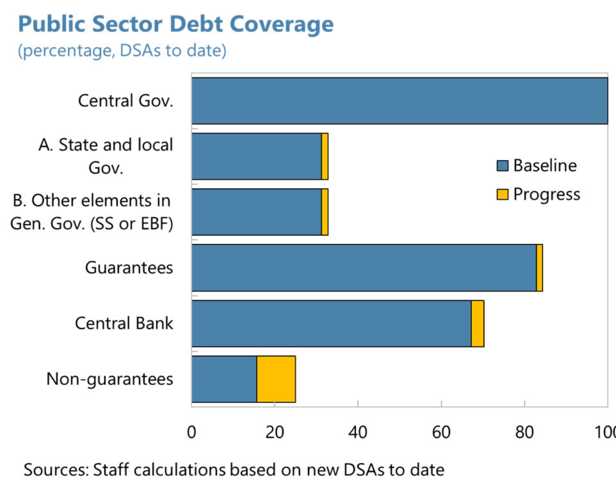
- ***Credit rating agency actions***. Uncertainties around how private participation in DSSI will be handled have triggered concerns in some countries about a deterioration in their credit ratings beyond what would be expected during a severe global recession. Credit rating agencies have made it clear that suspending debt service owed to official bilateral creditors would, by itself, be unlikely to have rating implications; indeed, such relief would increase the financing available to the government for essential health and social spending due to the coronavirus outbreak. However, one agency, Moody's, has placed two participating countries (Ethiopia and Pakistan) on a negative watch citing, among other factors, the G20's call for private sector creditors to participate in the DSSI on comparable terms.[4] Furthermore, all three major credit agencies have made it clear that requesting private sector participation on G20-comparable terms could lead to a downgrade (although this might be temporary). **World Bank and IMF staff have interacted with credit rating agencies to explain the financial benefits of the DSSI and the related improvement in debt transparency and sustainability analysis and to gather their reactions. G20 countries representatives could do the same.**

- ***Non-concessional borrowing (NCB) limits during the debt service suspension period***. Several countries expressed concerns that the DSSI may provide undue restrictions on non-concessional borrowing in the current crisis context.[5] **The Fund and Bank will be working with countries through end-June to clarify this, including by sharing updates on existing non-concessional borrowing limits. From July 1, these uncertainties will be less common as all IDA countries will be covered by limits under the new Sustainable Development Financing Policy (SDFP)** subject to Board approval (Box 1).

- ***Legal risks***. Several countries have expressed concerns whether non-payment to creditors prior to the signing of bilateral legal agreements could inadvertently place them in default. **The G20/Paris Club could usefully clarify that this is not the case.** Others have expressed concerns about cross-default clauses, particularly in a limited number of commercial bank loan agreements, which they will need to address by consulting with their legal advisors and creditors.

III. Debt Transparency and DSSI

Comprehensive and timely debt data are critical for borrowers and creditors to take informed decisions; yet important gaps remain. Despite some improvements, public debt transparency remains inadequate among IDA countries. In about 80 percent of Debt Sustainability Analyses (DSAs) in IDA countries, public debt data cover central government and public guarantees. Some progress has been made since the joint Bank-Fund Debt Sustainability Framework for Low-income Countries (LIC-DSF) was operationalized in mid-2018, with debt coverage expanded in



[4] Moody's notes that consistent with its approach globally, the review period will allow the rating agency to assess whether the country's participation in the initiative would likely entail default on private sector debt, notwithstanding the intended voluntary nature of private sector participation and the fact that the country has not, to Moody's knowledge, indicated interest in extending the debt service relief request to the private sector; and, if so, whether any losses expected to arise from that participation would be consistent with a lower rating.

[5] This also includes concerns about treatment of budget financing that is not subject to the flexibility provided by exception clauses for project financing.

10 of the 64 countries for which the new LIC-DSF has been applied (as of March 2020). Nonetheless, the tailored contingent liability stress test for data gaps built into the LIC-DSF shows that, on average, the contingent liability shock was about 12 percent of GDP, highlighting the importance of continuing to expand debt coverage and improving its quality.

