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October 1, 2020

REFORM OF THE POLICY ON PUBLIC DEBT LIMITS IN IMF-SUPPORTED PROGRAMS

EXECUTIVE SUMMARY

This paper evaluates the IMF's policy on the use of quantitative limits on public debt in IMF-supported programs (the "debt limits policy") and proposes a number of modifications. The review is taking place at a time when many countries are experiencing heightened debt vulnerabilities or actual debt distress, aggravated by the COVID-19 shock, and occurring against the backdrop of a changing credit landscape in which concessional finance is scarcer relative to countries' investment needs.

The proposed modifications build on the 2014 Reform of the Policy on Public Debt Limits in IMF-Supported Programs. The 2014 reform aimed to ensure even-handedness across the membership in the application of the policy, unify and broaden coverage, and preserve incentives for creditors to provide, and for borrowers to seek, financing on concessional terms.

The current review indicates that while public debt vulnerabilities have risen sharply outside of IMF-supported programs, they have been contained within IMF-supported programs. Still, substantial challenges to the current debt limits policy are present in several areas, including: migration of debt-related risks off-balance sheet; problems with debt transparency more generally (including on the terms and conditions of loans); tighter than anticipated policy implementation in countries normally relying on concessional financing that are at moderate risk of debt distress; and a poor fit for countries that normally rely on concessional financing but have recently started accessing international financial markets on a significant scale, where debt conditionality is not well aligned with their new credit landscape.

To address these shortcomings, the proposed reforms would:

- (i) better encourage adequate debt disclosures to the IMF;
- (ii) allow for greater tailoring of debt conditionality for countries normally relying on concessional financing that have also been accessing international financial markets;
- (iii) provide more borrowing space for countries normally relying on concessional financing (subject to safeguards); and

(iv) clarify the definition and measurement of concessional debt.

Overall, the proposed reforms would provide countries with more flexibility to manage their debt where appropriate, while placing safeguards to preserve or restore debt sustainability. The proposed revisions have been closely coordinated with the reforms underpinning the World Bank's new Sustainable Development Finance Policy, which has replaced the Non-Concessional Borrowing Policy.

The proposed evolution of the framework would have several advantages. It would imply greater consistency between fiscal objectives, debt conditionality, and debt management capacity building plans. It would provide more space to accommodate beneficial investment projects and standard asset-liability management operations in a timelier manner. It would also contribute to promoting greater debt transparency.

It is proposed that the revised policy take effect in March 2021. This would provide adequate time for staff to communicate the new policies to countries and to work with debt management offices on implementing the necessary monitoring, analytical, and reporting frameworks. A stock-taking of implementation of the new policy would take place no later than five years after the policy takes effect.

Approved By
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INTRODUCTION

1. **The Debt Limits Policy (DLP), which dates back to the 1960s, establishes the framework for using quantitative conditionality to address debt vulnerabilities in IMF-supported programs.** Debt conditionality is an important instrument in the IMF's toolkit, intended to complement other conditionality to help achieve macroeconomic sustainability.
2. **The last review of the DLP was completed in 2014.**¹ Reforms introduced at that time sought to broaden the focus of the policy and included: (i) expanding the policy to cover both domestic and external public debt; (ii) establishing closer links between debt conditionality, debt vulnerabilities, and the capacity to adequately record and monitor debt; and (iii) introducing quantitative limits on external debt specified in present value (PV) terms. Key elements of the DLP in its current form are described in Box 1.
3. **This review comes at a critical juncture, with debt burdens in many countries at elevated levels and rising and several countries already in debt distress.** Public debt levels in many member countries were already high prior to the COVID-19 induced crisis: debt burdens in advanced economies rose following the 2008-09 global financial crisis and were never fully reversed, while emerging market and developing country debt burdens have trended up during the past decade.² At the same time, the sources of external financing for low income countries (LICs) have been shifting toward nontraditional official creditors and private financial markets.³ As a result of the COVID-crisis, steep declines in revenues and rapid increases in spending needs are adding substantially to debt burdens and vulnerabilities across the board.
4. **This review of the DLP has five main objectives:** (i) ensure that the design of the policy strikes the right balance between providing space for public investment to support inclusive growth and maintaining debt sustainability; (ii) promote debt transparency and sound debt management; (iii) simplify the conditionality framework where feasible; (iv) preserve broad alignment of the policy with the World Bank's Sustainable Development Finance Policy (SDFP) and other global sustainable lending policies; and (v) ensure evenhanded application across the membership. This review is taking place in accordance with the expectation that the policy would be reviewed five years after the completion of the previous review.⁴
5. **The rest of the paper is organized as follows.** Section *The DLP and Other Policies and Tools* discusses the links between the DLP and the IMF's other debt-related policies and frameworks. The next five sections (i) outline the macroeconomic and debt evolution context for this review, (ii)

¹See [Reform of the Policy on Public Debt Limits in Fund-Supported Programs—Proposed Decision and Proposed New Guidelines](#).

²Among countries for which the Low-Income Countries Debt Sustainability Framework (LIC DSF) is used, the share of countries assessed to be at high risk of, or already in, debt distress had more than doubled since 2013 prior to the outbreak of the COVID-19 pandemic.

³See [Evolution of Public Debt Vulnerabilities in Lower Income Economies](#).

⁴See [Selected Streamlining Proposals Under the FY16-FY18 Medium-Term Budget—Implementation Issues](#).

examine the implementation of the DLP since the 2014 reform, (iii) discuss lessons from implementation of the previous policy since 2014, (iv) identify key elements of the proposed reform, and (v) discuss debt management considerations. The final two sections summarize and evaluate reform proposals, and proposes transitional arrangements. A proposed Board decision with the text of the guidelines will be circulated separately.

Box 1. Key Elements of the Debt Limits Policy

Public debt conditionality is normally included in IMF arrangements when a member faces significant debt vulnerabilities or when there are merits to using debt targets instead of, or as a complement to, "above-the-line" fiscal conditionality. More specifically:

- *For countries that do not normally rely on external financing on concessional terms:* Debt conditionality is implemented if significant vulnerabilities are identified in the Market-Access Countries Debt Sustainability Analysis (MAC-DSA) that are not adequately addressed by fiscal conditionality. Debt conditionality takes the form of either limits on total public debt or targeted debt limits, depending on the nature of debt vulnerabilities.
- *For countries that normally rely on external financing on concessional terms:* The assessment of debt vulnerabilities is informed by the Low-Income Countries Debt-Sustainability Framework (LIC-DSF). For countries assessed at:
 - Low risk of external debt distress: limits on public external borrowing are not required;
 - Moderate risk of external debt distress: limits take the form of a PV-limit on public and publicly guaranteed external debt, provided that the capacity to record and monitor external debt is assessed as adequate;
 - High risk of external debt distress: a performance criterion (PC) is set on the nominal level of non-concessional external borrowing (NCB), with NCB precluded unless a compelling case can be made for it. A PC or indicative target (IT) on concessional external borrowing (CB) is also included.

Two exceptions to the above specifications for high- and moderate-risk cases are provided:

- In countries where use of debt conditionality is warranted but capacity to record and monitor the contracting of debt is weak, the PC should take the form of a limit on the accumulation of non-concessional external debt, supplemented by a memorandum item on the accumulation of concessional external debt in nominal terms.
- In countries with significant financial integration into international financial markets, a limit on total public debt accumulation may be more appropriate than a limit on external debt.

The 2014 DLP also provided guidance on debt coverage and program documentation:

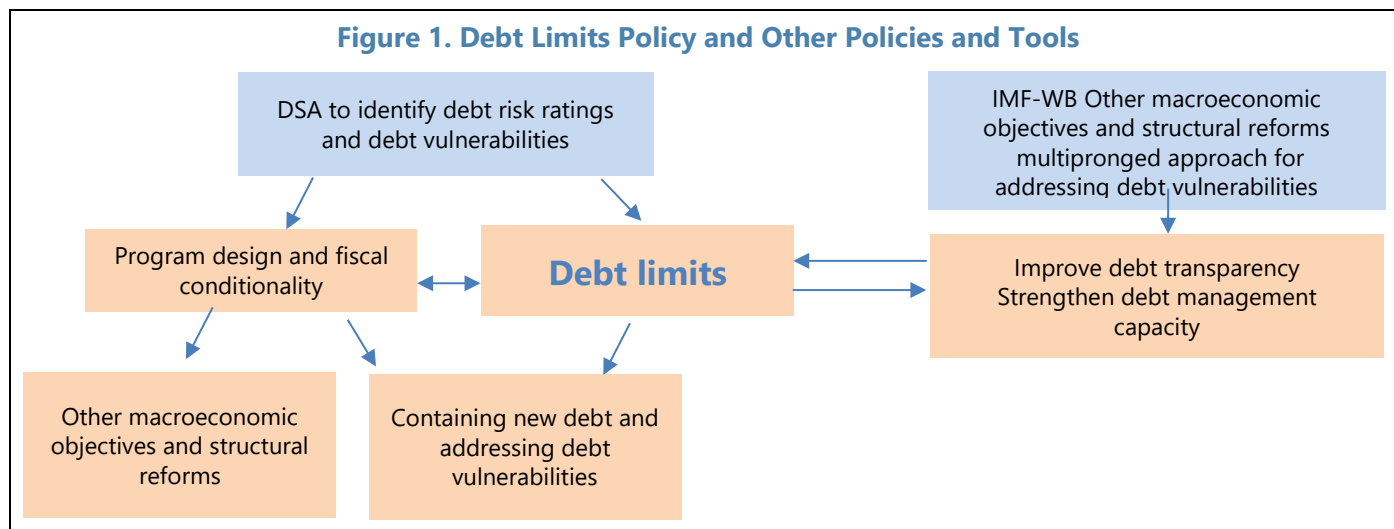
- Debt limits normally cover public and publicly-guaranteed debt or targeted subcomponents of such debt, unless program objectives or institutional circumstances warrant otherwise.
- The policy allows for limits to be set on a contracting basis or a disbursement basis, with a preference for the former when external financing consists mostly of project loans disbursed over an extended period (given uncertainties over the precise pace of project implementation).
- Program documents are required to include a borrowing plan that serves both as a basis for deriving quantitative limits and as a baseline for the assessment of the causes of non-observance of debt conditionality and/or the case for requests for modifications to the latter at program reviews.

THE DLP AND OTHER POLICIES AND TOOLS

6. The DLP is primarily a tool to help address debt vulnerabilities and support attainment of a program's broader macroeconomic objectives (Figure 1).⁵

- Fiscal conditionality is generally the most powerful tool to address debt vulnerabilities, and with a sufficiently broad measure of the fiscal balance it can fully capture the flow of new borrowing and thus debt accumulation.⁶ When country circumstances are such that fiscal conditionality alone cannot contain debt vulnerabilities—for instance due to narrow fiscal coverage or because debt composition matters (e.g., excessive short-term debt)—debt conditionality may be invoked as a complement and additional safeguard.
- The design of debt conditionality is informed by the identification of debt vulnerabilities in the DSA, both of which require adequate debt transparency to be well calibrated.⁷ The specification of debt conditionality also depends on the quality of debt management. It is thus appropriate that debt conditionality strengthens transparency and encourages improvements in debt management.
- Strengthening debt transparency and debt management in developing countries typically requires a sustained effort, helped by external capacity development support. The IMF-WB multi-pronged approach for addressing debt vulnerabilities sets out a strategy aimed at supporting improvements in debt transparency and debt management over time.

Figure 1. Debt Limits Policy and Other Policies and Tools



⁵For background on the evolution of the DLP, see [Review of the Policy on Debt Limits in Fund-Supported Programs](#).

⁶The IMF's ongoing work helps broaden fiscal coverage: e.g., the Fiscal Transparency Code calls for the broader coverage of sectors and debt instruments; and the concept of the Public Sector Balance Sheet brings together all the accumulated assets and liabilities that the government controls.

⁷For countries where official external financing on concessional terms is a key source of public external financing, debt sustainability assessments are typically undertaken using the LIC-DSF, conducted jointly by World Bank and IMF staff. For all other countries, debt sustainability assessments are undertaken by IMF staff using the Market Access Country DSA (MAC DSA) tool.

7. The DLP and the World Bank’s SDFP have broadly similar objectives and design. The DLP applies to all IMF members while the SDFP (Box 2) applies only to IDA-eligible countries, yet both policies aim to help countries contain debt vulnerabilities while providing incentives for countries with access to concessional financing to seek it. Both institutions use DSAs to inform the design of conditionality and set limits on non-concessional external borrowing (NCB) or on external debt in present value (PV) terms. The relationship between the DLP and SDFP is reviewed in ¶61.

