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G20 OPERATIONAL GUIDELINES FOR SUSTAINABLE FINANCING—DIAGNOSTIC TOOL

BACKGROUND

In March 2017, against the backdrop of rising debt vulnerabilities, G20 countries endorsed and committed to promote the G20 Operational Guidelines for Sustainable Financing (henceforth referred to as "the Guidelines"). The aim of these guidelines is to "enhance access to sound financing for development while ensuring that sovereign debt remains on a sustainable path by fostering information-sharing and cooperation among borrowers, creditors and international financial institutions, as well as learning through capacity building". In late 2018, the G20 members called upon the IMF and the World Bank for assistance with a voluntary diagnostic of creditors in the implementation of the Guidelines, which was launched in late 2018 and benefitted from extensive participation, including by non-G-20 members.

The IMF and the World Bank have established a set of practices for all the five key dimensions defined in the Guidelines that allows bilateral creditors, including their agencies, to evaluate their own performance and their level of compliance with the Guidelines by using a standardized diagnostic tool (Table 1). In formulating concrete actions for implementing the practices and dividing them into three levels of achievement, staff drew on a variety of other sources of international practices. The latter cover public financial or debt management, and include the Public Expenditure and Financial Accountability (PEFA), the Public Investment Management Assessment (PIMA), the Fiscal Transparency Code and Evaluations (FTC and FTEs), and the Debt Management Performance Assessment (DeMPA).

The diagnostic tool classifies implementation of each practice into "strong", "sound", and "with room for improvement". In general, a "strong" practice sets a high standard, which in the view of the IMF and the World Bank further enhances a sustainable lending practice. A "sound" practice reflects financing practices that support the implementation of the Guidelines, while a practice "with room for improvement" reflects financing practices that do not meet the minimum requirements for the implementation of the Guidelines.

The diagnostic should apply to all relevant lending agencies within a country. Where multiple agencies are involved, in general the overall assessment should be guided by the lowest assessed agency, except where such agency is not providing material lending. Such exceptions should be noted in the responses. Although the focus of the responses is on specific country agencies, in practice the assessments can be influenced by membership of the agencies in international fora, such as the Paris Club, the OECD, etc. Where relevant action or evaluations or procedures are conducted in the international fora, this should be noted and taken into account when assessing the action, evaluation, or procedure.

The Annex presents the diagnostic tool, in summary (Annex I) and with detailed instructions for users in the form of a short Guidance Note (Annex II). Both reflect feedback and questions received from creditors who have completed an earlier questionnaire-based version of the survey. The Guidance Note will be amended if future queries highlight the need for additional clarifications. IMF-World Bank staff are available to provide feedback based on responses to the diagnostic reporting table below. Please send any queries to lendingtolics@imf.org or lendingtolics@worldbank.org.

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1. Adequacy of Financing

1.1. Safeguarding debt sustainability

☐ Strong: The creditor has an internal framework for debt sustainability assessments, also informed by private sector or IFIs existing frameworks, which guides borrowing volumes or terms.

☐ Sound: The creditor has an internal framework for debt sustainability assessment in place, which guides borrowing volumes or terms.

☐ Room for Improvement: The creditor does not have a framework in place that informs lending based on debt sustainability considerations.

Comments:

1.2. Providing various financing options

1.2.1. Flexible financing options

☐ Strong: The creditor provides a range of financing terms that enable borrowers to mitigate risks of the debt portfolio at reasonable costs.

☐ Sound: The creditor provides a limited menu of financing terms to borrowers.

☐ Room for Improvement: The creditor does not provide for much flexibility on financing terms.

Comments:

1.2.2. Provision of collateralized debt

☐ Strong: The creditor uses best efforts to ensure a collateralization structure does not breach applicable NPCs, provides full transparency on the contractual terms of the collateralized debt (including the collateralization structure), focuses on related assets or revenue streams, and reflects the reduced risks resulting from collateralization in improved financial terms.

☐ Sound: The creditor uses best efforts to ensure a collateralization structure does not breach applicable NPCs, focuses on related assets or revenue streams, and provides full transparency on the contractual terms of the collateralized debt (including the collateralization structure).

☐ Room for Improvement: The creditor provides collateralized lending without improving financial terms and information is not made publicly available.

Comments:

2. Information-sharing and transparency

2.1. Building a common understanding of the macroeconomic and financial situation of the borrower country—by enhancing information sharing by creditors

2.1.1. Sharing information on existing and new lending

☐ Strong: A government agency collects and publishes loan-by-loan information on its country's official creditor agencies vis-a-vis borrowers yearly on a single website, and updates it within three months on new lending, including financial terms.

