Global Sovereign Debt Roundtable

2nd Cochairs Progress Report

April 17, 2024

Executive Summary

Significant progress in the international debt agenda has been achieved in recent months. There has been an agreement in January 2024 between **Ghana** and their official bilateral creditors; an agreement in March 2024 between **Zambia** and the representatives of their Eurobond holders; and progress in the discussion of other cases, including **Sri Lanka** and **Suriname**.

The Global Sovereign Debt Roundtable (GSDR) has contributed to this progress by providing a platform to advance greater common understanding among key stakeholders on complex and critical issues. It has also helped forge consensus on how processes could be improved in future cases, including on **comparability of treatment** and on **timelines** toward **swifter and more predictable restructuring processes**, while taking into account the specific circumstances of each case.

On comparability of treatment (CoT), GSDR discussions underlined the need for enhanced clarity, coordination, and transparency across creditor groups. Official bilateral creditors have made progress in explaining the methodology they use to assess and enforce CoT. However, when negotiating a specific debt restructuring with its private creditors, the debtor country needs to know in detail how CoT will be assessed in this specific case. Thus, **official bilateral creditors should provide the debtor with clarity regarding the quantitative metrics that need to be respected for the CoT to be met, and the related room for maneuver that exists within these metrics.** Relevant information should be shared with the other creditors to facilitate and accelerate the restructuring process. At the same time, private creditors and the debtor should ensure that, before they finalize and announce an agreement in principle, a verification is completed by the debtor with the IMF staff on consistency with debt targets and program parameters and with the official bilateral creditors on CoT.

Importantly, these steps do not necessarily lead to a sequential process. Nothing precludes official bilateral and private creditors to advance their negotiations in parallel. **GSDR discussions underlined that, should this be the preference of the debtor, parallel negotiations should be supported.**

On timelines, further progress has been registered in recent months, regarding the steps in the restructuring that are necessary before the first review of the IMF program can be presented to the IMF Executive Board. It took 12.4 months for Chad to cover that step in 2022, 10.4 months for Zambia in July 2023, 8.8 months for Sri Lanka in December 2023, and 8 months for Ghana in January 2024. This comes in addition to the progress already noted in the October 2023 GSDR Cochairs Progress Report on the time necessary to move from staff-level agreement (SLA) for an IMF program to the actual approval of the program by the IMF Executive Board. Progress on these two key steps has led to significant improvements in the overall timeline (almost a division by two between the restructuring cases that started in 2021 and those that started in the Fall of 2022).

Still, timelines remain beyond the typical time frame observed in the past, negatively impacting the debtor and its creditors. Where applicable, in particular for Common Framework cases, the timeline to form an official creditor committee (OCC) could be shortened, to take the best advantage of a format that ensures the fastest and most efficient sharing of information with all participants. This would also help communication and coordination with private creditors and accelerate their own restructuring processes.

In future cases, all relevant stakeholders, including the IMF, the World Bank, and official bilateral creditors, should work expeditiously with the debtor country to ensure that sufficient information is shared in a timely manner, in particular on DSAs and macroeconomic frameworks, while taking into account the specificities of each case and time for internal coordination and decision.

Moreover, absent specific circumstances impeding a timely decision-making, and provided sufficient information is being shared early and potential concerns being discussed, the proposal for the next debt restructuring case should be set as a trial example to aim for program approval within 2-3 months of SLA. Such progress would strengthen timeliness and predictability, which is a clear, high aspiration of all GSDR members.

Other discussions at the GSDR included **engagement with credit rating agencies** (CRAs), to better understand their methodologies and options available for a country to engage early and exchange views on potential debt operations; and an **open GSDR workshop on climate and debt vulnerabilities**, focusing on **debt swaps** and **climate resilient debt clauses**. Members also underlined the **importance of MDB's financial support** to countries undertaking a debt restructuring.

Going forward, GSDR Principals supported work on further advancing the common understanding on technical issues, including through an **open workshop on comparability of treatment** organized by the G20 Presidency and the Paris Club at the end of June; **further deepening of the coordination among stakeholders**, including on ways to support early exchanges on DSAs and debt relief parameters; work on the use of **state-contingent debt instrument** (SCDIs), **majority voting provisions in syndicated loans**, and issues related to debt sustainability analyses and restructuring perimeters, including **SOE debt** and **non-resident holdings of domestic debt**; and ways to structurally help **prevent unsustainable debt build-up** and **address current liquidity concerns**. In particular, the participants highlighted the importance of debt management, domestic resources mobilization, and robust investor/creditor-debtor relations. Other items could also be explored, such as the benefits and risks associated with **collateralized financing practices**, work to support the use of **debt-for-development swaps**, and ways to increase **debt transparency**.