Box 2. The World Bank’s Sustainable Development Finance Policy (SDFP)

In June 2020, the World Bank (WB) approved transitioning from the Non-Concessional Borrowing Policy (NCBP) to a more comprehensive Sustainable Development Finance Policy (SDFP). The goal of the new framework is to incentivize countries to move towards transparent, sustainable financing and to promote coordination between IDA and other creditors in support of countries’ efforts.

The policy centers around two pillars:

- *Debt Sustainability Enhancement Program*: Focuses on enhancing incentives for countries to move toward sustainable financing. Under this pillar, mutually agreed performance and policy actions (PPAs) aimed at strengthening debt transparency, fiscal sustainability, and debt management will be defined annually for all IDA countries at moderate or high risk of debt distress and calibrated to country-specific circumstances. If after the first year, implementation progress on the PPAs is not satisfactory, a portion of the IDA allocation will be set aside. If implementation progress under the PPAs is satisfactory in the following year, the set aside resources will be released.
- *Program of Creditor Outreach*: Focuses on promoting stronger collective action among borrowers, creditors and international development partners by facilitating information sharing, dialogue, and coordination among stakeholders to help mitigate debt risks.

Ceilings primarily take the form of nominal limits on non-concessional external public and publicly guaranteed (PPG) debt for moderate and high-risk countries. However, PV limits on external borrowing can also be considered if circumstances warrant it. Low risk countries are normally not subject to a ceiling, but the setting of a ceiling could be triggered under certain circumstances (e.g., a rapid debt build up).

8. The DLP is an important reference framework for other creditors:

- The DLP (together with the WB’s SDFP) is a key anchor for implementing the recommendations of the OECD’s guidelines for lending to lower-income countries:⁸ specifically, the decision by an OECD member country to provide financial support to a lower-income country’s public sector should be consistent with the prevailing limits set under the DLP. Moreover, countries planning to provide credits to countries subject to non-zero limits on NCB are called on to inform the IMF and the World Bank about such financing. Furthermore, as part of its 2014 reform of the definition of official development assistance (ODA), the OECD also requires consistency with the IMF and World Bank debt limits as a condition for treating a loan as a form of ODA.⁹
- Consistency between lending practices and debt limits set under the DLP is also an important

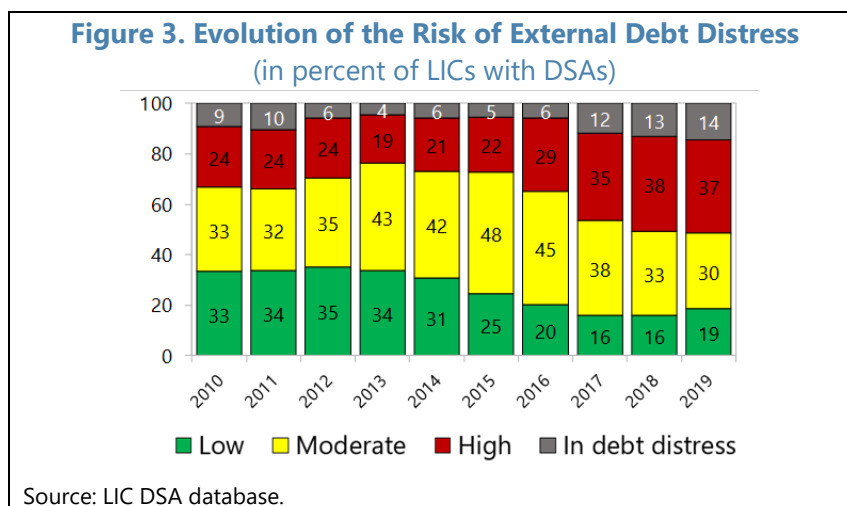
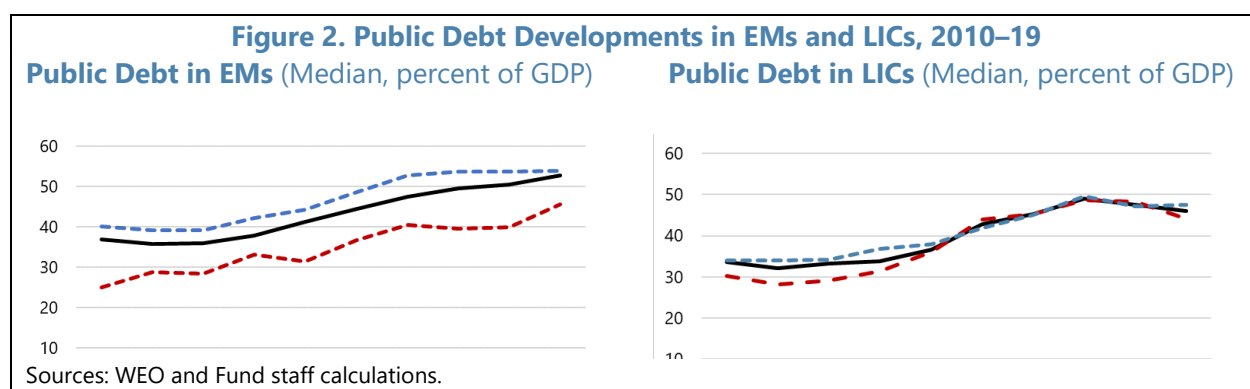
⁸See “[OECD-Sustainable Lending Practices and Officially Supported Exports Credits to Lower-Income Countries](#)”.

⁹See <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/What-is-ODA.pdf>.

component of the G20's [Operational Guidelines for Sustainable Financing](#).¹⁰ Compliance with debt limits set under the DLP and SDFP is also a condition for participation in the recent G20/Paris Club debt service suspension initiative (DSSI).

CONTEXT FOR THE REVIEW

9. Debt levels have risen markedly across a broad range of LICs and emerging markets (EMs) in recent years (Figure 2). The median public debt-GDP ratio in LICs increased from 34 percent in 2013 to 46 percent in 2019, with some stabilization recorded in 2018–19. The share of LICs assessed to be at high risk of, or in, external debt distress under the LIC DSF increased from 23 percent to 51 percent over the 2013–2019 period (Figure 3). The median public debt-GDP ratio among EMs rose to 53 percent in 2019, up from 38 percent in 2013. With domestic capital market deepening in many countries, domestic public debt levels have increased relative to GDP.

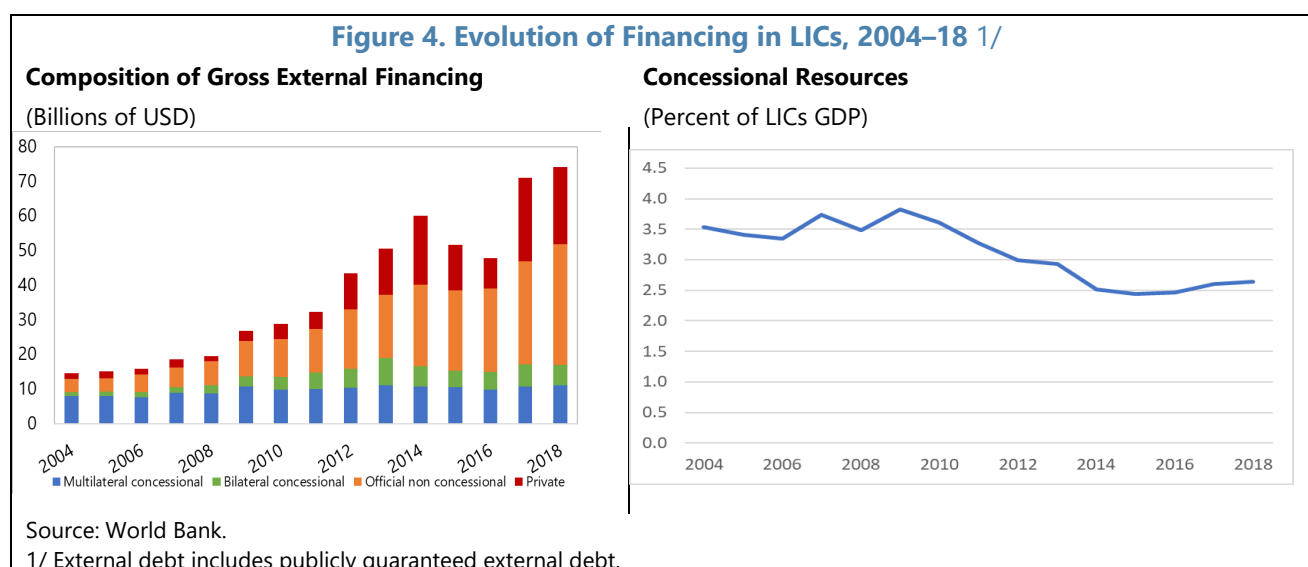


10. The severe economic impact of the COVID-19 pandemic will exacerbate the deterioration of debt positions in both LICs and EMs. June 2020 WEO projections show primary

¹⁰In November 2019, the IMF and the World Bank proposed a [diagnostic tool](#) that allows bilateral creditors, including their agencies, to evaluate their own performance and their level of compliance with the Guidelines.

deficits for 2020 that, on average, are 5½ percentage points of GDP higher than those projected in the October 2019 WEO, while expected real GDP growth is, on average, some 5 percentage points below the pre-COVID-19 forecast. Exchange rate depreciations are projected to further weigh on debt dynamics, particularly in commodity exporting countries, given the decline in commodity prices. For LICs, public debt burdens are projected to increase in 95 percent of countries, with some 30 percent of countries experiencing an increase of between 5 percent and 10 percentage points of GDP and 14 percent of countries expected to record increases exceeding 10 percentage points. In EMs, median public debt is projected to increase by 10 percentage points of GDP in 2020. A weaker-than-projected recovery in 2021 would further boost debt burdens and increase the likelihood of debt distress.

11. The supply of concessional financing (including grants) to LICs has declined significantly as a share of LIC's GDP. Annual ODA to LICs has shown little change relative to the GDP levels of donor countries in recent years but has steadily declined in relation to the GDP of recipient countries given the faster trend growth in LICs (Figure 4).¹¹

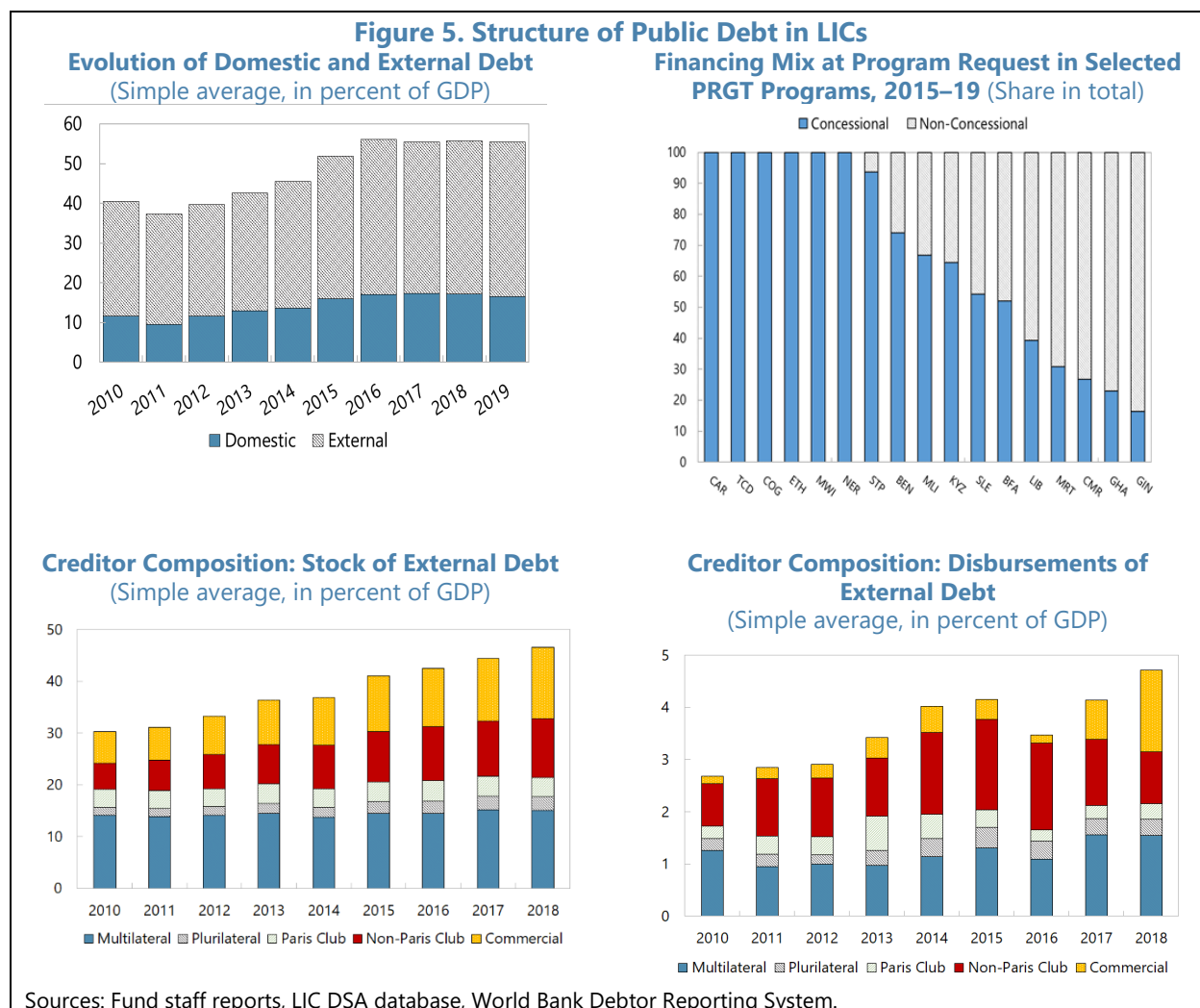


12. LICs have come to rely increasingly on NCB, including from private financial markets, while borrowing from non-Paris Club (NPC) official bilateral creditors has also increased rapidly.¹² Debt owed to commercial and NPC creditors more than doubled (as a share of GDP) between 2010 and 2018, with each accounting for about one-quarter of total external public debt in 2018 (Figure 5). LICs have also become increasingly reliant on debt issued domestically, which has risen from an average of 12 percent of GDP in 2010 to 17 percent of GDP in 2019, with non-resident

