INTERNATIONAL MONETARY FUND

November 2024

GUIDANCE NOTE ON THE FINANCING ASSURANCES AND SOVEREIGN ARREARS POLICIES AND THE FUND'S ROLE IN DEBT RESTRUCTURINGS

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The Report prepared by IMF staff and completed on October 31, 2024, has been released.

The staff report was issued to the Executive Board for information. The report was prepared by IMF staff. The views expressed in this paper are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Electronic copies of IMF Policy Papers
are available to the public from
http://www.imf.org/external/pp/ppindex.aspx

International Monetary Fund
Washington, D.C.

© 20[xx] International Monetary Fund

INTERNATIONAL MONETARY FUND

October 31, 2024

GUIDANCE NOTE ON THE FINANCING ASSURANCES AND SOVEREIGN ARREARS POLICIES AND THE FUND'S ROLE IN DEBT RESTRUCTURING

EXECUTIVE SUMMARY

Under its Articles of Agreement, the Fund may only provide financing to assist members to resolve their balance of payments problems and restore medium-term external viability and may only do so under adequate safeguards. The Fund's inter-related policies on financing assurances, debt sustainability, and debt restructuring are relevant for restoring medium-term external viability. This note is designed as a reference and primer on these key sovereign debt-related Fund policies. It focuses on how to establish that a program is "fully financed" (i.e., the financing assurances policy), how to handle arrears owed by a member to its official and private creditors (i.e., the lending into arrears policies), and how to establish safeguards for continued Fund lending at the stage of program reviews (i.e., financing assurances reviews). It also provides guidance on the more general role of the Fund in debt-restructuring situations. It is the first comprehensive operational guidance on these policies, replacing the guidance previously available at the departmental level. The relevant Fund Executive Board Decisions remain the primary legal authority on matters covered in this note.

Approved By Yan Liu and Ceyla Pazarbasioglu

Prepared by an inter-departmental team led by Julianne Ams (LEG) and Marcos Chamon (SPR) and consisting of Wolfgang Bergthaler, Chanda De Long, Stephanie Fontana-Raina, Sebastian Grund and Qingxiang Li (LEG), and Ali Abbas (SPR) under the overall guidance of Yan Liu (LEG) and Mark Flanagan (SPR). Thordur Jonasson (MCM), Tom Best and Atif Chaudry (formerly SPR) provided contributions to early drafts. Administrative assistance was provided by Eiman Afshar and Claudia Isern.

CONTENTS

INTRODUCTION 4

FINANCING ASSURANCES 6

A. Basic Requirements 7

B. Additional Requirements in a Pre-Emptive Restructuring Context 10

SCOPE OF THE ARREARS POLICIES 15

A. When Do the Arrears Policies Apply? 16

B. Which Parts of the Arrears Policies to Apply 19

APPLYING THE ARREARS POLICIES 26

A. Non-Toleration Policy 27

B. Lending Into Official Arrears as Applied to Direct Bilateral Claims 28

C. Lending Into Official Arrears as applied to IFIs 38

D. Lending Into Arrears Policy 39

E. Lending Into Arrears Policy with Respect to Jurisdictional Arrears 43

F. Application of the Arrears Policies (LIA and LIOA) in Emergency Situations 44

FINANCING ASSURANCES REVIEWS 46

ROLE OF THE FUND IN THE DEBT RESTRUCTURING PROCESS 49

A. Supporting the Authorities as they Decide Whether to Restructure 50

B. Setting and Explaining the Envelope for A Debt Restructuring 51

C. Promoting and Facilitating Debtor-Creditor Engagement 55

D. Program Conditionality 59

E. Dealing with Fund-Related Conditions Imposed by Creditors 61

F. Fund Communications 62

BOXES

1. Determining Whether Entities are Part of the 'Government' 17
2. Sample Financing Assurances Review Language for Staff Report 48

FIGURES

1. Financing Assurances Policies 7
2. Determining Which Arrears Policy to Apply 19
3. Determining Which Strand of the LIOA to Apply 29

APPENDICES

I. Application of the Financing Assurances Policy to Members Facing Exceptionally High Uncertainty and Requesting a UCT-Quality Program 63
II. Approval in Principle 69
III. Recording OSI-Related Arrears in the DSA 71
IV. Credible Official Creditor Processes, Illustration 72
V. Defining the External Payment Arrears Performance Criterion in Fund-Supported Programs 75
VI. Calculating Whether an Agreement is 'Adequately Representative' 77
VII. Model Language for Policy Notes and Staff Reports 79
VIII. Information Sharing with Creditors in the Context of Sovereign Debt Restructurings 80
IX. Example of a Standardized LIA Assessment 89
X. State-Contingent Features in Restructurings 90
XI. Conditionality and Program Commitments in Fund Programs Involving Restructuring of Private Creditors 92
XII. Template Communication to Creditor Executive Director 96

INTRODUCTION

1. **Under its Articles of Agreement (the "Articles"), the Fund may only provide financing to assist members to resolve their balance of payments (BOP) problems and restore medium-term external viability, and may only do so under adequate safeguards.**[1] In other words, Fund financing can only be provided in support of a member's economic policies that are capable of resolving the member's BOP problems and restoring medium-term external viability over a timeframe consistent with the revolving nature of Fund financing.[2] A combination of policy adjustment and new financing from public and private sources has been sufficient to meet this standard in the vast majority of Fund-supported programs. Indeed, Fund financing plays a prominent role in catalyzing donor financing, particularly for low-income countries (LICs) that may not have access to international debt markets even in normal times. The catalytic role of Fund financing, however, is put to the test in cases where members with significant external indebtedness have lost—or are losing—market access.

2. **The Fund's inter-related policies on financing assurances and debt sustainability are relevant for restoring medium-term external viability:**

- The financing assurances policy requires Fund-supported programs to be fully financed, i.e., that there are no financing gaps in the balance of payments. The presence of financing gaps would imply that the adjustment program will fail even if the member were to fully implement the adjustment envisioned under the program.

- Debt sustainability is essential: Lending into an unsustainable public debt situation would by definition fail to restore the member to medium term external viability.[3] Moreover, it would make the eventual restoration of the member's external viability even more difficult and exacerbate the country's debt situation, by adding debt from a preferred creditor to repay other creditors. It would also pose financial and reputational risks to the Fund. Thus, where a member's debt is assessed as unsustainable the Fund is precluded from providing financing unless the country is taking steps to restore debt sustainability. This is a determination that is not taken lightly.

---

[1] See Articles I(v) and V, Section 3(a), which require the Fund to adopt policies that will assist members in resolving their BOP problems and that will establish adequate safeguards for the temporary use of the general resources of the Fund.

[2] Guidelines on Conditionality, Decision No. 12864-(02/102), September 2002, as amended.

[3] An unsustainable public debt burden will—with high probability—lead to an unsustainable external debt burden, and vice versa. When public debt is unsustainable and fiscal adjustment is at its maximum, domestic debt restructuring would likely be infeasible (it would hit the same balance sheets that can be targeted through fiscal adjustment), leaving external debt unsustainable. When external debt is unsustainable, stress tends to be transmitted to the domestic side through fiscal adjustment and financial markets, with domestic debt markets involvement of non-residents also playing a key role. See the LIC DSF and SRDSF guidance notes for more details on how the two frameworks capture external debt sustainability considerations.

- The Fund determines that debt is unsustainable when sustainability cannot be achieved through credible and sustainable policy adjustment and/or sufficiently concessional lending from all sources. Restoration of sustainability could be achieved, for example, through the provision of even more concessional financing, and/or through the completion of a debt restructuring. Where an upfront restoration of sustainability via a debt restructuring is not feasible, the Fund can still lend under appropriate assurances that the member is on track to complete a restructuring and restore sustainability on a forward-looking basis.

3. The Fund's arrears policies need to be satisfied. The Fund encourages members to stay current on their obligations to the extent possible, given that accumulation of arrears to external creditors is destructive to national and international prosperity. The presence of arrears can also be a symptom that the BOP problem is not being resolved. However, if program financing assumptions and debt sustainability are achieved, and certain conditions are met, the Fund can lend into arrears. There are also cases where the application of the arrears policy itself is essential for establishing that program financing will be in place and debt will be sustainable.

4. This note provides guidance to staff on the application of these various policies. Special attention is directed to their application to requests for the use of Fund resources from members whose debt has been assessed to be unsustainable.[4] This is the first comprehensive guidance note on these policies and replaces earlier staff-level guidance. This guidance note does not cover other debt-related policies, such as the Debt Limits Policy and the Debt Sustainability Frameworks for Market-Access and Low-Income Countries, all of which have their own dedicated Guidance Notes; and the Fund's Exceptional Access Policies.[5] It also does not cover specialized debt topics, which may be found in other Fund papers.[6]

[4] In general terms, public debt can be regarded as sustainable when the primary balance needed to at least stabilize debt under both the baseline and realistic shock scenarios is economically and politically feasible, such that the level of debt is consistent with an acceptably low rollover risk and with preserving potential growth at a satisfactory level. See, Review of the Debt Sustainability Framework for Market Access Countries, January 2021. Equivalently, debt can generally be regarded as sustainable when there is a high likelihood that a country will be able to meet all its current and future financial obligations. This implies that the debt level and debt service profile are such that the policies needed for debt stabilization under both the baseline and realistic shock scenarios are politically feasible and socially acceptable, and consistent with preserving growth at a satisfactory level while making adequate progress towards the authorities' development goals. See Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries, December 2017.

[5] Reform of the Policy on Public Debt Limits in IMF-Supported Programs, Nov. 2020; Guidance Note On Implementing The Debt Limits Policy In Fund Supported Programs, May 2021; Review of the Debt Sustainability Framework for Low Income Countries: Proposed Reform, Oct. 2017; Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries, Feb. 2018; Review of The Debt Sustainability Framework For Market Access Countries, Feb. 2021; Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for Market Access Countries, Aug. 2022; and Supplement to 2018 Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries.

[6] For example, Collateralized Transactions: Key Considerations for Public Lenders and Borrowers, Feb. 2020; Collateralized Transactions: Recent Developments and Policy Considerations, Dec. 2023; The International Architecture for Resolving Sovereign Debt Involving Private-Sector Creditors—Recent Developments, Challenges, And Reform Options, Oct. 2020; Fund Support for Debt- and Debt-Service-Reduction Operations, Mar. 2021; Issues in Restructuring of Sovereign Domestic Debt, Dec. 2021; Debt-for-Climate Swaps: Analysis, Design, and Implementation, Aug. 2022 and Debt for Development Swaps: An Approach Framework, August 2024.

5. This note also covers the more general role of the Fund in sovereign debt restructuring situations. The Fund does not involve itself in the details of debt restructurings, with the notable exception of determining the envelope of debt relief needed for the Fund to assess debt as sustainable. However, its policies for helping resolve a debtor's BOP problems and restoring it to medium-term external viability set important incentives for debtors and creditors to resolve unsustainable debt situations. Fund staff are also guided by several over-arching principles in the context of a restructuring. This is the first time that guidance on the role of the Fund in debt restructuring situations is articulated in a single public document. It is hoped that this transparency can help incentivize further progress towards smoother debt resolutions where it is needed.

6. This note is structured as follows. Section II covers the Fund's financing assurances policy. Section III discusses the Fund arrears policies, covering when an arrears policy will apply, and which specific arrears policy applies depending on the nature of the claim and creditor. Section IV discusses how to apply the arrears policies. Section V discusses when and how to conduct financing assurances reviews, and Section VI details the role of the Fund in sovereign debt restructurings.

FINANCING ASSURANCES

7. There are two different ways in which the Fund needs "financing assurances." The first concerns the assurances required in every Fund arrangement that the Fund-supported program will be fully financed, i.e., there are no balance of payments financing gaps. The second refers to the small subset of Fund arrangements where debt is unsustainable, and financing assurances are required to ensure that—through a debt treatment and/or new financing from other creditors—sufficient financing will be provided to ensure debt sustainability on a forward-looking basis. These are discussed in this section. Note that, in certain circumstances, the Board must complete a dedicated "financing assurances review" (Section V, below) to confirm the existence of financing assurances at each request for Fund resources during the program period.

8. All Fund-supported programs must have full external financing. A Fund-supported program for a member is a combination of adjustment and external financing to eliminate balance of payments financing gaps and restore medium-term external viability. Once the amount of adjustment is set, the full external financing needs are determined.[7] This external financing can come from a number of sources including assumptions regarding a member's expected financing from official and private sector creditors (including (re)gaining market access, if relevant), as well as any debt restructuring envisaged by the member.

9. Financing assurances are required any time a member is requesting a Fund-supported program and at each subsequent review during the program. This policy applies to Fund-supported programs providing financing from the Fund's General Resources Account (GRA) and the Poverty Reduction and Growth Trust (PRGT) as well as to those supported by the Policy

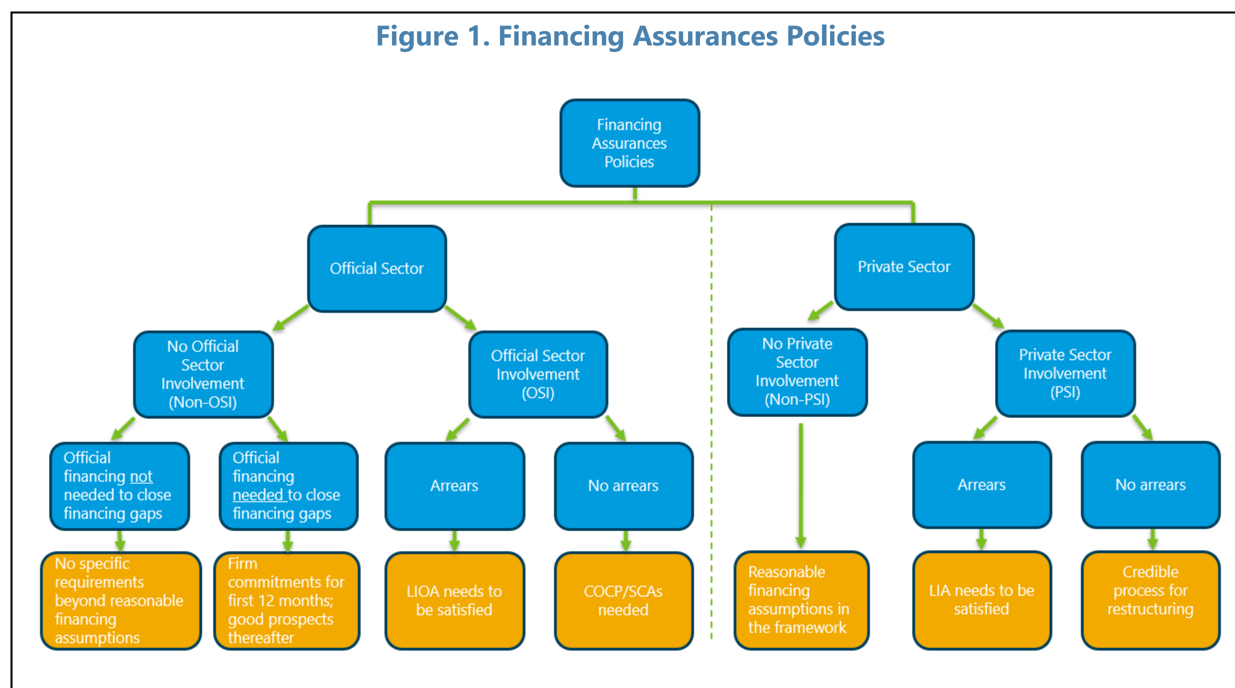
[7] The macro framework underpinning the program will take into account both that adjustment and the amount of financing facilitating that adjustment.

Coordination Instrument (PCI). It also applies when debt restructuring is pursued in the context of a stand-alone emergency financing request (i.e., under the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI)).

10. Financing assurances requirements do not apply in the following circumstances:

- Stand-alone emergency financing with no debt restructuring (i.e., under the RCF and RFI). Standard financing assurances do not apply because there is no underlying Fund-supported economic program.
- Staff-Monitored Programs (SMP) and Program Monitoring with Board Engagement (PMB).
- Support under the Flexible Credit Line and the Short-term Liquidity Line where pre-qualification criteria provide the Fund with a safeguard that a financing gap will not develop.
- Reserve tranche purchases (i.e., purchases within the first 25 percent of the member's quota).
- Use of SDR holdings.
- Support from the Resilience and Sustainability Trust (RST). Financing from the RST is only provided alongside a Fund-supported program where financing assurances would already be satisfied.

Figure 1. Financing Assurances Policies



A. Basic Requirements

11. Under the financing assurances policy, the Fund must be satisfied that program financing is adequate to fill external financing gaps. This is understood to mean: (i) during the

program period to ensure external viability (comprising the first twelve months, and then the remainder of the program); as well as (ii) during the post-program period to ensure that the member is in a position to repay the Fund.

12. With respect to new financing during the program period:

- Assumptions regarding financing from the **private sector** do not need to be supported by assurances but must reflect reasonable expectations based on the evolving conditions. Staff should explain the basis for projections and in this context could draw on the terms and conditions of recent issuances/loans (including for peers), and scope for additional creditor exposure to the country (based on historical experience, or direct consultations with market participants). Such analysis should take into account the authorities' readiness to issue at prevailing/expected market conditions, and the likely market response to the policy adjustment pursued. In a restructuring context, staff should draw on research concerning the timing, terms and conditions of market re-access.[8]

- For the **official sector**, the Fund requires that: (i) "firm commitments" of financing must be in place for the first twelve months of the arrangement; and (ii) there must be good prospects for adequate financing for the remaining program period beyond the first 12 months. These cover not only loans, but also any grants needed to close financing gaps, and may cover other types of committed financing (e.g. equity investments or non-OSI rescheduling of existing claims). Importantly, assurances on financing from the official sector for the upcoming 12-month period (or whatever period of the program remains) must be ascertained on a rolling basis. Specifically, the "good prospects" must become "firm commitments" or actual financing. In practice, several issues can arise in making these judgments:

    - The way such commitments are provided by official creditors varies, and whether they are characterized as "firm" is a matter of judgement, informed by past collaboration with that creditor/donor. For contributions from official bilateral creditors, staff should draw on the authorities' representation, following up directly with creditors where further clarity is needed. Staff should reach out early to creditors to help determine the nature of their commitment.

    - Commitments must be considered credible, and the Board would make that assessment advised by management and staff. To this end they may be sought in writing but are not required in such a format.

    - Creditors' assurances and commitments are reflected in program documents, which will be eventually published. Where sensitivities may arise, staff should make sure this is understood.

[8] Timing, terms, and conditions of market re-access depend on whether the debtor restructures preemptively (without a default) or after missing payments (default), and the outcome of the debt restructuring (NPV haircut) (Asonuma and Trebesch 2016, Cruces and Trebesch 2013).

- Different types of financing (e.g., grants vs budget support loans vs project financing) have different implications for the BOP, which need to be taken into account when assessing whether the financing gaps are closed. For instance, project financing support can entail a high import content with little net benefit to the BoP.

- Official creditors may set conditions on upcoming financing. In order to consider that such commitments are "firm", staff must be satisfied that the conditions are on track to be met such that the financing will be provided as scheduled.[9]

- When commitments are signaled by **IFI financing partners** with a track record, and are in specific amounts (or ranges), such commitments are deemed to meet the "firm commitments" standard. In this context, in practice, commitments from the World Bank may be conveyed at the staff level (after cleared by its Management). For commitments required from IFI financing partners without a substantial track record, the firmness of the commitment may need to be further examined and assessed. Where commitments from partners without a substantial track record are reduced within a program, then written communications for further commitments may become appropriate.

13. With respect to the post-program period: staff needs to assess whether the member's prospective policies deliver a projected post-program macroeconomic performance that adequately safeguards repayments to the Fund consistent with a sustainable debt path. This manifests in a slightly different ways in different Fund lending contexts:

- A Fund-supported program in the Fund's GRA or under a Stand-by Credit Facility arrangement under the PRGT is designed to restore the member to medium term external viability and resolve the BOP problem. That is, the policy measures needed for this purpose should be undertaken during the program period. As long as obligations to the Fund are outstanding, staff needs to judge that there are no financing gaps in the post-program period both at arrangement approval and each subsequent program review. Where relevant to the member, staff would need to assess, based on a realistic macro-framework and the Debt Sustainability Analysis (DSA), that the member has good prospects for (re-)gaining access to capital markets at sufficient depth, maturity, and price to ensure capacity to repay the Fund and consistent with a sustainable debt path, taking into account all sovereign maturities falling due in the post-program period as long as repayments to the Fund are outstanding.

- Under Extended Credit Facility (ECF) arrangements under the PRGT, the member's protracted BOP problem does not need to be resolved within the program period.[10] However, any financing gaps in the post-program period for an ECF arrangement need to be such that, notwithstanding the fact that sources to fill the gaps have not yet been identified, the Fund is assured that the

[9] If an adjuster is used, reflecting timing uncertainties, it does not alter the requirements on full financing assurances covering the baseline.

[10] This is particularly true for fragile and conflict-affected states. See Staff Guidance Note on The Implementation of The IMF Strategy for Fragile and Conflict-Affected States (FCS).

member has the capacity to repay the Fund (irrespective of a successor arrangement), and that any gaps are consistent with a sustainable debt path.

B. Additional Requirements in a Pre-Emptive Restructuring Context

14. In case the Fund-supported program cannot be fully financed with new financing from the official or private sector, the Fund will need assurance that creditors' claims will be restructured on sufficiently deep terms to restore BOP viability. There may also be cases where, although a program appears fully financed, a debt restructuring is needed to restore debt sustainability over the medium term.[11] In either case, financing assurances address the need to restore debt sustainability and/or the need to ensure that the program is fully financed. The policy does not prescribe the allocation of financing to be provided (through new financing and/or debt restructuring) between official and private creditors (although the allocation would need to be such that intercreditor equity concerns do not undermine the judgment that the restructuring will be successful). The policy also does not require a specific sequencing of financing assurances from official versus private creditors and can accommodate simultaneous processes. Sequencing choices are made by the authorities and their advisors, in consultation with creditors.

Contributions From Official Bilateral Creditors

15. Staff must assess that a "credible official creditor process" (COCP) is in place for all relevant creditors and that the "key stage" in their process(es) has been reached. This is understood as signaling that debt relief will be delivered promptly.[12] Essentially, the Fund must be confident that the decision has effectively been made to provide a treatment consistent with program parameters, even though the actual delivery may only come after further domestic steps have been taken. In order to make this judgment, staff should understand, for each such creditor, (i) the steps in the official bilateral creditor's internal process; (ii) the key decision-makers involved (i.e., those with authority to commit the creditor); (iii) the creditor has been provided the necessary information to understand the depth of the needed treatment and the creditor's share (i.e., macroeconomic outlook, debt targets, possible restructuring approaches); and (iv) the timeframe over which the treatment would be expected to be executed (which should be in line with the Fund's expectation that the key terms of a restructuring would be agreed promptly, normally by the time of the first program review). Appendix IV illustrates the concept of COCP. Staff should interact with the creditor and support its internal process, by providing information on a timely basis upon request and responding to creditor inquiries (see Appendix VIII).[13]

[11] An example of this would be Greece (2010), where the Fund-supported program was fully financed but debt remained unsustainable in the medium- and long-term.

[12] Policy Reform Proposals To Promote The Fund's Capacity To Support Countries Undertaking Debt Restructuring, April 2024.

[13] Consent of the debtor must be sought, and in this context the debtor must be informed that the Fund cannot proceed with a program without financing assurances.

16. There are several nuances to consider in a COCP judgment:

- Whether the "key stage" in the COCP has been reached (i.e., the decision to provide relief has effectively been made) will be creditor-dependent and will require judgment in the context of a specific country case. As experience is gained with individual creditors and a track record has been established (allowing identification of the key stage of decision making, including the nature of each decision and who took it), staff should defer to the creditor authorities' representation that this key stage has been reached. A track record can arise from delivering outcomes (i.e., contractually finalized debt relief and/or provision of new financing consistent with program parameters).

- The assessment of whether the "key stage" has been reached may vary even for a given creditor depending on the type of treatment being sought from creditors. For example, a creditor may have a longer track record for NPV-neutral reprofilings than for deeper treatments. Other creditors may already have an extensive track record spanning a wide range of treatments. In the event that a debt treatment is not delivered in a timely manner, or at all, staff would need to revisit the assessment of the "key stage" in the COCP for the relevant creditor (impacting future cases). The Strategy and Policy Review Department (SPR) and the Legal Department (LEG) should be consulted on the most recent information to feed into this assessment for any creditor.

- Where an official creditor coordination mechanism is being used—such as the Paris Club or the Common Framework (CF)—the features and track record of that mechanism's processes should be taken into account. For treatments by the Paris Club, the "key stage" of the process is a preliminary indication that the Paris Club is willing to provide debt relief in anticipation of an Agreed Minute. That assurance is derived verbally from the chair summing up at the end of the Paris Club meeting where the working paper for the treatment is discussed. For treatments under the CF, the assurances can also be derived in a similar verbal fashion based on the creditor committee co-chairs' summing-up when the creditors meet to discuss the need for and broad contours of the required treatment.[14]

17. In the absence of a sufficient track record to determine that a "key stage" had been reached in a creditor's COCP, the required determination can be made via receipt of a *"specific and credible" assurance* on debt relief/financing. The modality of this type of assurance is within management's discretion, although a written communication from the creditor is preferred. In substance, this assurance should be received from an individual in a position to commit the underlying creditor, should show an understanding of the debtor member's situation, and should

[14] This discussion would be expected to be based on a working paper or other background document that sets out the macroeconomic situation and outlook of the debtor country, clarifies the current debt position, and identifies the scale of the BOP financing gap and aggregate debt relief necessary to restore debt sustainability.

commit to the needed actions to restore debt sustainability and financing in line with program parameters.[15]

18. Financing assurances are needed from a "sufficient set" of official bilateral creditors. A "sufficient set" must account for the majority (above 50 percent) of the total financing contributions required from official bilateral creditors over the program period and must include any standing creditor forum if applicable and any creditors with influence over the debtor. The remaining creditors would be considered not material for the purpose of the assurances and would be assumed to restructure on program terms. As regards creditors with influence:

- These would generally include those with the ability to extract repayment on more favorable terms inconsistent with program parameters. Indicators of this would include enforceable and economically meaningful collateral or collateral-like features in the debt contract with the creditor that could significantly complicate a restructuring; the creditor's share in the total debt stock or debt service flows being high (e.g., among the top three creditors); or a situation where the debtor's total BoP relationship with the creditor country (trade and capital flows) is high (e.g., in the top three countries over the previous five years). However, case-specific mitigating factors also need to be assessed, for instance the inherent flexibility in the debtor country's trade (e.g., because the country has alternative sources of supply or demand in theory); or whether the collateral is playing a positive role (i.e., "related" collateral that would directly generate repayment capacity).

Debt Relief from Private Creditors

19. Where such debt relief is expected to come at a date beyond arrangement approval, assurances are derived from the Fund's judgment that a credible process for debt restructuring is underway.[16] Such a "credible process" would result in sufficient creditor participation to restore debt sustainability and close financing gaps consistent with the macroeconomic parameters of the program, taking into account official sector commitments. This judgment will depend on member-specific circumstances, but relevant considerations to form such judgment include: (i) prompt engagement of legal and financial advisors by the member; (ii) launching of consultations with creditors; and (iii) design of the debt restructuring strategy, including the terms of the new instruments and use of inducements for creditor participation. The Fund's primary focus should not be on the specific design of the restructuring, but rather on whether the process is credible, and that it is likely the restructuring will garner sufficient creditor participation and deliver sufficient relief to restore debt sustainability in line with the program.