Strong cooperation of all creditors is needed to support comprehensive disclosure of public debt as part of the DSSI. According to the G20 statement of April 15, 2020, as part of the DSSI, "…Each beneficiary country will be required to commit to disclose all public sector financial commitments (debt), respecting commercially sensitive information." Comprehensive disclosure in the context of the DSSI would refer to full disclosure of information on public and publicly guaranteed debt to IMF and World Bank staff, while, in contrast, public disclosure occurs in a more aggregated form, for example, in the context of DSAs or the International Debt Statistics (IDS).[6] With clear support from the G20, the World Bank and the IMF will reach out to participating countries and their creditors to establish an up-to-date and comprehensive public sector debt database utilizing the sound practice of reconciling debtor-creditor data, ideally on a loan-by-loan basis.[7] This would require cooperation of all creditors to verify that the coverage of debt data is comprehensive, or to identify and rectify remaining inconsistencies or gaps (see Annex II for details). G20 could support this work by engaging with non G20 creditors to provide the necessary information.

Progress on this work would be reported in fall 2020, including on whether the extent of creditor and debtor disclosure enables the reconciliation process to proceed. If there is broad and timely creditor and debtor cooperation, the results will inform discussions with stakeholders at the end of the debt service suspension period. This DSSI work complements ongoing efforts by the IMF and the World Bank to enhance debt transparency, including in the context of the joint Bank-Fund multipronged approach on debt and through technical assistance under the Debt Management Facility (DMF)[8] and the IMF's Data for Decisions initiative.[9]

IV. Fiscal Monitoring

The COVID-19 pandemic and deep economic recession are causing severe fiscal pressures on DSSI eligible countries through a range of channels. Health expenditures must increase for containment measures and medical treatment. Measures to cushion the impact on households and the economy lead to increases in social transfers and subsidies to domestic businesses, but social transfers also rise as more households qualify for support. The revenue side is a major source of fiscal pressures, partly reflecting policy measures, but primarily due to falls in activity and commodity prices. The crisis forces countries to make difficult spending choices and participation in the DSSI sends a strong signal that countries seek to prioritize COVID-19 related spending over debt service payments to official creditors.

[6] The IDS publishes annually information submitted to the Debt Reporting System (DRS) database. The reconciliation would also be used to update the DRS data base.
[7] According to *Government Finance Statistics Manual* 2014 (GFSM2014). Debt includes loans, securities, and guarantees. The public sector consists of general government (budgetary central government, state government, local government, extrabudgetary units, and social security funds) and public nonfinancial corporations.
[8] See www.worldbank.org/debt and www.dmfacility.org
[9] https://www.imf.org/en/Capacity-Development/D4D/d4d-fund

A key objective of the DSSI is to provide financial resources to help eligible countries battle the COVID-19 pandemic. Accordingly, a requirement to participate in the initiative is that the beneficiary country commits to use these resources to safeguard social, health or economic spending in response to the crisis. The country also commits to work closely with the IMF and the World Bank, who are expected to put in place a monitoring system.

IMF and WB staff are coordinating the development of a suitable and feasible monitoring system. In view of the limited capacity of many IDA countries, which is further stretched by the impact of COVID-19, the framework for reporting will be as simple as possible and will draw on existing public financial management reporting systems and revenue and spending aggregates. The monitoring system would aim to compare outturn data for health and social spending (including, to the extent possible, COVID-19 related items) with 2020 pre-COVID budget (if available) or 2019 estimates, and also make the same comparison for revenue and spending aggregates. If 2020 post-COVID supplementary budgets are available for these items, they would also be compared with 2020 pre-COVID budget (if available) or 2019 estimates.

