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To: Members of the Executive Board

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Prepared By:	The staffs of the Fund and World Bank
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June 19, 2020
Prepared by staffs of the IMF and the World Bank

Second Update on the Implementation of the Debt Service Suspension Initiative

The IMF and the World Bank are continuing to support the implementation of the COVID-19 Debt Service Suspension Initiative (DSSI) that was endorsed by G20 Finance Ministers on April 15.[1] The DSSI benefits International Development Association (IDA) and United Nations Least Developed (UN LDC) countries by suspending debt service payments from May through December 2020 to facilitate an effective response to the crisis.[2] Participation in the DSSI will allow countries to maximize fiscal response in the current crisis context.

It is important to enable key stakeholders to track progress in the implementation of DSSI and improve debt transparency. The World Bank has just launched the Debt Service Suspension Initiative (DSSI) website (https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative), which will be updated continuously, including the publication of new aggregate debt data for DSSI eligible countries. This expanded dataset will include new information on the creditor country composition of outstanding public and public guaranteed debt and projected annual and monthly debt service payments. This type of broad debt and investment transparency is a high priority for development and recovery from the crisis; and is especially urgent in the context of COVID-19.

This note provides an update on DSSI implementation and the challenges arising as of mid-June 2020. It also discusses (i) how the IMF and the World Bank plan to put in place a monitoring system of fiscal spending in response to the crisis; and (ii) the debt limits on non-concessional borrowing that are applicable under the IMF and World Bank policies. It concludes with a proposal of next steps. The next update would provide information on steps to enhance debt transparency under the DSSI.

I. PARTICIPATION IN DSSI

As of June 18, 37 eligible countries had formally requested to join the DSSI as confirmed by the G20 creditor template and by information from debtor countries. This brings the participation rate of the 73 countries eligible for the DSSI to 51 percent. As of June 16, the Paris Club had received 34 formal requests and had approved 17 MOUs, including Burkina Faso, Cameroon, Chad, Comoros, Republic of Congo, Dominica,

[1]The first update on the implementation of the DSSI was discussed by the IFA working group on May 28, 2020.

[2]Annex 1 provides the term sheet for the DSSI.

Ethiopia, Grenada, Cote d'Ivoire, Kyrgyz Republic, Mali, Mauritania, Myanmar, Nepal, Niger, Pakistan, and Togo.[3]

Participating countries are diverse, yet about one-quarter of eligible countries indicate they do not intend to participate in the DSSI. Among countries that have formally requested the DSSI, 65 percent are from Africa with more than half assessed to be at high risk of debt distress or already in debt distress. Eighteen of these are fragile states and 8 are small states. The participation rate among frontier or market-access countries is similar to other countries, with 13 of the 23 such economies participating. Of the remaining 36 countries, around half have indicated they are interested in or are considering applying to the DSSI. This leaves about one-quarter of DSSI-eligible countries who are not interested to participate in DSSI. 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. While some issues that have arisen during the initial phases of DSSI implementation are being clarified, others continue to hamper take up. Dealing with these issues would help ensure inter-creditor equity, which requires full participation by all creditors, including non-Paris Club creditors, and would likely remove hurdles to the participation of eligible countries in the DSSI:

- **Lender participation.** A number of debtor countries have encountered uncertainties about which lending institutions of non-Paris Club countries are participating. The G20 has enhanced monitoring of the DSSI implementation by requesting creditor countries to provide more detailed data, including by specific lending agencies and on the amounts of debt service suspended. **Disclosure of the participating lending institutions would reduce uncertainties for requesting countries**. **The G20 term sheet for DSSI refers to official bilateral creditors and to the multilateral development banks, but the participation of plurilateral creditors (other official creditors with multi-country membership) in the DSSI should also be clarified.**

- **The precise terms of participation by non-Paris Club creditors.** Difficulties encountered by countries making requests have included limits on access to new financing in at least one case or requirements to clear arrears before participating in DSSI.[4] These difficulties indicate that it is important for non-Paris Club G20 creditors to