20. There are timing expectations that have been articulated by the Executive Board. The debt restructuring should ideally be undertaken before the approval of the Fund arrangement, while

[15] One example of such assurances would be for the creditor to state that it supports the debt treatment in line with the goal of restoring public debt sustainability consistent with the envisaged IMF-supported program and delivered through financial operations negotiated between the creditor and the debtor.

[16] See 2022 Reviews of the Fund's Sovereign Arrears Policies and Perimeter.

still being in line with proposed program parameters. However, there are circumstances where more flexibility is warranted, such as cases where there have been delays notwithstanding a credible process to achieve the necessary end result. In these cases, the conclusion of the debt restructuring is contemplated for a later date—normally, by the first review under the Fund arrangement. Against this background, it would not be necessary to hold up Fund financing until there is complete clarity regarding the terms of this operation.[17]

Special Procedures and Requirements

21. In some debt restructuring circumstances, special procedures and requirements for financing assurances apply:

- **Two-step processes.** It is possible for official bilateral creditors to commit to a "two-step process" with an initial flow treatment to be followed by a stock treatment before the end of the Fund-supported program. A two-step approach was followed during the Heavily Indebted Poor Countries (HIPC) process as a way to incentivize debtors to meet completion point triggers.[18] The key features of such a process that allow it to provide a financing assurance include: (i) a well-defined and over-arching framework formally agreed by creditors to apply across cases; and (ii) in individual cases, a strong upfront commitment by the creditors. However, it is important to note that such an approach can create uncertainty and the risk that commercial creditors will also delay their restructuring. As such, it is generally only appropriate in the context of international initiatives, unless very specific circumstances (involving concrete future developments relevant for repayment capacity) would justify this approach.[19]

- **Procedures for members facing "exceptionally high uncertainty".** When a member facing exceptionally high uncertainty seeks an upper-credit-tranche-quality (UCT) Fund arrangement, a specific program design is required, implicating a different approach to financing assurances. Further details on the definition of "exceptionally high uncertainty" and the procedural and financing assurances requirements in such cases are set forth in Appendix I.[20]

- **Approval-in-Principle (for members facing extended delays in obtaining financing assurances).** For a member facing extended delays in obtaining financing assurances, the Fund may choose to approve an arrangement in principle, with the arrangement becoming effective once the financing assurances sufficient to restore debt sustainability are received. The use of Approval in Principle (AIP) of a Fund arrangement may be appropriate when there is full agreement on the member's policies underlying the potential Fund-supported program but

---

[17] See, The Acting Chair's Summing up—The Fund's Lending Framework and Sovereign Debt—Further Considerations, January 2016.

[18] The Paris Club used the Evian approach, effectively a two-step approach, for debt relief for Iraq.

[19] For example, in the case of Suriname the official sector provided a flow treatment to be followed by a second treatment because of the prospect of revenues from oil discoveries.

[20] Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche (UCT) Financing Under Exceptionally High Uncertainty, March 2023.

some delay is anticipated in receiving the necessary financing assurances (to allow a framework for engagement with the debtor member) and if it facilitates the dialogue between the debtor and its creditors (e.g., by making public the Debt Sustainability Assessment (DSA) and full details of the Fund-supported program). Further details on this procedure and the associated requirements are set forth in Appendix II.

Staff Report Requirements.

22. For all programs, a clear assessment of whether the program is fully financed should be included in the staff report at every arrangement request and review:

- The staff report should specifically identify the sources and timing of expected financing, and whether there are any conditions attached to such financing.

- In the context of an official-sector restructuring, staff reports should state clearly that the key stage of each creditor's (or creditor coordination mechanism's) COCP has been reached. In the event that the Board has never before assessed a "key stage" for a specific creditor's process, this requires that staff explain to the Board the basis for the judgment that the COCP is in place, citing key elements of the process, and that the key stage has been reached based on the creditor's track record. Subsequent cases for the same creditor would not need to repeat the full explanation, absent new developments, but may just refer to the attainment of the "key stage".[21] In the absence of a sufficient track record to determine that a "key stage" had been reached in a creditor's COCP, the staff report must include that specific and credible assurances have been received from a given official bilateral creditor but does not need to repeat the assurances verbatim.

- In the context of a private sector restructuring, staff reports should record staff's assessment that the "credible process" standard is met and provide the basis for the staff's assessment (per paragraph 19). Staff report requirements in the special circumstances identified in paragraph 21 are covered in the relevant appendices of the staff report.

23. Per Fund policy, namely, the Guidelines on Conditionality[22], staff reports should normally only be issued to the Board once staff and management have assessed that all applicable Fund policies have been satisfied. However, in very rare circumstances, management has issued a staff report to the Board prior to receiving financing assurances (or when other Fund policies were not met at issuance). Where such a course is proposed, the determination should be made that issuing the staff report will help in securing the needed assurances. Where financing assurances are outstanding at the time of issuance, the staff report will clearly flag such lack of financing assurances on the cover page prepared by SEC for Board circulation, the staff report will

[21] Please consult with SPR Debt Policy Division on whether a specific creditor's or creditor coordination mechanism's COCP has been previously presented to the Board.

[22] Management may only propose a request for the use of Fund resources to the Board for approval if all Fund policies are met and the member is sufficiently committed to implement the program.

be issued without a proposed decision and without a firm Board meeting date on the cover. Upon receipt of the needed assurances, a supplement assessing that such assurances are sufficient to restore debt sustainability and providing the proposed decision should be issued, and a Board date will be announced.

SCOPE OF THE ARREARS POLICIES

24. When a member is in arrears to external creditors the Fund's arrears policies must be satisfied for the Fund to lend. Recognizing the destructive nature of external payments arrears to both national and international prosperity (see Article I(v)), the Fund encourages members to stay current on their obligations to the extent possible. Consistent with this, since 1970 the Fund has had a general policy on non-toleration of arrears unless a specific policy applies that enables the Fund to lend into sovereign arrears. These specific policies are those on Lending into Arrears (LIA) and Lending into Arrears to Official Bilateral Creditors (LIOA).

25. A key goal of the Fund's arrears policies is to ensure that the member will soon regularize its relations with creditors. This would resolve the arrears and, in a program context, ensure medium-term external viability and securing the financing assurance required for the post-program period. The member may have difficulty in securing an agreement with its creditors on restructuring terms consistent with the parameters of the Fund-supported program (i.e., the balance of financing and adjustment that has been sought by the Fund). The policies enable the Fund to effectively tackle the hold-out problem by removing the veto power from creditors, and their ability to press for terms that are not program-consistent or to delay the process (which involves costs to the member and international community).[23]

26. This section covers when the Fund's arrears policies apply and the circumstances in which each policy applies. In general, they only apply when the Fund is lending its resources and when the member is in arrears to its external creditors (Section A), but the application of the policies depends on the creditor (section B). Lending covers a variety of Fund arrangements including requests and reviews for arrangements under the GRA and any trust instruments, such as the PRGT and RST. The arrears policies also apply to emergency financing under the RFI and RCF. They apply to the non-financing Policy Coordination Instrument by analogy. The arrears policies do not apply to SMPs or PMBs, as there is no Fund financing, although the clearance of arrears should still be encouraged.

[23] Before the Lending into Arrears policy was introduced in 1989, even commercial creditors could have veto power over Fund financing. This can exacerbate collective action problems and be detrimental to creditors as a whole.

A. When Do the Arrears Policies Apply?

27. The arrears policies apply where a sovereign debtor has run arrears on a claim held by an external creditor and that debtor is requesting Fund financing. To take each aspect of this statement in turn:

a. **The debtor generally must be sovereign.** The sovereign, for these purposes, includes all entities whose financial operations form part of the budgetary process of the debtor government (Box 1). However, claims that originally were owed by other public/private creditors may become subject to the arrears policies if they become obligations of the government, for example because a government guarantee (on the debtor side) is called.

   - The one exception to the requirement that the debtor be sovereign is the strand of the LIA that applies to jurisdictional arrears, i.e., non-sovereign arrears that arise from the imposition of exchange controls.[24]

b. **The claim must be in arrears.** Arrears arise when any external payment obligation has not been paid in full at the time it is due, taking into account any applicable grace period or cross-default provision. The existence of arrears does not depend on the magnitude of the amount (there is no *de minimis* exemption), the reason for the nonpayment, the creditor's inaction, or the debtor's (legal) inability to make a payment. The existence of arrears is also not affected by the age of the arrears, so long as the claim remains valid under the governing law. It also is not affected by any additional grace period that may be provided in the member's TMU definition of the external arrears performance criterion. If only some of the claims outstanding are in arrears, the arrears policies will only apply to that subset of claims.

c. **The claim must be to an external (i.e., non-resident) creditor.** The arrears policies always apply based on the residency of the creditor, even where the Fund-supported program (e.g., the external arrears performance criterion) and/or DSA defines debt/arrears on a currency basis or excludes certain claims. Hence, if any portion of a domestic-law debt claim is held by non-resident creditors, the entire issuance/claim falls within the scope of the arrears policy. On residency:

   - For purposes of the arrears policies, the place of legal incorporation governs the residency of entities. For example, a domestic branch of a foreign company would be considered a non-resident, whereas a domestic subsidiary of a foreign company would be considered a resident. The application of the arrears policies may be affected if the residency of the creditor changes—e.g., through sale of the claim or through a guarantee being called. Note that the legal and statistical definitions of residency may not always coincide. How these

[24] Exchange controls for these purposes are limited to measures considered exchange restrictions subject to the Fund's jurisdiction under Article VIII, Section 2(a). Exchange restrictions arise from direct governmental limitations on the availability or use of foreign exchange for payments and transfers for current international transactions. See Decision No. 1034; Fund Policy on Arrears to Private Creditors—Further Considerations, April 1999.

creditors are treated under different aspects of a program—e.g., for the external arrears performance criterion or the DSA perimeter—should be clarified in program documents.

- Currency union central bank (CUCB) claims on members raise unique issues. For decentralized currency unions (the Eurozone), only the claims held by the central CUCB (the ECB) would be considered external; own-sovereign claims held on the national central bank balance sheets would be considered domestic and thus would not be subject to the arrears policies. For centralized currency unions (CEMAC, ECCU, WAEMU), all CUCB claims on a member are considered domestic for the purposes of the arrears policies.

Box 1. Determining Whether Entities are Part of the "Government"

The Fund considers whether an entity's financial operations form part of the government's budgetary process when determining whether arrears *owed by* or *owed to* that entity are "sovereign." In other words, on both the debtor and creditor sides, the scope of the "government" for arrears purposes is determined by inclusion in the budgetary process. That said, claims held by entities outside the government's budgetary process may still be considered Direct Bilateral Claims if they were extended or contracted on behalf of the government.

The financial arrangements of public entities and the relationship of these entities to the central government member are country-specific and based on the domestic budgetary law framework and its interpretation and may differ between members and may need to be examined on a case-by-case basis. As general guidance:

- Ad hoc budgetary support or (occasional) coverage of losses would not necessarily indicate that the entity forms part of the budgetary process.
- Profit transfer from a state-owned enterprise to the central government would also not necessarily mean that the entity forms part of the budgetary process.

In contrast, an entity that is a direct budgetary unit or that receives direct moneys from the budget would form part of the budgetary process. However, some entities that are government-owned may fail these tests, such as sovereign wealth funds, state owned enterprises, and government owned banks (to the extent they operate at arms-length and under commercial principles).

28. The arrears policies do not apply to claims in dispute. The Fund's "disputed claims doctrine" arises from the Fund's duty of neutrality. Where the Fund accepts the member's representation that the *validity* or *amount* of a debt claim is in dispute, a disputed claim does not give rise to arrears for all Fund purposes.[25] Although the Fund reserves the right to challenge a member's representation of a dispute, members are generally granted benefit of reasonable doubt in this regard. In line with this practice, staff has on rare occasions queried whether there was a factual basis for a member to credibly represent a dispute to the Fund. The considerations relevant

[25] If a member does not represent a dispute as to the validity or amount of the claim but merely challenges the characterization of the claim (as a Direct Bilateral Claim or otherwise), Fund staff needs to investigate the nature of the claim for the purposes of applying the Fund's arrears policies. Staff would inquire about the nature of the claim and provide a reading to the two parties based on the evidence. In the event of lingering concerns form either party, any final judgment would rest with the Executive Board. See, e.g., Status of Ukraine's Eurobond Held by the Russian Federation, December 2015 although subsequent developments in litigation led this claim to be reclassified as disputed in 2023.

to staff's queries have included the record of the positions between the debtor and creditor, the record of statements to the Fund, the arguments made in any litigation, and the status of such litigation. The Executive Board makes the final determination of claims in dispute. To introduce a dispute on pre-existing arrears to which the Fund's policies have previously been applied, there should have been a material change in facts.

- Note that while disputed claims do not give rise to arrears for the purpose of Fund policies, such claims are taken into account (as a contingent claim) for purposes of the DSA analysis and could impact the determination of whether debt is sustainable (depending on the size and probability of claims being realized). Where debt is found to be unsustainable adequate assurances would need to exist for the financing of a Fund-supported program.

29. The approach taken by the Fund to establish arrears is not mandated in other areas of Fund program design or creditor interactions:

- The scope of the arrears policies and the scope of any performance criterion (arrears PC) on non-accumulation of new external arrears are not necessarily the same. For example, the arrears PC may apply to a narrower definition of debt, have a different definition of "government," define "external" based on currency or governing law, or provide additional grace periods compared to the arrears policies. Further, while the arrears policies only apply to claims in arrears at the time of Board consideration of a member's request for Fund financing or subsequent reviews, the arrears PC is continuous in nature—in other words, the occurrence at any time during the arrangement of new arrears subject to the scope of the arrears PC will result in the non-observance of the PC. For similar reasons, this scope may differ from that for external debt and arrears as defined in the DSA. See Appendix V for further discussion of the performance criterion.

- The Fund's classification of claims does not determine their treatment in a restructuring. The arrears policies are internal policies for the Fund's operations. They are not intended to drive the negotiation process nor to influence the policies of other creditors. In light of these considerations, the Fund's classification of claims for its own purposes does not always need to align with claims treated in the Paris Club or under other representative creditors fora (e.g., CF). While the Fund uses a claim-by-claim analysis to determine the classification of claims for purposes of Fund policies, for efficiency reasons, the Paris Club often uses an institution-by-institution approach to encompass a broader scope of claims in its treatments. While there are benefits to a close alignment between the Fund's definition and the Paris Club and CF practice, exact one-to-one mapping is not necessary, and the treatment has differed on the margins in the past without any material complications.

Staff Report Requirements

30. Staff report requirements include:

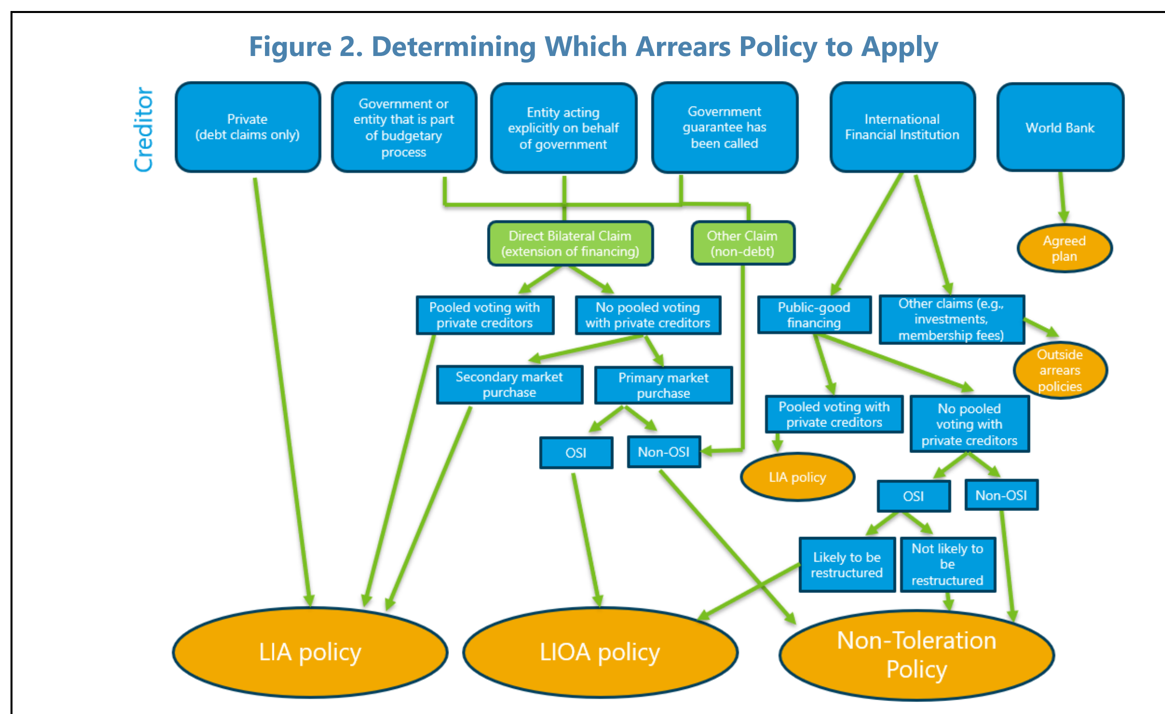
- Staff reports for program cases must identify external arrears, including the amount of the claim, the creditor, and the date when the claim went into arrears, given the implications for the arrears policies and the external arrears PC. Including the above information in surveillance cases would be good practice.
- When the validity or amount of a claim is disputed, as noted above, the first staff report following the representation of the dispute should include a factual description of the claim and basis for the dispute. Subsequently, staff does not need to include a statement in the main text of the staff report—absent material developments—but should continue to include a footnote or other statement that the claim continues to be disputed and include it as a contingent claim in the DSA.

B. Which Parts of the Arrears Policies to Apply

31. Once staff has determined that arrears exist and thus that the arrears policies must be applied, a judgment must be made as to which part(s) of the policies to apply. In all cases, the Board makes the final determination on the advice of management and staff. In order to ensure that the management and staff's proposal is well-founded, early fact-finding discussions with the debtor and creditors (including Paris Club or CF) may be critical.

32. The determination on the application of the arrears policies is done on a claim-by-claim basis. The Fund recognizes several categories of claims, and thus several categories of arrears.

Figure 2. Determining Which Arrears Policy to Apply



Arrears on Direct Bilateral Claims of the Official Sector

33. Direct Bilateral Claims are defined as those claims that are:

- *Held by a government, or an agency acting on behalf of a government and originate from an underlying transaction where the creditor government, or an agency acting on behalf of the government, provided or guaranteed financing to the borrowing member.* As noted in paragraph 27 and Box 1, the "government" is defined as those entities whose financial operations form part of the budgetary process. Note that this includes cases where claims originally extended by non-government creditors may become Direct Bilateral Claims if they benefited from a creditor-government guarantee at the time the claim was extended, *and* this guarantee is called.

- *Central bank swap lines and deposits at the debtor's central bank that are extended on behalf of the government for BOP purposes.*[26] This does not include purchases of sovereign bonds for portfolio or reserve management purposes.

34. The assessment of whether an entity is acting "on behalf of government" should take into account the totality of circumstances of a specific case. Fund staff should seek the representation of the creditor authorities as to whether a claim was acquired on the government's behalf. Where the creditor represents that an entity was acting on behalf of the government, this should be supported by additional evidence. Important elements to consider would be the governance structure of the entity; whether the claim in question originated from explicit directions from the government; and—where relevant—the terms of the financing provided. Staff should also consider whether the creditor's representation has been consistent, both in the context of the specific claim and for similar claims on other countries.

35. There are important exclusions to the definition of "Direct Bilateral Claim" for Fund policy purposes (arrears on these excluded claims are subject to the Fund's LIA policy; refer to Section IV.D)**:**

- **Secondary Market Purchases by Official Bilateral Creditors.** By its terms, the Fund's definition limits Direct Bilateral Claims to those reflecting the provision of direct financing to the debtor government. Thus, only primary market purchases by the creditor government or entities acting on its behalf qualify. This treatment is aligned with the typical motive for such purchases, which tend to be commercial (unlike secondary market purchases of bonds by IFIs which are sometimes conducted with the intent of providing BOP support).

- **All claims that are contractually part of a pooled voting mechanism with private creditors.** An official bilateral creditor's potential participation in more than one voting pool (e.g., holds an instrument subject to the same collective action clause (CAC) as private bondholders and is also a member of the Paris Club or the CF) can complicate both restructuring processes. In recognition of this, bonds with single-series CACs can be treated as a Direct Bilateral Claim only

[26] "Consolidated Executive Board Understanding", pp. 108-109 of the 2022 board paper package.

where the creditor government (or an agency acting on its behalf) maintains continuous and full ownership of the entire bond series.[27] The Fund would rely in the first instance on the creditor's representation of continuous and full ownership. The Fund could challenge that representation but would give the creditor the benefit of any reasonable doubt.

36. Direct Bilateral Claims are split, for Fund policy purposes, into two categories. The categorization reflects whether a debt restructuring was needed in a Fund-supported program in which the arrears existed. In economic terms the categorization reflects whether the member has the ability to clear the arrears without any debt relief (which requires the resources to do so and that such payments not affect CoT commitments to other creditors).[28]

- **Official Sector Involvement (OSI)-related.** A claim is considered OSI-related in two instances. First, a claim is OSI-related when it is covered by a past official-sector restructuring—that is when a previous restructuring (through Paris Club, CF, or outside such processes) covered the underlying claim. Second, a claim is OSI-related when a debt restructuring, including participation from official bilateral creditors, is required under the current program parameters to ensure that the program is fully financed, debt is sustainable, and the Fund's resources are adequately safeguarded. Note that an "OSI-related" classification holds even if the debtor member's situation has improved to the point that it could now pay the claim in full.[29] OSI-related direct bilateral claims are subject to the Fund's Lending into Official Arrears Policy (go to Section IV.B below).

- **Non-OSI-related.** A claim is considered non-OSI-related when it is not covered by a past restructuring and the current Fund-supported program anticipates payment in full. In addition, a claim is considered non-OSI-related where it was previously restructured but creditors clawed-back treatment because of a breach of Comparability of Treatment (CoT) requirements. Note that a claim that was originally non-OSI-related may be recategorized as an OSI-related claim if required by subsequent economic developments.[30] Non-OSI-related direct bilateral claims are subject to the Fund's Non-Toleration Policy (go to Section IV.A below).

[27] For further details about various scenarios regarding claims with vote pooling, see 2022 Review at paragraphs 72-74.

[28] Whether a restructuring is needed is guided by existing Fund lending policies and debt sustainability analyses and is made by the relevant area department and SPR in consultation with other reviewing departments for approval by management and ultimately by the Board; see Section VI.

[29] The alternative approach of not carrying forward the determination would create perverse incentives: the prospect of having claims reclassified as non-OSI as the debtor's situation improves could incentivize official creditors to hold-out for eventual full repayment, free riding on the creditors who accepted a debt restructuring.

[30] For example, if a claim arose under a Fund supported program that had sufficient financing to allow for its clearance (i.e., the claim was non-OSI related) but due to adverse developments, the debtor later announced a needed debt restructuring covering the claim, the claim would be reclassified as OSI-related going forward.

Arrears to International Financial Institutions

37. For the purposes of Fund policies, IFIs are defined as financial institutions with at least two sovereign members and no non-sovereign members. For these purposes, "sovereign" means that the members are countries, government agencies (see definition in Box 1), central banks, or public entities acting on behalf of a government (see definition in paragraph 27). Institutions with private shareholders would not be considered IFIs (and their claims would instead fall under the LIA policy; go to Section IV.D below).

38. Claims of IFIs subject to Fund arrears policies are defined as: those claims that originate from a transaction where the IFI provided or guaranteed financing to the borrowing member *or* provided support in the context of a BOP crisis in the form of bond purchases in the secondary market. In the latter case, facilities or purchase programs that are set up to undertake such purchases should be considered part of the Global Financial Safety Net (GFSN). This logic generally applies only to sovereign bonds acquired under purchase programs of reserve currency union central banks (RCUCBs) or regional financing arrangements (RFAs).

39. There are important exclusions to the definition of IFI claims for Fund policy purposes (arrears on these excluded claims are subject to the Fund's LIA policy; go to Section IV.D below):

- **Certain IFI claims that do not relate to financing of a public-good nature.** Arrears on claims related to IFI financing of a global public-good nature, even outside the context of resolving BOP problems, are protected under the arrears policies, while arrears on other types of claims—such as membership fees or treasury/investment operations—are considered to fall outside the arrears policies.[31]

- **Certain bond purchases in the secondary market done for BoP support.** Where an IFI that would be considered a part of the GFSN indicates in its own public statements that it expects a claim to be treated pari-passu with privately held claims, the LIA policy would be applied to those claims.[32]

- **IFI claims that are subject to vote pooling with the private sector.** Vote pooling is assessed in the same way for IFIs as for Direct Bilateral Claims (see paragraph 35). Subjecting vote-pooled claims to the policies on IFI arrears would risk complicating restructuring processes, so such vote-pooled claims are excluded from the definition of IFI claims for the purposes of the arrears policies, even when done for BoP purposes as part of the GFSN.

[31] Most overdue membership fees are owed to multilateral non-financing institutions—and key IFIs do not impose membership fees.

[32] There are cases where an IFI indicates that it wants its own claim to be treated pari-passu with (meaning the same as) privately held claims. This has happened, for example, in some programs by RCUCBs. In such cases, the Fund would defer to the IFI and the LIA policy would apply. The IFI's most recent assertion at the time of the Fund's application of the arrears policy would apply.

40. For the purposes of applying Fund policies, IFI claims are split into two categories:

i. **Non-OSI-related.** A claim is considered non-OSI-related when it is not covered by a past restructuring and the current Fund-supported program anticipates payment in full. Such claims are subject to the Fund's Non-Toleration Policy (go to Section IV.A below).

ii. **Official Sector Involvement (OSI)-related.** A claim is considered OSI-related when it is covered by a past restructuring (i.e., when a Paris Club or CF agreement post-dates the underlying claim or when there was an announced restructuring outside the Paris Club or CF that covered the underlying claim), or when a debt restructuring including participation from official bilateral creditors is required under the current program parameters to ensure that the program is fully financed, debt is sustainable, and the Fund's resources are adequately safeguarded. Such claims are also generally subject to the Fund's Non-Toleration Policy, but may, in certain circumstances where the creditor community does not confer de facto preferred creditor status, become subject to the Fund's Lending into Official Arrears Policy.

41. When claims are OSI-related, then for the purpose of applying Fund policies the de facto preferred creditor status of the IFI must be determined. The Fund's arrears policies for IFIs are intended to reflect the *de facto* special treatment they generally receive by being excluded from the scope of debt restructurings by the creditor community. It is important to emphasize that de facto preferred creditor status is granted by the official creditor community, not by IMF policies (whose design is a reflection of the former). There are two cases to consider:

- **IFI claims not likely to be restructured.** Here the Fund's non-toleration policy (NTP) applies (go to Section IV.A below). In this context:
  - The NTP will always apply to arrears to the World Bank Group and will generally apply to arrears to other IFIs.[33]
  - More generally, IFIs with broader/global membership (i.e., 50 percent or more of Fund's total voting power) have been excluded from restructurings historically, and it is expected that IFIs with global membership will almost surely benefit from application of the NTP, and staff must assume that is the case (unless Fund members explicitly indicate to staff that the Board will not apply the NTP to such IFI).[34]
  - It is expected that RFAs and RCUCBs will almost always benefit from the application of the NTP, and staff must assume that is the case (unless Fund members explicitly indicate to staff that the Board will not apply the NTP to such IFI).