A preliminary monitoring framework is being piloted on some countries. To ensure that the initial proposal is workable, a small number of country teams are conducting a trial implementation. Based on this experience, further revisions to the framework may be adopted to ensure it will be robust in practice across a range of countries. Further details of the framework and reporting requirements will be discussed in a note for the June G20 International Financial Architecture Working Group (IFAWG) meeting.

V. Next Steps

For the DSSI to achieve its intended objective, it is urgent to address issues that have been delaying its timely implementation:

- **Disclosure by non-Paris Club creditors of the modalities for eligible countries to make DSSI requests (to each of their participating lending institutions)** is necessary to address the current uncertainties around their DSSI participation. It is important that these modalities are also communicated to each of their official lending institutions and require them to take prompt action. Adoption of the Paris Club MOU, or a common MOU including clarifying the treatment of arrears, is necessary.

- **Confirmation from all G20 official bilateral creditors that payments can be suspended as of May 1, 2020** is necessary to help accelerate DSSI implementation.

- **G20 countries could encourage the IIF to endorse terms of reference for private creditors to participate in the DSSI.**

- **World Bank and IMF staff will continue to interact with credit rating agencies to explain the DSSI and to gather their reactions. G20 could do the same.**

- **The IMF and the World Bank will work with countries through end-June to clarify the non-concessional borrowing limits, including by sharing updates on existing debt limits.**

Clear support from the G20 is needed to enable the effective implementation of the public debt disclosure component of the DSSI. The countries participating in the DSSI have committed to full disclosure of public sector debt. World Bank and IMF technical assistance to establish an up-to-date and comprehensive debt database through reconciliation of debtor-creditor data would facilitate such disclosure if it gains broad creditor cooperation including from G20 creditors.

Looking ahead, some of the countries eligible to participate in the DSSI will require an extension of the suspension period and some will need debt reduction, if most forecasts about the depth and duration of this crisis prove to be true. As agreed, the IMF and the World Bank will do further analysis on country liquidity needs and debt sustainability and report back around the 2020 Annual Meetings. The reconciliation of debt data will be critical for this analysis.

Annex I. List of Eligible Countries

AFRICA

Angola	Benin	Burkina Faso
Burundi	Cameroon	Cabo Verde
C.A.R.	Chad	Comoros
Congo, Democratic Rep. of	Congo, Republic of	Cote d'Ivoire
Ethiopia	Gambia, The	Ghana
Guinea	Guinea-Bissau	Kenya
Lesotho	Liberia	Madagascar
Malawi	Mali	Mauritania
Mozambique	Niger	Nigeria
Rwanda	Sao Tome and Principe	Senegal
Sierra Leone	Somalia	South Sudan
Tanzania	Togo	Uganda
Zambia		

EAST ASIA

Cambodia	Fiji	Kiribati
Lao, PDR	Marshall Islands	Micronesia
Mongolia	Myanmar	Papua New Guinea
Samoa	Solomon Islands	Timor-Leste
Tonga	Tuvalu	Vanuatu

SOUTH ASIA

Afghanistan	Bangladesh	Bhutan
Maldives	Nepal	Pakistan

EUROPE AND CENTRAL ASIA

Kosovo	Kyrgyz Republic	Moldova
Tajikistan	Uzbekistan	

LATIN AMERICA AND CARIBBEAN

Dominica	St. Vincent	Grenada
Guyana	Haiti	Honduras
Nicaragua	St. Lucia	

MIDDLE EAST AND NORTH AFRICA

Djibouti	Yemen, Republic of	

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ANNEX II. PROPOSAL FOR DEBT DATA RECONCILIATION

The objective of this note is to present the proposed steps for reconciling debt records of beneficiaries of the COVID-19 Debt Service Suspension Initiative (DSSI) with creditor data. DSSI Beneficiaries commit to "to disclose all public sector financial commitments (debt), respecting commercially sensitive information." The reconciliation exercise will address data gaps to provide better estimates of countries' debt sustainability outlook and financing needs. The task is to be completed by beneficiaries, with technical support of the Bank and the Fund, by end-December 2020. The results will inform DSAs and would only be publicly disclosed in aggregate form at the borrowing country/creditor country level.