¹¹The high ratio of ODA to LIC GDP observed in 2005–06 was due in good part to provision of debt relief.

¹²“Concessional borrowing” refers to loans with a grant-element of at least 35 percent, evaluated at a discount rate of 5 percent; “non-concessional borrowing” refers to loans not assessed to be concessional. The term “semi-concessional” refers to loans with a positive grant element (but less than 35 percent).

investor participation in domestic public debt markets becoming significant in some cases.¹³



13. This shift in the borrowing landscape, in combination with rising debt levels, has led to increased vulnerabilities in the form of rising interest rates and higher rollover risks.¹⁴ Average interest rates on external debt increased between 2017 and 2018 by 78 basis points (bps) to 3.3 percent, as the full effect of the runup of Eurobond issuances in 2017 was priced in 2018. At the same time, the continued decline in the average maturity on new external commitments has increased rollover risks. Between 2016 and 2018, the average maturity of external debt decreased from 23.0 to 20.6 years, extending the declining trend observed since 2010. The increased rollover risk is centered in countries that normally rely on concessional financing but have recently started accessing international financial markets on a significant scale, where refinancing needs will rise over the next 5 years to an annual average of almost US\$5 billion, up from less than US\$2 billion in 2017–

¹³For example, foreign holdings of domestic debt in Ghana amounted to about 40 percent of total domestic debt at end 2019.

¹⁴See [Evolution of Public Debt Vulnerabilities in Lower Income Economies](#).

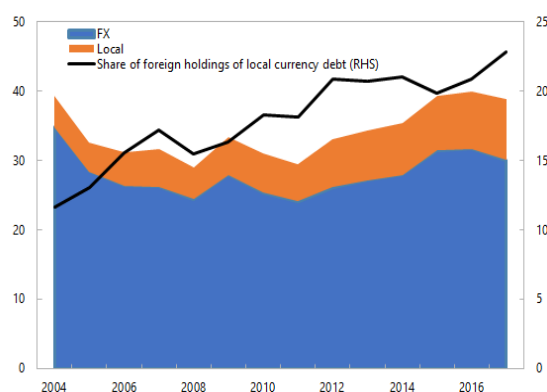
18. This is a particular cause for concern in countries where debt redemptions represent a high proportion of foreign exchange reserves.

14. In EMs, the recent deterioration has compounded vulnerabilities arising from high debt levels and from the structure of public debt (Figure 6). The steady rise in EM public debt has been mostly driven by greater domestic-currency issuance, while foreign investors' participation in domestic-currency bond markets has significantly increased in recent years (from 13 percent in 2005 to 23 percent in 2017), exposing the recipient countries to swings in global financial conditions and investor sentiment (see GFSR, April 2020).

Figure 6. Public Debt Development in EMs, 2004–19

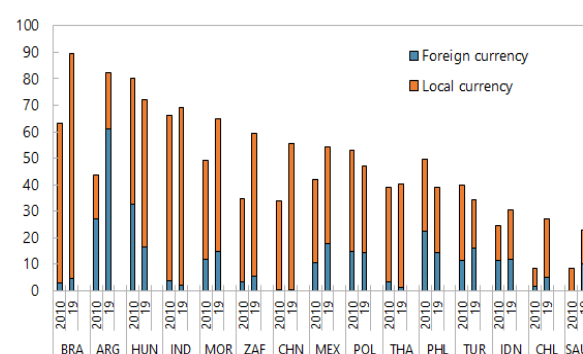
EM Govt. Debt Currency Composition, 2004–17

(LHS: percent of GDP, RHS: percent)



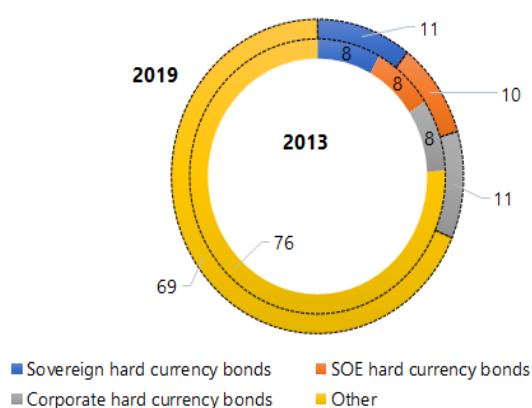
EM Govt. Debt Currency Composition, 2010 and 2019

(Percent of GDP)



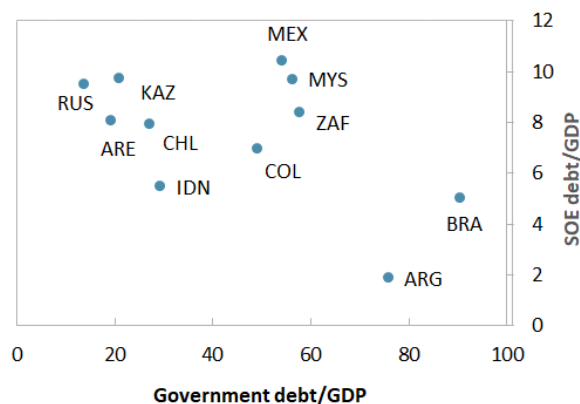
Outstanding EM Hard Currency Bonds by Type

(Share of total external debt)



Debt of Major SOEs versus Government Debt

(Percent of GDP)



Source: GFSR, April 2020 and Fund Staff Calculation.

15. Borrowing by the broader public sector, often unreported, is a growing concern:

- **State-Owned Enterprises (SOEs).** Efforts to expand the coverage of public debt data in LICs to

include SOEs have in several cases identified sizable amounts of public and publicly-guaranteed debt not previously captured (e.g., around 10 percent of GDP in the Republic of Congo). SOEs in EMs have also taken advantage of favorable financing conditions, with SOEs accounting for about half of EM corporate external debt and fully state-owned SOEs comprising one-third of the sovereign hard currency bond universe (Figure 6).

- **Public-private partnerships (PPPs).** Other contingent liabilities, including from PPPs, have continued to rise. Between 2013 and 2018, cumulative PPP investments in LICs increased from 0.4 percent of GDP to 2.4 percent, with the largest rises registered in sub-Saharan Africa and Asia and the Pacific regions. PPP contracts typically involve some form of a public guarantee that represents a contingent liability for the state, even if they do not create immediate contractual liabilities.
- **Collateralized debt.** A debt instrument is collateralized when the creditor has rights over an asset or revenue stream that would secure repayment of the debt if the borrower defaults. The presence of collateral can raise the risk of debt distress by reducing budget flexibility (through the earmarking resources) and impairing access to non-secured financing, particularly after adverse shocks. Comprehensive data on collateralization of official bilateral loans is not readily available, but discussions in several IMF-supported programs have highlighted the role of complex debt instruments, often entailing collateralization, in contributing to rising debt vulnerabilities. Between 2004 and 2018, 52 commodity-backed loans to sub-Saharan Africa and Latin America were identified (totaling \$164 billion).¹⁵ Several of these countries experienced serious debt vulnerabilities after the commodity price crash in 2014, with these loans being an important contributing factor to rising debt distress (e.g., Angola, Chad, Republic of Congo, Ecuador, and South Sudan).

16. Despite these rising challenges, progress in improving debt management has been slow and uneven. Evaluations of debt management capacity by World Bank staff using the Debt Management Performance Assessment (DeMPA) methodology show improvements in most dimensions, including the development and publication of debt management strategies and debt reports.¹⁶ Nevertheless, most LICs still do not meet minimum debt management standards. Particular weaknesses are observed in: (i) the coverage of public sector debt data; (ii) debt management governance; (iii) the regularity and frequency of debt reports; (iv) cash flow forecasting and management capacity; and (v) the adequacy of staff capacity in debt management offices. The challenges are particularly pressing for countries that normally rely on concessional financing but have recently started accessing international financial markets on a significant scale, where market rollover risks are greater (and where 30–40 percent of countries do not meet minimum DeMPA performance requirements across all areas).

¹⁵See “Resource-Backed Loans: Pitfalls and Potential” (Mihalyi, Adam, and Hwang; 2020).

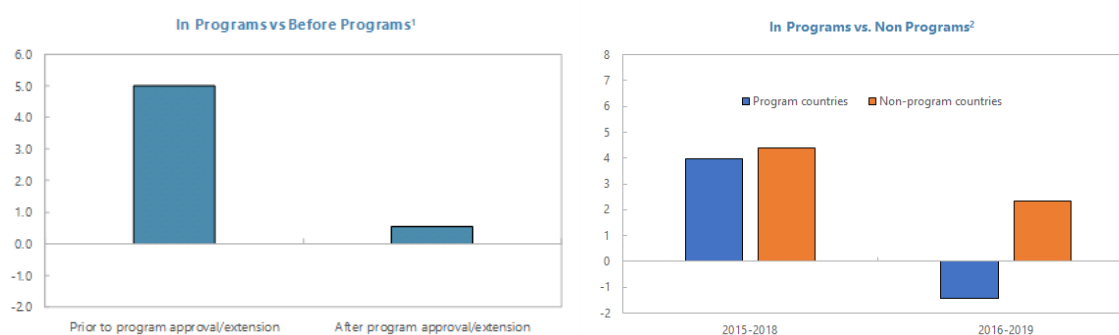
¹⁶The [DeMPA](#) assesses performance over 14 areas of government debt management operations against established benchmarks.

OVERALL TRENDS IN DLP IMPLEMENTATION

17. While overall debt risks have trended up across both LICs and EMs, they appear to have been contained for those countries with IMF-supported programs:¹⁷

- For PRGT-eligible countries, an increase in the median public debt-to-GDP ratio over 2015–2018 was lower for countries with PRGT-supported programs compared with countries without programs; over 2016–2019, the median public debt-to-GDP ratio declined for countries with PRGT-supported programs, compared with a significant increase for countries without such programs (Figure 7).¹⁸ In PRGT-supported programs, debt risk ratings deteriorated in only a handful of cases, reflecting fiscal slippages (e.g., Kenya, Mozambique, and Sierra Leone) and exogenous factors (e.g., a natural disaster in Haiti, liquidity pressures following commodity price and security shocks in Chad) (Table 1).
- Debt vulnerabilities appear to have been reduced in most GRA-supported programs over the period of 2015–2019. The median public debt-to-GDP ratio declined in countries with GRA-supported programs, while debt ratios in countries without such programs increased (Figure 8). However, in some cases, public debt-to-GDP increased during program periods due to weaker-than-expected GDP growth, fiscal slippages, and larger-than-projected currency depreciations (e.g., Angola, Argentina, Georgia, Jordan, and Tunisia).

Figure 7. Change in Public Debt Levels in PRGT-eligible Countries Over a Three-year Period
(median percentage points of GDP)



Source: WEO.

