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Prepared by staffs of the IMF and the World Bank

Third Update on the Implementation of the Debt Service Suspension Initiative (DSSI)

The IMF and the World Bank are actively supporting 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 73 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 COVID-19 crisis in the world's poorest countries, providing fast and time-bound liquidity support to a large number of countries. Enhanced transparency of public debt is a central part of the DSSI's objectives.

It is important to enable key stakeholders to track progress in the implementation of DSSI and improve debt transparency. The World Bank recently launched the Debt Service Suspension Initiative (DSSI) website (https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative). The website, which will be updated continuously, publishes information about participation status, current debt sustainability ratings, and potential debt service suspension amounts from DSSI based on the World Bank's International Debt Statistics (IDS) database.[2] 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 status as of July 9, 2020. It discusses (i) progress in DSSI implementation; (ii) remaining implementation challenges; and (iii) the next steps.

I. Participation in DSSI

As of July 9, 39 DSSI eligible countries had formally requested to join the DSSI as confirmed by G20 creditors and information provided by beneficiary countries.[3] This brings the participation rate of the 73 countries eligible for the DSSI to 53 percent. These 39 countries account for an estimated 78.3 percent of potentially eligible official bilateral debt service under the DSSI for the period May to December 2020 based on World Bank estimates.

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[1]The first update on the implementation of the DSSI was discussed by the IFA working group on May 28, 2020 and the second update was discussed on June 26, 2020.

[2]Potential debt service suspension amounts are estimated as debt service on debt outstanding and disbursed as of end 2018 on public and publicly guaranteed debt by official bilateral creditors as compiled in the IDS.

[3]Participation of these countries in the DSSI has been confirmed both by creditors and participating countries.

There has been significant progress with DSSI implementation. As of July [9], 2020, the Paris Club had received [34] formal requests and had approved 18 MOUs, including Burkina Faso, Cameroon, Chad, Comoros, Cote D'Ivoire, Dominica, Ethiopia, Grenada, Guinea, Ivory Coast, Kyrgyzstan, Mali, Mauritania, Myanmar, Nepal, Niger, Pakistan, Republic of Congo and Togo.[4] Non-Paris Club creditors, including those which are G20 members, confirmed that as of June 23, 2020, DSSI implementation was in progress for 29 countries and has been implemented by all official bilateral creditors in 1 country.[5]

Participating countries are diverse, with the greatest share of applicants in Africa, and countries with market access are well represented. Sixty-nine percent of participating countries are in Africa. More than half of participants are assessed to be at high risk of debt distress or already in debt distress according to debt sustainability analysis as of end June 2020. At the same time, 13 of the 23 countries that have issued a Eurobond are participating. Nineteen participants are fragile states and 9 are small states.[6]

Around 14 countries have indicated they are not interested to participate in DSSI, but these include some cases where benefits from participation are limited. Up to half of the nonparticipating countries that are not interested to participate in DSSI indicate a lack of bilateral official debt or low levels of such debt that limit the benefits of DSSI participation, or they prefer to continue making debt service payments. Several countries have initiated direct dialog with selected bilateral creditors on debt treatments outside of the DSSI process, so there may be benefits from DSSI beyond those being recorded. Nonetheless, a few countries have concerns about the potential implications (from participating in DSSI) for planned non-concessional borrowing, about cross-default clauses in their other borrowing, or possible indirect impacts on their sovereign credit ratings and access to international markets.

II. Addressing Implementation Challenges

The precise terms of participation by non-Paris Club creditors. In the early stages of DSSI implementation, participation by some non-Paris Club creditors appeared to be linked to conditions—or trigger consequences—beyond those envisaged in the G-20 term sheet, such as limits on access to new financing or a requirement to clear arrears before participating in the DSSI. More recently, 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 China has circulated this MOU to relevant agencies and financial institutions

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

[5]This assessment is based on the list of official bilateral creditors as reported to the International Debt Statistics and excludes plurilaterals (other official creditors with multi-country membership).