[33] The World Bank Group benefits from special treatment under the Bank-Fund Concordat. IMF-World Bank Concordat, 1989.

[34] See 2022 Review in Table 3 for the membership of various IFIs.

- **IFI claims possibly falling within the perimeter of a restructuring.** The Fund's Executive Board may decide to apply the LIOA to OSI-related IFI claims if the weight of the following factors suggests that official creditors expect the IFI's claims to be restructured (if so, go to Section IV.C below). The judgment as to whether the NTP applies to an IFI is case-specific, and the treatment of any IFI may differ across cases if the weight of the factors shifts:

  - *The IFI has regional membership.* This should be understood to mean less than 50 percent or more of Fund's total voting power.

  - *The institution is <u>not</u> an RFA or RCUCB forming part of the GFSN.*[35]

  - *The institution is inside the scope of a debt restructuring by the Paris Club or CF (including a Paris Club member).* To the extent possible, the treatment of the claims under the Fund's arrears policies should be consistent with the treatment the claims are likely to receive in the PC. In order to understand the creditor committee's intentions, early consultation with the secretariat is critical.

  - *The Paris Club has included the institution's claims in the scope of past restructurings*. This criterion can generally provide an early working assumption where the treatment of the IFI in the *current* case has not yet been decided by official bilateral creditors in a representative standing forum.

  - *The institution did not participate as a multilateral creditor in the HIPC Initiative*. This criterion would not be applicable to IFIs that were established after the HIPC Initiative. Moreover, given the length of time since the HIPC Initiative, this criterion is likely to be of decreasing relevance relative to more recent treatments of IFIs.

  - *The institution's claims relate to a period when it was not seen as an IFI for the purposes of Fund policies due to private shareholdings.* This avoids strategic behavior by creditors in the context of restructurings (which can be disruptive) and protects borrowers and other creditors from sudden and unanticipated ex-post shifts in the creditor seniority structure.

Arrears to Non-Sovereign Creditors

42. Arrears on claims owed to non-sovereign creditors include those owed by sovereign debtors to private external creditors and to public-sector entities that are not part of the budgetary process of the government in the creditor country or acting on behalf of the creditor country

[35] RFAs are defined as a "finance mechanism backed by pooled resources through which a group of countries pledge common financial support to a fellow member in the event of external liquidity needs for balance of payment (BoP) difficulties." See Collaboration Between Regional Financing Arrangements and the IMF, July 2017, at p. 6. While the list of RFAs is open to new entrants it would currently include: the Arab Monetary Fund (AMF), BRICS Contingent Reserve Arrangement, Chiang Mai Initiative Multilateralization (CMIM), Eurasian Fund for Stabilization and Development, EU-BOP Facility, European Stability Mechanism (ESM), European Financial Stability Mechanism, and the Latin American Reserve Fund.

government. They also include claims owed to multilateral institutions with one or more private sector shareholders. Such arrears are subject to the LIA policy (go to Section IV.D below).

43. With respect to arrears owed to non-sovereign creditors, only those on underlying *debt obligations* are subject to the Fund's arrears policies. Unlike for official bilateral claims, where the arrears policies cover all underlying obligations, the arrears policies cover only obligations to non-sovereign creditors arising from commercial financial obligations of a contractual nature that are not paid when due (taking into account any contractual grace periods).

- In making a determination of whether an obligation is "debt," the Fund shall make an assessment based on the characteristics of the obligation—especially whether it includes a deferral of payment—and the language used in a contract to describe the arrangement would not necessarily be conclusive. Reference can be made to the definition of "debt" in the Debt Limits Policy.[36] Staff should consult SPR and LEG as needed.
- Thus, included are arrears on: bank loans, suppliers' credits (i.e., where the creditor contractually defers payment, or the good/service does not need to be paid on delivery), and bonds.[37]
- Not included are arrears on non-debt obligations, such as financial obligations originating from an arbitral award on an underlying non-debt claim, unpaid dues, payment on delivery, power purchase agreements,[38] or obligations to acquire assets. Note that such other obligations can nonetheless have implications for the Fund's fiscal and debt sustainability analyses, as well as debt-related conditionality on accumulation of new arrears in cases where their definition for program purposes includes such obligations.

Jurisdictional Arrears (Private-to-Private Arrears Arising Due to Exchange Restrictions)

44. Jurisdictional arrears refer to arrears *on debt service* by *non-sovereign borrowers* that arise because of the imposition of exchange controls. In other words, exchange restrictions imposed by sovereign members may cause private-sector residents of that member to be unable to obtain foreign exchange to pay debt service on time to non-resident private creditors.[39] Such arrears now

[36] The term "debt" is understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract.

[37] See Reviews of the Fund's Sovereign Arrears Policies and Perimeter, May 2022, Annex III.

[38] Under the typical power purchase agreement, state-owned electricity companies are required to regularly pay a certain amount to an independent power producer to ensure access to power. Because these payments are contingent on the power producer demonstrating a capacity to produce a certain amount of power, and the payment is not deferred, they are more akin to payment-on-delivery than debt obligations. However, if there is an agreement to convert missed payments into debt, then the arrears policy would apply to missed payments on that debt.

[39] Exchange restrictions are exchange measures identified by LEG, in consultation with staff in the Monetary and Capital Markets Department, as being subject to the Fund's jurisdiction under Article VIII, Section 2(a) of the Fund's Articles of Agreement. Please consult LEG closely on any application of this strand of the arrears policy, which must align with exchange restriction findings.

constitute only a small subset of cases—staff identified three such cases since 2002.[40] These arrears fall under an element of the Fund's LIA policy (go to Section IV.D).

Staff Report Requirements

45. Staff report requirements include:

- The staff report should identify the type of each claim in arrears and the arrears policy that applies to each claim in arrears. Where there is judgment involved—e.g., in determining whether a claim is a Direct Bilateral Claim, whether an entity is an IFI, or which policy should apply to an IFI claim—staff should provide the Board the information necessary for the Board to make its judgment. Additional details will be especially important should staff recommend applying the arrears policies in a manner that would differ from precedents—e.g., where the weight of factors suggests applying the LIOA to IFI claims given NTP treatment in other restructuring cases.
- Appendix III provides details on how to record *OSI-related* arrears in the DSA; the program should assume that *non-OSI-related* arrears will be cleared in the near-term.

APPLYING THE ARREARS POLICIES

46. This section covers the application of the Fund's arrears policies. Once a determination has been made about what type of arrear exists and the policy which is relevant (previous section), then that policy must be applied. This section discusses the non-toleration policy (NTP), the lending into official arrears policy (LIOA) (which has four strands, covering different circumstances that can arise), the LIOA policy as applied to IFI arrears, the lending into arrears policy (LIA), the LIA policy as applied to jurisdictional arrears, and the special considerations that arise in applying the policies in emergency financing situations.

47. The application of the arrears policies generally provides the Fund with adequate safeguards. In establishing the arrears policies, the Fund has determined that the application of the relevant policy, along with the completion of financing assurances reviews, generally provides such safeguards. This is because the policies are designed to encourage the resolution of arrears in line with the restoration of debt sustainability and in line with the program's available financing space.

48. It is important to note at the outset that where payments are in arrears due to factors outside the debtor's control, such as international sanctions, the arrears policies are generally considered met when payments are made into escrow.[41] This will typically apply to arrears to official bilateral creditors under sanctions. While the details of the escrow arrangements will be country-specific, ultimately the Fund should be satisfied that the escrow arrangements ensure that

[40] Iceland 2008 (IMF Country Report No. 08/362); Latvia 2008 (IMF Country Report No. 09/3); São Tomé and Príncipe 2019 (IMF Country Report No. 19/315).

[41] This approach has been taken in cases where arrears have accumulated to official bilateral creditors due to sanctions or the lack of a counterpart on the creditor side (e.g., Bangladesh, 2023; Georgia, 2022; Moldova, 2022; Mali, 2013; Honduras, 2011).

the amounts being set aside shall not be used for purposes other than the debt service in question.[42] In order to satisfy the arrears policies, payments into escrow should be for the full amount due and made on the contractual due date, taking into account any contractual grace period. Note that payments into escrow will not address compliance with the external arrears performance criterion unless the TMU definition specifically permits.

A. Non-Toleration Policy

49. This section addresses the application of the NTP in three situations in turn. To understand how to determine that these situations apply, see the discussion in Section III. Note that the NTP has a broader scope of application than the LIA or LIOA. Arrears on a non-debt claim held by official creditors are subject to the NTP in a non-OSI context, even where the underlying claim is not an extension of financing.[43] Note also that no financing assurances review is required for any of these cases.

50. The NTP is applied as follows:

- **Where arrears are owed to the World Bank Group.** The Fund requires, in line with the terms of the 1989 IMF-World Bank Concordat, either: (i) upfront clearance of the arrears before approval of the Fund-supported program or completion of a review under the program; or (ii) an agreed plan between the member and the World Bank on terms of clearance over a defined period.[44] Where arrears have arisen to the World Bank Group, country teams should proactively reach out to World Bank counterparts to discuss progress toward resolution and confirm the presence of an agreed plan for the clearance of the arrears.
- **Where arrears are owed to other IFIs.** The NTP requires that the debtor have a credible plan and projected financing to eliminate arrears over the program period. Such a plan must be credible to Fund staff—and ultimately the Executive Board—but the creditor's concurrence is not required. In the context of legacy arrears covered by MDRI, an IFI's broader commitment to that initiative can form the basis for staff's assessment of a credible plan for resolution in line with the program parameters at the time of HIPC.
- **Arrears on Non-OSI claims held by official bilateral creditors.** The NTP requires the tacit approval of the creditor to Fund financing despite the arrears. This is generally conveyed by the non-objection of the creditor's Executive Director at the Board meeting. However, to ensure the policy will be met, Area Department staff should reach out to creditor Executive Directors in advance to ensure there will be no objection. Where an Executive Director signals that a creditor

[42] Escrow accounts would normally be held by a third party (which may include an independent central bank) under irrevocable instructions to pay out to the creditor once certain conditions are met (e.g., sanctions are lifted). However, in certain country circumstances, a reputable third-party agent may not be available (e.g., due to a lack of central bank independence or reputable commercial banking relationships), in which case alternative arrangements—such as a separate account in the central bank—may be required, and staff will need to be satisfied that such arrangements are functionally equivalent given the country circumstances.

[43] For treatment in an OSI context, please consult with SPR and LEG.

[44] IMF-World Bank Concordat, 1989.

will object, the policy will not be met, and the staff report cannot be issued to the Board until the arrears to that creditor are either cleared or until the creditor changes its mind.

51. Staff report requirements:

- For World Bank arrears, Staff reports should identify any arrears remaining at the time of issuance of the staff report to the Board and provide details of the agreed plan for their resolution. For LICs, the DSA, as a joint Bank-Fund document, would generally be a good place to report the agreed plan.
- For other IFI arrears, the staff report should record the fact of the arrears and the plan for arrears clearance, and this should be reflected in the program and DSA assumptions.
- For arrears on non-OSI Direct Bilateral Claims, even though the tacit approval should not be recorded in the staff report, the arrears would need to be reported. For program financing purposes (including for the DSA), it should be assumed that these non-OSI arrears will be cleared in the near-term (i.e., normally within 6-12 months), and the determination as to whether the program is fully financed should be made on this basis.

B. Lending Into Official Arrears as Applied to Direct Bilateral Claims

52. The LIOA policy applies to OSI-related Direct Bilateral Claims. See Section III.B above for information on how to determine that a direct bilateral claim exists. The LIOA policy may be satisfied in four ways, each of which is discussed below. Where the debtor is requesting emergency financing (under the RCF or the RFI), the policy allows for flexibility in exceptional circumstances, described in section F below.

Strand 1: Representative Standing Forum

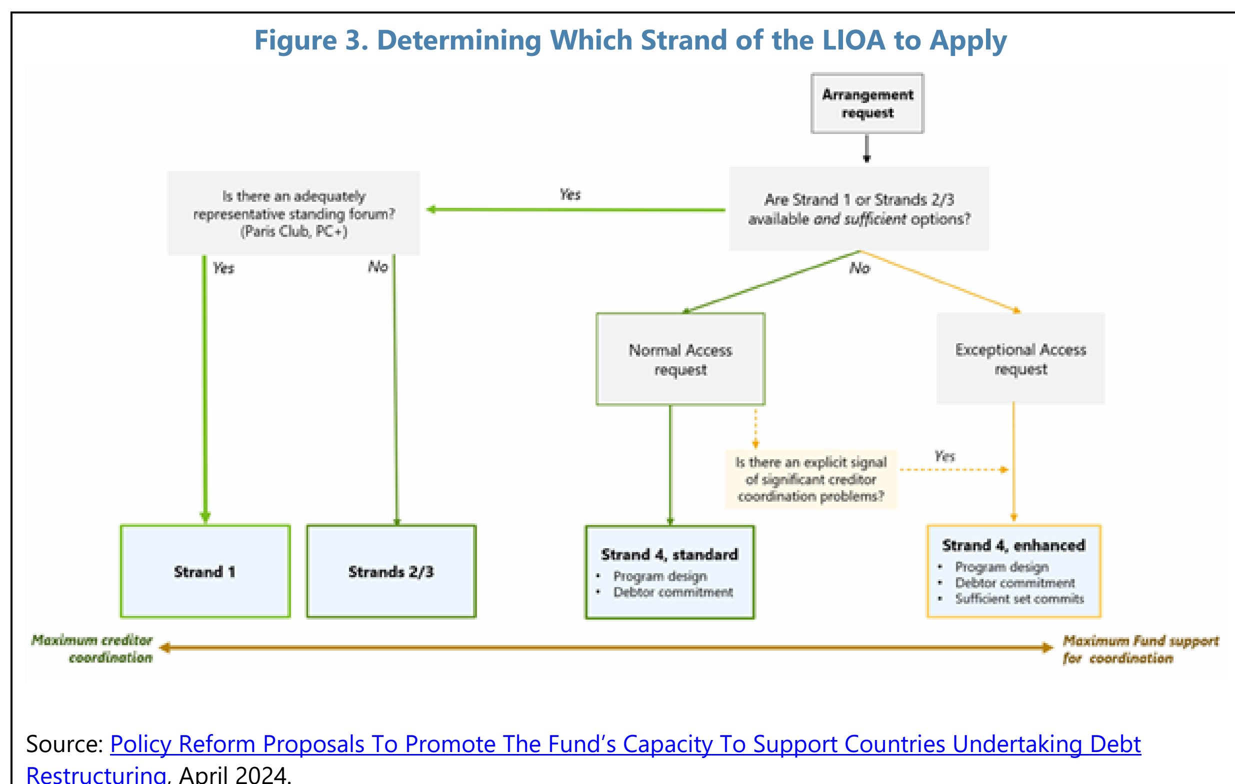
53. The first—and preferred—way the LIOA policy may be satisfied is through an "adequately representative" restructuring agreement by a representative standing forum. Such an agreement is reached when financing assurances are received from the representative standing forum in anticipation of the restructuring agreement (e.g., the Agreed Minute for the Paris Club or Memorandum of Understanding (MOU) from an Official Creditor Committee (OCC) including Paris Club under the CF).[45,46] Where such an agreement is reached, all arrears arising on

[45] The Paris Club or CF creditors set a "cut-off date" that generally excludes credits extended after that date from the debt treatment. Arrears related to post-cut-off date debt that are not covered by the agreement need to be cleared. If the debtor is unable to remain current on post cut-off date debt, that would be an indication that its balance of payment problems have not been resolved.

[46] As discussed in Section II.B, an agreement is considered reached when there is a preliminary indication that the Paris Club is willing to provide debt relief in anticipation of an Agreed Minute. That assurance is derived verbally during the Paris Club meeting where the treatment is discussed. For treatments under the Common Framework involving a Paris Club member, the assurances can also be derived in a similar verbal fashion. Following approval of an arrangement by the Fund, there will be further Paris Club or Common Framework Official Creditor Committee meetings to reach an Agreement in Principle, which would then be codified in the Agreed Minute or MOU, and which will then guide the bilaterally agreed treatments that provide the actual debt relief. Note, in the past, only one further meeting of the Paris Club was generally required to reach the Agreed Minute.

pre-cut-off date debt would be considered eliminated for purposes of the LIOA policy for both participating and non-participating creditors.

Figure 3. Determining Which Strand of the LIOA to Apply



Source: [Policy Reform Proposals To Promote The Fund's Capacity To Support Countries Undertaking Debt Restructuring](), April 2024.

- However, if a bilateral agreement is not concluded with a creditor by the deadline set forth in the forum's restructuring agreement (i.e., the Agreed Minute or MOU), the arrears to that creditor would be judged to arise anew for the purposes of this policy unless the Fund judges that the debtor is making "best efforts."[47,48] If staff cannot support a judgment that the debtor is making "best efforts" at any request for Fund financing or review, the approval of the

[47] Agreed Minutes or MOUs are not legally binding and require each creditor to reach a separate, bilateral and legally binding agreement implementing the terms of the Agreed Minute or the MOU with the debtor by a deadline set forth in the Agreed Minute.

[48] "Best efforts" are determined on a case-by-case basis but would generally require the debtor to reach out to the creditor periodically—typically at every review, though, where a creditor has been consistently non-responsive, less frequent contact may be sufficient—in writing to explain the terms required by the Paris Club Agreed Minute and offer to discuss terms within those parameters. In the case of longstanding legacy arrears (over 5 years), one final written communication from the debtor reiterating its willingness to restructure under the Paris Club Agreed Minute terms would suffice to meet the requirement going forward until the creditor is willing to accept such terms. If the discussions advance, the debtor should confirm with the Paris Club Secretariat whether an offer is consistent with the Paris Club Agreement Minute; Fund staff cannot advise. The debtor would also be expected to respond to any inquiries or correspondence from the creditor. Please note that "best efforts" and "good faith efforts" are different concepts; the latter is explained in detail in paragraphs 75-81, below. Refer to Appendix VII for suggested language in policy notes and staff reports. In practice, staff would need to be able to support its assessment that "best efforts" are continuing at each review if asked, even if not explicitly reported.

arrangement or the completion of the review may only proceed where consent is received from the creditor(s).[49]

54. An "adequately representative agreement" provides a majority of total financing contributions required from official bilateral creditors over the program period (share > 50 percent). For the purposes of this policy, "contributions" are limited to debt relief and any form of new financing (such as loans, bond financing, guarantees and grants) that directly help meet the program's financing and/or debt sustainability targets. To calculate the majority share, country teams must obtain in advance data on: (i) official bilateral debt service falling due during the program period; and (ii) new financing provided/committed by official bilateral creditors during the program period (as reflected in the BOP projections). Representativeness of the agreement by the standing forum would be assessed as the ratio of expected financing contributions by standing forum creditors relative to total financing required from all official bilateral creditors. Financing contributions comprise debt relief and new financing. Appendix VI illustrates the required data and calculations with a simple numerical example. Given the importance of these calculations for the application of the policy, country teams are encouraged to liaise with SPR at an early stage to ensure that the above calculation is done properly.

55. Only the Paris Club or CF with Paris Club participation is considered a "representative standing forum" for the purposes of the LIOA policy as of 2024. This treatment arises from the Paris Club's long-standing coordination function, the close coordination between the Paris Club secretariat and Fund staff, and the Paris Club's track record of support for Fund arrangements.

56. Staff report requirements. The staff report should note that the agreement is adequately representative and that, on this basis, the arrears including to nonparticipating official bilateral creditors can be considered eliminated for the purposes of the LIOA policy. The staff report should also add the "best efforts" assessment whenever required. Refer to Appendix VII for suggested language in policy notes and staff reports. For new applications of Strand 1 after the April 9, 2024, adoption of the relevant policy change, a financing assurances review would be required at each review until the bilateral agreements are signed.[50] Appendix III describes how arrears should be reported in the DSA when the LIOA is applied.

[49] In these cases, there is no prospect of satisfying the "good faith effort" criterion, meaning the only way forward for Fund financing in these cases is creditor consent.

[50] See Policy Reform Proposals to Promote the Fund's Capacity to Support Countries Undertaking Debt Restructuring, April 2024.

Strand 2: Consent

57. If an adequately representative agreement from a representative standing forum is not available, then the LIOA policy may be satisfied where the creditor(s) provide consent to Fund financing despite the arrears. Such consent does not cover an agreement or commitment to resolve arrears. The Fund should continue to encourage the parties to reach an agreement during the period of the arrangement, since the regularization of arrears is an objective of any Fund-supported program and important for the functioning of the international financing system at large. Where a majority of creditors have not yet restructured, additional safeguards will typically be desired by creditors to ensure adequate creditor coordination, preventing consent. Application of the Strand 4 of the LIOA (discussed later in this section) is then required.

58. Consent may theoretically be provided or withdrawn at any time. Withdrawal of consent leading up to a Board meeting has not previously happened.[51] In the event that consent is withdrawn, Fund management cannot recommend Board approval of an arrangement or completion of a review unless one of the other LIOA strands is satisfied. Executive Directors representing creditors to which arrears are owed may still object on their authorities' behalf at any time (including at the Board meeting) to Fund financing. In that case, there would be two routes forward:

- Staff would need to be prepared to demonstrate that the three criteria (Strand 3) are satisfied in order to allow approval of the arrangement request or completion of the review, notwithstanding the arrears.
- For any creditor to whom the three criteria cannot be applied, failure to provide consent (or withdrawal of consent) re-routes the LIOA to Strand 4.

Clear communication with creditors' Executive Directors in advance of the Board meeting and recording of consent in the staff report for transparency purposes should mitigate any risks and discourage last-minute changes in creditors' positions.

59. For operational reasons, staff must take a proactive role, reflected in requirements for the staff report:

- *Timing of consent.* Consent should generally be received before the staff report is issued to the Board and be recorded explicitly in the staff report.[52] This is necessary because staff needs to know whether or not to assess the three criteria under Strand 3 (next section), and the Board would need time to consider that assessment.[53] In cases where the concerned creditor requests more time to consider providing consent, the staff report should only be issued to the Board in

[51] There have been cases where consent was provided at arrangement approval but not at the time of later reviews, e.g., from Libya in Central African Republic's 2016 arrangement under the ECF.

[52] This differs from tacit consent, which is applicable only in non-OSI cases where the NTP applies (see paragraph 50).

[53] Application of the Fund's Policy on Arrears to Official Bilateral Creditors—Modalities of Creditor Consent, April 2017, FO/DIS/17/46.

cases where staff has determined that the three criteria are met (if the criteria are not met and consent has not been received, management cannot recommend the approval of the request for Fund financing). The staff report can be circulated to the Board, but it should state that the creditor has requested more time and indicate that a staff statement on the creditor's position will be issued one week ahead of the Board meeting. To encourage consent, the analysis of the three criteria should not be included in the staff report while staff is awaiting it. Staff would need to follow up with a staff supplement one week prior to the Board meeting to clarify whether consent has been received, and if not, set out the assessment of the three criteria.[54]

- *Typical modality of consent*. The area department should reach out to the relevant Executive Director(s) while preparing the staff report (or earlier) to secure the creditor's explicit consent. Creditor consent is generally conveyed to staff through the creditor's Executive Director but may be conveyed directly from the authorities. In the latter case, the Executive Director should be informed. Consent does not need to be conveyed in writing, but written consent may allow the area department to maintain a clearer record.[55]

- *"Deemed consent" where creditor authorities cannot be reached.* In cases where the Executive Director representing the creditor country authorities reports difficulties or delays in securing explicit consent in a timely fashion, a streamlined approach is available.[56, 57] The country team should contact the relevant creditor country Executive Director(s) during the staff report preparation stage (or earlier) at every review and request consent to be received no later than one week before the expected date of circulation of the staff report to the Board. The Executive Director(s) would be informed that anything other than an objection (including no response by this deadline) would indicate consent and that this "deemed consent" would be noted in the staff report that is subsequently issued to the Board.[58]

Strand 3: Application of the Three Criteria

60. If neither an adequately representative agreement nor creditor consent is available, then the LIOA policy may be satisfied through application of the LIOA's "Three Criteria". These

[54] Previous examples include: Grenada (Country Report No. 2020/161, supplementary information, Annex I); The Gambia (IMF Country Report No. 2020/102, Annex II); Central African Republic (IMF Country Report No. 2019/216, supplementary information, Annex I).

[55] In the case of oral consent, it would be advisable for the area department to create a written record—for example by sending an email to the Executive Director noting that the consent was provided.

[56] "Deemed consent" is not appropriate where creditor authorities can be reached but request additional time to consider providing consent. Subparagraph (a) describes the applicable process for such cases.

[57] Application of the Fund's Policy on Arrears to Official Bilateral Creditors—Modalities of Creditor Consent, April 2017, FO/DIS/17/46.

[58] Previous examples include: Central African Republic (Country Report No. 2018/214, footnote 2); Central African Republic (Country Report No. 2017/407, footnote 1); Central African Republic (Country Report No. 2017/245, footnote 3).

are discussed below, in turn. The final decision to provide financing will be made by the Board, based on staff's assessment.

- *Criterion 1: Prompt financial support from the Fund is considered essential, and the member is pursuing appropriate policies.* Where prompt support is not required, the member should be encouraged to resolve its arrears prior to seeking Fund financing.
- *Criterion 2: The debtor is making good faith efforts to reach agreement with the creditor on a contribution consistent with the parameters of the Fund-supported program—i.e., that the absence of an agreement is due to the unwillingness of the creditor to provide such a contribution.*
- *Criterion 3: The decision to provide financing despite the arrears would not have an undue negative effect on the Fund's ability to mobilize official financing packages in future cases.*

61. Criterion 1 will be satisfied by construction in the case of a disbursing Fund arrangement. This requirement is not applicable when the policy is applied by analogy to non-financing arrangements, such as the Policy Coordination Instrument.

62. In assessing whether a debtor is acting in good faith (Criterion 2), the Fund will consider the following elements relating to *process* and *terms offered* by the debtor:

- ***Process:*** Broadly analogous to the private-creditor context, the Fund would consider, *inter alia*, whether the debtor:
  - has approached the creditor to which it owes arrears either bilaterally or through a relevant grouping of official bilateral creditors, recognizing that the latter may take several forms, including *ad hoc* creditor committees;
  - has offered to engage in substantive dialogue with the creditor and has sought a collaborative process with the creditor to reach agreement; and
  - has provided the creditor relevant information on a timely basis.[59]
- ***Terms offered***: The Fund would consider whether terms offered to official bilateral creditors:
  - are consistent with the parameters of the Fund-supported program (requesting terms that would result in financing contributions from the official bilateral creditor that exceeded the requirements of the program would generally not indicate good faith on behalf of the debtor); and

[59] "Relevant information" would generally include (i) the exchange of current macroeconomic and debt data, (ii) disclosure of the proposed treatment for different creditor classes, and (iii) transparency around macro policy assumptions (to the extent such information can be disclosed). See Reviews of the Fund's Sovereign Arrears Policies and Perimeter and Appendix VIII on sharing information underlying DSAs with creditors.

  - do not imply a contribution that is "disproportionate" relative to other official bilateral creditors.