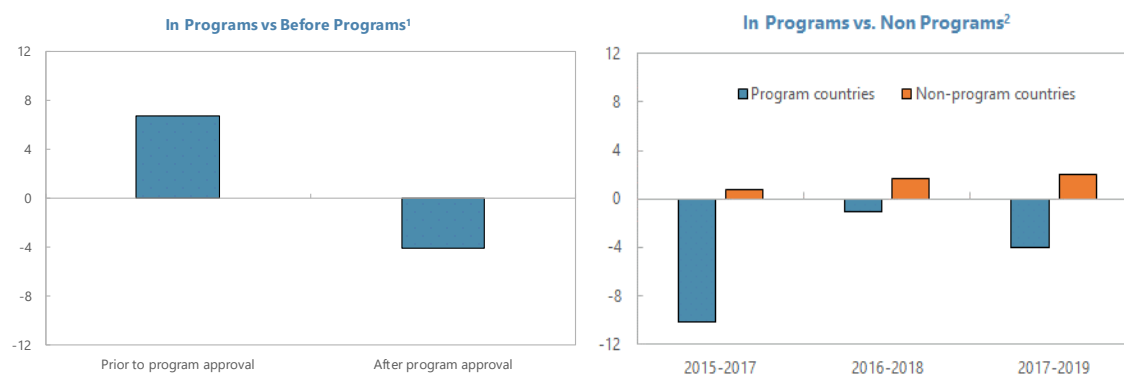
¹Includes PRGT-supported programs for which three years of data are available: Liberia, Mali, Guinea-Bissau, São Tomé and Príncipe, Ghana, Kyrgyz Republic, Afghanistan, Central African Republic, Côte d'Ivoire, Madagascar. Excludes programs that did not complete more than one review and countries at low risk of debt distress. The change is calculated from three years before/after program approval year.

²Program country groupings based on approval/extension year and for which three years of data are available: 2015–18 (Liberia, Mali, Guinea-Bissau, São Tomé and Príncipe, Ghana, Kyrgyz Republic); 2016–19 (Afghanistan, Central African Republic, Côte d'Ivoire, Madagascar). The change is calculated (i) from three years after program approval year for program countries (i.e., 2015 and 2016); and (ii) over 2015–2018 and 2016–19 for non-program countries.

¹⁷The sample considered here includes 87 IMF-supported programs ongoing between July 2015 and April 2020: 54 programs supported by the PRGT ("PRGT-supported programs") and 33 countries not supported by the PRGT ("GRA-supported programs"). FCLs, RCFs/RFIs, and SMPs are not included in the analysis.

¹⁸The 2018 Review of Program Design and Conditionality found that actual debt ratios in IMF-supported programs exceeded program *projections* by large margins.

Figure 8. Change in Public Debt Levels in EMs Over a Two-year Period
(median percentage points of GDP)



Source: WEO.

¹Includes GRA-supported programs for which two years of data are available: Egypt, Gabon, Georgia, Iraq, Jamaica, Jordan, Kosovo, Morocco, Seychelles, Serbia, Sri Lanka, Tunisia, Ukraine. Excludes programs that did not complete more than one review. The change is calculated from two years before/after program approval year.

²Program country groupings based on approval year for which data are available: 2015–17 (Serbia, Ukraine), 2016–18 (Egypt, Iraq, Jamaica, Jordan, Kosovo, Morocco, Sri Lanka, Tunisia), 2017–19 (Gabon, Georgia, Seychelles). The change is calculated (i) from two years after program approval year for program countries (i.e., 2015, 2016, and 2017); and (ii) over 2015–17, 2016–18, and 2017–19 for non-program countries.

Table 1. Risk of External Debt Distress Ratings during IMF-Supported Programs in LICs

Country	Program Approval Year	T	T+1	T+2	T+3	T+4	T+5
Chad	2017	D	H	H			
Cote d'Ivoire	2011	D	M	M	M	M	
Grenada	2014	D	D	D	D		
Republic of Congo	2019	D	D				
Sao Tome & Principe	2019	D	D				
Somalia	2020	D					
Afghanistan	2016	H	H	H	H		
Cabo Verde	2019	H					
Cameroon	2017	H	H				
Central African Republic	2016	H	H	H	H		
Central African Republic	2019	H					
Chad	2014	H	H	H			
Ethiopia	2019	H					
Gambia, The	2020	H					
Ghana	2015	H	H	H	H	H	
Mauritania	2017	H	H	H			
Sao Tome & Principe	2015	H	H	H	D		
Sierra Leone	2018	H					
Benin	2017	M	M	M			
Burkina Faso	2018	M					
Burkina Faso	2013	M	M	M	M	M	
Cote d'Ivoire	2016	M	M	M	M		
Guinea	2017	M	M	M			
Guinea	2012	M	M	M	M	M	
Guinea-Bissau	2015	M	M	M	M		
Haiti	2015	M	H				
Honduras	2014	M	M		M	M	
Kyrgyz Republic	2015	M	M	M	M	M	
Liberia	2019	M					
Madagascar	2016	M	M	M	L	L	
Malawi	2018	M	M				
Malawi	2012	M	M	M	M	M	
Mali	2013	M	M	M	M	M	M
Mali	2019	M					
Mozambique	2015	M			D	D	
Niger	2012	M	M	M	M	M	
Niger	2017	M	M	M			
Senegal	2020	M					
Sierra Leone	2017	M	H				
Sierra Leone	2013	M	M	M	M		
Solomon Islands	2012	M	M	M	M	M	
Togo	2017	M	M	M			
Bangladesh	2012	L	L	L	L		
Honduras	2019	L					
Kenya	2016	L		M	M		
Kenya	2015	L					
Liberia	2012	L	L	L	M	M	M
Moldova	2016	L	L		L		
Rwanda	2013	L	L	L			
Rwanda	2016	L	L	L	L		
Rwanda	2019	L	L				
Senegal	2015	L	L	L	L	L	
Tanzania	2014	L	L	L	L		L
Uganda	2013	L		L	L		

Source: Joint IMF and World Bank LIC DSF Database.

18. The generally positive track record of containing debt vulnerabilities is consistent with the roles of fiscal and debt conditionality in program design (see Section *Experience with Implementation of the DLP* of the supplement).¹⁹ Anchoring fiscal policy has been central to program success in containing debt vulnerabilities in recent years. In addition, there has been a strong record of adherence to debt conditionality, with relatively tight implementation (reflecting few modifications and exceptions). The compliance rate for debt PCs stands at close to 95 percent (versus 80 percent for fiscal PCs). Reasons for non-observance of debt limits included weak public financial management and debt monitoring (Cameroon, 2017 on two occasions; Iraq, 2016); reporting slippages (Guinea, 2017; Liberia, 2015; Mozambique, 2015); or technical factors (Malawi, 2018; Mauritania, 2017). In cases where these non-observances were significant, the program targets were subsequently revised to address the contributing factors, or to limit space for new borrowing, and in none of these PRGT-supported programs did debt vulnerabilities deteriorate. In the few programs that have gone off-track, the primary drivers for non-observance of debt limits were either exogenous shocks or weak fiscal performance (the only exception being Mozambique (2015), where debt governance weaknesses played the key role in a substantial deterioration in debt vulnerabilities).

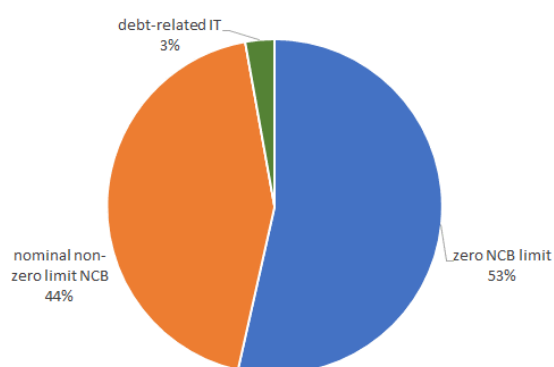
19. At the same time, the nature of debt conditionality has shifted in PRGT-supported programs, consistent with the 2014 reform of the DLP. The introduction of PV-limits and the easing of requirements for countries at low risk of debt distress meant that 24 percent of PRGT-supported programs active during July 2015–April 2020 had debt limits in the form of PV limits and 11 percent had no debt conditionality.²⁰ In GRA-supported programs, previous practices have broadly continued. Some 69 percent of programs ongoing in July 2015–April 2020 had some form of debt conditionality, compared with 67 percent of programs in January 2010–June 2015 (Figures 9 and 10).

¹⁹Given the modest number of cases, it is not possible to provide econometric evidence on the impact of debt conditionality on debt vulnerabilities.

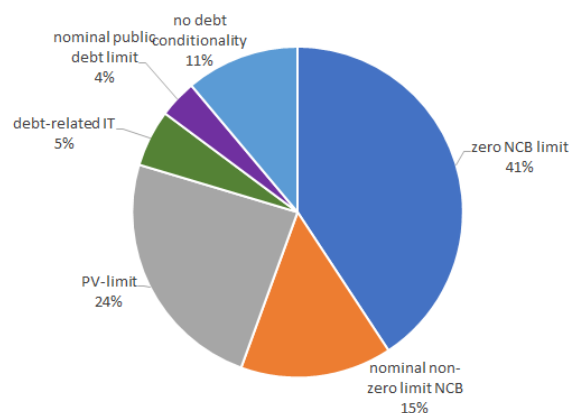
²⁰See a regularly updated [table](#) with types of debt limits in countries subject to IMF/World Bank debt Limits conditionality.

Figure 9. Debt Limits in PRGT-Supported Programs, January 2010–April 2020¹

Programs Ongoing in January 2010–June 2015



Programs Ongoing in July 2015–April 2020

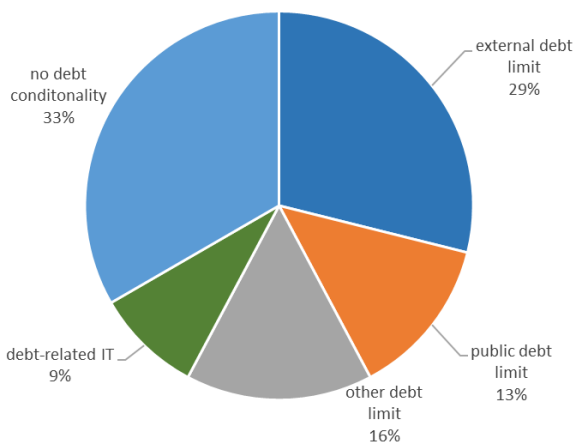


Source: Fund Staff reports.

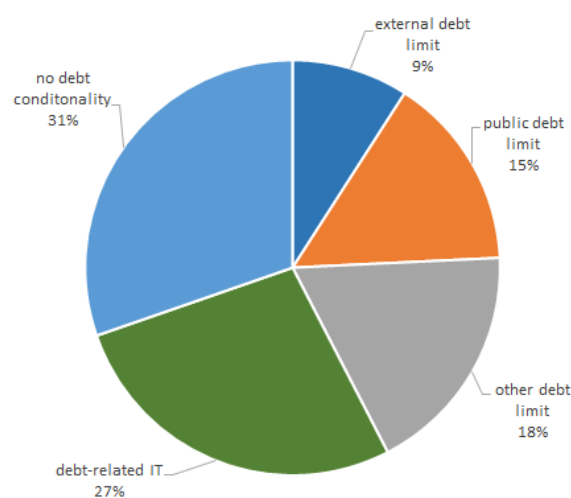
¹Through end-December 2020. Includes programs for which conditionality data are available, including 71 programs ongoing between January 2010 and June 2015 and 54 programs ongoing between July 2015 and April 2020. The data reflects most recent form of conditionality in a given period.

Figure 10. Debt Limits in GRA-Supported Programs, January 2010–April 2020¹

Programs Ongoing in January 2010–June 2015



Programs Ongoing in July 2015–April 2020



Source: Fund Staff reports.

¹Through end-April 2020. Includes programs for which conditionality data are available, including 45 programs ongoing between January 2010 and June 2015 and 33 programs ongoing between July 2015 and April 2020. The data reflects most recent form of conditionality in a given period.

20. Feedback from country authorities, multilateral development banks (MDBs), and other stakeholders also suggests that the DLP has been helpful in containing debt vulnerabilities, although several stakeholders emphasized the need for more flexibility (see Section *Outreach: Stakeholder Survey and Consultation Results* of the supplement). Staff solicited feedback from country authorities via an Annual Meetings roundtable and a roundtable discussion hosted by the U.K.'s Department for International Development (DFID). Staff also received feedback from MDBs, OECD export credit agencies, and IMF mission chiefs.²¹ Overall, participants were of the view that debt limits have helped authorities prioritize investments, maximize borrowing on concessional terms, and better contain debt vulnerabilities by improving control over line ministries and SOE debt. However, several participants pointed to instances where the policy constrained investment (including by denying semi-concessional loans) and suggested that more flexibility should be allowed to tailor debt limits to country-specific circumstances.