[6]This follows the definition of fragile and small states in IMF and World Bank (2020) on "The Evolution of Public Debt Vulnerabilities in Lower-Income Economics."

for their reference in implementing the DSSI. In some cases, there may be a need to further broaden eligible loans to non-guaranteed SOE debt or other implicit guarantees. Currently, the MOU of the Paris club includes only government debt with explicit government guarantees.

Lender participation and perimeter of claims covered by the DSSI. The enhanced reporting to the G20 on debt service suspension by country and official lending institution represents an important step toward clarifying official lender participation. Public disclosure of participating lenders, including relevant policy banks, by the G20 countries would reduce uncertainties for requesting countries. The DSSI benefit from a clear definition of official bilateral creditor in the context of the DSSI since this could affect the terms of participation. This will be key for debtor countries to reap the full benefits of participation in the initiative. There is also a need clarify treatment of non-traditional debt instruments that may be classified and structured as deposits, long-term swap lines or equity but would classify as public debt according to international standards.[7]

The G20 called on private creditors to participate in the initiative on comparable terms. Yet, borrowing countries have to date been reluctant to request private sector participation.[8] In fact, only two countries (Grenada and Chad) are so far known to have asked private creditors to participate in the DSSI. Most DSSI eligible countries assess that the costs of requesting a debt service rescheduling from their private creditors outweigh the benefits as they either still have market access or seek to regain access in time.[9] In addition to the potential for voluntary private rescheduling to be based on current market interest rates, the overall costs include reputational loss in credit markets and a possible downgrade by at least one credit rating agency.[10] Roughly one-third of the 73 active IDA countries have market access and all of these countries have debt service due on international bonds during the DSSI period. About half of the IDA countries have debt service due to commercial creditors, including in the form of commercial bank loans. To open the door for at least commercial bank participation in the DSSI, credit-rating agencies could clarify whether a request for voluntary participation on DSSI comparable terms that is limited to specific commercial banks would lead to a

[7]As defined, for example in, IMF. 2013. Public Sector Debt Statistics: Guide for Compilers and Users. 2013.

[8]The IIF's terms of reference for private participation is available here: https://www.iif.com/Press/View/ID/3918/IIF-Releases-New-Framework-to-Facilitate-Voluntary-Private-Sector-Involvement-inthe-G20Paris-Club-Debt-Service-Suspension-Initiative.

[9]Of 40 countries that are participating in the DSSI, 24 benefit from grants from IDA and other MBDs. Of these, 5 countries pay debt service on outstanding international bonds and 7 pay debt service exclusively on non-bond commercial debt during the period May to December 2020. However, these commercial debt payments tend to be relatively small (less than USD1.5 million) for all but one country.

[10]Moody's has reacted to the DSSI participation requests of Angola, Cameroon, Cote d'Ivoire, Ethiopia, Pakistan, and Senegal by placing these countries on a negative credit watch. The review period would allow Moody's to assess whether participation in DSSI would likely entail default on private sector debt and whether any losses expected would be consistent with a credit rating downgrade.

downgrade. The use of resources released through private sector participation could also be monitored under the DSSI's fiscal monitoring framework.

Cross-default clauses. Several DSSI beneficiary countries have expressed concerns about cross default clauses in commercial debt contracts. The IIF is currently preparing a draft waiver for such clauses, which could provide certainty to countries that have expressed concerns.

Non-concessional borrowing ceilings. The G20 Term Sheet states that "Each beneficiary country will be required to commit: …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." IMF and WBG staff clarified in the second update (see Annex I) that the DSSI does not impose any debt ceiling other than those required under the DLP or the World Bank's Sustainable Development Finance Policy which entered into effect on July 1, 2020. These debt ceilings are aligned with the debt risks facing the country, thereby serving to help contain debt vulnerabilities, consistent with DSSI goals. This information has been shared with countries and with IMF and World Bank staffs so concerns about non-concessional borrowing limits should not remain an impediment to DSSI participation.

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. For the period April-December 2020, debt service from IDA19-eligible countries (plus Angola) to MDBs amount to approximately US$7 billion. While this is a large number, it is far less than new commitments and disbursements from these institutions. For instance, projected disbursements from the MDBs to IDA19-eligible countries (plus Angola) during the same period amount to US$45 billion, which is more than six times the total debt service ($7 billion), and 129% higher than the three-quarter average for years 2017–19.