Section 1: Update of developments since October 2023

Policy Work of Interest for the GSDR Included:

- **The G20 has continued its work to address debt vulnerabilities**, including meetings at working group, Deputies, and Finance Ministers and Central Bank Governors levels.
- **The IMF and the World Bank have launched the comprehensive review of the debt sustainability framework for low-income countries (LIC DSF).** The staffs are also working on supplementary guidance complementing the existing 2018 LIC DSF staff guidance note, to help address issues that have become more prominent for debt sustainability assessments (DSAs), including with regards to domestic debt, climate considerations and the use of DSAs in debt restructurings. This supplementary guidance will be ready by Summer 2024.
- **GSDR Deputies met on December 18, 2023, to discuss debt vulnerabilities and the work priorities for the GSDR until April 2024.**
- **Two GSDR Technical Group meetings were held on February 7 and March 8, 2024.** The first meeting included separate sessions with each of the three major credit rating agencies (CRAs) to better understand their methodologies, including how they approach different types of debt operations, and options available for a country to engage early with CRAs and exchange views on potential debt operations, including debt service suspension and liability management. The second meeting covered a range of issues, including comparability of treatment, restructuring timelines and predictability, and issues related to DSAs and restructuring perimeters such as the treatment of non-resident holdings of domestic debt and the treatment of debt owed by state-owned enterprises (SOE debt)
- **An open GSDR workshop on climate and debt vulnerabilities was held on March 4, 2024,** focusing on debt swaps and climate resilient debt clauses, with all GSDR members, all G20 members, all Paris Club members and a large representation of private creditors, borrowers, multilateral development banks (MDBs), civil society organizations (CSOs), debt experts and advisory firms.
- **A second meeting of GSDR Deputies was held on April 3, 2024**, to review and further advance the technical work and prepare the meeting of GSDR Principals on April 17.

Actual debt restructuring cases have further advanced:

Ongoing restructurings have continued to progress since last October, both under the Common Framework (CF), with Zambia and Ghana, and outside, with Sri Lanka and Suriname[1]. Further progress on timelines in the restructuring processes of the debt owed to official bilateral creditors has been registered, this time on the steps in the restructuring that are necessary before the first review of the IMF

[1] The cases of Malawi, where the debt restructuring does not involve the creditor coordination challenges that have been the focus of the GSDR work so far, and Somalia, which completed in March its debt relief under the HIPC Initiative, are of a different nature. The case of Ethiopia is also specific given the still ongoing discussion on an IMF program between the authorities and the IMF staff.

program can be presented to the IMF Executive Board. It took 12.4 months for Chad to cover that step in 2022, 10.4 months for Zambia in July 2023, 8.8 months for Sri Lanka in December 2023, and 8 months for Ghana in January 2024. This comes in addition to the progress already noted in October on the time necessary to move from staff-level agreement (SLA) for an IMF program to the actual approval of the program by the IMF Executive Board. Progress on these two key steps leads to significant improvements in the overall timeline, as shown in the table below, with almost a division by two between the cases that started in 2021 and those that started in the Fall of 2022. However, this is still beyond what was observed in the past, with typically 2-3 months between SLA and program approval, followed by 4-6 months to finalize the terms of the treatment and allow the first review of program to proceed. Similarly, recent restructuring processes of the debt owed to private creditors have also taken more time than in the past, reflecting complex interactions between official bilateral and private restructuring processes, including with regards to comparability of treatment, that have contributed to delays. This underscores the importance to further build greater common understanding of the restructuring process, including through the GSDR discussions.

	CF			Non-CF	
	Chad	**Zambia**	**Ghana**	**Suriname**	**Sri Lanka**
Date of SLA	January 27, 2021	December 3, 2021	December 12, 2022	April 29, 2021	September 1, 2022
Paris Club / OCC assurances	June 16, 2021	July 30, 2022	May 12, 2023	November 30, 2021	February 7, 2023
Program approval	December 10, 2021	August 31, 2022	May 17, 2023	December 22, 2021	March 20, 2023
AIP reached with PC or OCC	November 11, 2022	June 22, 2023	January 12, 2024	June 22, 2022	November 29, 2023
1st review 1/	December 22, 2022	July 13, 2023	January 19, 2024	June 14, 2023	December 12, 2023
2nd review 1/	December 22, 2022	December 20, 2023	-	December 15, 2023	-
Number of months passed between: -					
SLA & program approval	10.5	8.9	5.2	7.8	6.6
program approval & 1st Review 2/	12.4	10.4	8.0	17.7	8.8
SLA & 1st review	22.9	19.3	13.2	25.5	15.4

1/ For Chad, the 1st and the 2nd Reviews were combined. For Suriname, the dates are for the 2nd and the 4th EFF reviews respectively since their reviews occur on a quarterly basis.