    - There are several, possibly complementary, ways to assess the burden-sharing implications from the terms offered, including the relative size of the nominal contributions ("nominal shares"), relative size of contributions in net present value (NPV) terms ("NPV shares"), and the difference between the nominal share and the share in total debt service falling due ("net financing shares"). Table [xx] illustrates these calculations with a numerical example. In the event that such measures yield different results staff would need to determine which are the most relevant, taking into account the specifics of the case. Note that this is the only instance where staff must explicitly assess comparability of treatment among creditors.

63. In assessing Criterion 3, the Fund will consider the signal that such a decision would send to official bilateral creditors as a group, given the specific circumstances of the case. In assessing this criterion, staff would need to consider:

- *Size of contributions:* The criterion would normally not be satisfied where it is being applied to an official creditor or group of creditors accounting for the majority of total financing contributions required from official bilateral creditors over the program period.[60] Staff should thus provide a breakdown in the staff report of the relative shares of contributions by creditors to whom the three criteria are being applied.

- *Track record:* The assessment would also consider the creditor's track record of providing contributions in past debt restructurings under Fund-supported programs. This is one factor to consider but is not determinative, in particular if the creditor has signaled non-cooperation in a forward-looking sense. Where available, staff should provide a brief description of the creditor's overall track record of participation in the five most recent debt restructurings under Fund-supported programs in which the creditor held claims, and discuss expectations for future restructuring cooperation, if relevant.[61]

- *Other considerations:* In practice, the Fund has also taken account of case-specific factors that mitigate risks for mobilizing financing (e.g., any dynamics specific to the debtor and creditor that would create specific incentives that would not affect other cases, such as the application of the arrears policy in Ukraine's 2015-18 extended arrangement).

[60] Deviations from this rule will be "abnormal" and "should be in line with the Fund's mandate and based exclusively on a determination as to whether the Fund's decision to provide financing despite the arrears would have an undue negative effect on the Fund's ability to mobilize official financing packages in future cases" Summing Up on Reforming the Fund's Policy on Non-Toleration of Arrears to Official Creditors, December 2015.

[61] If data are readily available, staff may consider a larger set. Information on past financing contributions under Fund-supported programs could be found, for instance, on the Paris Club website (http://www.clubdeparis.org/en/) and the latest statistical updated for the HIPC and MDRI Initiatives (www.imf.org/external/np/pp/eng/2016/031516.pdf).

64. Staff report requirements. Staff's assessment of each criterion must appear in the staff report the first time it is conducted; subsequent assessments may cross-reference earlier staff reports for the details but must still assess that the criteria are met.[62] Refer to Appendix VII for suggested language in policy notes and staff reports.

Strand 4: Application of Additional Safeguards

65. Application of Strand 4 requires a determination that Strands 1-3 cannot be satisfied. Staff should go about this determination as follows:

- Staff should always start by determining whether Strand 1 is available via communication with the secretariat of the applicable "representative standing forum" and by calculating whether the creditors involved could generate an adequately representative agreement (see paragraph 54 above).

- In the event Strand 1 is not available:

  - Regarding Strand 2, staff should ask as early as possible for consent. If consent is not forthcoming from any creditor to whom Strand 3 cannot be applied within four weeks after a staff's request to that creditor, then Strand 2 is considered to be unavailable. Staff may choose to extend this deadline, if deemed useful (i.e., if there are indications that consent may be forthcoming).

  - Staff can assess Strand 3 per the section above.

  - Note that the assessment of which strand should be used is not necessarily static over the course of an entire program. For example, in the event that Strand 1 becomes available before a Board meeting, then the approach would revert to Strand 1 (but all existing agreements on safeguards, per the discussion that follows, would remain in place). Further, if additional safeguards are warranted as the program progresses, as dictated by the requirements of the financing assurances review, a case may move from Strand 1 to Strand 4 (Standard Safeguards) and from there to Strand 4 (Enhanced Safeguards).

  - In the event that Strand 2 and/or 3 are available but the request is for exceptional access, then Strand 4 should be used.

66. Once staff assesses that Strand 4 applies, then a determination must be made on which safeguards approach to apply:

- **The Standard Safeguards Approach**. This is the default Strand 4 approach for normal access cases. However, this approach would not apply where: (i) there is an explicit request from any

[62] Previous examples include: Ukraine (IMF Country Report No. 16/319, Box 4); Grenada (Country Report No. 2020/161, supplementary information, Annex I); The Gambia (IMF Country Report No. 2020/102, Annex II); Central African Republic (IMF Country Report No. 2019/216, supplementary information, Annex I).

representative standing forum, or any other creditor to whom the three criteria could not be applied, for additional Fund support to facilitate creditor coordination efforts; or (ii) a representative standing forum or any other creditor to whom the three criteria could not be applied signals that it has no intention to restructure in line with program parameters.[63]

- **The Enhanced Safeguards Approach.** This approach is applicable to all exceptional access (GRA or PRGT) or high combined access (GRA+PRGT) to Fund financing to which the LIOA policy applies that do not fall under Strand 1. It also covers normal access cases where one or both of the two exclusions noted in the first bullet apply.

67. When applying the Standard Safeguards Approach, staff should utilize a combination of program design elements and debtor commitments to establish safeguards:

- **Capped initial access.** In order to address safeguards risks to the Fund, a case applying Standard Safeguards Approach will only proceed where the initial disbursement or purchase (upon arrangement approval) does not exceed the annual access limits under the regular window of the Fund's emergency financing instruments. Because phasing should be aligned with the member's BOP needs and policies, the pace of implementation of adjustment measures would need to be adjusted accordingly.

- **Program conditionality.** To provide additional safeguards, staff should consider conditionality. In line with the Guidelines on Conditionality, program conditionality should only be proposed where the measures are reasonably within the member's direct or indirect control and are of critical importance for achieving the goals of the member's program or for monitoring the implementation of the program.[64] In the circumstances where Strand 4 apply, these standards would generally be met, and conditionality would be particularly well justified in the absence of other mechanisms to ensure a successful restructuring. There are two relevant types (see Section VI.D for further discussion):

  - **Structural conditionality.** This can cover issues such as debt transparency, information sharing, or milestones in the process within the control of the authorities. The focus should be on measures that can help keep a restructuring process on track. Such measures should be discussed with the debtor's legal and financial advisors to ensure they are aligned with the envisaged timeline and strategy. To date, restructuring-related Fund conditionality has generally focused on privately held debt (see Appendix XI). However, similar measures could be adapted to the official sector. Conditionality should not be set on measures outside the

[63] Note that a failure to provide consent (or even an objection) to Fund financing despite arrears (strand 2) is not equivalent to indicating that the creditor will not restructure its claims in line with program parameters.

[64] Guidelines on Conditionality, September 2002, paragraph 7(a). Conditionality may also be proposed where necessary for the implementation of specific provisions of the Articles or policies adopted under them. For further information on designing conditionality, see Operational Guidance Note On Program Design and Conditionality, January 2024.

debtor's control, such as reaching agreement on the restructuring, though the authorities may make commitments of their intentions in the letter of intent or MEFP.[65]

- **Quantitative conditionality.** This would generally involve standard program targets on net international reserves and fiscal targets. The focus should be on ensuring that any payments to creditors are in line with program parameters. Where a debtor has defaulted on most or all creditors, comprehensive conditionality with full coverage of below-the-line public sector accounts would strengthen the debtor's ability to ensure comparable treatment among creditors. Quantitative targets would be set under the assumption that the debtor would continue to run arrears or settle arrears on terms consistent with program parameters. Such conditionality should be discussed with the debtor's legal and financial advisors to ensure staff understands the full structure of debt and debt service.

- **Debtor commitment to good-faith efforts.** A case applying Standard Safeguards Approach will only proceed where the debtor has made a commitment to pursue good-faith efforts to reach agreement with official bilateral creditors. "Good faith" would be defined as it is under LIOA Strand 3, considering both process and terms offered (paragraph 62). This should generally be in the form of a letter to creditors, but in all cases, the MEFP/LOI should reflect the debtor authorities' commitment.

68. The Enhanced Safeguards Approach should include:

- **The conditionality and debtor commitment elements of the Standard Safeguards Approach** (the capped initial access would be dropped).

- **A direct commitment to the Fund by a "sufficient set" of creditors about their restructuring intentions**—i.e., that they intend to restructure the claims in line with program parameters. See paragraph 18 above for the definition of a "sufficient set". Once such a commitment has been received, arrears to other official bilateral creditors would be deemed away for the purposes of the Fund's arrears policies. The commitment would be in the form of financing assurances, as described in paragraphs 15-17—i.e., that a key stage in the COCP has been reached, or specific and credible assurances where a COCP assessment cannot be made. Per the definition of a sufficient set, such commitments must involve any representative creditor forum if applicable *and* any creditors with influence over the debtor.

69. Staff report requirements. The policy note should provide an explanation of why Strand 4 applies and a preliminary description of the proposed safeguards. The Staff report should explain:

- Why Strand 4 was invoked, noting why Strands 1-3 could not be applied.

[65] Regardless of whether it is part of conditionality, reaching agreement on the restructuring will ultimately be a necessary condition to ensure that debt sustainability is restored.

- Why the Enhanced Safeguards Approach applied to normal access cases, where relevant. This would involve a transparent accounting of the creditor forum or creditor that requested greater Fund support for creditor coordination efforts, or which signaled an unwillingness to restructure.

- For the Standard Safeguards Approach, staff reports should document the set of safeguards deployed and the rationale for any conditionality proposed (in line with the Guidelines on Conditionality).

- For the Enhanced Safeguards Approach, beyond documenting the debtor commitment and conditionality proposed, staff reports should explain, for each creditor in the sufficient set, the basis for the COCP assessment (or specific and credible assurances where COCP is not available) (see Section II.B).

- Where changing circumstances warrant an increase in safeguards over the course of a program, in line with financing assurances reviews requirements, the staff report should explain what the circumstances are and how the proposed measures provide the requisite safeguards.

C. Lending Into Official Arrears as applied to IFIs

70. The LIOA policy as applied to IFIs follows the same general contours as described in Section B for Direct Bilateral Claims, with some minor adjustments. As discussed in paragraph 41 above, the Fund would generally apply the NTP absent an indication from the creditor community that the claim would be within the scope of the current debt restructuring. The policy would be applied as follows:

- **Strand 1.** In the event the creditor community places the claim within the scope of restructuring, creditors will likely be acting as a coordinated group, meaning that the situation will almost certainly be a Strand 1 application. If there is an adequately representative agreement, then arrears to such an IFI can be "deemed away". When assessing whether an agreement from a representative standing forum is "adequately representative", staff should not take into account debt relief or new financing provided by the IFI.

- **Strand 2.** In the absence of an adequately representative agreement, the Fund may provide financing despite arrears to an IFI where consent has been provided by the IFI. Consent from the IFI to Fund financing despite the arrears could be conveyed directly from staff of the IFI with the authority to do so to Fund staff or via an Executive Director designated by the IFI. The timing of consent and ability to withdraw consent are described in paragraphs 58 and 59. "Deemed consent" does not apply to IFIs.

- **Strand 3.** In the absence of an adequately representative agreement or creditor consent, the Fund may provide financing despite arrears if the three criteria under the LIOA policy are met, with appropriate adaptations to the technical calculations.

- **Strand 4.** If Strands 1-3 cannot be applied to an IFI with claims inside the scope of the restructuring, or if the case involves exceptional access to Fund financing, then Strand 4 applies. The IFI should be requested to provide consent within four weeks, like official bilateral creditors. The IFI is subject to a COCP assessment or to a specific and credible assurance if the application is diverted to the Enhanced Safeguards Approach.

71. Staff Report requirements. The staff report should identify which strand of the LIOA policy will apply to the claims and why. The staff report requirements will echo those applicable to official bilateral creditors under the relevant strand, see paragraphs 56 (Strand 1), 59 (Strand 2), 64 (Strand 3), and 69 (Strand 4).

D. Lending Into Arrears Policy

Restructuring Situations

72. The LIA policy applies at each request for Fund financing (including reviews) while arrears remain outstanding. A Fund program may proceed, notwithstanding arrears subject to the LIA policy, if the LIA criteria are met. As with the LIOA policy, the LIA policy applies with flexibility in exceptional circumstances where emergency financing is requested (Section F).

73. The LIA policy may be satisfied through application of its two criteria.

- *Criterion 1: Prompt financial support from the Fund is considered essential for the successful implementation of the member's adjustment program.* Where prompt support is not required, the member should be encouraged to resolve its arrears prior to seeking Fund financing.[66] This criterion will be satisfied by a disbursing Fund program.

- *Criterion 2: The member is pursuing appropriate policies, and it is making a good faith effort to reach a collaborative agreement with its creditors.*

74. As regards criterion 2, flexibility should be used in assessing "good faith" efforts to accommodate the characteristics of each specific case. This avoids putting debtors at a disadvantage in the negotiations with creditors and can help avoid prolonged negotiations that could hamper the ability of the Fund to provide timely financing. At the same time, its application should serve primarily to support effective debtor-creditor engagement in a manner that does not impair market discipline. Typically, arrears to private creditors arise due to liquidity and/or solvency constraints requiring a debt restructuring, and the requirements of the LIA policy are geared to these cases.

75. The policy provides four principles to guide the assessment of "good faith" efforts. The LIA policy does not require specific steps be taken in all cases or mandate that all principles be

[66] This requirement is not applicable when the policy is applied by analogy to non-financing arrangements, such as the Policy Support Instrument or Policy Coordination Instrument.

satisfied in full. Rather, the policy requires staff in the first instance—and ultimately the Executive Board—to judge whether debtor-creditor discussions are proceeding in good faith based on the overarching principles provided.

Principle 1: Early Dialogue between Debtor and Creditors

76. The first principle guiding the judgment of "good faith" efforts is that the member should engage in an early dialogue with its creditors, which should continue until the restructuring is complete. The determination of whether dialogue is "early" would be case-specific but would generally be expected promptly after the announcement of a debt restructuring. As a general premise, the form of the dialogue would continue to be left to the debtor and its creditors. Typical examples include roadshows by the debtor, engagement between financial and legal advisors of the debtor and creditor, and negotiations involving both advisors and principals.

77. As part of this dialogue, in cases in which creditors have been able to form a representative committee (or committees) on a timely basis,[67] there would be an expectation that the member would enter into negotiations with such committee(s). A committee's representativeness would be assessed based on case-specific circumstances. However, a representative creditor committee may be expected:

- To represent a substantial portion of the principal covered by the debt restructuring. In cases where bonds contain aggregated collective action clauses (CACs), creditor committees representing a share of claims sufficient to block the activation of these CACs would typically be considered to meet this test.[68]

- To reflect the diverse financial and economic interests of the creditors whose claims are to be restructured—for example, in terms of the different instruments to be restructured, geographical location, and nature of the holders (e.g., in terms of retail and institutional investors, large and small bondholders, special purpose vehicles with control or ownership of bonds, influential financial institutions, and hold-to-maturity and distressed debt purchasers). However, no group's refusal to join the committee should act as a veto on the formation of a representative committee.

- To have the support of the creditor groups that it purports to represent. Because committees are expected to function in a purely advisory capacity under the LIA policy, the verification of claims as a precondition for negotiations has not been a serious issue, as reputational risk to the participants has generally disciplined the process. However, direct participation by the largest creditors could be encouraged. For creditor representatives, the Fund could consider whether

[67] "Timely basis" indicates that the parties should not put off engagement if there are delays in forming a creditor committee. In such cases, the debtor can consider other, less structured, modes of engagement.

[68] Aggregated thresholds for approval in enhanced CACs are 66 2/3 percent across series (in two-limb aggregated voting) or 75 percent across series for single-limb aggregated voting.

there is evidence that the participant represents the group it purports to represent, including in cases where some creditors are constrained in their ability to participate directly.

- In cases where creditors form multiple committees, some engagement with committees that individually or collectively meet the above factors would generally be warranted. Entering into detailed negotiations with multiple committees may not always be feasible, nor may it be necessary in the case of smaller, non-representative committees. In such cases, the debtor may prefer to engage with the committee that appears most representative (or if relevant, a steering group with representation from the different committees). However, where other committees hold a sizeable share of claims, debtors could still be expected to engage with those committees, including to supply relevant information at the committees' request. This would particularly be the case when there are several sizeable committees of which none is individually representative, but which are collectively representative.

Principle 2: Information Sharing between Debtor and Creditors

78. Information sharing between debtor and creditor is critical for efficient debt restructurings. Relevant information that the debtor should generally share with creditors would include a comprehensive picture of the government debt stock and its terms (in the aggregate). In this regard, debtors would generally be expected to share with their creditors: creditor composition, major subcategories of instruments (with information on the main financial terms), upcoming debt service, and collateralized debt.[69] It would be expected that aggregated debt data would include all relevant debt. To the extent that certain debt is covered by confidentiality clauses, a full breakdown may not be feasible and only the sharing of relevant aggregated data would be expected. Sharing information on a timely basis is critical, though it is recognized that data reconciliation may mean that there may be delays in sharing final numbers. See Appendix VIII for further details on the sharing of information that forms the basis of the Fund's program assumptions.

79. Staff should encourage debtor authorities to clearly communicate to its creditors the perimeter of claims subject to restructuring as early as possible. Given the many unknowns private creditors have to factor in during a debt restructuring, the sooner the debtor can specify the perimeter of claims subject to the debt restructuring (including claims held on non-government public sector entities), the sooner those creditors can make progress toward an agreement among themselves and with the debtor. Although providing this clarity is the debtor's responsibility, staff should convey the expectation that the debtor should do this at the outset of the debt restructuring process. This expectation will also help the Fund establish the requisite assurances under the LIA policy that the debt restructuring will restore debt sustainability. However, beyond establishing an *expectation* as part of the assessment of good faith, the Fund cannot (and should not) do more. The debtor should determine the perimeter of claims for a PSI and/or the terms demanded from various private creditors consistent with program parameters and objectives, and the Fund should not interfere (see Section VI).

[69] Guidance Note on Implementing the Debt Limits Policy in Fund-Supported Programs, May 2021.

Principle 3: Opportunity for Creditors to Provide Input

80. The debtor should provide creditors with the early opportunity to give input on the design of restructuring strategies and the design of individual instruments. Generally, this is done through ongoing dialogue, where creditors indicate their individual preferences, which may feed into a menu of options offered. In particular, private creditors should be encouraged to provide indicative restructuring scenarios consistent with program parameters in order to make debt resolution more efficient.

Principle 4: Terms of the Offer

81. Any terms offered to the creditors by the member should be consistent with the parameters of the Fund-supported program. While the other principles focus on procedural elements of debtor-creditor engagement, it is important to recognize that in practice, good faith engagement also depends on the financial terms of a debt restructuring proposal. In particular, "good faith" engagement would require that a debt restructuring proposal—to the extent one is made before the Executive Board meeting, which may not always be the case—be broadly in line with what is needed to restore debt sustainability, as reflected in the parameters of the Fund-supported program. In other words, the financial terms only factor into the good faith assessment to ensure that the debtor does not offer too light a restructuring that would fail to restore sustainability under the program parameters. Offering too deep a restructuring to creditors would be in line with program parameters and thus would not necessarily indicate bad faith. However, it could undermine the assessment that a restructuring will be achieved in line with program parameters.

82. Specific creditor actions or circumstances may arise, but the Fund retains flexibility to continue to provide financing provided the two LIA criteria can be assessed to be met:

- Creditors will often request terms that are inconsistent with the parameters of the Fund-supported program. Notwithstanding the lack of progress in negotiations with creditors, the two LIA criteria can be assessed as met. That would assume that the program would continue to be financed by arrears, and debt sustainability on a forward-looking basis would be achieved by the creditors eventually recognizing the necessity of a restructuring in line with the program parameters is inevitable.

- The presence of collateral can complicate application of the LIA policy. In general, the impact depends on the type and the enforceability of the collateral and whether it may undermine the assumption that arrears will finance the program and that creditors will ultimately restructure in line with the program parameters. For example, in the case of Chad (2021) where the structure of the oil sale contracts made it impossible to run arrears to its commercial creditor. In such cases, the Fund may require assurances from that commercial creditor in order to complete a financing assurances review. This is a significant risk that debtors must bear in mind when contemplating collateralized transactions.

Non-Restructuring Situations

83. Note that sovereign arrears to private creditors may arise for reasons unrelated to the need for debt restructuring, such as administrative issues on the debtor side or difficulties in effecting payments. In such cases, in practice, the standard "good faith" principles have been applied to the extent relevant as the debtor needs to engage its creditor(s) to resolve the arrears. In assessing the debtor's good faith efforts and progress to resolve the outstanding arrears, staff should account for several factors, including:

- Sufficient *frequency* in dialogue with creditors, taking into account: complexity of creditor base, previous responses of creditors, whether any logistical factors prevented the debtor from reaching out to the creditor;
- Whether the *terms* offered by the debtor or demanded by creditors are consistent with the parameters of the Fund-supported program; and
- Any case-specific factors preventing progress in the dialogue between the debtor and its creditors.

84. Staff report requirements. At the policy note stage, staff should prepare a preliminary assessment of the LIA criteria, to be verified after discussion with authorities on mission for a final determination at the staff report stage. A sample assessment for the staff report stage is set out in Box 2 and Appendix IX. In making this assessment, staff are encouraged to obtain relevant information from the debtor country authorities as well as from creditors. So long as a member has outstanding arrears to private creditors, all program reviews are also subject to financing assurances reviews (see paragraphs 19-20).

E. Lending Into Arrears Policy with Respect to Jurisdictional Arrears

85. The arrears policies can also apply in the case of jurisdictional arrears (see Section IV.E). In such cases, the LIA policy continues to help draw attention to the issue of arrears on debt-service payments arising from the imposition of exchange controls, which continue to be an important part of the Fund's mandate. The LIA policy operates in tandem with Article VIII, Section 2(a) to convey a consistent message on the need to eliminate exchange controls—and their consequent arrears—to the extent possible. The general LIA criteria are nuanced to fit the situation:

a. **Fund lending despite non-sovereign jurisdictional arrears should be on a case-by-case basis,** and only where: (i) prompt Fund support is considered essential for the successful implementation of the member's adjustment program; and (ii) the member is pursuing appropriate policies and is making a good faith effort to facilitate a collaborative agreement between private debtors and their creditors, and a good prospect exists for the removal of exchange controls.

b. **The sovereign's role in these cases differs from the case of sovereign arrears.** In the case of jurisdictional arrears, the sovereign's role is to remove the underlying exchange controls. The removal of such controls would then help resolve the non-sovereign arrears. The sovereign can also assist the resolution of the arrears by indicating how foreign exchange will be made available to service the underlying claims. In this regard, the assessment that the LIA policy is met should be supported by a description of the member's timeline for removal of the exchange controls and the anticipated availability of foreign exchange.

86. Staff report requirements. Policy notes should flag the application of the policy and prepare a preliminary assessment of the criteria. Staff reports should provide support for each criterion being met. Given the small set of cases, staff should contact SPR and LEG if they anticipate the need to apply the LIA policy due to non-sovereign arrears on debt obligations arising from the imposition of exchange controls.[70]

F. Application of the Arrears Policies (LIA and LIOA) in Emergency Situations

87. The Fund's arrears policies provide for some flexibility in their application to emergency financing cases (RCF or RFI requests). Specifically, in "*exceptional circumstances,*" financing may be provided without further procedural steps. It would be expected that the Fund's support provided to the debtor in such cases would help advance normalization of relations with the creditor(s) and resolution of arrears, so that the approval of any subsequent Fund arrangement for the member would again be subject to the arrears policies.

88. Note that even in emergency situations, the best course of action in a restructuring remains to work toward a UCT-quality program. Therefore, if an urgent BOP need does arise, it is essential that the provision of emergency financing should not undermine any broader effort underway to secure a UCT-quality program and that if a UCT program is feasible, it should be pursued.

- Emergency financing may still be appropriate even if a UCT program has been negotiated (i.e., a staff-level agreement has been reached) or there has been approval in principle (AIP) on a UCT program. Staff must account for the impact of the exceptional circumstances. In general, these will invalidate the agreed program necessitating re-negotiation. In this context, it may be possible to quickly renegotiate and apply a strand 2 and or 3 approach, or a strand 4 Standard Safeguards Approach. Re-negotiations may take longer for strand 1 and the strand 4 enhanced safeguards approach, as more time would typically be needed to sort out the revised balance of adjustment and financing underlying the UCT program design. Where this extra time would extend beyond the period of the emergency, then a UCT program is not feasible within the timeframe of the emergency.

[70] See footnote 40, above, for examples.

89. A subset of RCF/RFI requests may constitute "exceptional circumstances." In particular: (i) the urgent BOP need must arise from exogenous shocks (e.g., adverse shocks to key commodity markets or developments with or in a key trading partner) or natural disasters (e.g., hurricane, widespread flooding); and (ii) the extraordinary demands on the affected government must be such that there is insufficient time for the debtor to undertake "good faith efforts to reach agreement with its creditors." Urgent BOP impacts arising from sources common to all restructuring situations (i.e., the policy-driven endogenous dynamics of a debt crisis) would not be considered "exceptional circumstances". The second prong will typically be met only in cases where arrears have recently arisen and there is no long-standing dialogue between debtor and creditor(s). For debtors with long-standing arrears, the regular arrears policies would apply.

90. The flexibility differs slightly between the LIOA and LIA policies:

- **LIOA policy (Direct Bilateral and some IFI claims)**. When a judgment has been made that such exceptional circumstances exist, the Fund may provide financing under the RCF or RFI despite arrears owed to official bilateral creditors and without seeking creditor consent or assessing whether the three criteria have been satisfied. In order to assess that Fund financing would help advance normalization of debtor-creditor relations, the Fund would require a commitment from the debtor authorities to make good-faith efforts toward resolving the arrears (per the LIOA definition; see Paragraph 62) and to conduct themselves in a way to promote and encourage creditor coordination. The latter could be in the form, for example, of a commitment to ensuring comparable treatment among creditors.

- **LIA policy**. When a judgment has been made that such exceptional circumstances exist, the Fund may provide financing under the RCF or RFI despite arrears owed to private creditors without assessing whether the good-faith criterion has been met. In order to assess that Fund financing would help advance normalization of debtor-creditor relations, the Fund would require a commitment from the debtor authorities to make good-faith efforts toward resolving the arrears.

91. Staff report requirements. Where staff proposes to apply the flexibility under the arrears policies, the staff report should elaborate on the exceptional circumstances, explaining the type of shock and the reason that a UCT program is infeasible and why there is insufficient time for good-faith efforts to reach agreement with creditors. The staff report should also explain how Fund financing will help advance normalization of relations with the creditor(s) and resolution of arrears, including relevant commitments by the debtor authorities.

FINANCING ASSURANCES REVIEWS

92. In order to ensure that financing assurances remain in place over the course of the program, in certain cases the Executive Board must complete a financing assurances review alongside program reviews:[71]

- In **preemptive restructuring** cases (i.e., pre-default) involving restructuring of official bilateral claims until the restructuring has been completed;
- When the Fund is tolerating **arrears on claims to official bilateral** creditors that are expected to be restructured but for which restructuring terms are not finalized;[72]
- When the Fund is tolerating **arrears on debt claims to private creditors**, regardless of whether a restructuring is expected. Where no restructuring of private claims is expected, the financing assurances review requires only a judgment that the LIA policy continues to be met (see Section IV.D); the remainder of this section does not apply.
- Financing assurances reviews are *not* required when arrears to official bilateral creditors exist, but a restructuring is not expected.