LESSONS FROM DLP IMPLEMENTATION SINCE 2015

A. Debt Data Disclosure Gaps

21. Debt exposures outside the perimeter of fiscal/debt coverage have been generating risks:

- **PPPs:** Mission chiefs have noted that the use of PPP arrangements in some cases appears to have been motivated not by efficiency objectives, but by a desire to shift debt obligations off the public balance sheet (and thus circumvent debt limits). The usage of PPPs in countries subject to NCB limits have increased by an average 0.8 percent of GDP since program inception, compared with 0.4 percent of GDP for periods of similar duration prior to the program.²² In response to an increased usage of PPPs, some IMF-supported programs introduced additional conditionality to limit PPPs (e.g., Burkina Faso, 2018) or MEFP commitments to assess the development of new PPPs (e.g., Niger, 2016).
- **SOEs and special purpose vehicles (SPVs):** In some IMF-supported programs, SOEs involving large fiscal risks were not covered by debt conditionality, often due to a lack of data, and borrowing by these entities has increased (e.g., Egypt, Seychelles, and Tunisia). Also, SPVs involving significant borrowing have been established,²³ and, while they appear to remove the government from legal obligations, they may still involve an implicit contingent liability (e.g., Ghana).

²¹Surveys were also distributed to country authorities and creditors but received limited responses.

²²Statistics based upon data from the World Bank's *Private Participation in Infrastructure Database*.

²³A SPV is an offshore legal entity usually created in the context of indirect Collateralized Future Receipts (CFR) arrangements to provide financing to a public sector entity or the government by issuing debt securities backed by future receivables.

22. In addition, recent cases have suggested that incomplete disclosure of borrowing terms and conditions to staff can be a problem. In the cases of Angola and Ecuador, due diligence supported by prior actions and structural benchmarks revealed collateralized or collateral-like debt structures.²⁴ In Angola, these were deemed to represent a critical vulnerability. While obtaining information on these activities can be critical, it has not been routine for all program requests from countries where terms and conditions of lending, especially off-balance sheet, may create risks. Staff analysis suggests that there are 44 countries in IMF-supported arrangements with red flags, meaning that: (i) the risk of debt distress is high, and (ii) the potential for the presence of collateralized debt is assessed to be high (because the use of collateral in loans or bonds is known to be high; there is substantial lending from creditors that typically demand collateral; or commodities, whose future flow receivables can serve as collateral, make up a high share of total exports).

B. Issues for Countries that Normally Rely on Concessional Financing

B.1. Countries with Significant Access to International Financial Markets: *One Size Does Not Fit All*

23. With the evolving credit landscape, some changes have emerged within the group of countries that normally rely on official external concessional borrowing:

- Most countries continue to rely on a mix of concessional and non-concessional borrowing from official sector lenders. The scale of NCB has increased over time in many countries, underscoring the importance of having a sound mechanism for determining when NCB is justified.
- There are some countries that have also begun to access international financial markets on a significant scale, whose borrowing plans envisage continued tapping of financial markets during IMF-supported programs that may be inconsistent with NCB limits.²⁵

24. For this second sub-group of countries, there is a tension in the 2014 policy framework: where such countries are at high risk of debt distress, the policy is that NCB can be accommodated only under exceptional circumstances, but, at the same time, external financing from private financial markets can be embedded in program design (with improved terms for market

²⁴In the case of Angola, the prospectus of the most recent Eurobond issuance had disclosed prior to the EFF request that a significant share of total borrowing was collateralized with receivables from oil exports. To assess the criticality of this form of debt vulnerability and design appropriate conditionality to address this vulnerability, more detailed information was needed on the characteristics of the collateralized debt, the disclosure of which was established through a prior action for program approval. In the case of Ecuador, there was a presumption that collateralized loans would be significant, since oil presales and loans collateralized with receivables from oil exports had been used. The review at the program negotiation stage revealed that there were no collateralized loans, but that there were loans with collateral-like features, summarized in the staff report for program request (Country Report No. 18/370; Box 4. Selected Borrowing Arrangements). Program conditionality was introduced (prior action 3 and structural benchmark 1) to ensure that updated information on this type of borrowing would be provided regularly during the program and could be monitored.

²⁵Note that this grouping of countries includes, but is not limited to, the “countries with an open capital account and significant financial integration into international markets” under the current policy.

access typically an important program objective). In principle, this tension can be managed through repeated use of the “debt management operations” exception,²⁶ but this process has proven to be cumbersome in practice with potentially long lead times that do not align well with changing market conditions (i.e., due to bi-annual reviews). This has had unintended consequences, including creating a bias towards reliance on more expensive domestic financing (on regional markets in currency zones) and producing difficulties for debt management operations and issuances (e.g., Ghana). For moderate risk countries in this second sub-group, the 2014 policy has some additional leeway—allowing the use of a limit on total nominal public debt as a standard limit—but this is the appropriate form of tailoring only in very specific circumstances (i.e., in cases where there is substantial foreign investor participation in the domestic bond market).²⁷

B.2. Countries With No Significant Access to International Financial Markets

B.2.1. The shift to use of PV limits, for countries at moderate risk of debt distress, has been more modest than anticipated

25. In hindsight, the requirements for allowing use of PV-limits appear to have been too demanding. The methodology for assessing debt recording/monitoring capacity introduced by the 2014 DLP reform captures broad debt management competencies rather than the narrow issue of the capacity to record/monitor debt (which is the key factor for assessing whether quantitative conditionality on aggregate debt levels can be deployed) (Box 3).²⁸

26. This helps explain why a shrinking minority of countries at moderate or high risk of debt distress have been deemed to have adequate capacity to record/monitor debt. The decline, from 43 percent (in 2016–17) to 33 percent (in 2018–19), is due mainly to downgrades of countries linked to a shift to a high risk of debt distress in the LIC DSF, which then feeds into their Country Policy and Institutional Assessments (CPIA) debt scores; there is little evidence to suggest that this downgrade is grounded purely in any weakening in recording/monitoring capacity.

B.2.2. Access to NCB was tightly restricted, but beyond expectations

27. There was a conservative bias in granting access to NCB. In IMF-supported programs for countries at high risk of debt distress, where exceptions to NCB are possible, these were recorded in only two out of nine cases, albeit repeatedly (e.g., Cameroon and Mauritania). In five IMF-supported programs for countries at moderate risk of debt distress, where NCB is feasible, NCB was instead set at zero throughout programs in three cases (e.g., Guinea-Bissau, Malawi, and Togo), with no exceptions granted.

²⁶Debt management operations refer to asset and liability operations typically performed by debt management offices with the objective of improving the debt profile (i.e. reducing financing costs by, for example prefunding maturing obligations or buying back debt when market conditions are favorable, and reducing risks, including refinancing and interest risks through maturity extension and reducing the bunching of maturities).

²⁷This option has been chosen in only two cases (Kenya and Senegal).

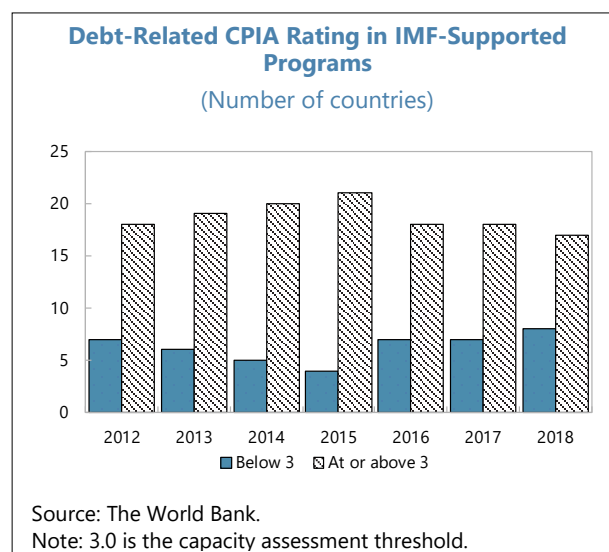
²⁸See [Reform of the Policy on Public Debt Limits in Fund-Supported Programs](#), Annex III.

Box 3. Debt Recording and Monitoring Capacity: Measurement Issues

The assessment of debt recording and monitoring capacity is informed by the 3-year average CPIA Debt Policy score (a score equal or below 3 indicates potential significant weaknesses in debt data monitoring), and recent DeMPA and PEFA ratings, when available (a D rating in selected DeMPA or PEFA dimensions may be used to justify weak quality of debt monitoring). The final assessment of a country's capacity to adequately monitor its debt considers other evidence, such as the recent track record of debt monitoring and other relevant technical assistance reports.

Experience has revealed several problems with the debt recording and monitoring capacity assessment:

- *Broad debt management coverage in the CPIA debt score.* The CPIA debt score is a consistent indicator that is available on an annual basis. However, it is a composite assessment containing elements that are not strictly related to debt recording and monitoring capacity. The CPIA debt score includes other factors such as the contribution of the debt management strategy to minimizing budgetary risks and ensuring long-term debt sustainability. As such, the CPIA debt score may take more time to improve, even if the narrower debt-recording and monitoring capacity strengthens (or was not weak at the outset).
- *Averaging of the CPIA debt score.* Both upgrades and downgrades occur slowly, given the indicator's design. For example, looking at the annual changes in CPIA debt policy scores, three countries fell below the threshold score of 3.0 in 2015 (Figure). However, this drop was not reflected in the capacity assessment results for 2018 (since the assessment is based on the average value for the three previous years).
- *Scoring inertia.* The DLP Guidance Note prescribes that the decision to *upgrade* the capacity, once made, should be irreversible (absent exceptional circumstances). While the aim was to avoid volatile changes to the capacity assessment, which could lead to frequent (possibly counter-productive) changes in debt limits, this might have also played a role in "scoring inertia" slowing the *upgrading* of capacity.



28. The guidance on when to accommodate NCB exceptions for countries at high risk of debt distress may have been difficult to interpret. The overall scarcity of cases and experience in the IMF's inter-departmental review process suggests that this is a problem area. For projects, NCB exceptions can be granted when they are considered integral to the authorities' development program and concessional financing is not available, but the 2014 policy provides little guidance on how to assess this. In addition, there is little guidance on how to assess the debt sustainability implications for projects, while the 2014 policy is silent on how to handle repeated requests for project exceptions. For debt management operations, exceptions can be granted when they improve the overall debt profile—but what constitutes such an improvement is not well-specified. Overall, the lack of clarity on exceptions has made policy implementation difficult for the authorities to understand and for staff to explain.

B.2.3. Definition of concessionality

29. The concessionality threshold has been anchored in broader global practice. The 35-percent grant element threshold for determining a concessional loan dates back to 1995 (and reflected the threshold used by the OECD to assess concessionality of members' tied aid arrangements). It is widely used by the international financial community, such as debtors, creditors, and international institutions, including in setting of lending terms. Debtor countries consider that the threshold has worked well to encourage concessional lending from donors while acknowledging that it might have discouraged some semi-concessional financing. The 5 percent discount rate is informed by the 10-year average Commercial Interest Reference Rates (CIRR) rate and the per capita income (measured in US dollars) growth rate. Both have declined by about 0.5 percentage points since the last review of the LIC-DSF in 2017.²⁹

30. Difficulties in evaluating concessionality have become more evident:

- **Blended financing packages.** When a financing package is composed of more than one financing instrument (e.g., non-concessional loans combined with grants), the concessionality can be jointly assessed if the combined financing instruments are regarded as the integrated incurrence of debt.³⁰ There have been some challenges in assessing proposed non-conventional project financing packages where the grant element was to be provided in kind. While experience with these packages has been limited to date, it has revealed that such packages are difficult to evaluate because of lack of standard competitive procurement procedures or an independent third-party assessment. Staff is also not in a position to verify whether the concessional element is undermined by over-invoicing in other dimensions of a broader deal.
- **Collateral.** The use of collateral presents a similar evaluation challenge: the standard method of estimating the concessionality of a loan relies only on the nominal interest rate charged, and does not take account of the value of the collateral pledged, which may reduce risks to the lender and thereby lower the nominal lending rate. In some cases, where collateral is already standard practice (e.g., trade or project finance) there is no circumvention problem and no evident debt vulnerability created (since the loan is directly tied to a transaction to finance the purchase of an asset or to generate a new revenue that will ensure repayment of the loan). However, in other cases, where the collateral is "unrelated", both a circumvention problem and a debt vulnerability issue arise.³¹ For example, debt that uses unrelated collateral can increase credit risks for new loans that are not collateralized, tending to raise the cost of such lending.