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[3]Updates on Paris Club MoU are provided at: http://www.clubdeparis.org/en/communications/archives

[4]In some countries, the authorities have indicated that they are not able to benefit from DSSI as that they do not have a formal IMF program. According to the term sheet endorsed by the G20, access to the initiative requires countries to be benefiting from, or to have made a request to IMF Management for, IMF financing including emergency facilities (RFI/RCF).

adapt the Paris Club Memorandum of Understanding (MOU) or articulate clearly a common MOU to avoid demands by different creditors that are not in line with the G20 term sheet. **There are signs of progress toward clarification of terms of participation by non-Paris Club creditors, with some having discussed using or adapting the MOU of the Paris Club, while others have circulated this MOU to relevant agencies and financial institutions for their reference in implementing the DSSI.**

- **Private sector participation.** The Institute of International Finance (IIF) has released terms of reference (ToR) for voluntary private sector participation.[5] These ToR could encourage countries to request private sector participation in DSSI,. **Private creditors are strongly encouraged to participate in the DSSI on comparable terms,** as indicated in the G20 communique.

- **Debtors' concerns about default and cross-default clauses.** As governments contemplate whether to participate in the DSSI, one area of concern continues to be whether participating in DSSI could give rise to an event of default and the possible acceleration of payments on their commercial debts (e.g., Eurobonds, loans) through cross-default clauses.[6] Depending on the language and scope of the cross-default clauses found in these private debt agreements, applying for the DSSI or suspending payments to official bilateral creditors prior to a rescheduling agreement being reached could potentially trigger these cross-default clauses. It is welcome that the IIF is seeking to develop a waiver that would allow borrowers to request forbearance from official bilateral creditors without triggering an event of default. **Concerned countries are advised to assess existing clauses with their financial and legal advisors.**

- **Participation in DSSI and other debt treatments.** Several countries have approached G20 creditors for financing or additional debt reprofiling/debt restructuring to address their debt situation. The G20 term sheet does not prevent creditor countries from providing financing or debt treatments on terms beyond those envisaged under the DSSI, provided that the DSSI terms are met. **It is important that the G20 clarifies that creditor countries can provide additional debt treatments to DSSI-eligible countries provided that DSSI terms are met for a country participating in the initiative.**

- **Transparency.** It is important to have timely public disclosure of the potential volume of 2020 debt service payments that may be deferred. As a preliminary indicator of the

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[5]See Terms of Reference for Voluntary Private Sector Participation in the G20/Paris Club Debt Service Suspension Initiative.

[6]Bond contracts and loan agreements typically contain cross-default clauses. With respect to bond contracts, these clauses are typically only triggered upon an event of default on other external indebtedness which may be broadly (any foreign currency lending) or more narrowly (any publicly traded instrument) defined. Loan agreements may be more broadly worded, such that even a voluntary rescheduling of other external indebtedness may give rise to an event of default under the loan agreement.

potential volume of 2020 debt service payments that may be deferred, and in response to calls for greater data transparency, the World Bank has drawn on its DRS database to expand the coverage of the information made publicly available for DSSI eligible countries. This disclosure includes new information on the creditor country composition of outstanding public and public guaranteed debt and projected annual and monthly debt service payments. The World Bank is disclosing more disaggregated data in the DRS than in the past and will be seeking support from borrowing countries on a mechanism to disclose more granular information.

- **Outreach to DSSI Beneficiary countries.** World Bank and IMF senior management have led discussions with staffs and beneficiary countries in support of the initiative, where it was clarified that a request for Fund financing is sufficient to enable an eligible country, with no arrears to the IMF or World Bank, to benefit from DSSI. Links between DSSI implementation and compliance with the non-concessional borrowing limits provided by the IMF's debt limits policy and the World Bank's new Sustainable Development Finance Policy have been clarified (see section IV). The World Bank also published information on the application of debt ceilings on the DSSI website.