Debt reconciliation

The following steps are proposed for debt reconciliation to be implemented:

1) **Bank/Fund staff prepare a template.** The template will collect relevant data on DSSI participating countries' external public and publicly guaranteed debt,[10] at instrument-by-instrument level. The base template should cover:[11]
    - Type of instrument (loan / security / guarantee)
    - Creditor / debtor name (and guarantor, in case of guarantee);
    - Creditor / debtor identification number;
    - Effectiveness (signature) and final maturity date, grace period (in case of loan);
    - Interest rate (when variable: base rate and spread), currency;
    - Amount and debt outstanding and disbursed (DOD) at end-December 2019, disaggregated by outstanding without and with arrears (disaggregated by principal, interest and penalties);
    - Disbursements and payments over the period January-April 2020;
    - Collateral information;
    - Debt service (disaggregated by principal/interest/commissions) by year until end of repayment period.

    Consistent with HIPC Initiative precedent, debts under dispute and passive debts will be excluded from this exercise.[12] In that regard, stock figures (including arrears and penalties) should exclude obligations falling into these categories.

2) **National Debt Management Offices (DMOs) and creditors would be requested to fill in the template and submit to Bank/Fund.**

[10] Public sector consists of general government (budgetary central government, state government, local government, extrabudgetary units, and social security funds) and public nonfinancial corporations.
[11] When a loan is multi-tranche (e.g. multiple interest rates or currencies), disaggregation by tranche is needed. Stock and flow data in original currency will need to be provided separately for each tranche.
[12] HIPC provisions will inform the process and decision on whether specific debts are passive.

- DMOs version of the template will be filled with data from the debt recording and management systems (DRMS).[13] In addition, the DMOs should: i) reach out to the public sector units that are legally authorized to borrow externally (e.g. SOEs, local authorities, etc.) with the aim to integrate the template with any additional debt instrument not covered in the DRMS;[14] and ii) validate the data to the extent possible against creditor data.

- Communications with creditors will follow different channels:
  a) Multilateral creditors: Bank/Fund staffs would make the request directly to these institutions.
  b) Official bilateral creditors: Bank/Fund would make the request through the respective Executive Director office.[15]
  c) Commercial creditors: Debtor countries would be requested to make the request to these creditors. As part of this step, debtor countries will be advised to avoid creating any legal basis that would "revive" expired claims (due to statutes of limitation or otherwise).

3) **DMOs would be requested to reconcile data in their templates with data provided by creditors.**

4) **Should discrepancies above a set threshold be identified, IMF/WB staff will follow up with debtors/creditors**.[16,17] Relevant documents include the original agreement and subsequent transactions (e.g., disbursements and payments notifications). Allocation of support for this task among Bank/Fund staff could follow country or instrument criteria (e.g. in the context of the Heavily Indebted Poor Countries (HIPC) initiative, the World Bank took care of multilateral creditors while the IMF took care of bilateral and commercial creditors).

At the end of this exercise:

- Bank and Fund staff should keep the reconciled information in one file per country, which will have – if needed – a final review by both institutions.
- DMOs will be requested to reflect the reconciled data in the debt recording system and submit WB's DRS forms for its update.

[13] The template could be shared with UNCTAD and Commonwealth Secretariat (COMSEC) for them to provide precise guidance to their client countries on how to generate the templates and export them in Excel format. UNCTAD/ COMSEC would be requested to provide IT and functional assistance to their clients during this process.
[14] Debtor countries should clearly indicate if the data are extracted by the DRMS or by different sources.
[15] This is different from the practice under the HIPC Initiative when creditors in this group were contacted by debtor countries. This departure seems warranted given the need to speed up the process.
[16] Communications with creditors will follow the same channels as in point 4.
[17] This is different from the practice under the HIPC Initiative where staff was expected to iron out all possible discrepancies.