²⁹See "[Review of the Debt Sustainability Framework for Low Income Countries: Proposed Reforms](#)".

³⁰The criteria for assessing the integrated incurrence of debt include identical intended use of purposes for the financing, inter-related schedules for disbursement, cross-conditions (e.g., cross-default clause), and identical parties to the financing. See Annex II in [Staff Guidance Note on the Implementation of Public Debt Limits in Fund-Supported Programs](#).

³¹See [Collateralized Transactions: Key Considerations for Public Lenders and Borrowers](#) for a discussion of issues raised by collateral.

31. Finally, the high concessionality tool has not been an effective mechanism to generate additional concessional resources. The DLP provides scope to increase the concessionality threshold well above the standard 35 percent (for countries in particularly vulnerable debt situations). However, this has occurred very infrequently, with only two cases recorded since July 2015 (Afghanistan and Central African Republic), notwithstanding other country cases with similar economic conditions. Evidence is scant that the 2014 policy has led to a meaningful increase in the concessionality of financing (for many donors, use of grants was already pre-determined by the LIC DSF rating).

C. Countries that do not Normally Rely on Concessional Financing

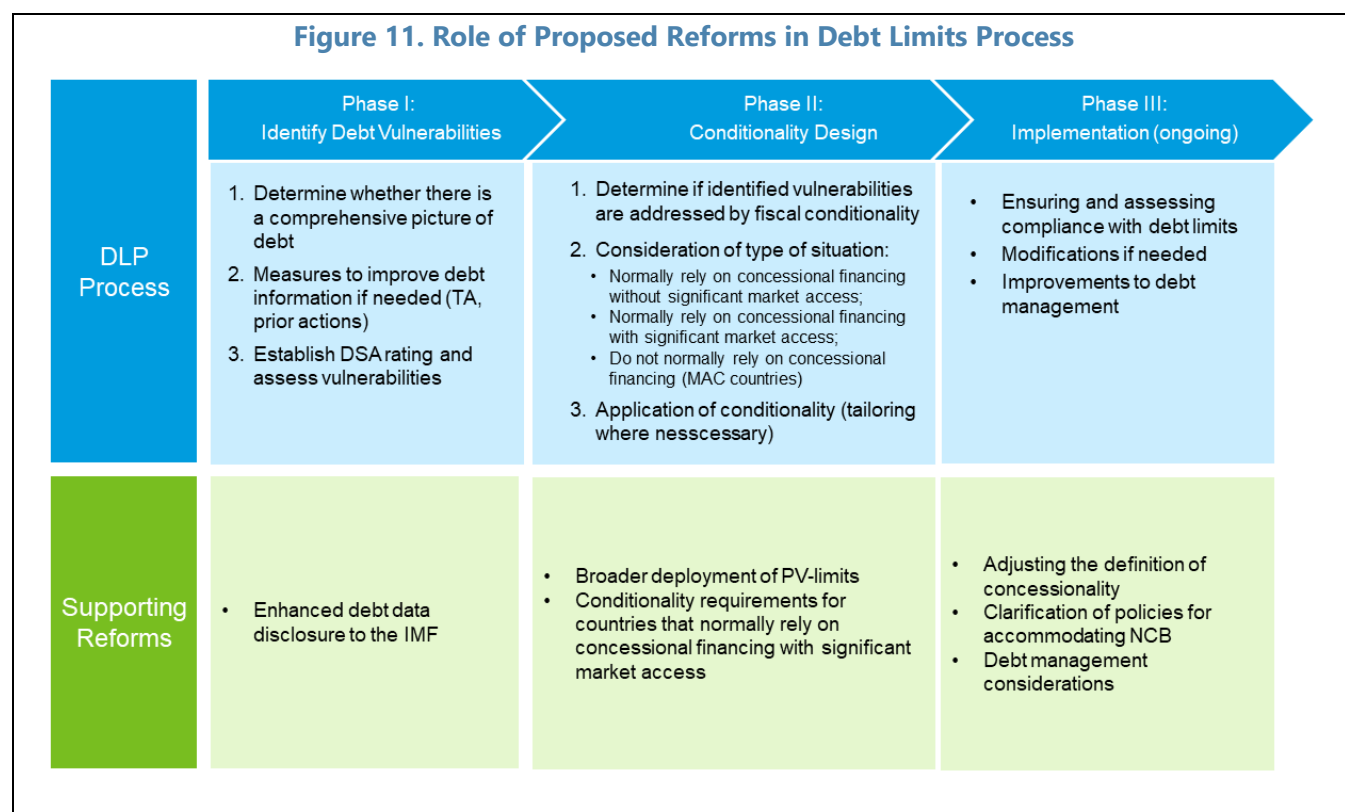
32. The tailoring of debt conditionality under the policy generally appears to have been appropriate, but with some scope for improvement. Diverse types of conditionality were applied. For example, some programs where debt levels were high included ceilings on total public debt (e.g., Barbados, Cyprus, Egypt, Jordan, and Jamaica). Other countries with high levels of non-resident debt or large external financing requirements included ceilings on external debt (e.g., Equatorial Guinea and Gabon). There were also cases where limits were used to capture specific vulnerabilities, including short-term debt (Jordan) and collateralized debt (Angola). However, some programs appear to have had overlapping conditionality with fiscal targets (Egypt)—implying the debt conditionality was not needed—or did not include a limit capturing government guarantees where the SOE sector was large and may have been creating significant fiscal risks for the government (e.g., Egypt, Seychelles, and Tunisia). With broader debt vulnerabilities now escalating, future programs will need to ensure that debt vulnerabilities are rigorously identified and targeted by debt conditionality if warranted.

REFORM PROPOSALS

33. The overall picture suggests that the 2014 policy has broadly worked well, but that there is room in some areas to improve the effectiveness of the policy. The lessons discussed in the previous section point to a need to better encourage adequate debt disclosure. For countries that normally rely on concessional financing, the lessons also point to the need for: (i) accommodating the special circumstances of countries with significant access to international financial markets; (ii) removing unwarranted impediments to the broader use of PV limits; (iii) laying out in greater detail the policy for accommodating NCB; and (iv) adjusting the definition of concessionality. For countries that do not normally rely on concessional external financing, there would be no change to the current tailored approach, but improvements in debt transparency would allow for a more rigorous identification of vulnerabilities to support tailoring. These issues are discussed in more detail in the subsections below.

34. Importantly, the overall approach to debt limits would not change. The proposed approach would be informed by adequate information and analysis. Any debt conditionality would remain closely linked to DSAs, risk ratings and identified vulnerabilities. For countries that normally rely on concessional financing, conditionality would not be expected in low risk of debt distress

cases but would otherwise be required; for countries that do not normally rely on concessional financing, conditionality would be expected when needed to address critical debt vulnerabilities. Debt conditionality would still be expected to complement fiscal conditionality (or provide for an alternative below-the-line means of monitoring fiscal progress). Debt limits would continue to be set either on a contracting or a disbursement basis when debt conditionality is warranted, applying the established guidance to determine the appropriate choice.³² Figure 11 situates the reform proposals within the overall approach.



³²See [Staff Guidance Note on the Implementation of Public Debt Limits in Fund-Supported Programs](#).

A. Debt Transparency

A.1. Enhancing Debt Data Disclosure to Staff

35. The revised policy would introduce an explicit expectation that critical debt data disclosure gaps should be addressed upfront in IMF-supported programs. In line with the Guidelines on Conditionality, prior actions could be appropriate for this purpose. Additional debt-related information could also be obtained over the course of the IMF-supported program, using structural benchmarks where warranted (e.g., where capacity limitations prevent disclosure of data upfront and staff assesses that delayed disclosure would not critically impact program design or near-term performance). The authorities' efforts to enhance debt data disclosure and transparency would need to be supported by technical assistance where appropriate.

36. The expectation to pursue debt disclosure would be premised on a risk-based approach. Pursuing information can be costly and time consuming both for the country authorities and the IMF (in the extreme, requiring auditors). These costs need to be offset by an expectation that the information generated will sufficiently enhance program design. Thus, the guidance would lay out "red flags" meant to capture such circumstances. These would be expected to fall into two buckets:

- Indications of significant omitted debt: (i) state and/or local governments not already captured in debt numbers that have the capacity to borrow (and indications that they have used this capacity); (ii) large SOEs with capacity to borrow externally not already captured in the debt perimeter (and indications that they have used this capacity) and; (iii) PPPs or SPVs that are not adequately evaluated or monitored.
- Missing information about the terms and conditions of a significant amount of debt (or of significant contingent fiscal liabilities, such as PPPs), combined with indications that vulnerability-inducing or vulnerability-enhancing conditions could exist (e.g., collateral, margin call clauses, step-up rates, non-standard event-of-default clauses).

37. Debt disclosure to staff would only be expected to lead to conditionality if the vulnerability were to be deemed critical for the implementation of the IMF-supported program. This will require a case-by-case approach with due attention to the potential size and nature of the problem. It does not mean that all public sector entities would be subject to conditionality—commercially-viable SOEs would continue to be excluded (Box 4).

Box 4. Debt Limits and Commercially Viable Public Sector Entities

Commercially viable SOEs and other such state entities are typically explicitly excluded from debt limits. SOE investment activities and the frequent materialization of contingent liabilities associated with SOEs suggest that they need to be considered for debt limits (unless government debt already includes SOE debt guaranteed by the government). However, when an SOE does not have substantial borrowing activities and/or a reasonably high likelihood of imposing a fiscal burden to the general government, then conditionality would be burdensome, and have little impact on debt vulnerabilities even while potentially restraining development. In such cases exclusion from debt limits would be a better approach.

A case for selective exclusion can be made for commercially viable SOEs that may borrow without a guarantee of the government and whose operations pose limited fiscal risk to the government (similar to the treatment in the LIC DSF).¹ An assessment should cover whether the SOE: (i) carries out uncompensated quasi-fiscal activities, and; (ii) has negative operating balances. Additional relevant indicators to be considered include: SOE's managerial independence; relations with the government (including offering collateral unrelated to the SOE's business when borrowing from the government); the periodicity of audits; publication of comprehensive annual reports and protection of shareholders' rights; financial indices and sustainability; and other risk factors.

¹See Guidance Note on the Bank-Fund Sustainability Framework for LICs (Appendix III).

A.2. Enhancing Transparency on Debt Holders' Profile

38. Information on a country's creditor composition can help strengthen program design, including debt conditionality. The debt holder profile provides information on a country's reliance on international financial markets, domestic and foreign banks, as well as bilateral, plurilateral, and multilateral creditors. Such information is needed to better assess the extent and nature of debt vulnerabilities, such as rollover risks, and therefore would help enhance both the focus and calibration of debt conditionality. For example, debt conditionality could be used to better contain risks posed by the frequent use by some creditors—both official bilateral and private—of non-standard lending instruments (advanced sales of commodities, financing associated with commodity purchase and sale agreements, unrelated collateralized lending, and overcollateralized repurchase agreements). Another example could be debt conditionality designed to encourage diversification of financing sources if it is critical for the IMF-supported program to address the risk resulting from a concentrated composition of private sector credit. Such information can also be an important input into understanding the pattern of burden-sharing across additional financing sources within an IMF-supported program.

39. The revised policy would require that program documents include a table providing a profile of the holders of the country's public debt. Annex I provides an example of the proposed content of the debt holders' table. The table should include the most recent data, to be updated at each program review, provided that confidentiality requirements in the underlying debt contracts do

not prevent the publication of these data. Since collateralized debt may involve separate risks, the table includes information on the stock of such debt as a memo item. Elements missing (e.g., due to capacity limitations), would be expected to be filled in during the early stages of the program (at the latest, by the time of the second review). Technical assistance could be mobilized if needed to support the authorities' efforts to enhance debt data disclosure.

40. Importantly, increased transparency is likely to produce favorable results for debtor countries. First, research has found a causal effect from increasing transparency standards to lower borrowing costs, as it improves the debt management process (which investors value).³³ Second, if a country finds itself on the brink of a restructuring or default, the resolution process will be swifter if the process can start from a widely-available information base—likely lowering the output losses typically associated with such an episode.