- **MDB options.** The G20 asked for multilateral development banks (MDBs) to further explore options for the suspension of debt service payment over the suspension period, while maintaining their current rating and low cost of funding. **MDBs, working with the IMF, provided a joint response to the G20.** Through end 2020, debt repayments from IDA-eligible countries to MDBs amount to approximately US$5 billion. While this is a large number, it is far less than new commitments and disbursements from these institutions. As an indicator, annual commitments from the largest MDB financiers of IDA-eligible countries amount to US$47 billion through end 2020. IDA/WBG is the largest financial provider to DSSI eligible countries: repayments over the rest of 2020 to IDA amount to US$2 billion while planned commitments are more than 15 times this amount, at about US$33 billion.

III. MONITORING SYSTEM OF FISCAL IMPACT AND RESPONSES TO THE COVID-19 CRISIS

One of the conditions of the DSSI is that beneficiaries direct the financial resources released by the debt service suspension toward mitigating the health, economic, and social impact of the COVID-19 crisis. The additional resources will help beneficiaries protect COVID-related and priority spending relative to other spending in the context of generally declining domestic revenues. The Bank and the Fund have been tasked by the G20 to assist beneficiaries of the DSSI to put in place a monitoring system for their fiscal efforts in response to the crisis.

Bank and Fund Staff are coordinating the development of a suitable monitoring system. The design of the monitoring system is guided by a set of principles and objectives, including a direct link to the objectives of the DSSI, strong government ownership and transparency, use of sound public financial management (PFM) practices, and flexibility to reflect country circumstances (different country impacts, resource uses, capabilities, and PFM systems).

The proposed system will report fiscal policy responses to the COVID-19 pandemic in the context of overall fiscal and economic activity developments. The system will monitor aggregate fiscal developments—including major losses in revenues stemming from the drop in economic activity—to inform the analysis of COVID-19 related and sectoral fiscal information. It this context, the authorities will report their spending and revenue measures to deal with health impacts and protect vulnerable households, businesses, and public sector entities. Tax expenditures, i.e. revenue losses because of tax breaks to firms and households, have been an integral part of the policy response to COVID-19 in some countries, and will be treated accordingly in the proposed tracking framework. The system will also monitor the evolution of priority sector and social expenditure in response to the crisis.[7]

The framework would consist of a one-page table and a one-page text commentary designed to complement and explain the tabular information for each participating country. The table will compare revenue and spending aggregates in the 2020 post-COVID-19 supplementary budgets (where applicable) and 2020 outturn data with 2019 outturns or, where available, a pre-COVID-19 budget for 2020. The framework for reporting will draw as much as possible on existing public financial management and reporting systems, including currently used revenue and spending aggregates. Using existing systems as a starting point increases prospects for accuracy, in view of limited capacity in several low-income country administrations, which is further stretched by the impact of COVID-19. It also facilitates a constructive policy dialogue with the country authorities, based on well understood and shared common approaches. The framework will accommodate differences in the timing of the budget and reporting frequency, depending on individual country practices, as well as the evolution of spending measures in each beneficiary country to address the impact of COVID-19 over time.[8]

COVID-19 related policy measures will be identified by the authorities. These will likely include spending on the prevention, containment, and management of COVID-19 (including medical equipment as well as the direct fiscal cost of organizing and enforcing social distancing) and support to households, businesses, SOEs, and government entities. The authorities should only include spending items that are additional compared with preexisting support programs and that would not have been undertaken in the absence of the crisis. Such monitoring of COVID-19-related expenditure should be based to the extent possible on countries' IFMIS and PFM systems using their own existing budget classification. Where appropriate and feasible, the system will also report policy measures (such as tax cuts, tax

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[7]To monitor fiscal measures in response to the crisis, it is important to acknowledge operational challenges associated with the fungibility of money and dramatic domestic revenue losses due to the crisis.

[8]Therefore, the proposed reporting system does not warrant cross-country comparability.

suspension or deferment, or new exemptions) that may adversely impact revenues beyond the devastating impact of COVID-19 through falling output and profits, and deferred consumption.