2/ The protracted timeline for Suriname was not only owed to difficulties in the restructuring process, but other country-specific circumstances.

Section 2: Building Further Common Understanding on Debt Vulnerabilities and Debt Restructuring Challenges

Further progress in actual debt restructurings as well as the series of meetings and workshops mentioned above have helped advance the international debt discussion on several key topics.

Comparability of treatment (CoT) between official bilateral and private creditors, and consistency with debt restructuring targets and IMF program parameters

Assessing and enforcing CoT between official bilateral and private creditors participating in an external debt restructuring remains a critical issue where further clarification is warranted.

As detailed in the October 2023 GSDR Cochairs Progress Report, in the recent and ongoing restructuring cases under the Common Framework, official bilateral creditors have been using an approach according to which CoT is:

- Assessed using the three criteria listed in the Common Framework:
    i. The changes in nominal debt service over the IMF program period;
    ii. Where applicable, the debt reduction in net present value terms (NPV), using a "New NPV / Old NPV" formula and the discount rate of the LIC DSAs (currently 5 percent);
    iii. The extension of the duration of the treated claims; and
- Enforced via mechanisms such as claw-back clauses and/or request to remain in arrears vis-à-vis private creditors until an agreement has been found that respects CoT.

For restructurings outside the Common Framework, similar assessment and enforcement mechanisms have been used, with NPV calculations based sometimes on two or more discount rates to ensure some sensitivity analysis.

GSDR discussions have reconfirmed that official bilateral creditors seem intent to maintain this approach in future cases.

While the explanation by official bilateral creditors on how, in practice, they have been assessing and enforcing CoT has been a welcome progress, recent experience since October has underlined the need for further efforts to strengthen predictability and efficiency of the restructuring processes. It is key for the achievement of a successful debt restructuring that all creditors understand the CoT requirements, and that the debtor understands the way its official bilateral creditors will assess and enforce CoT. CoT requirements set a reference for the minimum effort required from other restructuring agreements. Official bilateral creditors use several parameters when assessing CoT, to reflect the different types of efforts that, combined, will reduce debt stock and debt service ratios to what is needed to meet debt targets and program parameters. The presence of several parameters can make it hard for stakeholders to understand how the parameters interact and what type of effort is needed in one dimension to compensate for another. A lack of clarity and understanding of CoT requirements can result in delays putting at risk the debtor country's economic recovery.

Strengthening the exchange of information and consultation process across creditor groups, as well as with the IMF and World Bank, would facilitate convergence and timely finalization of the restructuring. To note that, while the IMF assesses the envelope of debt relief needed to restore debt sustainability and the prospects for a successful restructuring, it does not interfere in debtor-creditor

negotiations and does not take a view on inter-creditor equity per se. How the burden is shared is for the debtor country to discuss and agree with its creditors.

In practice, GSDR discussion underlined support for:

- **Enhanced information sharing and coordination across creditor groups on CoT metrics, including expected NPV relief.** When negotiating with its private creditors, the debtor country needs to know in detail how CoT will be assessed Thus, official bilateral creditors should provide the debtor with clarity regarding the quantitative metrics that need to be respected for the CoT to be met, and the related room for maneuver that exists within these metrics. Relevant information should be shared with the other creditors to facilitate and accelerate the restructuring process. This could be done through improved information sharing and coordination across creditor groups.

- **Timely verification of consistency with debt targets and IMF program parameters.** It is critical that the different contributions to the restructuring ultimately meet what is needed overall. Timely information sharing on the restructuring strategy by the debtor country to IMF staff is key to confirm the consistency of the envisaged treatment with debt targets and program parameters, and should happen before any restructuring agreement is made public.