41. The proposed table on the profile of a country's creditors would advance debt transparency while limiting reporting costs. It would convey key information in a compact form and could be compiled at relatively low cost, once the required capacity has been built—possibly requiring some external technical assistance at the outset. Developing the capacity to complete any missing elements in debt holder profiles would contribute over time to meeting the goals of broader debt transparency initiatives, including those under the IMF-WB multipronged approach.

B. Reforms Covering Countries that Normally Rely on Concessional Financing

B.1. Countries with Significant Access to International Financial Markets: *Improving the Policy's Fit to Country-Specific Circumstances*

42. Among these cases, for countries at high and moderate risk of debt distress, debt conditionality would operate as follow:

- **As a default, use a PC specified in PV terms on the accumulation of public and publicly guaranteed external debt.** The PV limit would be derived from a public borrowing plan, which is an integral component of a country's fiscal framework and which should be consistent with maintaining debt sustainability over the medium-term. The borrowing space available for the public borrowing plan would depend on the extent and nature of the country's debt vulnerabilities as identified in the DSA.
- **However, alternative formulations of debt conditionality could be used where warranted.** Staff would need to make the case—using the DSA and judgement—that alternative

³³Subscription to the IMF's Data Standard Initiatives – the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System (GDDS) – is estimated to reduce sovereign spreads by 13 percent over one year. See S. Choi and Y. Hashimoto (2018), "Does transparency pay? Evidence from IMF data transparency policy reforms and emerging market sovereign bond spreads", *Journal of International Money and Finance*, 88, 171-190; the GDDS was replaced by the Enhanced GDDS (e-GDDS) in 2015, but all GDDS adoption events in this study predate the e-GDDS introduction.

formulations of debt conditionality would be better tailored to address critical vulnerabilities. An example could be a QPC on the aggregate level of public debt, specified in nominal terms, in cases where there is substantial foreign investor participation in the domestic bond market (as is already allowed under the DLP for countries with an open capital account and significant financial integration with international markets).³⁴ Section *Illustrative Guide to Tailoring Conditionality* of the supplement provides examples of potential tailoring in greater detail, but these are intended to be illustrative rather than comprehensive: determinations would need to be made, and explained, on a case-by-case basis.

43. Stability of conditionality and risk management considerations suggest that a reasonable “bar” be met before a country is declared to have “access to international financial markets on a significant scale”. Thus, to be eligible for such treatment, countries would need to meet both of the following conditions (noting that country status on eligibility to the “market access” framework could shift over time, even within a program):

- (i) The country has had (a) significant access to international financial markets in recent years or (b) access to these markets is a key element of the program, as elaborated below:
 - (a) Drawing on measures used for determining market access for PRGT blending and graduation purposes, “significant access to international financial markets” would entail cumulative borrowing of at least 50 percent of quota in at least two of the preceding three years.³⁵ Section *Illustrative Characterization of Countries Relying on Concessional Financing with Significant Access to International Financial Markets* of the supplement illustrates the possible impact of such a calibration.
 - (b) This access definition would also be met if access to these markets is an integral component of the member’s borrowing plan or of the baseline projections of the Medium-Term Debt Strategy (MTDS), provided that the program envisages financing on international financial markets in the amount of at least 100 percent of quota over the course of the program period. This threshold would apply only in cases where the country does not meet the criterion of 50 percent of quota in prior borrowing.
- (ii) The member has demonstrated the capacity to manage significant levels of market borrowing, as supported, for example, by the existence of an MTDS and an actively updated annual borrowing plan.

³⁴These are countries that have attracted significant portfolio inflows into domestic government bond markets and into external sovereign bond issues. The current staff guidance limits use of this option to situations where the country is at moderate risk of debt distress.

³⁵See Eligibility to Use the Fund’s Facilities for Concessional Financing, 2020. The proposed DLP test for regularly tapping international financial markets does not include an income criterion and has a shorter horizon (three years) than the criteria for PRGT blending (five years) given the need for debt conditionality to reflect a country’s more recent financing circumstances. The cumulative borrowing of at least 50 percent of quota threshold is similar to the PRGT blending threshold for countries at high risk of debt distress.

44. This reform would be expected to deliver several benefits. These benefits would include: better alignment of program conditionality with the country's financing mix and thus program design; greater ease in conducting refinancing operations; incentivizing countries to improve debt management capacity (to obtain such treatment); and a better bridge to the debt limits treatment of countries that do not normally rely on concessional financing (where tailoring is standard).

B.2. Countries Without Significant Access to International Financial Markets

B.2.1. Countries at Moderate Risk of Debt Distress: Expand the Use of PV Limits

45. The new policy would include a general expectation that the capacity of countries to set conditionality on aggregate debt levels (including in PV terms) is adequate. The broader use of PV limits that should ensue from this change is consistent with the thrust of the 2014 DLP reform.

46. Where staff assess that a member's capacity is not adequate to set conditionality on aggregate debt levels (including in PV terms), the current NCB-based policy regime would be retained. This assessment would be based on assessments of debt management capacity, such as the World Bank's publicly available DEMPA's, IMF technical assistance reports, UNCTAD's Debt Management and Financial Analysis System (DMFAS) reports or Commonwealth Secretariat's (COMSEC) reports, and on the IMF staff experience with the quality of debt monitoring and reporting in previous IMF-supported programs. The basis for the assessment would need to be clearly explained in the staff report. In these cases, a PC specified in nominal terms would be set on NCB, and a memo item specified in nominal terms would be set on CB.

47. Higher scrutiny of borrowing plans is needed for countries at moderate risk of debt distress with limited space to absorb shocks. Relatively small deviations from the baseline macro and financing assumptions could cause these countries to be reclassified into the high risk of debt distress category. Borrowing plans, which would remain a requirement under the new DLP, would in such cases need to have a buffer to accommodate shocks without tripping a country into high risk.³⁶ Such a buffer could take the form of adequate flexibility in project execution or appropriate state-contingent features in debt.

48. These reforms would be expected to deliver several benefits. The proposal would expand the flexibility provided by PV limits to a wider set of countries. It would provide the countries with incentives to optimize the terms of their borrowing (as they can borrow greater volumes if loans have higher concessionality), while eliminating distortive threshold effects (currently, all financing provided at a rate of concessionality even slightly below 35 percent is considered as non-concessional). At the same time, enhanced monitoring for countries with limited space to absorb shocks would provide a safeguard.

³⁶The general format for borrowing plans in the current guidance note is proposed to remain applicable under the revised policy.

B.2.2. Countries at High Risk of Debt Distress: Providing Greater Clarity on NCB Exceptions

49. Staff proposes to retain the presumption of a zero limit on NCB in countries without significant access to financial markets that are assessed to be at high risk of debt distress. In such cases, NCB is less common and typically project-oriented, and there is a need to encourage concessional financing.

50. Staff proposes providing greater clarity on the circumstances under which exceptions to the zero NCB rule would be accommodated.

- With respect to **projects**, the focus would continue to be on supporting projects that are integral to the authorities' national development program—meaning credibly projected to yield a high social and economic return—for which concessional financing is not available. The alignment of this criterion with the authorities' development program is important to support program ownership. To make the process of determining when to allow such exceptions more transparent and easier for all to understand, staff proposes to take a signal approach (Box 5). Sectoral project assessments on economic and social returns by MDBs or credible independent evaluators can inform when a project is integral to authorities' development program, so they are one of the proposed signals.³⁷ But, such assessments are not always available, so they cannot be the only signal allowable.
- For **debt management operations**, the focus should be on clarifying what constitutes an operation that results in an improvement in the overall debt profile. The DSA is the appropriate tool, and it would need to be shown that the operation would lead to an improvement in key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating.
- In cases where NCB exceptions are sought **repeatedly**, a further assessment would be required to safeguard against potential misuse, but also to ensure that the zero NCB limit remains an appropriate fit. In such cases, evidence of past poor use of exceptions would be a reason to set a higher bar—meeting an additional signal would be required. In cases where a country repeatedly requests debt management exceptions, teams would need to assess whether this could be a sign that the country should be reclassified as accessing international financial markets on a significant scale (with a default non-zero NCB-limits and a possibility to tailor further).

³⁷Conducting such an assessment is beyond the IMF' staff's technical expertise and would shift the focus of staff work away from the IMF's core activities.

Box 5. A Signal-Based Approach for NCB Project Exceptions

Under a signal-based approach to determine project NCB exceptions, at least one signal would be required to indicate that the project is integral to the development program, and one signal to indicate that concessional financing is not available.

The following table covers an indicative set of core options, which could be further added to over time. These core options are largely drawn from practices in the past implementation of the 2014 DLP to accommodate non-concessional borrowing by countries at high risk of debt distress or in debt distress. The quality of any signal would need to be assessed on a case-by-case basis during the internal review process, and program documents would need to clearly state why a signal(s) was deemed to be informative. If questions were to arise about the quality of one signal—e.g., when the National Development Plan (NDP) is not considered up to date or credible by MDBs or civil society—then a second signal would be required. The Guidance Note for staff on implementing the debt limits policy, to be updated upon approval of this proposed reform, will describe how to assess these signals in some detail.

Determining what projects are critical for national development
The project is commercial in nature (e.g. a joint venture) such that commercial revenues would offset debt service costs.
The project is part of an existing Public Sector Investment Program (PSIP) or National Development Plan (NDP).
The project is listed in country's Disaster Resilience Strategy (DRS).
The project is part of the authorities Covid-19 response or mitigation strategy.
The project is endorsed/undertaken by an MDB.
The country is assessed as an adequate performer (above average institutional and efficiency scores for LICs, ≥ 2) under a recent Public Investment Management Assessment (PIMA).
A credible independent assessment is available showing good social and economic returns.
Establishing no alternative concessional financing
A recent donor conference.
Recent policy/program consultations with key development partners that provide concessional funding (such as the World Bank, regional development banks, and bilateral development agencies).
The recent transmission of documentation from the country authorities to MDB(s) on development priorities.
An explicit indication that MDB(s) cannot provide concessional financing to the country in question.

51. As a safeguard against overuse of exceptions, an indicative target (IT) on public external borrowing specified in PV terms would be required. The DSA would be brought into the assessment and used to inform the PV limit. When setting these limits, country teams would be guided by the main principles discussed in ¶41. In case of capacity constraints, the existing memo item on CB would be retained (see ¶45).

52. This reform would be expected to have several benefits. It would strengthen the IMF's ability to strike the right balance when considering whether NCB exceptions should be granted (and in what volume). It would also mitigate the potential for uneven treatment across countries in granting exceptions by establishing objective signals for whether the criteria for NCB exceptions are met. It would furthermore make the process more transparent and consistent across all applicable

cases, while making it easier to explain the results to the authorities, the Executive Board, and staff.

B.2.3 Discretion to Introduce Additional Conditionality

53. The revised policy for countries that normally rely on official concessional external financing would also preserve the option to add conditionality to address specific debt vulnerabilities. This could include, but would not be limited to, problems with domestic debt vulnerabilities, collateral, or specific contingent liabilities (e.g., from SOEs/PPPs). Any additional conditionality would need to address critical vulnerabilities and would be subject to the parsimony requirements under the Guidelines of Conditionality. Section *Illustrative Guide to Tailoring Conditionality* of the supplement provides illustrative examples.

B.2.4. Adjusting the Definition of Concessionality

54. Three changes are proposed:

- **Blended financing arrangements that include the provision of a financially significant amount of grants in kind would be treated as non-concessional** (with zero grant element).³⁸ Without international competitive bidding in which multiple competitors participate, it is very difficult to assess the fair value of grants in kind (e.g., prices of equipment, machines, or engineering service). Also, obtaining neutral and fair evaluations of grants in kind conducted by third-party technical consultants would not be operationally feasible. Note that this proposal relates only to cases where grants in kind form part of blended financing packages.
- **Similarly, some uncommon types of financing involving collateral would be treated as non-concessional** (with zero grant element). This treatment would apply to financing involving collateral that is unrelated to the transaction (e.g., general budgetary borrowing collateralized by earmarking of commodity receipts). In the case of ‘related’ collateralized debt, the collateral is the asset financed or the future flow receivable or revenue stream generated by the project that is being financed. By contrast, in the case of unrelated collateralized debt—which is uncommon in practice in concessional financing—repayment risk is mitigated by the presence of collateral outside of the project being financed.³⁹ As noted above (¶130), measuring the concessionality of unrelated collateralized debt requires factoring in elements that are not easily valued/costed and hence they cannot be readily incorporated into the established methodology for quantifying the grant element of loans.⁴⁰ Absent a robust method for quantifying these

³⁸The Guidance Note would also consider the guidelines on financing packages, which have proven complex and difficult to administer.