The reporting system will include one or more priority spending aggregates, such as spending on health, education, and the social protection system or social assistance. These will be country-specific aggregates and selected considering the country's existing reporting systems and capacity level. Monitoring of the evolution of social/priority sector spending provides important information as to how countries adjust their expenditure composition in response to revenue losses and additional spending needs due to COVID-19. For countries that have existing arrangements for priority spending to be tracked (for example, in the context of their national planning and poverty reduction strategies), it is desirable to continue tracking the same aggregate, ensuring that it captures COVID-19-related spending. For countries that do not have preexisting arrangements for routinely reporting on priority spending, country authorities and IMF/WB teams will be encouraged to agree on the use of a suitable functional expenditure classification for this purpose (likely including health spending).

Information on the fiscal and macroeconomic context will include total expenditures, revenues and grants, as well as domestic arrears, nominal GDP, the GDP deflator, and the exchange rate. They provide the necessary background information for interpreting changes in COVID-19-related spending and revenue and, more generally, priority spending. Moreover, any large one-off developments unrelated to COVID-19 (for example, the completion of a large infrastructure project) would also be included as memorandum items. The reporting system will include DSSI relief and also provide total debt service and some of its subcomponents to place the debt service suspension in the broader context of the country's overall obligations.

A one-page background note for each country will provide complementary information. Examples of items to be outlined concisely include the following: (i) the timing and intensity of the epidemic; (ii) economic impact of the COVID-19 pandemic (e.g., on remittances, commodity exports, tourism, and financial market developments); (iii) government response (containment measures, fiscal and monetary measures, etc.); (iv) donor support received (financial and in kind); (v) domestic accountability and transparency arrangements regarding the fiscal measures, including arrangements to track COVID-19-related spending; and (vi) any special factors requiring explanation for a clear interpretation of the developments reported in the table, such as clarifying the level of government undertaking COVID-19-related spending (e.g., central or subnational), reprioritization within spending aggregates, and description of what is not included in the reported amounts (i.e., off-budget expenditures and funding).

Initial reporting by the time of the 2020 Annual Meetings will depend on countries' capabilities for timely reporting. In most cases, such initial reporting will reflect supplementary budgets and/or other budget (re-)allocation decisions, an assessment of the debt service suspended, and fiscal projections at that time. A more complete report will be produced when most budget execution data are available (most likely in mid-June 2021).

Responsibility for providing accurate information and data will be with beneficiary governments. Bank and Fund staff will assist with clarification of concepts and procedures. Beneficiary governments are encouraged to make this information publicly available in their countries for enhanced transparency.

IV. NON-CONCESSIONAL BORROWING IN THE CONTEXT OF THE DSSI

A request for DSSI does not impose any new or additional limits on non-concessional borrowing to those that are already applicable under existing IMF arrangements or under applicable World Bank/IDA debt limit policies:

- When a country has an IMF-supported adjustment program, the debt limits prevailing under the program are the debt limits consistent with the DSSI. The absence of a debt limit in an IMF supported arrangement implies that no limit is required by the DSSI.

- From July 1, 2020 onward, all IDA countries will be subject to the Sustainable Development Finance Policy (SDFP). The SDFP is intended to incentivize IDA-eligible countries to move toward transparent and sustainable financing. In particular, countries will implement concrete Performance and Policy Actions (PPAs) to (i) strengthen debt transparency; (ii) enhance fiscal sustainability; and (iii) strengthen debt management. Examples of PPAs to foster debt transparency include disclosure of loan contract terms and payment schedules. Enhancing debt transparency will be critical to make sure additional fiscal space has significant development impacts.

Countries that are not required to have non-concessional borrowing ceilings under an IMF program or the SDFP will not need to implement ceilings under the DSSI.