Ultimately, close coordination and exchange of information among the debtor country, private creditors, official bilateral creditors, and the IMF, is essential. Official bilateral creditors should ensure timely communication of the key data upon which CoT will be assessed, while private creditors and the debtor should ensure that, before they finalize and announce an agreement in principle, a verification is completed by the debtor with the IMF staff on consistency with program parameters and with the official bilateral creditors on CoT. It is the only way to ensure both the consistency with debt targets and IMF-supported program parameters (without which the program or review of program cannot be presented to the IMF Executive Board), and CoT (without which the official bilateral creditors would not implement their restructuring, de facto making the restoration of debt sustainability impossible, and thus blocking the program or review of program).

Importantly, the steps described above do not necessarily lead to a sequential process, with official bilateral creditors moving first and private creditors second. In particular, nothing precludes both groups to advance their negotiations in parallel. **The GSDR discussion underlined that, should this be the preference of the debtor, such parallel negotiations should be supported as this would strengthen the chance for a swift and efficient resolution.**

Restructuring timelines and predictability

Historically, the process for Official Sector Involvement (OSI) in debt restructurings was relatively timely and predictable, but it has become slower in the new and more complex landscape. In the past, financing assurances for an IMF-supported program that requires debt relief to restore sustainability would normally be derived through a Paris Club or Paris Club Plus meeting in anticipation of an Agreed Minutes. The whole process from staff level agreement (SLA) to program approval could take place within 2-3 months, with another 4-6 months to get to the Agreed Minutes and first review of program. More recently, discussions on procedures, restructuring perimeter and parameters, and diverse technical aspects, have led to a more prolonged process. However, there are encouraging signs of improvement

(see Section 1). It is important to build on that progress towards the goal of achieving even more timely processes. It is also important to improve efficiency in non-CF cases and in private-sector restructurings.

Alongside other workstreams, including the work at the G20, Paris Club, and experience-building through ongoing restructuring negotiations in the first place, the GSDR discussion has helped accelerate processes. It has provided space for in-depth technical discussions, and helped build common understanding on several critical technical issues that had slowed down the process in the restructurings engaged in 2021-22 (e.g., perimeter of debt to be restructured, trade-offs associated with the inclusion or exclusion of domestic debt, definition of cutoff dates, etc.). It has also helped improve the interactions among actors (e.g., early information sharing on DSAs and macroeconomic frameworks, comparability of treatment and coordination across creditor groups etc.). These discussions have contributed to shortening timelines and facilitating processes.

Still, timelines remain beyond the typical time frame observed in the past, negatively impacting the debtor and its creditors. Where applicable, in particular for Common Framework cases, the timeline to form an official creditor committee (OCC) could be shortened, to take the best advantage of a format that ensures the fastest and most efficient sharing of information with all participants. This would also help communication and coordination with private creditors and accelerate their own restructuring processes.

In future restructuring cases, all relevant stakeholders, including the IMF, the World Bank and official bilateral creditors, should work expeditiously with the debtor country to ensure that sufficient information is shared in a timely manner, in particular on DSAs and macroeconomic frameworks, while taking into account the specificities of each case and time for internal coordination and decision. Absent specific circumstances impeding a timely decision-making, and provided sufficient information is being shared early and potential concerns being discussed, the proposal for the next debt restructuring case should be set as a trial example to aim for program approval within 2-3 months of SLA. Such progress would strengthen timeliness and predictability, which is a clear, high aspiration of all GSDR members.

DSA and Restructuring Perimeters

Discussion continued on several technical issues associated with DSA and restructuring perimeters, including with regards to the treatment of non-resident holders of domestic debt (NRHs) and state-owned enterprise debt for countries using the LIC DSF. It is likely that this discussion will continue as part of the now-started comprehensive review of the LIC DSF.

Non-Resident Holders (NRHs) of domestic debt

Discussions underlined emerging consensus on the need to treat NRHs on a case-by-case basis in the event of a restructuring. Some participants advocated for the inclusion of NRHs in the restructuring envelope if they are included in the DSA. Others underlined that, while NRHs are external creditors from the perspective of the DSA (since they receive payments flowing out of the country, being non-resident), NRHs hold debt instruments that are governed by domestic law. As such, NRHs are intrinsically linked to the decision of the authorities to include or exclude “domestic debt” from the restructuring perimeter, for which several trade-offs and country-specific scenario analyses need to be considered (See discussion on domestic debt restructuring in the October 2023 GSDR Cochairs Progress Report). Further discussion is needed to deepen the common understanding on this complex issue.