³⁹See the joint IMF-World Bank note for the G20 “Collateralized Transactions: Key Considerations for Public Lenders and Borrowers” for further discussion of “unrelated” collateral. The DLP Guidance Note will utilize the standard definition from the G20 note.

⁴⁰Examples of these elements include differences in i) collateral enforceability, which depend on the nature of the collateral (e.g., whether it is a physical or a financial asset, whether it is in the form of the balance in an escrow account or a security assignment deed, etc.), ii) the contract conditions (e.g., whether it requires to keep the value of the collateral constant and thus margin calls are involved), and iii) other transaction costs.

features, which can vary substantially across transactions, and recognizing that collateralization of this type can increase the cost of new uncollateralized financing, it is proposed to treat such loans as non-concessional at this juncture.⁴¹ Treating financing involving collateral that is unrelated to the transaction as non-concessional would address potential circumvention problems, which could lead to a build-up of debt vulnerabilities. Note that only the treatment of such transactions as concessional or nonconcessional (and any associated measurement of present value) would be affected; there are no restrictions on the use of such transactions being introduced.⁴²

- **The “high concessionality tool” would be eliminated.** Under this proposal, the standard concessionality threshold would apply to all cases (35 percent). Offering a single definition of concessionality would simplify the framework and there would be little loss, if any, in terms of the ability to catalyze concessional financing (since the lending terms of many official creditors are usually pre-determined based on LIC DSA ratings). A higher concessionality threshold would still be allowed in cases, when this is deemed to be an integral part of restoring debt sustainability.

C. Countries that Do Not Normally Rely on Concessional Financing

55. The policy would remain unchanged for countries that do not normally rely on concessional financing (i.e., countries that use the MAC DSA). In many of these countries, fiscal conditionality would continue to suffice as long as there is comprehensive fiscal coverage and sufficient debt management capacity to handle more sophisticated debt structures. When debt conditionality is critical for the IMF-supported program to address an issue that is not adequately addressed by fiscal conditionality, this debt conditionality would be tailored to this specific debt vulnerability. The reforms to the policy to encourage greater debt disclosure would provide a basis to more rigorously adapt such debt conditionality to country-specific circumstances.

DEBT MANAGEMENT CONSIDERATIONS

56. The proposed reforms to the DLP provide incentives to improve debt management capacity:

- The incentive under the current policy to build and maintain adequate capacity to record and monitor debt would remain: access to flexible PV limits would effectively remain conditioned on this standard. Note that operating within PV limits would also continue to give an incentive to improve broader debt management functions in order to maximize available borrowing space.

⁴¹If a standardized form of loans using collateral unrelated to the transaction were to emerge and be widely adopted, it may be possible to develop a methodology for quantifying the non-standard costs of such loans, and hence integrate into concessionality calculations.

⁴²Whether collateralized transactions would be subject to specific conditionality—which could proscribe them—would be a case-by-case consideration based on the criticality of the vulnerability potentially created.

- The requirements for debt disclosure would support the authorities' efforts to improve legal frameworks and establish better procedures and systems for monitoring, recording, and reporting off-balance sheet exposures.
- Finally, the revised policy would provide a strong incentive for countries with significant access to international financial markets to adopt an MTDS and active annual borrowing plan: these key higher-order debt management functions would be requirements in order to access the more flexible tailored conditionality regime.

57. When significant weaknesses in debt management capacity are identified, it would be expected that structural conditionality to address these deficiencies would feature in the associated IMF-supported program. Stronger debt management is desirable in its own right and can contribute to better program outcomes. The policy would continue to encourage the use of structural conditionality to benchmark progress in debt management, in a manner consistent with the IMF's *Guidelines on Conditionality*. Where IMF-supported programs do not accommodate specific debt management reforms due to other priorities, there would be opportunities for coordination with the World Bank (who may be able to support such reforms under the recently adopted SDFP).

58. In some cases, capacity development support will be needed to achieve the targeted improvement in debt management capacity. This could accompany an IMF-supported program (including through technical assistance provided by IMF staff) or be accessed through other providers where available. The World Bank and other multilateral agencies (such as UNCTAD or COMSEC) have specialized capacity to support development of debt management capacity, including in debt recording and monitoring.

SUMMARY AND EVALUATION

59. Under the reform proposals discussed, the architecture of the DLP would evolve rather than change radically. IMF policy already encourages a focus on debt data disclosure issues, as seen in several recent programs. Similarly, the 2014 DLP already allows for the use of PV limits and accommodates non-zero NCB limits where exceptions can be justified. There is also already some limited tailoring for countries integrated into international financial markets. The thrust of the proposed reforms is to ensure that successful practices in these areas become standard practice. Annex II compares the existing and proposed policy frameworks.

60. Viewed as a package, the proposed reforms are balanced. They would provide countries with more flexibility to manage their debt where appropriate, while installing safeguards that support debt sustainability. Table 2 provides a high-level overview of the reform proposal along these lines.

Table 2. High-Level Summary of Proposals		
	Reforms provide more flexibility where appropriate...	... subject to safeguards
Moderate risk countries	PC on PV limits of external borrowing would be used in more countries, providing incentives to maximize concessional financing and eliminating distortive threshold effects	Higher scrutiny would be required when the borrowing plan places the country in a "limited space to absorb shocks" category ¹
High risk countries	<p>Higher demand for NCB exceptions in countries that do not have significant access to international financial markets is likely given the shift in the credit landscape; a clear framework would help ensure that these are made available to finance critical projects or debt management operations that improve debt profile/PV</p> <p>PC on PV limits of external borrowing would be used in countries that have significant access to international financial markets</p>	<p>IT on PV limits on external borrowing in countries that do not have significant access to international financial markets would help prevent the use of exceptions leading to an excessive accumulation of debt</p> <p>Safeguards would be introduced concerning repeated use of NCB exceptions in these countries</p> <p>Conditions for using tailored conditionality in countries that have significant access to international financial markets</p>
All countries		Greater debt data disclosure to the IMF and tighter concessionality definition
¹ A borrowing plan should not move a country to high risk as at present.		

61. The reformed DLP would be well suited to the likely circumstances of countries in the wake of the global COVID-19 pandemic shock:

- The shock is expected to affect the distribution of countries across the risk of-debt-distress categories, with more moving into high risk of debt distress or in debt distress, and some in debt distress returning to at least moderate risk of debt distress as a result of debt restructuring operations. Improving how the policy operates for countries at high risk of debt distress, while balancing support for development efforts with containing debt vulnerabilities, is a key priority.
- As the shock subsides, the trend away from concessional financing should resume once markets re-open, especially if donors' own fiscal and debt problems limit their scope to increase concessional financing. Thus, handling the tension in the treatment of high-risk market access borrowers and encouraging them to aim for stronger debt management practices is critical.
- Finally, the COVID-19 induced shock is likely to lead to the materialization of contingent liabilities, underscoring the importance of strengthening debt transparency, which is a fundamental pillar of the reform proposals.

62. The revised DLP and WB's SDFP would continue to be closely aligned (see Section *Alignment between the IMF's DLP and the World Bank's SDFP of the supplement*). Staff from both institutions would coordinate to ensure close alignment between the debt policy commitments in an IMF-supported program and those specified in the SDFP. When initiating a new IMF-supported program, program design would take account of borrowing limits set under the SDFP together with an updated assessment of debt vulnerabilities. The SDFP would maintain the approach of aligning, in principle, borrowing limits with the DLP when there is an IMF-supported program. When an IMF-supported program expires, the SDFP would take account of borrowing limits set under the DLP together with an updated assessment of debt vulnerabilities. Exceptions for NCB would also be broadly aligned. Both the DLP and SDFP would only allow for NCB exceptions related to critical projects where concessional financing is not available, and/or related to debt management operations. Finally, the policies would complement each other in promoting improved debt management and governance. IMF-supported programs are well-positioned to obtain relevant information on debt more systematically (particularly at the outset). World Bank operations are often better positioned to address the underlying legal and institutional problems that give rise to inadequate transparency and other capacity shortfalls, particularly where there are multiple competing priorities in an IMF-supported program.

TRANSITIONAL ARRANGEMENTS

63. It is proposed that the policy would take effect at the end of the month following the issuance of an updated staff Guidance Note. It is expected that this would be in February 2021, and therefore the policy would take effect in March 2021. Conditionality on the basis of the new guidelines in pre-existing IMF-supported programs would be modified in the context of program discussions that are concluded after March 31, 2021, when understandings on such modifications have been reached between staff and the member country's authorities and the modifications have been approved by the Executive Board. Programs approaching their penultimate or last reviews would not be required to change the established framing of conditionality. Staff will continue conducting outreach on the main elements of the proposed policy to all relevant parties, including after the rollout of the revised policy.

64. A review of experience in implementing the policy would be conducted no later than five years after the entrance into effect of the new policy. This period will allow for adequate time to take stock of experience with implementation and establish whether further refinements of the policy are warranted.

ISSUES FOR DISCUSSION

- Do Directors agree with the proposals to enhance debt disclosure to improve the design of IMF-supported programs, including the specification of debt limits?
- Do Directors agree that the proposed policy for countries that normally rely on concessional financing but have recently started accessing international financial markets on a significant

scale would better align program conditionality with the country's financing mix and program design?

- Do Directors agree with the proposal to revise the eligibility criteria for the use of PV limits?
- Do Directors agree that a signal-based approach should be used for NCB exceptions in high-risk countries to make the process more transparent and consistent across applicable cases?
- Do Directors agree that the proposals to modify the measurement of "concessionality" are warranted, including to help prevent circumvention of debt limits?

Annex I. Example Table on Creditor Composition of Public Debt Stock

Creditor Stock Composition of Public Debt Stock¹

	Percent of total Debt	Percent of GDP
Total	100	
External		
Multilateral creditors		
IMF		
World Bank		
ADB/AfDB/IADB		
Other Multilaterals		
o/w: list largest two creditors		
Plurilateral creditors		
o/w: list largest two creditors		
Bilateral Creditors		
Paris Club		
o/w: list largest two creditors		
Non-Paris Club		
o/w: list largest two creditors		
o/w: list largest two creditors		
Eurobonds		
Commercial lenders		
o/w: list largest two creditors		
Domestic		
Held by residents, total		
Held by non-residents, total		
T-Bills		
Held by: central bank		
local banks		
local non-banks		
non-residents		
Bonds		
Held by: central bank		
local banks		
local non-banks		
non-residents		
Loans		
Held by: central bank		
local banks		
local non-banks		
non-residents		
Memo items:		
Collateralized debt ²		
o/w: Related		
o/w: Unrelated		
Contingent liabilities		
o/w: Public guarantees		
o/w: Other explicit contingent liabilities ³		

¹Public debt includes publicly guaranteed debt.

²Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

³Includes other one-off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements). See 2014 Government Finance Statistics Manual (7.252) for more information.

Annex II. Current and Proposed DLP: Countries that Normally Rely on Official Concessional External Financing

DSA Rating	Current Policy ¹			Proposed Policy ²	
	Weak capacity to record/monitor debt	Adequate capacity to record/monitor debt		Adequate capacity to set/monitor conditionality on aggregate debt levels	
		No significant links to international financial markets	Significant links to international financial markets	No significant access to international financial markets	Significant access to international financial markets
Low	None except targeted if needed			None except targeted if needed	
Moderate	PC on nominal NCB CB memo item	PC on PV of external borrowing	PC on PV of external borrowing Or PC on total public debt accumulation	PC on PV of external borrowing (in most cases)	PC on PV of external borrowing ³ (but alternatives should be utilized if better targeted to vulnerabilities)
High	PC on zero NCB (with exceptions for critical projects/debt management) CB memo item	PC on zero NCB (with exceptions for critical projects/debt management) PC or IT on CB	PC on zero <i>foreign currency</i> NCB (with exceptions for critical projects/debt management) PC or IT on <i>foreign currency</i> CB	PC on zero NCB (with exceptions for critical projects/debt management) ⁴ IT or PC on PV of external borrowing	PC on PV of external borrowing (but alternatives should be utilized if better targeted to vulnerabilities) ³
¹ Debt limits targeted to a specific critical source of debt vulnerability may be used regardless of risk category. ² Where the country team determines that there is weak capacity to monitor the incurring of all forms of debt, the current “weak capacity” regime would apply, supported by a more focused capacity building effort. ³ Limits can be set on the currency basis if accurate high-frequency data on external borrowing is not available because of foreign investors moving in and out of domestic instruments, as well as between domestic-currency and foreign-currency bond issues. ⁴ The process of granting NCB exceptions would be more transparent and consistent across countries.					