93. Financing assurances reviews are supported by provision of indicative information about the expected restructuring process at program outset and at subsequent program reviews. Staff should consult with the authorities and their legal and financial advisors, creditors, and any creditor forum involved to help generate such information.

94. Financing assurances reviews provide the Fund with the opportunity to assess progress in restoring debt sustainability and whether there are sufficient safeguards in place for the further provision of Fund financing. In particular, the Fund needs to determine whether the member's adjustment efforts are undermined by developments in debtor and creditor relationships, and whether in light of progress the existence of arrears (where applicable) is temporary and, therefore, does not undermine the medium-term external viability of the member's balance of payments and its capacity to repay the Fund.[73] The recommendation to complete the financing assurances review requires staff's judgment that, in light of progress made in restructuring the member's debt, the Fund should continue to provide the member with access to Fund resources.

[71] In the listed circumstances, financing assurances reviews are required under any type of Fund-supported program, including those supported by the PCI. For stand-alone emergency financing (i.e., under the Rapid Credit Facility and Rapid Financing Instrument), such reviews are not required, as there are no reviews after approval.

[72] For the avoidance of doubt, financing assurances reviews are required where arrears are "deemed away" under Strand 1 of the LIOA policy until the claims are legally restructured through bilateral agreements between the parties. However, to ensure a smooth transition, financing assurances reviews are only required where "Strand 1" is applied for the first time in a member's Fund-supported program after the April 9, 2024 revision of the LIOA policy.

[73] See Summing Up by the Acting Chairman—Fund Policy on Arrears to Private Creditors—Further Considerations, June 1999; and Reforming the Fund's Policy on Non-Toleration of Arrears to Official Creditors, December 2015.

95. In some instances, developments may prevent completion of a financing assurances review:

- **If there are indications that the restructuring process is not on track to provide timely or sufficient relief to restore debt sustainability.**
- **If debt sustainability will not be restored by end-program.** The timeline for restructurings will vary among cases, but debt sustainability must be restored by the end of the program. Historically, before arrangement approval, the debt restructuring will have been announced, and steps will have been taken toward reaching agreement. AIP with both official and private creditors would be expected before the first review, with the completion of the debt exchange or bilateral agreements implementing the debt relief by the time of the second review. In theory this process can extend further in the event of technical impediments (and in recent cases it has been more protracted—e.g., Suriname (2021), Zambia (2022), Sri Lanka (2023), Ghana (2023), but it will eventually run up against the expectation of delivery by end-program, forcing an assessment of whether the Fund still has safeguards.

96. Where a financing assurances review would not be able to conclude that sufficient safeguards are in place for the Fund to proceed, the specification of additional safeguards could help address such a problem. In this way, under the LIOA policy, for example, standard safeguards may be added should strand 1 face delays; standard safeguards may be supplemented (e.g., additional conditionality) or even upgraded to enhanced safeguards where strand 4 applies; and enhanced safeguards may need to give way to requirements on actions to deliver on previous assurances (but only if developments call into question the previous assurance in terms of consistency with program parameters or timing). The Fund's Executive Board would have the opportunity, in the context of its Summing Up, to calibrate the message to the debtor and creditors/creditor forum about the urgency in moving through the next envisioned steps.

97. Staff report requirements:

- **Program request** (or, where arrears only arise during the program, the staff report for the first review at which arrears are outstanding). The Staff report should present a clear depiction of the expected steps and schedule for the debt restructuring. As noted above this would be based on information from the debtor and its advisors and would cover key steps (e.g., information sharing, offers, etc.). The timeline would be understood to be indicative, and the staff report would need to be clear that the timeline would be subject to change in the event of material developments. The staff report should also clearly indicate the creditors involved and the process being utilized (e.g., Paris Club, CF, or bilateral discussions). Delays relative to the originally envisioned timeline may not necessarily be an obstacle to the completion of the financing assurances review, provided that the assessment remains that progress is on track to restore debt sustainability in a reasonable time frame within the program period. The financing

assurances review must also be provided for in the legal text of the Fund arrangement and the decisions completing the reviews.[74]

- **Subsequent reviews** (i.e., while arrears remain outstanding, or until the preemptive restructuring has been completed). Such staff reports must detail staff's support for the completion of the financing assurances review. This would be expected to include sufficient information to track progress against the indicative schedule to give a clear assessment of the progress with the debt restructuring and whether it remains on track to ensure that overall program objectives are met (i.e., restoring debt sustainability and medium-term external viability). So long as arrears exist or until the preemptive restructuring has been completed, the staff report should provide a clear depiction of steps and an adjusted indicative schedule to facilitate subsequent reviews, as necessary.

Box 2. Sample Financing Assurances Review Language for Staff Report

The following sample language could in some circumstances be sensitive and subject to the Fund's rules on deletions under the Transparency Policy or to more general requirements on non-disclosure of confidential information.

Staff Report for Program Request

On January 1, Debtor announced a restructuring of external debt and hired legal and financial advisors. As part of the restructuring announcement, Debtor declared a moratorium on external debt service payments and is now in arrears to Bilateral Creditors A and B and external bondholders. Debtor and its advisors have held technical meetings with Bilateral Creditors A and B in February and April. The prime minister of Debtor is planning to hold discussions with the president of Bilateral Creditor A in June and with the prime minister of Bilateral Creditor B in July. It is expected that an agreement in principle with official bilateral creditors will be achieved before the first program review. [Assessment of the LIOA policy.] Debtor has conducted preliminary discussions with the creditor committee for bondholders and shared information on the scope of the debt restructuring and preliminary debt targets. Debtor and its advisors expect to make an initial proposal immediately following Board consideration of this program request, with an eye toward launching an exchange in October. [Assessment of the LIA policy.]

Staff Report for Subsequent Review

As anticipated at the program request, agreement in principle was reached with Bilateral Creditor A in August on a restructuring in line with program parameters. While both high-level and technical discussions have continued with Bilateral Creditor B, agreement has not yet been reached. However, it is expected that further discussions [during the Annual Meetings] will allow for additional progress such that agreement in principle within the next few weeks is likely. [Assessment of the LIOA policy.] On the private-sector side, the Debtor and the creditor committee have exchanged proposals. While the Debtor's offer was assessed to be in line with program parameters, the bondholder's offer would have breached the debt target. The Debtor intends to make a counteroffer shortly. While the initial expectation of an October bond exchange is increasingly unlikely, the exchange is still expected before the second program review. [Assessment of the

[74] Please consult with LEG. The provision on financing assurances should follow the one used in the LIA context and should be a continuous condition. For example, in the PRGT context: "[Member] will not request a disbursement under this arrangement … until the Trustee has determined that with regard to each disbursement, for so long as [Member] has outstanding sovereign external payments arrears to [official bilateral creditors], a financing assurances review has been completed." If a financing assurances review is required under both the LIA and LIOA policy, only one financing assurances review covering both types of arrears will need to be completed.

Box 2. Sample Financing Assurances Review Language for Staff Report (concluded)

LIA policy.] Given that the restructuring remains on track to achieve program objectives, staff supports the completion of the financing assurances review.

ROLE OF THE FUND IN THE DEBT RESTRUCTURING PROCESS

98. This section covers the Fund's role in a debt restructuring in the context of expected and existing Fund arrangements. The Fund's specific roles in the context of a Fund arrangement arise from the need to apply the financing assurances and lending into arrears policies. More generally the Fund's role is guided by general principles such as the duty of neutrality and uniformity of treatment.

99. There are several elements to the Fund's role. These include providing analysis and explaining the international architecture for resolution to the member as it decides about a restructuring, setting the restructuring envelope, promoting and facilitating debtor-creditor engagement, and communications.[75] Importantly, the Fund staff cannot perform the functions of financial and legal advisors. These elements are discussed in turn in the sub-sections that follow.

100. Note that the Fund can play a supportive role where there is no Fund arrangement existing or expected.[76] The provisions of this section apply by analogy in that context.

- In the context of its surveillance, the Fund may assess a member's debt as unsustainable. That assessment would be based on a debt sustainability analysis (DSA) showing unsustainable debt with the macro framework projections based on the authorities' current and expected policies. Engagement in the surveillance context can also help provide the analysis needed to set the perimeter for a restructuring.
- Members can request capacity development in the context of their debt restructuring efforts. This can include analysis on debt sustainability and cash flow and assistance on debt management to help build relevant institutional capacity. While it is possible to provide DSA-related capacity development in a restructuring context, this is generally not advisable absent a Fund-supported program to anchor policies (Appendix VIII).

[75] For analysis, see e.g. Issues in Restructuring of Sovereign Domestic Debt, December 2021; Asonuma, Tamon and Christoph Trebesch, Sovereign Debt Restructurings: Preemptive or Post Default, *Journal of the European Economic Association*, Volume 14, Issue 1, 1 February 2016, Pages 175–214.

[76] For example, the Fund provided independent analysis in Belize's 2007, 2013 and 2017 preemptive restructurings. The 2006 Article IV consultation documents and staff's debt sustainability assessment and cash flow analysis played a central role in setting the parameter for the 2007 restructuring. In December 2006, at the request of the Belizean authorities, the Fund issued an assessment letter to the international financial community, right after the exchange launch.

- Where no up-to-date Fund assessment is readily available, the member or its official creditors may request an assessment letter. Such a letter should contain a clear and candid assessment of the member's macro-economic conditions and prospects and of related structural policies.[77]

A. Supporting the Authorities as they Decide Whether to Restructure

101. When a member requests Fund financing, staff need to explain to the authorities whether debt sustainability problems preclude the Fund providing such financing, unless the member takes steps to restore debt sustainability:

- Any new request for Fund financing must be supported by a DSA, based on realistic macro assumptions and policy measures, showing that debt is sustainable. The Fund utilizes two frameworks for such purposes, the LIC DSF covering low-income countries, and the MAC SRDSF covering all other countries.[78] Staff need to share and explain the results of the analysis in the relevant framework in detail, ensuring that the authorities fully understand all assumptions, calculations, and outputs.

- If the member's debt is assessed as unsustainable, staff should explain that under the Fund's policy framework, the Fund is precluded from providing financing unless the member takes steps to restore debt sustainability over the medium term, including through a debt restructuring. Staff should explain that the debt sustainability requirement is directly linked to the Fund's mandate under the Articles of Agreement to assist members in resolving balance of payments problems under "adequate safeguards". Provision of Fund financing would further exacerbate the member's debt situation since Fund financing is de facto preferred. However, staff should note that debt restructuring is not always the only way to restore sustainability. Countries may also be able to secure grants or highly concessional support from official creditors, with or without a restructuring, that would (help) restore debt sustainability. Such commitments, however, need to be judged by staff as credible and specific or as deriving from a COCP.

- For requests for exceptional access to Fund financing, staff should explain that heightened scrutiny applies, whereby the member must take steps to restore debt sustainability with high probability if the member's debt is unsustainable. However, if the member's debt is sustainable but not with high probability, it must be assessed that the member is receiving financing from other creditors (official or private) on a scale and terms that: (i) help restore the member's debt sustainability prospects and (ii) provide sufficient safeguards for Fund resources.[79]

[77] Guidance Note on Letters and Statements Assessing Members' Economic Conditions and Policies, January 2018.

[78] See Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries and Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for Market Access Countries.

[79] The Fund's Lending Framework and Sovereign Debt—Further Considerations, April 2015.

102. The decision whether to restructure debt obligations rests solely with the debtor sovereign. It is the authorities who must decide whether and when to restructure their debt, given the staff's assessment and explanation of Fund policies. Even if debt is assessed to be unsustainable, the Fund cannot require a member to restructure its debt, and staff should never make such a representation. As the Fund may be subject to a claim of tortious interference, the staff should not interfere in private contracts. Staff also has a duty of neutrality in respect to disputes between members or between members and other parties. Should the authorities decide to restructure debt, they must manage the restructuring process with the assistance of their legal and financial advisors.

103. Against this backdrop, staff:

- **Should urge the authorities to remain current on their obligations *to the extent possible*.**
- **Should not advise the authorities to take actions that could lead to a default** (including a suspension of payments), either generally or with respect to specific obligations. This is because the Fund cannot interfere with contractual obligations. At the same time, staff should make clear that Fund staff's neutrality on this issue should not be seen as encouragement to put off a needed restructuring or to continue payments to creditors once debt is clearly unsustainable. The decision of whether or not to restructure is for the authorities to make. A negotiated, pre-emptive debt restructuring before payments are missed can be a preferred approach. Indeed, when debt is clearly unsustainable, prompt, and definitive action to restructure debt and restore debt sustainability with high probability remains the least-cost approach.[80]
- **Should encourage the authorities to engage and consult their own legal and financial advisors regarding the design and implementation of any debt restructuring strategy.** When a debtor is considering initiating a debt operation, Fund staff should recommend that the authorities engage legal and financial advisors. These advisors can typically assist the member in conducting an inventory of the debt stock, deciding on restructuring terms, the perimeter, strategies to engage creditors and communication strategy. Fund staff should not advise a member on its sovereign debt restructuring strategy.

B. Setting and Explaining the Envelope for A Debt Restructuring

104. When a member pursues a debt operation in the context of a Fund arrangement, the Fund has an important role to help define the restructuring "envelope" necessary to restore debt sustainability. At the member's request, Fund staff will work with the authorities to define a realistic macroeconomic framework that is adequate to achieve debt sustainability, and which provides for an appropriate balance between adjustment and financing. In specifying this baseline

[80] See the Summing Up in https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/The-Fund-s-Lending- Framework-and-Sovereign-Debt-Further-Considerations-PP5015. Also see Ams et al (2021), "Sovereign Default", in Abbas, Rogoff and Pienkowski (eds.) *Sovereign Debt: A Guide for Economists and Practitioners*, OUP. IMF (2013), "Sovereign Debt Restructuring—Recent Developments and Implications for The Fund's Legal and Policy Framework". Asonuma et al (2024), "Costs of sovereign debt crises: Restructuring strategies and bank intermediation."

program macro framework, staff needs to account for how the restructuring would be expected to affect macro aggregates, the financial system, and the financial markets pricing of debt, exchange rates, and other relevant financial instruments. This also requires among other things an early understanding of perimeter (e.g., domestic debt restructuring can have more notable impacts).[81] It is important for this macro baseline to maintain a central tendency. An optimistic baseline may amplify the tendency to settle for "too little" relief, which ex post can leave the debtor continuing to struggle with debt sustainability. Similarly, a "conservative" baseline will likely lead to more complex restructuring instruments involving contingencies being used in the treatment (i.e., "state-contingent debt instruments" (SCDIs)) which may lengthen the negotiations.

Establishing Debt Targets

105. The Fund should be transparent about the minimum requirements for an assessment that a restructuring would restore sustainability. This would take the form of targets established on relevant DSA ratios. Importantly, it is the Fund's Executive Board that establishes such targets in each country case, on the advice of staff and management, in the context of a program approval or completion of a review. In proposing targets, staff should address the following considerations:

- The targets should establish financing assurances for the program. The targets should generate external financing during the program period in a sufficient scale and timing to close any financing gaps (with domestic financing assumptions consistent with program assumptions on key macro parameters).
- The targets should establish that debt sustainability (i.e., external viability) will be restored. This would typically require a target to cover relevant debt sustainability indicators at a time frame that reflects policies put in place by end program (e.g., DSA stock ratios, such as debt to GDP, or debt to exports or debt service ratios, like debt service to revenues)
- The targets should also establish that the Fund's post-program financing assurances requirements are met (no financing gaps and capacity to repay; see paragraph 94). This would typically require a target to cover relevant flow indicators in the DSA (e.g., gross financing needs or debt service ratios) and ordinarily for 5 years after the arrangement ends.
- There may be specific circumstances where other debt targets are set, in line with the Fund's Debt Limits Policy.[82]

106. It is important that when targets are calibrated in a specific country case, that debt sustainability is fully restored. Restoring sustainability cannot be knife-edge (in which case any adverse shock would tip the debtor back into insolvency). This avoids the inefficiency costs that a second restructuring would entail, which is also important to restore market confidence and catalyze

[81] See, for example, Issues in Restructuring of Sovereign Domestic Debt.

[82] See Guidance Note on Implementing The Debt Limits Policy in Fund Supported Programs.

finance. Against this backdrop, in the context of the Fund's DSA frameworks, the debt sustainability targets should be set as follows:

- **LIC-DSF countries.** The restructuring targets should be set to reduce the risk of debt distress to moderate. This needs to be achieved over the medium-term for normal access cases, and by the end of the program period or three years (whichever is earlier) in exceptional access cases.[83] The moderate risk of external debt distress is assessed for the DSA that would apply at end-program and is typically seen as achieved by the debt indicators (PV of external debt to GDP and to exports, and external debt service to exports and to revenues) declining below the threshold for the relevant debt carrying capacity in 5 years (or earlier, as relevant, in EA cases) from program approval. The assessment would need to account for the overall risk of debt distress if domestic debt is a significant source of vulnerability.

- **Market Access Countries.** The targets should be set to make debt sustainable in normal access cases, and sustainable with high probability in exceptional access cases. These are assessed for a 10-year horizon guided by the medium-term modules of the SRDSF.[84] Given the overarching objective to restore sustainability, in the normal access context the debt targets should be consistent with a probability of sustainable debt that exceeds 50 percent by a sufficient buffer (normally at least 60 percent probability), to avoid the need for subsequent restructurings in the face of moderate shocks. In exceptional access cases, debt targets should be consistent with a probability of sustainable debt that exceeds 80 percent (consistent with how thresholds of the SRDSF are calibrated).

107. Restructuring targets, once set, should only be adjusted under exceptional circumstances. It would be very disruptive to move the targets once the restructuring negotiations have begun, particularly if different groups of creditors have moved at different speeds. That makes the process less predictable and could lead to costly delays. Nevertheless, adjustments may be necessary if a significant change in circumstances requires a different restructuring envelope to restore sustainability (e.g., on the upside, discovery of exploitable natural resource wealth, and on the downside a natural disaster). The inclusion of appropriate buffers when setting the targets (as opposed to barely restoring sustainability) can help ensure that only major downside events lead to adjustment and such buffers are thus in the interest of all parties involved, debtor and creditors alike.

Representing the Restructuring in the DSA

108. The macro framework, targets, and implicit restructuring needs must be effectively communicated through the DSA:

[83] See Supplement to the 2018 Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSF).

[84] Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for Market Access Countries.

- **The initial baseline DSA should show: (i) the evolution of debt aggregates without a restructuring; and (ii) the debt targets.** This allows legal and financial advisors to identify the needed scale of relief. As noted above, the macro framework should assume that a debt restructuring takes place (this approximation avoids the complications associated with modeling the second order macro impacts of slight differences in restructuring design).

- **The baseline DSA can be complemented by an illustrative scenario** (or if appropriate alternative scenarios). These can help demonstrate to the Fund's Executive Board that it is feasible to restore debt sustainability. The illustrative scenario should ordinarily be based on the authorities' restructuring strategy. If the authorities are yet to develop a strategy, staff can use past restructurings as a guide in the construction of an illustrative scenario. The staff report should indicate that any illustrative scenario is one of many possible treatments that restores debt sustainability in a manner consistent with program parameters, and that it should not be interpreted as prejudging the outcome of debt negotiations.

- **Teams can apply judgement in determining what would be most informative scenario to show in DSAs in GRA program reviews.** In cases of protracted restructurings, continuing to present a pre-restructuring baseline DSA until a majority of creditors have reached an AIP on a treatment can help show how the restructuring envelope is changing with underlying macro developments. Teams may however choose to switch focus to the illustrative scenario as the restructuring strategy is implemented. For instance, The OSI treatment can be incorporated on the basis of the financing assurances provided or the application of the LIOA policy, depending on the particular case. PSI can be incorporated on the basis of an assessment of a credible process to reach that treatment. This has been the general practice in MACs, sometimes even at the time of program request, though with some exceptions (e.g., Ukraine). [85] Staff should note that this should in no way prejudge the outcome of the ongoing negotiations.

- **In the case of LICs, the guidance calls for a more conservative approach for program reviews, in line with past procedures**. The baseline generally only reflects OSI treatments when an MoU is agreed with an OCC (or bilateral agreement signed if outside an OCC process) and PSI treatments when a bond exchange or loan restructuring has concluded.[86] Going forward, the decision of whether to include an OSI treatment in the baseline can be informed by the assessment of COCP. The restructuring of residual official creditors can be incorporated on the basis of a representative agreement with a permanent standing forum or other application of the LIOA. Residual private claims can be incorporated in line with the authorities' restructuring

[85] For example, Suriname 2021 EFF and Sri Lanka 2023 EFF.

[86] For example, in the cases of Zambia 2022 ECF and Ghana 2023 ECF, the OSI treatment was only incorporated in the baseline after an MOU was agreed with the OCC (third and second reviews, respectively). The PSI treatment was not incorporated at that point but could be incorporated once an agreement is reached with the majority of private creditors in the debt restructuring perimeter.

strategy or under CoT assumptions, once the settlement has been reached with the majority of private creditors included in the debt restructuring perimeter.[87]

C. Promoting and Facilitating Debtor-Creditor Engagement

109. The Fund should promote debtor-creditor engagement both in preemptive and post-default situations. Once the debtor authorities have decided to restructure, Fund staff should encourage them to engage in an early and collaborative dialogue with creditors to achieve a consensual restructuring. Experience suggests that proactive creditor engagement and a clear communication strategy are key to achieving an orderly debt restructuring with high creditor participation.

Creditor Coordination

110. Staff should promote creditor coordination but cannot insist on specific modalities. The Fund prefers to work with a representative standing forum, and this is in theory possible in most cases. Experience has demonstrated the value of this, e.g., it internalizes information sharing challenges and helps handle COT concerns. Outside of such a context, Fund staff should promote information sharing between creditors (e.g., about any agreements reached), including by encouraging the borrowing member to facilitate this. Failure to share information can become a barrier to completing a financing assurances review (when it undermines debtor-creditor relations and points to delays in the process). Creditor coordination may encompass simultaneous efforts by official bilateral and private creditors, but staff should leave a decision on this type of modality up to the debtor authorities, their advisors, and creditors. Staff should be prepared to support the broader information sharing requirements, if this is the selected modality.

Perimeter, Burden Sharing, and Comparability of Treatment

111. Fund staff should not be involved in issues of setting the perimeter of the restructuring and should only address burden sharing among creditors in limited circumstances. Both roles are the preserve of the authorities and their advisors, and the Fund can typically accept unequal burden sharing either across (official and private) or within creditor groups so long as debt restructuring targets are achieved. In this context:

- **Staff may need to assess and convey to the authorities whether perimeter choices have an impact on the macro framework (and even debt targets).** For instance, in some cases, choices about restructuring domestic law debt held by the domestic financial system may create financial stability issues that would rebound onto the assumed macro framework underpinning the debt restructuring. Relatedly, such choices may also impact broader confidence in the

[87] See paragraph 90 in the Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries, December 2017.

macroeconomy and impede anticipated capital inflows or trigger capital outflows. Also, some perimeter choices could make it all-but-impossible to reach program targets.

- **Staff may need to discuss capital flow management measures (CFMs) that implicate the Institutional View (IV) on the Liberalization and Management of Capital Inflows** [88] Countries may on occasion choose to take temporary measures affecting both capital inflows and outflows in support of a debt restructuring (e.g., Ukraine 2024), potentially to buy time for a restructuring, help speed resolution of debt restructuring, and/or protect debt sustainability in the immediate aftermath of debt restructuring. Staff's discussions should be guided by the IV and country-specific circumstances. There are several cases where the use of CFMs would be appropriate under the IV. In crisis circumstances, restrictions on outflows may be useful as part of an overall policy package tackling the underlying economic imbalances. Where countries have prematurely liberalized, that is where liberalization appears to have outpaced the economy's capacity to safely handle capital flows, it could be appropriate to re-introduce controls while implementing policy actions to address the weaknesses that led to the reimposition of CFMs. Imposition of inflow CFMs could also be appropriate where there is an inflow surge and other macroeconomic policy options are not available. Pre-emptive inflow CFM/MPMs, that is, measures that are also macroprudential in nature, can also be appropriate in some narrow circumstances where capital inflows could contribute to systemic financial risks from stock vulnerabilities.

- **Staff should focus on whether any given course of action regarding burden sharing is likely to achieve the requisite high creditor participation to restore debt sustainability in line with program parameters**. If not, then staff should convey to the debtor authorities that there is a problem.

    - As a corollary, staff should not advise the authorities and creditors on CoT considerations. Creditors assess comparability over different dimensions (NPV reduction, face-value reduction, and maturity extension/financing over the program).[89] Staff may wish to stay apprised of creditor views and to do basic calculations for the Fund's own purposes, however, in support of an assessment of participation prospects.

    - However, there are circumstances where staff must assess whether the debtor is asking for a disproportionate contribution from the creditor relative to other official bilateral creditors. In particular, under the LIOA policy, this is one factor taken into consideration in determining whether the debtor is acting in good faith.

    - Staff should not encourage the payment or non-payment of a *particular* creditor. However, staff may raise to the attention of the debtor authorities if payment of one creditor may

[88] See Review of the Institutional View on the Liberalization and Management of Capital Inflows.

[89] For more details on creditor's views, please refer to the Compendium of GSDR Common Understanding on Technical Issues.

threaten the participation of other creditors in a debt restructuring, including through CoT considerations.

Terms and Conditions

112. Fund staff should not advocate for specific terms and conditions but should help assess whether such terms and conditions (i.e., offers) are compatible with program targets on debt sustainability and financing.[90] The authorities and their advisors must decide on the terms to offer to different creditors (including contingencies). However, the Fund's assessment effectively sets the amount of overall debt relief that needs to be provided, so the authorities need to understand the Fund's assessment about whether such offers meet program targets. Staff should do this assessment when requested by the debtor member and should provide this assessment as quickly as possible. Importantly, because the debtor authorities are the Fund member and staff's counterpart, direct staff engagement with creditors to assess their offers must be authorized by the debtor authorities. In general, the debtor authorities must be a party to any discussions between staff and the creditors unless the debtor agrees otherwise, and it is not staff's role to help creditors engineer the most favorable proposal.

113. In assessing specific terms and conditions, the evaluation of contingencies can raise specific issues. State-contingent elements can include upside instruments, such as warrants tied to oil revenues or specific economic performance indicators (e.g., debt carrying capacity, GDP, etc.). State-contingent elements can also protect the debtor against downside scenarios, such as natural disasters. The same general principle applies here, that staff should not advocate for specific terms, but must evaluate any particular complexities they create, as well as the risk of clawback of relief if official creditors assess that CoT has not been respected. Appendix X discusses state contingencies and the approach applied by the Fund in evaluating them in more detail.

Information Sharing

114. Staff should facilitate debtor-creditor engagement through information sharing (Appendix VIII provides complete details on sharing underlying information with creditors):[91]

- **Fund staff can explain to creditors the macro-framework and the DSA, including the debt targets and financing needs, subject to confidentiality undertakings where appropriate and the consent of the debtor.** Explaining the program and restructuring parameters often necessitates quite extensive exchanges with creditors, including on broader Fund targets (e.g., on reserve adequacy) and policies. Provision of such information may be important to secure financing assurances (whether debt relief or new financing) from official creditors and to advance restructuring negotiations with private creditors (particularly when a default may be

[90] Fund staff should encourage the use of enhanced collective action clauses (CACs). Strengthening the Contractual Framework to Address Collective Action Problems in Sovereign Debt Restructuring, October 2014.