V. NEXT STEPS

Continued progress in clarifying uncertainties around the DSSI is critical for the implementation and success of the initiative:

- Disclosure by non-Paris Club creditors of the modalities for eligible countries to make DSSI requests (whether centralized at the level of each creditor country or to each of their participating lending institutions) continues to be necessary to address uncertainties around DSSI participation. It is welcome that some non-Paris Club creditors have circulated the Paris Club MOU to relevant agencies and financial institutions for their reference in implementing the DSSI, and others are considering using or adapting this MOU. It is important that all creditor countries ensure consistent implementation by their official lending institutions to ensure to avoid demands by different creditors that are not in line with the G20 term sheet.

- The proposed fiscal monitoring framework will allow reporting of fiscal spending responses to the COVID-19 pandemic supported by DSSI, in the context of overall fiscal and economic activity developments. G20 endorsement of the framework will be important to clarify the reporting requirements for participating countries and allow DSSI-eligible countries to assess their eligibility for the initiative.

- G20 members need to clarify whether they support the comprehensive debt disclosure approach proposed by IMF and World Bank staff in Annex 2 of the previous DSSI update report to the G20 IFA Working Group, based on creditor as well as debtor disclosure, and what, if any, modifications to the proposal are needed.

Looking ahead, the IMF and World Bank will:

- Continue efforts to support and promote debt and investment transparency, including increasing the level of detail included in the World Bank's Debt Reporting System and encouraging countries to publish what they borrow.

- Continue to support DSSI implementation, including by further developing/clarifying the spending monitoring systems.

- Engage in discussions with a broad base of private sector creditors regarding participation in the DSSI and also support dialogue with the IIF on the scope and terms of private sector participation in the initiative.

- Clarify the position of the major credit rating agencies in their treatment of country participation in the DSSI.

- Conduct further analysis on country liquidity needs and debt sustainability and report back around the 2020 Annual Meetings to inform the G20's decision on extending the initiative.

Annex. COVID-19 Debt Service Suspension Initiative—Term Sheet

Scope of beneficiary countries

All IDA-countries and all least developed countries as defined by the United Nations, that are current on any debt service to the IMF and the World Bank.

Setting the right incentives

Access to the initiative will be limited to countries which:

(i) have made a formal request for debt service suspension from creditors, and;

(ii) are benefiting from, or have made a request to IMF Management for, IMF financing including emergency facilities (RFI/RCF).

Each beneficiary country will be required to commit:

- to use the created fiscal space to increase social, health or economic spending in response to the crisis. A monitoring system is expected to be put in place by the IFIs;
- to disclose all public sector financial commitments (debt),[9] respecting commercially sensitive information. Technical Assistance is expected to be provided by the IFIs as appropriate to achieve this;
- to contract no new non-concessional debt during the suspension period, other than agreements under this initiative or in compliance with limits agreed under the IMF Debt Limit Policy (DLP) or WBG policy on non-concessional borrowing.

Scope of creditors

All official bilateral creditors will participate in the initiative.

Private creditors will be called upon publicly to participate in the initiative on comparable terms.

Multilateral development banks will be asked to further explore options for the suspension of debt service payment over the suspension period, while maintaining their current rating and low cost of funding

Duration of the suspension of payment

The suspension will last until end-2020.

Creditors will consider a possible extension during 2020, taking into account a report on the liquidity needs of eligible countries by the World Bank and IMF.

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[9]According to *Government Finance Statistics Manual 2014* (GFSM2014) definitions.

Perimeter of maturities and cut-off date

The suspension period will start on May 1st, 2020.

Both principal repayments and interest payments will be suspended.

A cut-off date protecting new financing in case of possible future restructuring will be set on March 24th, 2020.

Modalities for the debt service suspension

The suspension of payments will be NPV-neutral.

The repayment period will be 3 years, with a one-year grace period (4 years total).

Treatment will be achieved either through rescheduling or refinancing.

Implementation process

Creditors will implement, consistent with their national laws and internal procedures, the debt service suspension initiative as agreed in this term sheet to all eligible countries that make a request.

Creditors will continue to closely coordinate in the implementation phase of this initiative. If needed, creditors will complement the elements in this term sheet as appropriate.