IMF program requirements. In some countries, the authorities have indicated that they are not able to benefit from DSSI as they do not wish to engage in IMF financing. According to the term sheet endorsed by the G20, access to the initiative requires countries to be benefiting from, or to have made a written request to IMF Management for IMF financing, including emergency facilities (RFI/RCF). The IMF prepared guidance to Fund staff around requests for Fund financing from DSSI eligible countries, noting that approval of the request is not required for DSSI participation. Nonetheless, one country did rescind its participation in the DSSI as this required it to request IMF financing.

III. DSSI MONITORING FRAMEWORKS

Fiscal Monitoring. The IFA Working Group meeting on June 23 endorsed the IMF-WBG staff proposal for monitoring spending to mitigate the impact of the COVID-19 crisis (Annex II). IMF and World Bank are engaging with countries participating in DSSI to implement this monitoring framework. The goal is to produce an initial reporting by the time of the 2020 Annual Meetings. 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, depending on countries' capabilities for timely reporting. A complete report will be produced when most budget execution data are available, most likely in mid-June 2021.

Debt Disclosure. Participating countries commit to disclose all public sector financial commitment (debt), respecting commercially sensitive information. This involves full disclosure of external public and publicly-guaranteed debt stocks by creditor and lending institution and debt service payments suspended under the DSSI. The World Bank and IMF have therefore requested detailed loan information from participating countries. In addition, creditor disclosure of debt data would be important particularly for countries where the authorities' capacity to produce reliable data is constrained. In order to promote full external debt disclosure and to identify and rectify remaining gaps, the earlier proposal for reconciliation of debtor and creditor debt data has been modified to accommodate the constraints of some creditors (circulated separately). G20 support for this modified proposal would enable data collection from creditors to begin shortly, with a report on progress with the reconciliation work to be provided in the Fall, while aiming for the completion of this work by the end of 2020.

IV. NEXT STEPS

Through the DSSI, the G20 is enabling the poorest and most vulnerable countries to redirect resources from servicing debt to mitigating the severe impact of the pandemic. With the support of the IMF and WBG, a fiscal monitoring framework has been developed and is being rolled out. Similarly, the disclosure of debt data by debtor countries has been initiated. The IMF and WB report for the October 2020 G20 meeting will update on progress in these areas, with the initial reporting on fiscal spending to depend on countries' capabilities for timely reporting particularly amid the pandemic, and progress on debt reconciliation dependent on timely and comprehensive debt disclosure by both debtors and creditors to the IMF and WBG staff.

The next step will be for the G20 to take a decision in the Fall regarding the future development of the initiative. To support G20 consideration of an extension of DSSI, the IMF and WBG will prepare a report on the liquidity needs of eligible countries, which will be submitted to the G20 ahead of its meeting in October 2020. The report will also provide an update on developments in debt and IMF-WBG assessments of debt sustainability. For countries facing unsustainable debts, additional coordinated efforts by G20/Paris Club creditors may be needed in conjunction with support to countries from IMF and the World Bank, in order to generate timely and adequate debt relief with broad participation across official and commercial creditors, and thereby enable countries in the most difficult circumstances to recover from the COVID-19 crisis.

Looking ahead, the IMF and World Bank will:

- Continue to support DSSI implementation, including by working with countries on an initial monitoring report of the use of the resources released as part of the report to the G20 in the Fall, and to take any required steps that arise to further clarify such monitoring.

- Undertake the collection of detailed debt information from debtors and creditors and begin the reconciliation process to identify and rectify any gaps in coverage.

- Continue efforts to support and promote debt transparency, including increasing the level of detail included in the World Bank's International Debt Statistics and encouraging both debtors and creditors to transparently report on debt stocks and flows.

Annex I. 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.

ANNEX II. MONITORING SYSTEM OF FISCAL IMPACT AND RESPONSES TO THE 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.[11]

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

[11] 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.

individual country practices, as well as the evolution of spending measures in each beneficiary country to address the impact of COVID-19 over time.[12]

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 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. 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);

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

(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).

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.