[91] See Staff Guidance Note on Information Sharing in The Context of Sovereign Debt Restructurings, June 2023.

imminent). Where such engagement requires information not yet in the public domain or approved by the Board, it would need to be subject to confidentiality undertakings.

  - **Limitation: the DSA itself should not be shared prior to Executive Board approval of an arrangement.** The DSA forms part of a Board paper and is, therefore, covered by the Transparency Policy and guidance on the publication and preparation of country documents in the April 2014 Transparency Policy Guidance Note.[92] The general rule is that country staff reports and parts thereof (in draft or final form) should not be shared outside of the Fund prior to Board issuance and publication. However, much of the underlying information and assumptions may be needed for creditor decision-making in the course of the restructuring process and this provision does not prevent sharing such information in other formats.

- **In performing this function, it may be also useful for Fund staff to participate in the debtor's meetings with private creditors with the debtor's permission.** While Fund staff should not normally be present when detailed restructuring terms are negotiated with private creditors,[93] it is often useful for staff to attend more general sessions in which aspects of the program and associated debt restructuring targets are under discussion and where staff is in a position to provide useful information in these areas. With the debtor's permission, Fund staff has attended at least one meeting with creditors in almost all restructuring cases over the last 20 years.

- **Fund staff has a long-standing practice of close cooperation with representative standing fora, including under the HIPC initiative.** As part of this, Fund staff typically shares information underlying staff's debt sustainability analysis, provides estimates of the financing envelope for restructuring, and answers creditor questions about the process, the program parameters, and the data. This includes the Paris Club and the official creditor committees formed under the CF where the Paris Club is involved (Chad, 2021; Ethiopia, 2021; Zambia, 2022). See Appendix VIII for more details on interactions with representative standing fora.

- **The Fund staff should also engage with individual official creditors on a bilateral basis, in the context of COCP assessments, providing information as necessary** (see paragraph 15).

Facilitating Negotiations

115. Note that staff may not enter into negotiations on the macro-framework and program assumptions with creditors. There may be circumstances where, following a default, the debtor enters into discussions with creditors prior to the approval of a Fund arrangement. In these circumstances, creditors are likely to express views as to the appropriate dimensions of the program's adjustment and financing parameters. While Fund staff would actively listen to such input, decisions on an adequate macroeconomic framework and the design of the financing plan or

[92] Updated Guidance Note on the Fund's Transparency Policy, April 2014.

[93] Such negotiations can take many forms, ranging from open webinars for all creditors to more restricted engagement with creditor advisors or representatives of a creditor committee.

the adjustment program that could form the basis for the Fund's lending into arrears remain in the sole purview of the Fund.

116. When requested to do so by both the debtor and creditors, the Fund can use its "good offices" to bring the parties together. This function is generally limited in scope and technical in nature, and can involve for example, offering a venue for official creditors and the debtor to meet, and reviewing the nature of the issue and general terms for the settlement of a dispute.[94] However, the Fund does not participate in negotiations or exhaustively analyze the issues, and Fund staff cannot seek contributions from specific creditors on the debtor member's behalf. [95]

Staff Report Requirements

117. Staff reports should describe the developments in debtor-creditor engagement. Much of the information relating to debtor-creditor engagement will be captured already by the staff report requirements for financing assurances, the arrears policies, or financing assurances reviews.

D. Program Conditionality

118. Fund conditionality is sometimes useful to incentivize progress on debt restructuring, to secure financing assurances, and to ensure adequate safeguards for the Fund.[96] In general, the Fund is precluded from lending if lack of progress were to lead to a reassessment that sustainability is restored in a forward-looking manner. Given the criticality of debt restructuring for debt sustainability and financing assurances, the Fund has sometimes used program conditionality to support intermediate steps in debt restructuring processes.[97] LIOA strand 4 also envisions conditionality as appropriate to help establish safeguards for Fund financing to go forward (see paragraph 67).

119. Any use of conditionality on restructuring needs to reflect country circumstances, and to be consistent with the Fund's Guidelines on Conditionality.[98] As such, restructuring conditionality should only be included where the measure is reasonably within the member's direct or indirect control and is either: (i) of critical importance for achieving the goals of the member's program or for monitoring the implementation of the program; or (ii) necessary for the implementation of specific provisions of the Articles or policies adopted under them. Conditionality

[94] *See* The Role of the Fund in the Settlement of Disputes Between Members Relating to External Financial Obligations, April 25, 1984, and Correction 1, May 15, 1984; Acting Chairman's Summing Up, July 13, 1984.

[95] See for example, The Gambia in 2019.

[96] The reference to conditionality here is to prior actions and structural benchmarks that have encouraged progress toward completion of a debt restructuring. While the financing assurances and debt sustainability policies require assurances on a needed debt restructuring as described in the main paper and Appendix XI, conditionality can sometimes be an additional tool to ensure progress through intermediate milestones.

[97] The Fund's Lending Framework and Sovereign Debt – Further Considerations (2015).

[98] Guidelines on Conditionality, Decision No. 12864–(02/102), September 25, 2002, as amended. See also Operational Guidance Note On Program Design and Conditionality, January 2024.

on a debt restructuring can only be included in a Fund arrangement after the authorities have decided to restructure their debt. Conditionality may also not interfere in contractual relationships—e.g., by requiring default or by mandating actions on specific claims.

120. Three types of conditionality may be relevant in a debt restructuring context:

- *Quantitative performance criteria*. Performance criteria on net international reserves and fiscal targets have implications for the ability to service debt and need to be set in a manner consistent with the restructuring strategy.

- *Prior actions*. These cover measures that a member may be expected to adopt prior to the Fund's approval of an arrangement or the completion of a review when it is "critical for the successful implementation of the program that such actions be taken to underpin the upfront implementation of important measures."[99] Where the Fund is asking for safeguards to proceed under strand 4 or more generally under a financing assurances review, this could be appropriate.

- *Structural benchmarks*. These may be established for a measure that "cannot be specified in terms that may be objectively monitored or where its non-implementation would not, by itself, warrant an interruption of purchases or disbursements under an arrangement."[100] Structural benchmarks are intended to serve as "clear markers" in assessing progress in implementation of critical structural reforms in the context of a program review. The Fund will know the indicative timeline and actions for a restructuring (per financing assurances review requirements) and can assess whether any of these actions meet the test laid on in the preceding paragraph.

121. The appropriate actions to target with conditionality would depend in part on whether a restructuring is preemptive or post-default. Given the urgency to avoid a default, negotiations in preemptive cases are normally expected to be more advanced. In such cases, agreement should usually be reached by the first review, or even before approving the request for an arrangement.[101] As such, where conditionality is appropriate, it tends to be set on relatively advanced steps. In post-default cases, programs often allow more time for the restructuring to be completed, and conditionality in such cases would typically consist of intermediate steps towards finalizing the debt operation. Appendix XI summarizes specific program conditionality, as well as commitments from the authorities that were not part of conditionality, included in recent Fund arrangements that involved restructuring of privately held sovereign debt.

122. Restructuring-related conditionality may not be judged necessary, including if the required actions are sufficiently addressed by the arrears policies or preemptive restructuring policy. When formal conditionality is judged not to be needed, it would still be necessary to

[99] Ibid.

[100] Ibid.

[101] The average time between the start and completion among eight preemptive restructurings that took place during 2014-20 was about eight months (see Table 1 in The International Architecture for Resolving Sovereign Debt Involving Private-Sector Creditors—Recent Developments, Challenges, And Reform Options).

describe the envisioned timeline and actions in the authorities' Letter of Intent (LOI) or Memorandum of Economic and Financial Policies (MEFP), per financing assurances review requirements.

E. Dealing with Fund-Related Conditions Imposed by Creditors

123. In some restructurings, creditors seek to link debt relief to certain Fund-related conditions, which should be discouraged. An example would be where a flow treatment is provided upfront, but a stock treatment falls near the end of a Fund-supported program and is conditioned on successful completion of a certain program review. In theory, such conditions can bring benefits, in so far as they give creditors greater confidence that the debtor will implement their adjustment program. However, they can also entail significant risks, including because they can create uncertainty or put undue pressure on the Fund and Fund staff to make the condition occur, particularly where linked to mechanisms such as debt-relief clawbacks. If such conditions are needed to reach a deal, staff should be clear about two points:

- Certain modalities can reduce the risks, including linking relief to staff-level agreements (rather than Board approvals) and using reward-based (rather than punishment-based) incentives. Appendix XI discusses examples from Fund-supported programs since 2010.

- In any case, staff should not agree to bind the Fund or Fund staff to future actions or deliverables—for example provision of data to the parties on performance on key indicators, publication of documents, or delivery of capacity development—as all Fund engagement is subject to its generally applicable policies.

F. Fund Communications

124. Communications by Fund staff regarding a debt restructuring should be informed by the Fund's role as a confidential and trusted advisor to the debtor member. No confidential information may be shared without the debtor member's permission, either to other parties in the restructuring or to the public. In general, staff should defer to the authorities to handle communications, though staff may "correct the record" with a factual statement on process, if needed. The member should clear with Fund staff how staff views on a potential proposal are represented in any cleansing statement. Should Fund staff be asked about its role, a factual statement on staff's actions—e.g., participation in discussions, explanation of the macro-framework to creditors, or provision to the authorities of staff's assessment of a proposal—may be appropriate, but providing details about staff's confidential advice or assessments requires the authorization of the authorities.

125. A public statement by the Fund's Managing Director or by Fund staff may sometimes be useful to encourage dialogue and creditor participation, if requested by the debtor authorities. This may be particularly relevant when a deadline is approaching, often associated with an exchange or offer to private creditors launched by the authorities. Consistent with this, in several restructurings, Fund management has facilitated debtor-creditor engagement by issuing press statements underlining the importance of completing the restructuring.[102] Statements should not support particular restructuring terms/offers, given that the Fund is agnostic on the specific terms so long as they meet program targets, but should instead support the efficient resolution of the restructuring. A statement confirming consistency with program parameters could be useful to reassure the parties involved. Given that such statements can be highly sensitive, they should first be discussed and reviewed by the Communications Department, the Monetary and Capital Markets Department, LEG, SPR, and management.

126. Staff should explain Fund policies and their application to relevant creditors. Questions from official creditors about how they are being classified for the purposes of Fund policies, and whether they will face application of the three criteria or be "deemed away" are particularly sensitive. Especially when dealing with private creditors' legal and financial advisors, it is strongly recommended to involve SPR and/or LEG in the discussion.

127. Fund staff and Management can also help obtain financing assurances from official bilateral creditors and IFIs. Such efforts should always be led by the debtor country authorities. Staff can support their efforts, for example by meeting with creditor country EDs or authorities to explain program parameters and Fund policies. Where needed, such efforts can be escalated to Fund Management level.

---

[102] See, e.g., Uruguay 2003, Dominican Republic 2005, Belize 2006, Greece 2012, Ukraine 2015, Chad 2021, Zambia 2024, Ukraine 2024.

Appendix I. Application of the Financing Assurances Policy to Members Facing Exceptionally High Uncertainty and Requesting a UCT-Quality Program[1]

1. In most cases of exceptionally high uncertainty, emergency financing through the Rapid Financing Instrument and/or Rapid Credit Facility would generally be the appropriate modality for the Fund to support members with urgent BOP needs. There are no unique procedures in such cases, and the normal requirements regarding debt sustainability, capacity to repay and other policies would apply.

2. However, stronger Fund engagement in a UCT context with a member facing exceptionally high uncertainty might be deemed appropriate and consistent with Fund policies in certain cases. In these latter cases, which are expected to be extremely rare, the procedures in this appendix would apply.

3. Staff must first assess whether "exceptionally high uncertainty" applies. This is characterized by a combination of several factors:

i. It originates in an exogenous shock; that is, an ongoing shock to a members' economic capacity that originates in factors beyond the authorities' control.

ii. The impact of the shock on the economy depends on events fundamentally outside of the control of the authorities' economic policies, at least in the near-term.

iii. It therefore involves severe and continuing balance of payment impacts, making the scale of the BoP challenge difficult to assess with the usual degree of confidence associated with UCT lending (although there could still be a credible basis for assessing that UCT requirements are met). An example is a shock in the form of a large-scale war.

iv. No one scenario that characterizes the evolution of the ongoing shock can be seen as sufficiently "central," and indeed the situation involves significant adverse tail risks where the shock and/or its impacts could continue beyond the usual Fund program timeframe.

v. The ability of official bilateral creditors to ensure debt sustainability through upfront debt write-downs is impaired due to the lack of a sufficiently "central" scenario and given the presence of large downside risks, and broader sources of financing must be catalyzed to help resolve the BoP problem.

4. For a member facing such uncertainty, a procedural safeguard is required to launch Fund engagement. This would generally be expected to be in the form of an informal meeting to engage Executive Directors, but it may be a formal Board meeting if considered appropriate. Such

[1] Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche (UCT) Financing Under Exceptionally High Uncertainty, March 2023.

engagement should predate any program negotiation mission. The Board would need to consider the issue of whether exceptionally high uncertainty exists, as defined above, and whether the Fund would be prepared to accept higher risks, and pursue an arrangement, if the member has requested it at that point. A Board determination that exceptionally high uncertainty exists in a specific case would not be a guarantee that the Fund could provide UCT-quality financing; any request for Fund financing would need to be assessed on its own merits, in line with applicable policies.

5. Program design would have to take into account the exceptionally high uncertainty. Instead of a program around a central scenario—the Fund's standard approach—these cases would require designing a program that can work in a range of scenarios, to give enough confidence that it will work. In essence, the agreed policies and reforms must be designed to restore medium term viability, notwithstanding the inherent uncertainty about any one scenario. To implement this in practice, two sufficiently separated scenarios should be set out (thus also giving confidence about scenarios in between):

a. **A baseline scenario built on an assumption about how the exogenous factors driving the exceptionally high uncertainty evolve (e.g., a large-scale war winding down).** This scenario would need to resolve the BoP problem and restore medium term external viability per standard UCT requirements. This requires, among other things, a detailed DSA that indicates that debt sustainability can be restored over the medium term, together with adequate financing assurances to ensure that the program is fully financed and that there are adequate safeguards including on the member's capacity to repay the Fund.

b. **A downside scenario capturing the significant risk that the exogenous factors driving the exceptionally high uncertainty persist.** This should aim to push assumptions to the limit where a Fund-supported program would still be able to meet its objectives (thus maximizing confidence that there is a space for a program to work). This would require a combination of contingent adjustment policies and external financing that would still address the BoP problem and restore medium-term external viability while providing appropriate safeguards in that scenario, including with respect to capacity to repay the Fund (and taking into account any grants and/or highly concessional financing committed by donors as a backstop).

6. This type of program design would require:

a. Program assumptions on baseline and downside scenarios that are consistent with the country context at the time of arrangement approval and at subsequent reviews. Since the shock would typically originate in factors beyond the control of economic policies, such assumptions would lie beyond the competency of Fund management and staff. Accordingly, management and staff would be expected to draw on the expertise of other organizations to help guide judgment.

b. An assessment that the member is sufficiently committed to and has the capacity to implement the program. This includes confidence that the member would have sufficient

economic policy control to implement the program from the outset and would provide necessary data for the Fund to monitor program implementation. This could require establishing a track record (e.g., under a staff monitored program, or PMB).

c. A program of sufficient length to provide the member more time to adjust, with some room to accommodate a wider range of assumptions and greater scope to adjust the program per the downside scenario contingency plan if the situation persists longer than envisaged. Note that if exceptionally high uncertainty lasts too long, there may be insufficient time left for the member to adjust to achieve medium-term external viability. At this point, with the program no longer able to achieve its objectives, it would no longer be feasible to complete program reviews and continue with it.

d. Sufficient donor support, on appropriately concessional financial terms, committed to cover the program period and beyond. This includes a clear commitment of contingent donor support on appropriately concessional terms to complement stronger policy adjustments needed under the downside scenario (to strengthen the case at the arrangement approval that the program can deliver notwithstanding exceptionally high uncertainty).

e. Financing assurances from donors and creditors regarding debt sustainability (on both the baseline and downside scenario).

f. Adequate safeguards for repayment to the Fund, including in tail risk scenarios beyond the downside scenario.

7. Before proceeding, a judgment would need to be made that such a UCT program design would be feasible and credible, and consistent with legal and policy requirements for Fund lending including adequate safeguards. Management and staff would need to do this before circulating a UFR request to the Board at the time of approval of the arrangement as well as at subsequent reviews. To the extent the exceptionally high uncertainty dissipates, the situation would go back to a standard Fund approach built just around the baseline. If it remains, then program reviews would need to continue to preserve the structure of two feasible scenarios and be able to assess that the two scenarios remained sufficiently separated to give confidence. If the exceptionally high uncertainty were to escalate or continue for too long, then the level of confidence could become sufficiently low that management and staff would not be able to clearly and credibly establish a program design—including a feasible downside scenario—that would resolve the member's BoP problem. Further Fund lending under the arrangement would become infeasible.

8. The form of financing assurances from official bilateral creditors in cases involvement exceptionally high uncertainty would be different from the normal approach.[2] In such situations, where a restructuring is always necessary, official bilateral creditors would be expected to

[2] The approach to financing assurances from the private sector remains unchanged from normal cases (see paragraph 19 on credible process).

deliver credible assurances upfront, but with a second-stage contingent element. Thus, they would provide:

a. An upfront "credible and specific" assurance covering what is needed in the baseline scenario to restore debt sustainability. This could be cast as a flow then stock treatment (per HIPC), although the scale of the second stage debt relief commitment would need to be clear to help condition expectations of the other creditors expected to restructure in the interim (e.g., the private sector, which would not be eligible for such an approach under Fund policies).

b. An upfront assurance to provide the necessary financial support to restore debt sustainability in a second stage once the exceptionally high uncertainty abates within program (or based on a best estimate at the last program review, whichever comes first). The program's downside scenario would provide an upfront estimate of the possible scale of the needed financial support, in the event outcomes are more adverse. In line with standard program practice, scenarios would be updated at each program review and financing commitments updated if necessary, providing full transparency to creditors and donors and control over their commitment.

Together, these would also help establish the ability of the program to resolve the BoP problem by restoring debt sustainability. The assurances would be given by a recognized creditor forum, and/or directly (in line with the Fund's standards for such assurances.)[3]

9. The approach to financing assurances from private creditors would be broadly consistent with standard approaches, but with some nuances reflecting the circumstance:

- Where arrears exist to private creditors, the LIA policy requirements would apply, and the two criteria of the policy must be met (see section IV.D above). The nuance is that extra flexibility is needed in the assessment, as it may not be possible to reach an agreement before the end of the exceptionally high uncertainty (which may take some time). Any agreement reached would of course need to be viable up to the downside scenario (implicating contingent features which would need to be carefully evaluated).

- In some circumstances, creditors may agree to a standstill, or a restructuring keyed to the "baseline," leaving the situation in pre-default and insufficient to restore sustainability across the range of scenarios between the baseline and downside. Staff must then assess that a credible process exists to deliver the necessary restructuring. Staff should judge this by reference to several factors: (i) whether the authorities have announced the final restructuring; (ii) the consistency of their communications to creditors about program parameters in the context of the standstill and expected second restructuring; (iii) their retention of legal and financial

[3] Note that in some circumstances restoring sustainability might go beyond debt relief to a need for financing on highly concessional terms. The mix of relief and new financing is within the discretion of the creditors/donors, provided it adds up to provide the required financing. For new highly concessional financing, the requirements for standard financing assurances would apply.

advisors; and (iv) sharing of relevant information with creditors, including the potential envelope for the restructuring under the program space between baseline and downside.

10. To support a request for UCT financing by a member facing exceptionally high uncertainty, the Fund would require an assurance on the member's capacity to repay the Fund from official creditors/donors for safeguards purposes. The assurance:

a. **Should be extended by a significant group of creditors/donors.** Considering the long potential timeframe during which an assurance could be outstanding, having a significant group of creditors/donors would help ensure that adverse changes in individual members' external position would not undermine the credibility of the assurance. Generally, a "significant group" would represent at least 50 percent of voting power at the Fund's Executive Board. Individual members of the group should be participants in the Fund's Financial Transactions Plan and have a collective history of contributions to multilateral debt relief initiatives commensurate with the scale of their collective assurance.

b. **Would confirm the creditors'/donors' recognition of the Fund's de facto preferred creditor status** (PCS) and complement the Fund's risk management framework with the aim to prevent any overdue financial obligations to the Fund from the borrowing member and to thus establish "ex ante" adequate lending safeguards. Management, staff and the Board would need to assess at program outset and each review that scenarios which would give rise to any overdue financial obligations are very unlikely, and adequate safeguards for Fund lending are in place as required under the Articles.

c. **May take different forms but would need to be public.** The joint nature of the assurance would leave space for the group to manage different domestic processes. The Fund would not prescribe ex-ante any expected burden sharing. Normally, a public statement from the creditors or a suitable written statement from the Executive Directors representing the relevant official bilateral creditors/donors, on behalf of their country authorities, would suffice to provide the assurance. The statement would need to be in the public domain; in the case of a statement conveyed by Executive Directors, publication could be via the staff report, which should include a clear reference.

d. **In the event that Fund financing commitments were proposed to be augmented, the group of creditors/donors would need to extend their assurance accordingly**.

e. **This type of assurance would cease to be effective upon approval of a new arrangement for the member** (unless specifically renewed, for example, because of a continuation of the exceptionally high uncertainty).[4]

[4] The assurance would also become ineffective if a member can no longer exercise its rights and obligations in the Fund (e.g., where there is no government recognized for the member by the international community).

11. When a member facing exceptionally high uncertainty seeks emergency financing, safeguards beyond those described in Section IV.F may be needed to ensure the restoration of debt sustainability. One approach is to receive assurances from creditors that cover both debt relief and capacity to repay, in line with the assurances laid above.[5] Given the broader messaging problem for the Fund and the damage this could inflict to the Fund's ability to catalyze full assurances in future circumstances, this approach should only be considered in a stand-alone RFI/RCF context, and in a true emergency where other options to secure assurances are not feasible. In the event that assurances in emergency financing situations are established using these modalities, the Board should be duly informed to confirm that it is prepared to take the added balance sheet risk (and other enterprise risks involved). To this end, an early engagement with the Board could be pursued, supported by short documentation. Staff could explain in the documentation that: (i) access to Fund resources is urgently needed and there is no time to agree on a Fund-supported program; (ii) adjustment and financing safeguards would be sought, including details; and (iii) there is an international effort to support the member and the Fund is called upon to act. Such an early engagement would also put official creditors on alert about their anticipated contribution and the need for the requisite assurances. Following the RFI/RCF disbursement, a follow up process involving the Board would be needed to report on progress (e.g., through surveillance or post-program monitoring modalities, where relevant).

[5] This corresponds to the approach used in Iraq in 2005, Lebanon 2007, and Ukraine 2022.

Appendix II. Approval in Principle

1. The Fund has a procedural tool—AIP—to bridge engagement gaps while safeguards are sought. AIP is a procedure that involves:

- A first decision by the Board approving a Fund arrangement in principle based on a complete understanding between the Fund and the member on policies, but where financing assurances have not been secured.
- Once the financing assurances have been obtained, a second decision by the Board is required for the arrangement to become effective, and this is adopted on a Lapse of Time (LOT) basis.

2. The AIP procedure entails specifying several elements:

- *The period between approval in principle and effectiveness of an arrangement.* The first decision to approve in principle must specify a date by which AIP would lapse, i.e., a deadline by which the second decision must be adopted on a Lapse of Time (LOT) basis. Factors in determining the deadline include the need to ensure that the program would not become stale, the need to ensure that the program was indeed being implemented and the need to ensure that delay would not distort the phasing under the arrangement. This deadline can usefully align with the expected timeline in a program for a review, which is about 3-4 months in rapidly evolving situations.
- *A timeframe and circumstances under which the AIP can be renewed.* Such a renewal would normally be subject to a limit of 3-4 months (implying a maximum AIP period of 6-8 months) and such an update is only allowed once with respect to an arrangement request. Note that the member's right to request a new program at any point would remain, but there would be a strong incentive to stay within AIP to avoid creating questions about capacity to implement a program.
- *Renewal requirements.* An AIP can only be renewed if the use of the AIP tool is still considered worthwhile; that is that the effort to establish necessary safeguards would still be on track and likely to deliver. To complete a renewal, staff would need to assess that the overall program is being implemented and remains on track. Concerning the latter, new information may require minor updates (e.g., to adjust availability dates and test dates), but could also require more significant macro-framework updates, and/or updates where there are implementation issues to be corrected. Prior actions would be expected to correct any implementation shortfalls, and could draw on conditions in the original program, with any use consistent with the Guidelines on Conditionality. The proposed extension and new LOI/MEFP/TMU would need to be put forward for full Board consideration, supported by a new staff report. The Board would need to be informed if AIP would be allowed to lapse without renewal or achievement of the second condition, including an explanation of the reasons for this.

- *The required safeguards*. In a restructuring context, the requirements under the financing assurances policy and the LIOA policy would have to be met to proceed. As discussed above, these could be broader than just financing assurances. The Fund would require adequate safeguards to proceed. These safeguards accordingly would need to be clearly specified in the conditions required for the second decision under AIP (i.e., to make the arrangement effective) for such a program involving a debt restructuring.

3. Program design under the proposed adjustments to the AIP framework would need to recognize and be robust to the possibility that the safeguards noted above might only be received during the extended period of the AIP. This can be handled with suitably conservative financial programming combined with the use of adjusters (i.e., on targets that would be affected if the financing assurances and thus Fund disbursement arrive earlier or later than expected). Note that it would be possible for program design to be based on semi-annual reviews notwithstanding a possible AIP renewal in three months (and in this instance a set of Indicative Targets at the three-month point would be essential to support AIP renewal).

4. It is important to emphasize that AIP is a potential tool, not a requirement. Its use would be governed by the circumstances. In all cases staff should aim to bring a UCT program forward as fast as possible (utilizing the proposed Strand 4 under LIOA and tools like stand-alone DSA approval to overcome information sharing barriers towards securing safeguards). In some circumstances, consultations with a standing forum, other official bilateral creditors, and the debtor countries' debt advisors may reveal that more time would be needed to secure the necessary safeguards, especially if enhanced safeguards under Strand 4 are deemed necessary. In these instances, AIP could be a good option to pursue. The Fund's Executive Board would have the opportunity, through the Summing Up, to calibrate the message to the debtor and creditors about the urgency in supplying the necessary safeguards.

Appendix III. Recording OSI-Related Arrears in the DSA

1. Arrears deemed resolved based on an adequately representative agreement by a representative standing forum should be recorded in the DSA after applying the terms of the Agreed Minute (or the MOU in the context of an agreement in the CF with Paris Club involvement). Ideally, both stocks and flows would be recorded on that basis. But in practice, this could prove too difficult and onerous to country teams. Moreover, given the substantial uncertainty over the actual timing of the restructuring agreement and the eventual cashflows, teams may be uncomfortable with reporting a medium-term financing need (and associated debt and debt service vulnerabilities) that is unlikely to materialize. In light of these considerations, teams may record only the stock of arrears in the DSA, unless there is confidence that the treatment will materialize. That stock should be recorded after applying a haircut compatible with the representative standing forum's agreement (ideally the NPV haircut). That information, as well the appropriate currency-specific interest rate is readily available for HIPC cases with legacy arrears. The interest rate used should be guided by comparability of treatment (CoT) with the agreement (not the interest rate under the original terms) and no penalty interest should be included on that post-treatment debt stock. Since this approach approximates but may not be fully consistent with CoT (whose assessment is the prerogative of creditors), a disclaimer should be included in the DSA write-up to the effect that this representation is an approximation of CoT. The DSA should also mention that additional financing needs could emerge if/when an agreement is reached.