State Owned Enterprise Debt

There was limited progress towards a consensus on the treatment of SOE debt. Some participants continued to express their view that SOE debt should be excluded from the perimeter of DSAs and restructuring envelopes. Others maintained their view that SOEs are a relevant source of fiscal risk especially in LICs and therefore their inclusion in principle in the DSA perimeter in application of the current LIC DSF (with limited exceptions) is warranted. The discussion confirmed the existing flexibility, whereby creditors and the debtor country can agree on a restructuring perimeter that differs from the perimeter of the DSA, even though this approach has inevitable burden-sharing consequences for the participating creditors. The issue of SOE debt will continue to be discussed, including as part of the review of the LIC DSF.

Engagement with Credit Rating Agencies (CRAs) on issues associated with debt operations

The GSDR Technical Group meeting on February 7 provided an opportunity for GSDR participants to better understand CRAs methodologies and approaches in sovereign rating assessments. The meeting helped participants comprehend how CRAs approach different debt operations that a country can consider. CRAs explained their criteria to classify Distressed Debt Exchanges (DDEs), which focus on the reduction of value to holders with respect to contractual terms and on whether the exchange aims at avoiding default.

During the discussion, participants raised several questions, in particular on the rating implications of debt swaps and liquidity relief operations, including multilateral initiatives such as the G20 Debt Service Suspension Initiative (DSSI) in 2020-21. CRAs clarified that debt-for-nature/debt-for-development swaps would be treated like any debt exchange operation (which may or may not imply distress). Liquidity operations would be similarly assessed on a case-by-case basis, depending on whether or not the exchange would qualify as DDE.

All participants stressed the importance of increasing transparency, information sharing and communication. GSDR participants showed great interest in better understanding CRAs methodologies and the consequences of potential debt management operations on ratings. CRAs noted that there is already extensive discussion with issuers, but would welcome even closer engagement.

Addressing climate and debt vulnerabilities

Discussion at the open GSDR workshop on March 4 underlined widespread view that debt-for-nature/debt-for-development swaps can be a useful tool for liability management but are generally not appropriate for situations where debt restructuring is required. To the extent that swaps can reduce, or smooth debt service flows, and redirect resources to support nature or other development objectives, they are difficult to scale up and are highly complex and customized. Overall cost-benefit analysis should be carefully undertaken. More work would be needed to standardize these instruments and make them more rapidly and cheaply scalable. Diverse views were expressed on the public support for these operations, often emphasizing the need for strong alignment of the development outcome of the swap and country priorities. Participants also noted the need to increase transparency of documentation and governance.

Climate Resilient Debt Clauses (CRDCs) were generally viewed as useful initiatives and scaling up their use on a voluntary basis was largely supported. The discussion covered a range of technical issues that could facilitate their adoption and implementation beyond the standard term sheet prepared by the International Capital Markets Association, with some official creditors sharing their successful experience in including such clauses in their loans. Expansion beyond the case of hurricane events, where data history is large and risks and probabilities are well documented, was identified as challenging, but ongoing work to define standard clauses for such other events was highlighted as promising. Transparency and clarity about the indicators triggering the clauses are critical.

Section 3: Next Steps for GSDR Work

GSDR Principals discussed and provided guidance on the work agenda for the GSDR going forward. They supported work on:

Further advancing the common understanding on technical issues as appropriate. There was broad support to the proposal of an open workshop on comparability of treatment that would be organized by the G20 Presidency and the Paris Club at the end of June. This would help further enhance the common understanding on this critical issue. Other technical issues would be discussed through Technical Group meetings or/and targeted workshops, including on topics such as the use of state-contingent debt instrument (SCDIs) in or outside a restructuring context; ways to promote majority voting provisions in syndicated loans to enhance private creditor coordination in case of a restructuring; DSA-related issues where further exchanges could help forge greater consensus, including on SOE debt and non-resident holdings of domestic debt; and further deepening of the coordination among stakeholders, including on ways to support early exchanges on DSAs and debt relief parameters.

Discussing approaches to prevent unsustainable debt build-up as well as to address current liquidity concerns, which weigh on countries' capacity to finance development and climate-related spending. This could include discussions at Technical Group level, or/and a targeted workshop, on ways to help countries address their liquidity challenges. The discussion would also include additional reflections on a debt service suspension during restructuring negotiations (including building on the lessons from the experience of Ethiopia) and how to treat arrears accumulated during these negotiations. Other items could also be explored, such as the benefits and risks associated with collateralized financing practices; work to support the use of debt-for-development swaps; and ways to increase debt transparency, investor/creditor-debtor relations, and debtors' technical capacity.