Risks and mitigation measures. To ensure the reconciliation process is effective, a G20 decision will be sought before proceeding with the reconciliation steps above, taking into account the adequacy of debt data disclosures by debtors and creditors. In addition, given time constraints for the completion of the exercise, staff will follow up on feasible options in parallel with the data request.

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Box 1: NCBP and SDFP debt limits

As per the G-20 term sheet, countries considering non-concessional borrowing other than agreements in the context of the initiative should comply with the IMF DLP or the relevant IDA policy on non-concessional borrowing. If the country is under an IMF program, compliance should in principle be determined under such program. If the country is not under an IMF program, compliance should be determined in the context of IDA's Non-concessional Borrowing Policy (NCBP) or the Sustainable Development Finance Policy (SDFP). The NCBP will remain into effect until June 30, 2020. Subject to the IDA Board approval, it will be succeeded by the SDFP starting from July 1st, 2020. Standard provisions under both policies would apply in the case of the G-20 initiative.

DSSI compliance under IDA policies on non-concessional borrowing

Non-Concessional Borrowing Policy

- Countries subject to the policy are all IDA grant beneficiaries and IDA-only non-gap post MDRI countries.[1] For these countries, envisaged NCB will need to be covered under an agreed NCB ceiling or be granted a loan-by-loan exception/waiver.[2]
- For countries that are not subject to the policy and that do not have a debt ceiling under the IMF program, no debt ceiling would be expected under the DSSI until July 1, 2020.

Sustainable Development Finance Policy

- All IDA-eligible countries are subject to the SDFP.
- DSSI compliance (from July 1 – subject to Board approval). For countries that are not under an IMF program, DSSI compliance would be assessed against debt ceilings as per the framework below.
  - Countries under LIC DSF at low risk of external debt distress and countries under the MAC DSA. These countries are normally not subject to a ceiling.[3]
  - Countries under the LIC DSF at moderate risk of debt distress. An NCB ceiling should be set such that there is no risk of external debt distress downgrade.
  - Countries under the LIC DSF at high risk of external debt distress with sustainable outlook. For countries without market access, a zero ceiling on NCB applies in principle. NCB would be allowed only under exceptional circumstances.[4]
  - For countries with market access, NCB ceilings would take debt management objectives into account and would be calibrated to support a reduction in debt vulnerabilities.
  - Countries under *LIC DSF in debt distress or at high risk of external debt distress with unsustainable outlook.* A zero ceiling on NCB applies.[5]

Special considerations under the SDFP:

- Additional requirements or increased flexibility to address country-specific circumstances is applied as needed under this framework.
- Debt ceilings will normally not be set for two categories of countries: i) countries in non-accrual status (which are not DSSI-eligible); and ii) countries that are eligible for IDA's Remaining Engaged in Conflict Allocation (RECA).[6] Countries in these two groups will normally not be required to define and implement Performance and Policy Actions (PPAs) under the SDFP.

[1] For the list of IDA countries subject to the NCBP see: https://ida.worldbank.org/sites/default/files/pdfs/ncbp-november-19-2019-countries-2020.pdf.
[2] Specifics on the applicable modalities for ceilings, requirements for an exception/waiver and process are detailed in the October 2015 NCBP paper (https://ida.worldbank.org/sites/default/files/pdfs/ncbpoct2015.pdf).
[3] The setting of a ceiling may nevertheless be triggered under certain circumstances, including when an episode of rapid and significant debt buildup occurs, particularly when this is associated with elevated levels of non-concessional borrowing.
[4] Exceptions could be considered: (i) for critical projects with strong development impact and high financial and social rates of return and concessional financing is not available; and (ii) when the operation is needed for debt management purposes and is consistent with the MTDS and the MTFP (if it exists).
[5] A non-zero ceiling could be considered, for example, for arrears clearance operations (domestic or external) only if other financing options are not available.
[6] Countries eligible for RECA are defined by high-intensity conflict and extremely weak institutional capacity, such that PPAs are unlikely to be appropriate.