2. The full stock of unresolved arrears should be reported in situations where the LIOA relies on creditor's consent to legacy arrears not covered by a representative standing forum agreement. This assumes that such recording in the DSA would be consistent with debt sustainability.

3. In situations where debt sustainability relies on the application of strands 2, 3 or 4 of the LIOA, the recording of the arrears and future debt service will be based on the program parameters. This requires a judgement that the arrears will eventually be restructured in line with the program parameters. That is, where successful holdout behavior by that creditor is unlikely even after the program, and such holdout risk will not impede progress with official and private restructuring where needed to restore debt sustainability. If those safeguards are met, debt sustainability and program financing may hinge on that assumed debt treatment on the basis of the creditor's consent (e.g., the application of the LIOA in Suriname's 2021 Fund-supported program). These safeguards will by construction be met in applications involving the fourth strand of the policy. The DSA and staff report should make clear that even when a creditor has consented to the arrears, it has not committed to providing such relief, so as not to prejudge the eventual treatment or be perceived as the Fund interfering in the debt-creditor relations.

Appendix IV. Credible Official Creditor Processes, Illustration

1. To help illustrate the concept of "credible official creditor process" (COCP), a generic internal process for creditors is considered, together with the approach expected to be taken to assess it as COCP. The illustrative example abstracts from creditor-specific circumstances that can diverge from the generic case, but these can be readily incorporated.[1]

2. A typical creditor arrangement within a public sector would involve several layers (each with delegated authorities):

- Lending agencies (e.g., Export Credit Agencies (ECAs), government-owned development banks). These would typically have an ability to agree to restructuring of the terms of their loan contracts up to certain amounts).
- Oversight agencies (e.g., ministries). These would typically set limits for the creditors in their purview and take decisions on debt relief beyond their delegated authority.
- Internal coordinating body. This could be the Ministry of Finance (MoF), or maybe a group of ministries including others such as the Ministry of Foreign Affairs (MFA), and Ministry of Economy (MoE).
- External coordination representative. This would typically be someone from the internal coordinating body with delegated authorities to act on behalf of all lenders in the context of a standing forum for multi-country creditor coordination.

3. Against this backdrop, a typical internal creditor process for a restructuring request would involve the following stages:

i. *A request from the borrower to the lenders*. If lenders have delegated authority to deal with the request (e.g., a simple reprofiling request), and there are no external coordination issues, then lenders would typically inform their respective oversight agency and address the request directly. Where an external coordination issue arises, they would also inform their internal coordinating body/ministry.

ii. *Launch of the relevant internal process for considering the restructuring request*. The creditor, or internal coordinating body/ministry, once informed, would obtain debt information from all affected loans and lending agents, and activate any external coordination mechanisms to which it is a party.

iii. *Understanding the envelope for the debt restructuring and its impact*. Either through the borrower's financial advisors, or through the external coordination mechanism, information

[1] See examples of PC creditor processes in Appendix III of Policy Reform Proposals To Promote The Fund's Capacity To Support Countries Undertaking Debt Restructuring, April 2024.

would be collected by the internal coordinating body about the gap to be filled (DSA and macro framework) and the broad perimeter for the restructuring (possible loans which could be subject to restructuring). The internal coordinating body would consult with lenders about any issues that would arise for them under this structure (i.e., approvals, compensation through the budget process), and any special loan terms that might bear on the restructuring (e.g., guarantees, collateral, etc.) and would communicate this to the external coordination mechanism (if relevant).

iv. *Establishing a potential framework for the restructuring*. Either in direct consultation with the borrower's financial advisors, or through the external coordination mechanism, the broad contours of a framework for restructuring the debt would be laid out: perimeter (including cut-off date); possible terms and conditions; and timeline. The internal coordinating body would again consult with lenders about any issues that would arise for them under this framework. If it was satisfied that a framework was likely to prove possible, the internal coordinating body would summon a meeting for a decision.

v. *Formal decision by the internal coordinating body about whether to engage on the basis of the proposed framework*. This would include any necessary contingent authorizations to the lenders and contingent approvals of transfers to them. This may involve a subsequent similar decision at the level of the external coordinating body (in which case the external coordination agent would be given a mandate).

vi. *Engagement with the borrowers' advisors to reach an agreement in principle.* This could be done either directly or through the external coordination mechanism. Novel terms and conditions will tend to extend this stage.

vii. *Finalization of the new loan terms and conditions with the borrower*. Again, novel terms and conditions will tend to extend this stage.

4. Note that IMF staff and Management would typically be available to support this process at every stage. Staff will interact with and support a creditor's internal process, by providing information and answering questions on a timely basis upon request. For example, in stage 1, staff would provide support to borrowers to liaise with relevant creditors, though the actual communication should come from the borrower's authorities to its creditors. Staff would also work with the borrower's authorities to support their debt reconciliation exercise, at times in collaboration with other partners such as the World Bank (such as in the HIPC process). In stage 3, staff will provide inputs (e.g., to borrowers' financial advisors) related to restructuring targets based on the macro-framework and DSA produced by staff. In stage 4, staff will provide inputs on any program arrangement and the macroeconomic forecast of the, especially to the external coordination body. For all other stages, staff and Management will stand ready to support borrower's authorities and creditors (and any external coordination bodies) with relevant inputs and clarifications.

5. There are several candidates for what could constitute a "key stage" in the creditor's process (i.e., a stage beyond which an outcome would be virtually ensured, i.e., contractually

finalized debt relief and/or new financing consistent with program parameters). All of stages 4 through 7 could qualify, and for some types of creditors with strong and robust track records, even conceivably stage 1. What would matter would be the track record of the creditor in delivering. For a new creditor with unknown processes, stage 7 might even be necessary, but with improvements in the track record, stage 4 could become feasible. For a stage 1 request to be a "key stage", the track record would need to show an automaticity (which might be possible for a simple reprofiling).

6. Management and staff would need to be able to understand a creditors' individual internal process (i.e., where an external coordination mechanism is not available to play this role). Staff needs to be satisfied that the process would be proceeding on the basis of program parameters conditional on disclosure restrictions (stage 3), and then assess what level of decision/outcome would be needed in light of the track record. Note that once the internal process would be understood, a track record established, and a "key stage" identified, a simple communication from the creditor that the "key stage" had been reached could suffice. Shifting that key stage would require reconfirming the internal process and additional track record. Staff would be in a position to do this through its support to the process (see paragraph 4).

7. The assessment of the key stage is a dynamic process and can be tightened if a creditor's track record weakens. Assessment of COCP allows for adjusting the identification of the key stage to a later part of the internal process if the process fails to advance further than the key stage established earlier, to deliver required debt relief and/or new financing consistent with program parameters – weakening the track record of the creditor.[2]

[2] In the absence of sufficient information or a robust track record to make such an assessment, required financing assurances could continue to be satisfied by specific and credible assurances (SCA) on debt relief/financing.

Appendix V. Defining the External Payment Arrears Performance Criterion in Fund-Supported Programs

1. Fund-supported programs typically have a continuous performance criterion setting a zero ceiling on external debt arrears. External arrears for purposes of the continuous performance criterion are normally defined as obligations on external debt that are not paid on the due date specified in the underlying agreement, taking into account any applicable contractual grace periods. The performance criterion excludes arrears on external debt "subject to rescheduling," which refers to claims under active renegotiations—i.e., the debtor reached out to the creditor *before* arrears arose to seek debt relief. Because the performance criterion is continuous, reporting also needs to be continuous.[1]

2. The performance criterion may be tailored to member circumstances, with due regard for uniformity of treatment. When the specific circumstances of the member are such that there is limited capacity to monitor specific forms of external payments per the due date as specified in the underlying contractual terms, it may be appropriate to have a definition of external payment arrears that deviates from the underlying contractual terms. A determination needs to be made on a case-by-case basis; it would be important that any exceptional treatment along these lines would relate only to those types of payments where specific monitoring challenges arise. In the event of weak monitoring capacity, there should be a focus on helping the authorities improve their monitoring capacity over time. The authorities should be made aware that any deviation in the definition of external payment arrears for purposes of the performance criterion would not preclude the creditor from exercising its contractual enforcement rights. The Fund should not be perceived as interfering in contractual relations.

3. *Template language for technical memoranda of understanding.* All scenarios assume there are definitions for "debt" (e.g., as in the Debt Limits Policy) and "government".

- *Regular cases:* For purposes of the PC on the non-accumulation of new external payment arrears, arrears are defined as external debt obligations of the government that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). This PC excludes arrears on external financial obligations of the government subject to rescheduling.

- *Low capacity to monitor debt payments:* For purposes of the PC on the non-accumulation of new external payment arrears, arrears are defined as external debt obligations of the government that have not been paid within 30 days of the contractual due date or within the contractual

[1] Failure to report deviations immediately could lead to misreporting—for example if a deviation were to arise between the last reporting of data and a Board review. Either the definition of the PC or the reporting section of the TMU should include language along the following lines: "This PC is monitored continuously by the authorities and any occurrence of new external arrears shall be immediately reported to the Fund."

grace period, whichever is later. This PC excludes arrears on external financial obligations of the government subject to rescheduling.

- *Cases where the government is not immediately notified of guarantee being called (e.g., public-private partnerships)*: For purposes of the PC on the non-accumulation of new external payment arrears, arrears are defined as external debt obligations of the government that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). External payments arrears on external debt service obligations in respect of public private partnership projects (which are defined as (i) infrastructure projects which involve the (ii) granting of a government guarantee and the (iii) participation of a public corporation subject to control by the government) are not included in the coverage of this external arrears PC, unless these payments are made after [30] days from the contractual due date (including any contractual grace period). This PC excludes arrears on external financial obligations of the government subject to rescheduling.

Appendix VI. Calculating Whether an Agreement is "Adequately Representative"

The table below illustrates with a numerical example how to identify whether a Paris Club agreement is "adequately representative" for the purposes of the Lending Into Official Arrears policy. The table shows the estimated balance of payments (BOP) need over the program period and the sources of financing to cover it (this table is akin to the "external financing requirements" table in staff reports). In this particular example, Paris Club creditors account for more than 50 percent (55 percent to be precise) of the contributions provided and/or required from official bilateral creditors. Hence, a Paris Club agreement in this case would be considered adequately representative and official bilateral arrears would be deemed eliminated for the purposes of the policy.

Description	**Definition**	**Cumulative $ Years 1 to 3**	**Shares**
External financing needs	A = A1 + A2 + A3 + A4 + A5	2000	
Current account deficit excluding official grants and interest payments	A1	700	
Increase in gross international reserves	A2	600	
Debt service due to private creditors 1/	A3	400	
Debt service due to multilateral creditors	A4	0	
Debt service due to official bilateral creditors 1/	A5 = A51 + A52	300	
Paris Club	A51	200	
Non-Paris Club	A52	100	
External financing sources	B = B1 + B2 + B3 + B4 + B5	1500	
Foreign direct investment	B1	500	
Other financial account flows (other than the financing items below)	B2	0	
Financing provided by private creditors (including debt service relief)	B3	300	
Financing provided by multilaterals (including net Fund purchases and grants)	B4	200	
Financing provided by official bilateral creditors 2/	B5 = B51 + B52	500	
Paris Club	B51	400	
Non-Paris Club	B52	100	
Residual: financing required from but not yet provided by official bilateral creditors 2/ 3/	C = C1 + C2	500	
Paris Club	C1	150	
Non-Paris Club	C2	350	

Description	**Definition**	**Cumulative $ Years 1 to 3**	**Shares**	
Memo item:				
Total contribution by official bilateral creditors	D = D1 + D2	1000	100%	
Paris Club	D1 = B51 + C1	550	55%	√
Non-Paris Club	D2 = B52 + C2	450	45%	

1/ This example assumes that part of debt service coming due is canceled or rescheduled.
2/ It may include grants, new financing, as well as debt service relief.
3/ In this example, it includes all debt service relief provided plus new financing.

As this table illustrates, to calculate the majority share, country teams must obtain in advance data on: i) official bilateral debt service falling due during the program period; and ii) new financing provided/committed by official bilateral creditors during the program period (as reflected in the BOP projections).

Appendix VII. Model Language for Policy Notes and Staff Reports

Dealing with, and Reporting on, Cases Involving "Legacy" Arrears to Official Bilateral Creditors in Fund-Supported Programs

Country	Assessment	Reporting of arrears/best efforts	
		Policy Notes	**Staff Reports**
Paris Club Agreement is adequately representative	First, confirm that arrears in question relate to a debt which is covered by the Paris Club Agreed Minute (i.e., pre-cut off date debt). Second, assess whether HIPC case or non HIPC case. **HIPC cases: one-off simplified** (teams can use Tables AIII11 and AIII14 in the annual *HIPC Statistical Update* or the table on the *Status of Creditor Participation Under Enhanced HIPC Initiative* in HIPC completion point reports to calculate representativeness. **Non-HIPC cases: one-off** (use information from the staff report closest to the Paris Club agreement)	**Every review (until arrears are resolved):** *Language for PN:* Staff will convey to the authorities that [pre-HIPC Initiative arrears to non-Paris Club creditors] [arrears to "XXX"] can continue to be deemed away under the arrears policy for official bilateral creditors, as the underlying Paris Club agreement is adequately representative and the authorities have made best efforts* to resolve those arrears. Staff will emphasize to the authorities the importance of continued best efforts* in this regard.	**One-off (footnote) [until a creditor ED raises the issue]:** *Language for SR:* Country X owes [pre-HIPC Initiative arrears to non-Paris Club creditors] [arrears to "XXX"] which continue to be deemed away under the policy on arrears to official bilateral creditors, as the underlying Paris Club Agreed Minute is adequately representative and the authorities have made best efforts* to resolve the arrears. [If there is a development in the debtor-creditor relationship, or if a creditor raises the issue through the ED in subsequent reviews, it would be required that the SR include a reference to best efforts*]
Paris Club Agreement is <u>not</u> adequately representative	First, confirm that arrears in question relate to a debt which is covered by the Paris Club Agreed Minute (i.e., pre-cut off date debt). Second, assess whether HIPC case or non HIPC case. **HIPC cases: one-off simplified** (teams can use Tables AIII11 and AIII14 in the annual *HIPC Statistical Update* or the table on the *Status of Creditor Participation Under Enhanced HIPC Initiative* in HIPC completion point reports to calculate representativeness) **Non-HIPC cases: one-off** (use information from the staff report closest to the Paris Club agreement)	**Every review (until arrears are resolved):** *Language for PN:* Staff will reach out to the relevant creditor EDs with a view to receiving consent to move ahead with the arrangement request/completion of the review despite [pre-HIPC Initiative arrears to non-Paris Club creditors] [arrears to "XXX"]. In case the consent is not received, staff will assess whether the three criteria under the policy on arrears to official bilateral creditors are satisfied, and will include this assessment in the staff report. The staff report will only be submitted to the Board if either the consent is in place or the three criteria are satisfied. Staff will convey to the authorities that as long as these arrears remain unresolved, every purchase or disbursement made available after the approval of the arrangement will be subject to a financing assurances review by the Board.	**Every review (until arrears are resolved):** *Language for SR (consent is secured):* Country X owes [pre-HIPC Initiative arrears to non-Paris Club creditors] [arrears to "XXX"] which have consented to the arrangement request/completion of the review. *Language for SR (consent is delayed):* Country X owes [pre-HIPC Initiative arrears to non-Paris Club creditors] [arrears to "XXX"], which have requested more time to consider consenting to Fund financing notwithstanding these arrears. An update will be circulated to the Executive Board not later than one week prior to the scheduled Board consideration. *Consent is not secured:* The assessment of the three criteria, in line with the arrears policy for official bilateral creditors, should be reflected in the staff report.** *Language for SR on the financing assurances review (for reviews after the approval of the arrangement):* Staff supports the completion of a financing assurance review on the basis that adequate safeguards remain in place for the further use of the Fund's resources in Country X's circumstances and that Country X's adjustment efforts have not been undermined by developments in debtor-creditor relations.

* "Best efforts" are determined on a case-by-case basis but would generally require the debtor to reach out to the creditor in writing to explain the terms required by the Paris Club Agreed Minute and offer to discuss terms within those parameters. The debtor would also be expected to respond to any inquiries or correspondence from the creditor.

** The following language should be in SRs:

Country X has outstanding arrears to [XXX], which has not provided consent to Fund financing notwithstanding these arrears. Staff assess that the Fund may provide financing in line with the policy on arrears to official bilateral creditors. In particular:

(i) Prompt financial support from the Fund is considered essential, and the member is pursuing appropriate policies. [Support for this point.]

(ii) The debtor is making good faith efforts to reach agreement with the creditor on a contribution consistent with the parameters of the Fund-supported program. [Support for this point—procedural and substantive considerations.]

(iii) The decision to provide financing despite the arrears would not have an undue negative effect on the Fund's ability to mobilize official financing packages in future cases. [Support for this point, taking into account size of contributions and track record.]

Appendix VIII. Information Sharing with Creditors in the Context of Sovereign Debt Restructurings[1]

Where a debt restructuring is needed to restore debt sustainability in a member country, the Fund can facilitate the sharing of information underlying the member country's program and staff's assessment of debt sustainability in order to inform creditors' decisions on the provision of financing assurances and the implementation of a debt restructuring consistent with program parameters. The extent of information sharing, with whom information may be shared, and the modalities of that disclosure will be determined by the specific context, weighing the considerations outlined below. This appendix sets out principles governing information sharing and provides guidance on what level of information can be shared during each stage of the restructuring process. Although information sharing is necessary, the draft debt sustainability analysis document itself cannot be shared and should be kept confidential until it is endorsed by the Executive Board and published. Staff must navigate this tension and, to the extent questions arise, should consult with LEG and SPR.

A. Introduction

1. The Fund conducts analyses of member countries' public debt and assesses whether members' policies are consistent with preserving public and external debt sustainability in the context of both Article IV Surveillance and use of Fund resources (UFR).[2] In the surveillance context, the Fund's analysis acts as an early warning system gauging debt-related risks. When a member is already experiencing debt-related stress, the analysis helps assess public debt sustainability. In UFR cases where policy adjustments, expected financing, and the clearance of arrears, if relevant, are not sufficient to preserve or restore debt sustainability—a requirement for Fund lending—the Fund's analysis will also generally set targets to guide any envisaged debt restructuring operation.

2. The Fund's debt sustainability analysis (DSA) is conducted under two frameworks. The Debt Sustainability Framework (LIC-DSF) for low-income countries is conducted jointly with the World Bank and is subject to special provisions for Fund-Bank information sharing and approval. The Sovereign Risk and Debt Sustainability Framework (SRDSF) for market-access countries is conducted solely by the Fund.

3. This appendix covers the modalities for sharing DSAs with creditors of a Fund member country. It mainly covers information sharing with creditors of a member country but also encourages the authorities to share information and hold discussions with civil society. It recognizes

[1] This appendix was prepared by a joint LEG/SPR team led by Stephanie Fontana-Raina consisting of Julianne Ams, Wolfgang Bergthaler, Martin Cerisola, Chanda DeLong, and Dalia Hakura and cleared by Yan Liu, Guillaume Chabert, and Mark Flanagan

[2] Debt is considered sustainable when a borrower is expected to be able to continue servicing its debts without a politically and economically unrealistic change in policies required to stabilize the debt-to-GDP ratio and deliver an acceptably low rollover risk. Annex I. The Fund's Policies on Debt Sustainability, Market Access, Financing Assurances, and External Arrears of Reviews of the Fund's Sovereign Arrears Policies and Perimeter, May 2022.

Fund staff's role in facilitating timely information sharing. Delays or shortfalls in information sharing can be counterproductive, leading to inefficient restructurings, protracted negotiations, and information asymmetry.

4. Both guiding principles and practical approaches are covered. The next section of this appendix outlines guiding principles applicable to information sharing. The following section provides guidance on the level of information sharing that is appropriate in the various stages of a debt restructuring. As a general point, to the extent the information requested by the creditors or in civil society consultations is the authorities' data or analysis, the authorities are welcome to share it.[3] However, if it is Fund staff's analysis as to program parameters that is requested, or if the request is directed at the Fund, the guidance in this appendix comes into play.

B. Guiding Principles

5. Staff's general practice should be to share the information necessary to inform the restructuring process. Information can be shared with creditors directly by the Fund (with the debtor authorities' consent and subject to confidentiality safeguards) or by the debtor authorities (with the Fund's consent).[4,5] Information sharing is useful to promote efficient restructurings, reduce the likelihood of protracted negotiations, and address information asymmetry. The DSA is prepared for Fund financing purposes and, as such, Fund staff does not "negotiate" the DSA with creditors or other third parties. Although staff may consider the views of creditors and civil society, and take them on board, it is ultimately the views of staff, with input from the authorities, that are dispositive for the purposes of preparing the DSA. Fund staff should be clear about these limits of the Fund staff's role when engaging and communicating with third parties at any stage of the restructuring process.

6. Confidentiality must be maintained. Steps may need to be taken by the debtor authorities or otherwise to maintain confidentiality. The information underlying the DSA produced by the Fund staff is confidential and sensitive and should only be shared subject to safeguards to ensure confidentiality, possibly including non-disclosure agreements.[6] Staff should also make clear, or

---

[3] The authorities' data and analysis may not include staff's projections or assessments. If staff projections are embedded in information that the authorities would like to share with creditors or if it is unclear whether certain data or analysis are the Fund's or the authorities', both the Fund's and the authorities' consent is required, and the guidance set forth in this note should be applied.

[4] In line with long-standing practice, debtor members are informed when staff will engage with the Paris Club on their debt, and engagement is on a non-objection basis.

[5] Where information is shared by Fund staff with the authorities, the Fund's general information classification system would apply, with information falling into one of four categories: "available to the public," "Official Use Only," "Confidential," and "Strictly Confidential." The recipient is expected to treat the transmitted information in accordance with the security classification assigned by the Fund.

[6] For example, if a creditor committee has been formed, information underlying a DSA is generally shared pursuant to the existing non-disclosure agreement between the creditor committee's legal and financial advisors and the authorities' advisors. Separately, existing confidentiality protocols cover information shared at Paris Club meetings (or any representative creditor committee under the G20 Common framework).

ensure that the debtor authorities make clear, that this information is confidential, is not final and is subject to change, reflects only staff's views, and has not yet been approved by the Executive Board.

7. Staff cannot share the draft DSA document (or file) itself with creditors, unless first endorsed by the Fund's Executive Board. A DSA forms part of an Executive Board document and is, therefore, covered by the Transparency Policy and related guidance note.[7] The general rule is that country documents and parts thereof (in draft or final form) cannot be shared outside of the Fund prior to Executive Board issuance and publication. Most Executive Board documents, like DSAs, that are for Board consideration cannot be published before the Board date.[8] There are special rules governing sharing with the World Bank (discussed below).

C. Information Sharing: General Guidance

8. Judgment must generally be exercised by staff in the process of sharing information:

- **The modalities for providing information can vary.** Various methods may be possible and logical, depending on the nature of the recipient and the circumstances, including whether there are concerns about confidentiality. Oral presentations may be an important means during an early stage of engagement, e.g. with creditors. Information sharing could also be done through presentations to creditors at meetings or by sharing selected charts or tables.

- **The nature of the recipient matters.** Given the unique role of the debtor's financial and legal advisors for working purposes this may warrant more flexibility and a greater exchange of information. There is less room for judgment in sharing information with official creditor for a. Fund staff uses standard agreements with templates on balance of payments and financing gaps for sharing information with the Paris Club Secretariat when a Paris Club debt treatment is needed. The same practice has been followed with recent cases under the G20 Common Framework.

- **The sequencing of sharing information with private sector creditors and official sector creditors can also vary.** In past practice, information has frequently been shared first with official sector creditors before being shared with private sector creditors. However, there may be case-specific factors that weigh in favor of a different sequencing. Sharing the information in parallel with both official sector and private sector creditors can help to ensure equal information is provided to creditors, supporting high creditor participation through intercreditor equity. In addition, in cases where economic volatility is a significant issue, sharing the information with both private sector and official sector creditors at the same time may be

[7] See Transparency Policy, Decision No. 15420-(13/61), adopted June 24, 2013; and Updated Guidance Note on the Fund's Transparency Policy, April 2014.

[8] See paragraph 8 of the Updated Guidance Note on the Fund's Transparency Policy, April 2014. However, papers issued to the Executive Board, but for which the Board is not the primary intended audience, are not subject to Board approval for publication purposes. This includes technical assistance reports, which have their own publication regime in which publication is encourages. For more information on the technical note on debt sustainability provided to Argentina as technical assistance, see Annex 1.

needed to ensure all creditors have the same macroframework. Where a debtor chooses to sequence its negotiations to first restructure private sector debt or where the formation of an official sector creditor committee is delayed, it may be appropriate to share information first with private sector creditors to advance restructuring discussions and later, as necessary, with official sector creditors. Overall, information sharing should generally match the sequencing of the restructurings (i.e., share information with whichever creditor pool is being restructured first or ideally, all creditors at the same time if being restructured at the same time).

9. Sharing DSAs with the World Bank is subject to special rules:

- As LIC-DSFs are produced jointly, there is a special regime with well-documented rules of engagement and information sharing with World Bank staff. Fund staff are expected to engage with World Bank staff from the earlier stages of mission preparation, discussions, and analysis.[9,10]Thus, when sharing information related to a joint Fund-Bank LIC-DSFs, staff should recognize the joint role with the World Bank and consult first with World Bank staff.

- With respect to the SRDSF, sharing of country staff reports (including drafts) with World Bank staff prior to issuance to the Fund's Executive Board is permitted under the terms of the Bank-Fund Concordat. In most instances, mission chiefs retain the discretion as to whether specific material should be shared, regardless of classification.[11] In this case, the sharing regime with the World Bank creates no issue for sharing more broadly.

D. Information Sharing Through the Debt Restructuring Phases

10. This section outlines information sharing with creditors in each restructuring phase. The section provides a broad indication of the type of information that should typically be shared with creditors in each phase of a debt restructuring with program engagement. The broad guiding principle should be for Fund staff to provide creditors enough information, especially once specific and credible financing assurances are needed, to be able to produce debt restructuring scenarios that can meet the program financing parameters and debt sustainability targets.

Phase One: Pre-Announcement

11. Before the member country has announced its intention to seek a debt restructuring, the Fund should not share any non-public information with creditors. The decision on whether and when to seek a debt restructuring must be made by the debtor authorities. Until the authorities

[9] See Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries, December 2017.

[10] Separately from information sharing and engagement at the staff level, there is an expectation that all LIC-DSFs and SRDSFs for LICs will be submitted to both the Fund Executive Board and IDA's Executive Board at the same time. However, a Fund-management cleared LIC-DSF or SRDSF for a LIC may be shared with the World Bank's Executive Board if the World Bank requires it for its own operations for a country that is not expected to be discussed by the Fund's Executive Board in the next two months.

[11] See footnote 19 of Guidance Note on Information Sharing Between IMF and World Bank Staff, February 2022.

make such an announcement, Fund staff should not engage or share non-public information with creditors. In this stage, all information related to debt sustainability could be considered market sensitive. Published staff reports may be shared and referenced by staff. For countries that use the SRDSF, staff cannot share information related to the mechanical signal on debt sustainability with creditors that is not available in a published report.

Phase Two: Post-Announcement and Program Design, up to a Staff Level Agreement (SLA)

12. During the program design phase, creditors often have an interest in accessing the information underlying the Fund's debt sustainability analysis.

- First, the staff or the authorities may need to share information with one or more skeptical creditors to show why debt is unsustainable. This could include showing that debt or gross financing needs increase unsustainably over time or another stress metric reaches unsafe levels. In this process, such a scenario may be underpinned by staff's preliminary calibration of the program macroframework.

- Second, creditors will want to have an understanding about the key macro parameters under the potential Fund-supported program to further their understanding of program design. Staff can discuss its preliminary views, as embodied in the numbers presented, but should signal that they are mainly seeking to receive information from and hear the views of creditors at this stage. This can include views on the debtor country's macroeconomic variables, views on the pace and size of access to international capital markets, and confirmation of the characteristics of the debt held by creditors.

13. Staff may at some point consider sharing, with the debtor authorities' consent and subject to confidentiality safeguards, certain information on the financing envelope and key financing assumptions. Sharing this information or allowing the debtor's authorities to share this information with creditors subject to confidentiality safeguards may reduce the likelihood of protracted negotiations by enhancing the authorities' credibility that the debtor really does need the contribution that the program will potentially require in order to restore sustainability. Staff should only take this step once comfortable that the program macro-framework is close to being stabilized and should clearly signal that the information being shared may be subject to change as the SLA is finalized. Staff should also signal at this stage a willingness to receive information from and hear the views of creditors. The information could include:

- Macroeconomic projections, including growth and inflation rate projections, balance of payment forecasts, exchange rate projections, monetary and central bank accounts in detail. Staff should also be prepared to explain the assumptions/analysis that underpins the forecasts.

- Fiscal projections. Creditors will have an interest in assessing the authorities' "effort," and staff should be prepared to explain the assumptions/analysis that underpins the forecast and the rationale for the targets.

- The financing envelope and key financing assumptions, including disaggregated domestic and external financing, debt service projections, and public debt targets relating to Fund-supported programs (such as the parameters that ensure debt sustainability, the medium-term targets for the stock and liquidity indicators, and average and maximum gross financing needs).

Phase Three: Post SLA and Obtaining Assurances

14. After reaching SLA, a higher degree of information sharing will be necessary. Creditors may need this to agree to provide the necessary financing assurances and debt sustainability assurances or to conclude a restructuring agreement. This additional information that can be shared subject to confidentiality safeguards could include:

- Additional years of projections beyond what is usually included in the macroframework; and/or further disaggregation of data (e.g., for debt stock or debt service to individual creditors or between amortizations and interest payments).

- Public debt targets relating to the program (such as the parameters that ensure debt sustainability, the medium-term targets for the stock and liquidity indicators, and average and maximum gross financing needs).

- Modeling questions. Staff may answer modeling questions from official bilateral creditors, including, for example, on the range of magnitudes of the present value reduction that could deliver program targets and whether or not the program targets can be achieved without a nominal haircut. In responding to modeling questions, staff must make clear that the response is technical in nature and not a normative assessment from the Fund. This form of technical engagement should be pursued as early as possible as it could help accelerate the decision by the relevant official bilateral creditors to join an official creditor committee.

15. The higher degree of information sharing would carry over to a subsequent review under a Fund arrangement. If circumstances warrant, Fund staff may need to update the macroeconomic framework. In general, staff should not expect significant deviations in economic circumstances post-arrangement approval, and such technical macro updates are generally not expected to lead to changes in program parameters (e.g., DSA landing zones or financing gap). In the event of a significant change in the macro environment, changes to program parameters and assumptions may be necessary and should be reviewed by departments and approved by Fund management prior to being shared.

16. Sharing the more detailed information set out in paragraphs 14 and 15 should be discussed and agreed in advance with the authorities and must consider confidentiality safeguards (as set forth in paragraph 7 above). Examples of situations where such broader information sharing may be appropriate are outlined below:

- **With official bilateral creditors from whom financing assurances are required.**[12] Because official bilateral creditors elect Executive Directors that sit on the Fund's Executive Board, sharing a broader extent of data with them may be more appropriate than with others. Moreover, to the extent sharing is done in context of an established framework (e.g., the Paris Club or Common Framework), staff may feel more comfortable given the Fund's good offices role in the initiative and existing confidentiality understandings. To the extent the data are shared with the Paris Club, staff's default position should be to also share it with non-Paris Club official creditors (or non-CF official bilateral creditors) due to intercreditor equity considerations, so long as the debtor authorities' consent, confidentiality understandings are in place, and the creditor's claims are critical to restore debt sustainability.

- **With multilateral creditors.** Multilateral creditors include the World Bank Group (outside of the LIC-DSF context discussed above) and other international financial institutions (IFIs) such as Regional Financing Arrangements (RFAs). Where a multilateral creditor is being asked to provide the member with new money to fill financing gaps in the context of a Fund-supported program, it may need to review the data to better understand program parameters. Staff may feel more comfortable sharing a broader extent of data with these institutions due to long-standing relationships and confidentiality understandings. Nevertheless, it would still be important to seek the authorities' consent.

- **Circumstances where staff would share a broader extent of data with private sector creditors would be expected to be rarer.**[13] Although in some situations sharing a broader extent of data with official creditors can be justified due to the need to obtain specific and credible financing assurances, sharing this information with private sector creditors could put the Fund in the middle of deciding which private sector creditors to share information with and could raise confidentiality concerns. Staff would need to make a judgment that sharing the information is warranted given case-specific circumstances. Most importantly, the information may only be shared where the debtor authorities consent and staff is ensured that confidentiality will be maintained (e.g., share with the advisors only).

E. Other Information Sharing During a Debt Restructuring

a. Sharing of the Full DSA

17. In select and very rare instances, the debtor and creditor(s) may insist on the provision of the full DSA, which must be provided first to the Executive Board.

18. There are options for sharing the DSA with the Executive Board earlier in the process so that it can sooner be published and made available to creditors. While these modalities are

[12] See Section II of this Guidance Note.

[13] While staff is aware of one case where this was done (Chad 2021), this was due to very specific nature of creditor.

limited to specific circumstances, they could be explored where necessary. In each option, the DSA would need to first be issued to the Executive Board before publication:

- One modality to achieve this involves: (i) a request for DSA-related capacity development (CD) from the authorities; (ii) full discussion of the TA report with the authorities; and (iii) provision of the TA report to Executive Directors for information, with the authorities' consent to publish. This process was done for Argentina in 2020. In this modality, given that CD to Fund members is under Fund management authority, the DSA is provided to the Fund's Executive Board for information, rather than endorsement, under the CD dissemination policy. This modality is almost exclusively best applied in surveillance contexts, where policies are well-known.

- A second modality is a stand-alone DSA. There were several instances of standalone DSAs prepared for Greece in the UFR context in 2015 and then in the surveillance context in 2016 that the Executive Board agreed to publish. This can be applied in either a surveillance or program context.

- Executive Board approval in principle (AIP) of the program is a third option. Approval in principle of a Fund arrangement can be recommended to the Executive Board in limited circumstances where Fund staff and the member authorities have reached full agreement on the policies underlying a Fund-supported program and the only issue preventing arrangement approval is the need to catalyze agreement between the member and its creditors in respect of debt sustainability and/or financing assurances. Where the Executive Board approves an arrangement in principle, the member does not receive any financing under the arrangement until the Fund determines that debt sustainability is being restored upon receipt of financing assurances. The staff report including the DSA is presumed to be published under the transparency policy. This was done for Greece's SBA in 2017. This approach involves the most comprehensive availability of information (and there can be circumstances where the staff and authorities assess that comprehensive availability is desirable).

b. Information Sharing in the Surveillance Context

19. In a surveillance context, staff must be more circumspect in regard to sharing information with creditors:

- In the absence of a Fund-supported program and an MEFP, staff is generally not in a position to talk with precision about the authorities' intended policies and by extension their expected macroeconomic framework. Thus, staff are not in a position to discuss what would make the situation sustainable in terms of debt targets.

- Staff can talk about published surveillance work, covering staff's views about the macroeconomic outlook and debt sustainability, and the assumptions that have fed into this. Staff should be clear that these represent staff views.

- In the context of an ongoing Article IV consultation, staff should listen to creditors' views about the situation to inform staff's own judgment about the outlook and debt sustainability. Staff should be clear that it is ultimately the views of staff, taking into account feedback from the authorities, that are dispositive for the purposes of preparing the DSA.

20. The authorities may request that staff more formally provide its views to them, via technical assistance (i.e., the first modality for full DSA sharing, discussed above). As noted above, this would involve (i) a request for DSA-related CD from the authorities; (ii) full discussion of the CD report with the authorities; and (iii) provision of the CD report to the Fund's Executive Board for information, with the authorities' consent to publish. This process was done for Argentina in 2020. In this modality, given that CD to Fund members is under Fund management's authority, the DSA is provided to the Fund's Executive Board for information, rather than endorsement, under the CD dissemination policy.

c. Information Sharing with Civil Society

21. The authorities are encouraged to share information with civil society at each phase of the debt restructuring process and to listen to views, subject to the following considerations:

- Pre-debt restructuring announcement, the same considerations outlined in paragraph 12 for information sharing with creditors apply to information sharing with civil society. No non-public information should be shared.

- Post-debt restructuring announcement, for all phases, the authorities must proceed subject to confidentiality safeguards, as program discussions are confidential. Information that itself is confidential or market sensitive cannot be shared.

- Staff and the authorities have latitude to discuss any published information.

- In a surveillance context, the same considerations outlined in paragraph 18 for information sharing with creditors apply to information sharing with civil society.

Appendix IX. Example of a Standardized LIA Assessment

<table>
<tr><th colspan="2">LIA Criteria</th><th>Assessment</th></tr>
<tr><td colspan="2">Prompt Fund support is considered essential for the successful implementation of the member's adjustment program</td><td>Arcadia has experienced exceptional balance of payments pressures emanating from both the current and capital accounts. Notwithstanding progress achieved over the past year, official reserves remain very low covering only 45 percent of short-term debt and well below the 100 percent ARA benchmark of the Fund.</td></tr>
<tr><td colspan="2">The member is pursuing appropriate policies</td><td>Substantial fiscal consolidation since the beginning of 2016 has helped to reduce the primary deficit, and monetary policy has been tightened to control inflation and avoid an over-shooting of the exchange rate. The Arcadia authorities have committed to continue these policies (see Table X) and have set out an ambitious agenda of structural reforms (see Table X).</td></tr>
<tr><td rowspan="4">The member is making a good faith effort to reach a collaborative agreement with its creditors</td><td>Early dialogue with its creditors, which should continue until the restructuring is complete</td><td>An initial round of discussions was held with creditors in New York in early April 2024. The authorities have committed to meet on a quarterly basis until the debt restructuring is agreed.</td></tr>
<tr><td>Shares relevant information with all creditors on a timely basis</td><td>The authorities have shared information on the composition of the end-2023 debt stock, including the creditor composition, major subcategories of debt instruments (and information on the main financial terms), upcoming debt service and any collateral involved. The authorities have also provided macroeconomic projections for 2024-29, and the parameters of a debt operation to restore sustainability, including the perimeter of claims subject to such debt operations. The terms of the debt operation are consistent with the Fund-supported program.</td></tr>
<tr><td>Early opportunity to give input on the design of restructuring strategies and of individual instruments</td><td>Creditors have been able to submit their views on the appropriate design of the debt restructuring using the online platform introduced by the authorities in May.</td></tr>
<tr><td>Terms offered to the creditor is consistent with the parameters of the Fund- supported program.</td><td>See above.</td></tr>
<tr><td colspan="2">Is there a representative committee? Are the authorities negotiating with this body?</td><td>At present, the heterogeneous nature of Arcadia's creditors has meant that a representative committee has not been able to emerge. The authorities, have stated that they will negotiate with any group representing legitimate creditors.</td></tr>
</table>

Appendix X. State-Contingent Features in Restructurings

1. Sovereign state-contingent debt instruments (SCDIs) are instruments that bear contractual debt service obligations tied to a pre-defined state variable. This allows linking a sovereign's debt service obligations to its capacity to repay, which can improve risk sharing. SCDIs can take a number of forms but can broadly be divided into two categories: instruments featuring *continuous* adjustment of debt service payments, e.g. with payments tied to nominal GDP; and those involving *discrete* adjustment (e.g. the materialization of royalties from a recent oil discovery, or changes to the debt carrying capacity in the LIC DSF with substantial implications for the needed relief envelope). Another example of SCDIs involving discrete adjustments are instruments with an "extendible" design, where the maturity (or grace period) automatically extends in the face of a pre-defined shock. For example, the 2015 Grenada bond "hurricane clause" where a one-off debt service deferral is triggered by a hurricane of given intensity. Macro-linked bonds are instruments that become a bond in the future, with their nominal value and coupon stream being set based on the future value of certain macro variables.

2. SCDIs have been used in a few past debt restructurings, mainly in the form of upside instruments. Earlier examples include the GDP warrants issued to private creditors in Argentina (2005/10), Greece (2012) and Ukraine (2015), an upside instrument linked to Citizenship by Investment revenues in Grenada (2015), and "value recovery rights" linked to GDP, oil prices, and measures of the terms of trade in many of the Brady restructurings of the 1980s and 1990s. Recent examples in bond restructurings include a Value Recovery Instrument (VRI) linked to future oil revenues in Suriname (2023), future debt carrying capacity and exports in Zambia (2024) and a macro-linked bond in Ukraine (2024).

3. The economic case for SCDIs is strong, but risks require mitigation. By linking debt service to a measure of the sovereign's capacity to pay, SCDIs can increase fiscal space, and thus allow greater policy flexibility in bad states of the world. They can also broaden the sovereign's investor base, open opportunities for risk diversification for investors, and enhance the resilience of the international financial system. Should SCDI issuance rise to account for a large share of public debt, it could also significantly reduce the incidence and cost of sovereign debt crises. Some potential risks and complications include a high novelty and liquidity premium demanded by investors in the early stage of market development; design problems that lead to higher payments to creditors in scenarios where the debtor's repayment capacity is actually worse; adverse selection and moral hazard risks; undesirable pricing effects on conventional debt; pro-cyclical investor demand; migration of excessive risk to the private sector; and adverse political economy incentives. In practice, SCDIs tend to be heavily discounted by the market and their use tends to be limited to debt restructurings, where upside instruments provide a "sweetener" to help achieve a deal.[1]

[1] One notable exception includes Climate Resilient Debt Clauses (CRDCs), which tend to be priced more favorably (though use outside of restructurings remains rare despite a concerted effort by the international community to facilitate their adoption).

4. The Fund is open to the use of SCDIs and does not get involved in their design in restructuring contexts but must evaluate whether their potential impact is consistent with program financing and debt sustainability. The design of SCDIs is an issue to be discussed by the authorities, their creditors, and respective legal and financial advisers. Fund staff should assume that legal advisors will mitigate litigation risk (while noting that staff should inquire about these risks since they are inherently higher given that the design might be novel). Staff does not take a stand on issues such as an SCDI discount relative to an actuarially fair value per se. Instead, staff's focus is on the SCDI's implications for debt sustainability and the objectives of the program.

5. Calculating the impact on debt sustainability and financing in the context of debt restructurings involves:

- **Establishing which creditors will require them.** SCDIs are normally requested by the private sector, meaning official creditors need to be consulted. A key question is whether they perceive CoT to be met ex ante, or whether they will assess it based on the ex-post payoffs (in which case there needs to be buffers in the sustainability assessment to accommodate clawbacks). In the absence of clear information from official creditors on CoT, staff should assume ex-post clawbacks in line with standard CoT clauses in official sector debt agreements.
- **Evaluating whether a restructuring proposal meets debt targets when and SCDI is part of the package.** Key to this evaluation is that the debt targets are met under the baseline scenario and that the probability of breaching the debt targets remains below benchmark levels. The techniques underpinning the SRDSF fanchart module can be used for this analysis. Staff should consult with SPR for modeling assistance.
- **Assessing whether risks are too large.** The analysis needs to take into account the SCDI pay-offs, the types and magnitude of shocks that the country is exposed to, and how these are correlated. The risk that large payments take place in scenarios where the debt targets are actually exceeded, as well as those where resources (e.g., reserves) are inadequate, and where the trigger does not perfectly correlate with capacity to pay should be assessed.

6. When the SCDI is not assessed to be in line with program parameters, staff should give feedback on the elements of SCDI design that are producing the problem. In this context:

- Normally, SCDIs that leave exposures uncapped or that would provide an upside for investors in states of the world where the country's repayment capacity is diminished, are not supported in Fund programs, given macroeconomic, political, and social risks.

- Simple trigger rules create the risk that temporary positive shocks lead to a permanently higher debt burden that will be difficult to carry once the shock fades. One solution is to consider more complex multi-layered rules and downside triggers, but that can exacerbate liquidity and pricing challenges.

- Instrument design can also focus on whether the mechanism is automatic; continuous or discrete; symmetric or asymmetric. The timing and definition of the trigger may also matter.

Appendix XI. Conditionality and Program Commitments in Fund Programs Involving Restructuring of Private Creditors

Country	IMF Program	Year	Restructuring Type	Form	Finalization/ Intermediate	Specific language	Notes
Zambia	ECF	2022	External, post-default	LOI/MEFP commitment	Finalization	We are committed to finalizing the MOU with official creditors by the time of the first program review, and **reaching agreements on comparable terms with other creditors** soon after, by the time of the second review at the latest.	
Suriname	EFF	2021	External, post-default	None	n/a		MEFP reports efforts to engage with private creditors in good faith, but does not provide a timeline for specific steps/finalization
Chad	ECF (EA)	2021	External, pre-emptive	LOI/MEFP commitment	Finalization	The authorities are committed to finalizing the MOUs with official creditors, and to **reaching an agreement on comparable terms with the largest private creditor**, by the time of the first review.	
Ecuador	EFF	2020	External, pre-emptive	None	n/a		Debt exchange completed prior to Staff Report issuance. Staff-level agreement was announced on 28 August, just before settlement deadline for the exchange.
Ecuador	RFI	2020	External, pre-emptive	LOI/MEFP commitment	Intermediate	to ensure that public debt remains on a sustainable path and rein in large and protracted financing gaps, we are in the process of implementing a comprehensive debt management plan. In particular, on Friday April 17 bondholders accepted a consent solicitation put forward by the Republic to defer all payments worth over USD 800 million, until August 15. During this grace period, **we will work with our advisors, to put forward a second consent solicitation to the market to restructure Ecuador´s outstanding debt.**	
Congo, Rep. of	ECF	2019-	External, post-default	LOI/MEFP commitment	Finalization	The authorities are committed to **completing the restructuring of external commercial debt and domestic debt** by the time of the first program review	MEFP commitment to agree restructuring by the first review
Mozambique	RFI	2019	External, post-default	None	n/a		No PAs, but agreement in principle with a group of Eurobond holders had been reached prior to the request. Restructuring discussions on another private loan were described as "almost finalized" in SR (this was never finalized, and Mozambique subsequently disputed the debt).
Barbados	EFF	2018	Domestic & external, latter post-default	Prior Action	Intermediate	Government to **launch exchange offer** for debt restructuring of the stock of central government domestic debt held by private creditors and eligible for debt restructuring consistent with EFF supported program objectives.	Conditionality did not cover external debt restructuring, but program request MEFP reported intention to table an exchange offer shortly

Country	IMF Program	Year	Restructuring Type	Form	Finalization/ Intermediate	Specific language	Notes
Mongolia	EFF	2017	External, pre-emptive	None	n/a		Debt exchange completed prior to Staff Report issuance, mentioned as needed for financing assurances in staff level agreement.
Chad	ECF	2017	External, pre-emptive	LOI/MEFP commitment	n/a	The Government is determined to **reach the necessary restructuring** by the time of the first review of the requested program.	
Ukraine	EFF (EA)	2015	External, pre-emptive	Prior Action	Intermediate	Government will **hire financial and legal advisors** to facilitate consultations with holders of public sector debt with a view to improving medium-term debt sustainability	MEFP also reported intention to finalize the debt operation by the first review
Grenada	ECF	2014	Domestic & External, post default	Prior Action	Intermediate	Consistent **with the financing envelope of the program, satisfactory progress in negotiations with the creditors**, through: (i) initiating the negotiation phase of the restructuring with private and bilateral official creditors, (ii) seeking agreement on a debt restructuring consistent with closing the financing gap under the program and reducing debt to 60 percent of GDP by 2020; (iii) obtaining financing assurances from the Paris Club; and (iv) developing a credible timetable for advancing the restructuring discussions with private creditors through mid-2014.	
Cyprus	EFF	2013	Domestic, pre-emptive	Structural Benchmark	Finalization	**Roll over and extend the maturity** of at least €1 billion of domestic debt held by residents through a voluntary debt exchange covering maturities falling due in 2013-15 and roll over the €1.9 billion recapitalization bond of CPB by [First Review].	
Jamaica	EFF	2013	Domestic, pre-emptive	Prior Action	Finalization	Government to **complete a debt exchange** for domestic government bonds consistent with a reduction in the public debt-to-GDP ratio by 2020 equivalent to at least 8.5 percent of GDP.	
Greece	EFF (EA)	2012	Domestic & External, pre-emptive	Prior Action	Finalization	**Close a debt exchange** with private bond holders prior to the approval of the arrangement	Not in PA/SB table, but SR explicitly mentions as a PA
Greece	SBA (EA)	2011	Domestic & External, pre-emptive	LOI/MEFP commitment	n/a	To support these efforts with an appropriate level of financing, we have defined a strategy to achieve substantial and credible contributions from the private sector and official sectors. In this context we will aim to **finalize the relative contributions by private creditors and the official sector** by the time of the Fifth Review.	At the time of the 4th review, the need for PSI was made explicit, but SR only had an MEFP commitment to seek financing contributions from the private and official sectors (respective contributions yet to be specified), reflecting the still ongoing discussions within the official sector on the design and extent of the debt operation, against background of fears of contagion

Country	IMF Program	Year	Restructuring Type	Form	Finalization/ Intermediate	Specific language	Notes
St Kitts and Nevis	SBA (EA)	2011	External, post-default	Prior Action Prior Action Structural Benchmark	Intermediate	(1) Authorities **commit publicly** to undertake a debt restructuring (2) **Appointment of legal advisors** for the due diligence on the existing debt contracts (3) Make **substantial progress on the consultative phase** of restructuring with creditors (by first review).	
Jamaica	SBA	2010	Domestic, pre-emptive	Prior Action	Finalization	**Launch and complete debt exchange operation** that, in comparison to the existing securities, achieves an estimated saving of over 3 percent of GDP in FY2010/11 and a reduction in the amount of debt maturing during 2010-2012 by at least two thirds	
Seychelles	SBA	2008	External, post-default	None	n/a		MEFP reported recent hiring of advisors and intention to develop a comprehensive restructuring strategy, but no timeline was specified
Dominican Republic	SBA	2005	External, post-default	Prior Action Prior Action	Intermediate	(1) **Completion of consultative phase of rescheduling/restructuring** with private sector creditors (bondholders and commercial banks) (2) I**nitiation of restructuring negotiations** with private external creditors on debt still in arrears, consistent with Fund's LIA policy	MEFP also reported the intention to launch a bond exchange offer in the first quarter of 2015 and complete commercial bank rescheduling by April
Argentina	SBA (EA)	2003(Dec)	External, post-default	Structural Benchmark	Intermediate	**Announce the basic features of a restructuring offer** in conjunction with the IMF/World Bank Annual Meetings in September, 2003. This announcement will clarify the scope of debt to be restructured, the treatment of initial claims and past due interest, and the general terms of the new debt instruments to be issued in the exchange.	
Argentina	SBA (EA)	2003(Jan)	External, post-default	Structural Benchmark	Intermediate	**Appointment of an external advisor** on public debt restructuring	MEFP also committed to preparatory steps, including preparing database on creditor structure and dialogue with creditors on procedural aspects
Uruguay	SBA (EA)	2003	External, pre-emptive	Prior Action	Intermediate	**Obtain and present to staff evidence of adequate financing assurances** to meet financing needs for the 2003 program	Supplementary LOI outlined broad features of the proposed exchange and specified intention to launch by April and conclude by early May
Argentina	SBA (EA)	2001	External and domestic, pre-emptive	None	n/a		Both 3rd and 4th Reviews mentioned authorities' intention to undertake voluntary reprofiling operations, but these were treated as an upside risk
Pakistan	EFF-ESAF	1999	External, pre-emptive	Prior Action	Intermediate	**Initiation of negotiations with commercial creditors** on debt restructuring.	
Russia	SBA	1999	External, post-default	None	n/a		MEFP reported that the government had been in close contact with creditors and intended to undertake negotiations in a cooperative manner

Country	IMF Program	Year	Restructuring Type	Form	Finalization/ Intermediate	Specific language	Notes
Russia	EFF	1998	External and domestic, pre-emptive	None	n/a		A debt exchange for domestic instruments (GKOs) had already been launched, with results to be announced on the day of the board meeting, but the program assumed modest take up
Ukraine	EFF	1998	External and domestic, pre-emptive	None	n/a		Supplemental LOI mentioned active discussions with external commercial banks, imminent offer for voluntary rescheduling of non-resident held T-bills, and an already initiated voluntary rescheduling of resident-held debt

Appendix XII. Template Communication to Creditor Executive Director

The following template may be used for staff's communications with creditor Executive Directors. However, it should be treated as flexible and should be modified to reflect the circumstances of the case.

1. **[Member]** owes **[amount]** in arrears to **[official bilateral creditor]**. Under Fund policy, staff assess that the underlying claim(s) are **[Direct Bilateral Claims / not Direct Bilateral Claims].** This assessment is based on **[list factors here—vote pooling with private sector, whether it is a secondary-market purchase, whether the entity is within the budgetary process (and, if not, indications that the entity was acting on behalf of the government: terms of the loan, mandate of the entity providing loan, whether the entity used the official or commercial window for the loan, whether there were public statements at the time of the loan, etc.)].**

2. ***For use where the claim is a Direct Bilateral Claim*****:** Moreover, this is **[not]** related to Official Sector Involvement. In other words, the Fund-supported program does **[not]** provide for full payment of the claim.

3. Given this background, **[choose the relevant option below]**

- ***For use when the NTP policy applies (i.e., Direct Bilateral Claim not related to Official Sector Involvement):*** staff is requesting that you indicate whether your authorities will object to Fund financing under the non-toleration policy. Please respond by **[date, prior to issuance of SR]**; in case of no response, staff will proceed on the assumption that there is no objection. Under the non-toleration policy, acquiescence to Fund financing is not reflected in the staff report but is conveyed by your non-objection at the Board meeting.

- ***For use when the LIOA policy applies (i.e., Direct Bilateral Claim related to Official Sector Involvement):*** staff is requesting that you convey your authorities' explicit consent to proceeding with Fund financing despite the arrears. Please respond by **[date, prior to issuance of SR]**. Explicit consent will be recorded in the staff report. If your authorities need more time to consider whether to provide consent, please let us know, and this fact will be recorded in the staff report with a statement that staff will revert to the Board one week prior to the Board meeting with an update. Should your authorities not provide consent within four weeks, Strand 4 of the LIOA policy will be pursued.

- ***For use when the LIA policy applies (i.e., not Direct Bilateral Claim):*** the Lending into Arrears policy will apply to these arrears. No action is required from you or your authorities.