☐ Sound: Government creditor agencies disclose all loan-by-loan information, including financial terms, to the IMF and the World Bank, on existing exposure to borrowers and new lending at least on an annual basis.

☐ Room for Improvement: No or limited information on exposure and new lending is made available on a yearly basis.

Comments:

2.1.2. Creditors reconciling data with borrowers and IFIs

☐ Strong: The creditor undertakes data reconciliation with borrowers at least on an annual basis and with IFIs upon request.

☐ Sound: The creditor undertakes data reconciliation with borrowers on an annual basis.

☐ Room for Improvement: The creditor does not undertake regular data reconciliation with borrowers.

Comments:

2.1.3. Contractual Clauses

☐ Strong: The creditor uses publicly available templates for financing agreements and refrains from confidentiality clauses.

☐ Sound: The creditor refrains from using confidentiality clauses with respect to information sharing with the IMF and the World Bank.

☐ Room for Improvement: The creditor uses comprehensive confidentiality clauses.

Comments:

2.2. Encouraging borrowing countries to continue to enhance fiscal transparency and public debt management

☐ Strong: The creditor, in addition to ensuring that the borrower meets its own legal requirements (and only proceeding if it does), verifies that lending operations are adequately disclosed ex-post in public debt statistics.

☐ Sound: The creditor verifies that the lending operation is in adherence with the borrower's primary and secondary legislation and that the amount of financing appropriately reflects the value of the project. If this is not the case, the creditor does not proceed with the operation.

☐ Room for Improvement: The creditor proceeds with lending operations without enquiring whether the lending operation is in adherence with the borrowing country's primary and secondary legislation and that the amount of financing appropriately reflects the value of the project.

Comments:

2.3. Promoting disclosure of information on past restructurings

2.3.1. Post-restructuring data reconciliation

☐ Strong: The creditor conducts a post-debt restructuring data reconciliation with the borrower, ensuring accurate reflection and public availability of changed terms and conditions in the official debt data.

☐ Sound: The creditor conducts a post-debt restructuring data reconciliation with the borrower, ensuring accurate reflection of changed terms and conditions in the official debt data.

☐ Room for Improvement: The creditor does not undertake post debt restructuring data reconciliation with the borrower.

Comments:

2.3.2. Public disclosure of participation in debt restructuring

☐ Strong: The creditor publishes information about its participation in debt restructurings, and details on its contribution, including amounts and changes in terms, in a press release or on the agency's web site.

☐ Sound: The creditor makes public its participation in debt restructuring in a press release or the agency's web site.

☐ Room for Improvement: The creditor does not make public its participation in debt restructuring.

Comments:

3. Consistency of financial support

3.1. Providing financing consistent with IMF/WB debt policies

☐ Strong: The creditor seeks, on a best effort basis, assurances with the appropriate borrowing country authorities that the new financing is consistent with the IMF's Debt Limits Policy (DLP), IDA's Non-Concessional Borrowing Policy (NCBP) and Sustainable Development Finance Policy (SDFP), and the World Bank's Negative Pledge Clause (NPC,) and clarifies any technical questions with the IMF and/or World Bank as needed.

☐ Sound: The creditor seeks, on a best effort basis, assurances with the appropriate borrowing country authorities that the new financing is consistent with the IMF's DLP, IDA's NCBP and SDFP, and the World Bank's NPC.

☐ Room for Improvement: The creditor does not seek on a best effort basis to ensure compliance with the IMF's DLP, IDA's NCBP and SDFP, or the World Bank's NPC when contemplating new financing operations.

Comments:

3.2. Committing to the long-term debt sustainability of borrowing countries – by facilitating smooth debt restructurings when needed

☐ Strong: The creditor has a debt restructuring framework in place, that is conducive to providing required relief in a timely fashion, and participating in a collaborative approach with other creditors, when appropriate.

☐ Sound: The creditor has a debt restructuring framework in place.

☐ Room for Improvement: The creditor does not have a debt restructuring framework in place.

Comments:

3.3. Providing technical assistance on debt related issues

☐ Strong: The creditor, when encountering insufficient understanding of financing terms or capacity on the borrower's side, provides technical assistance in coordination with the WB and IMF or requests such from IFIs.

☐ Sound: The creditor takes steps to ensure the borrower's understanding of the financing terms of the loan in every lending operation, including on associated costs and the risks.

☐ Room for Improvement: The creditor does not ensure the borrower's understanding of financing terms of lending, including associated costs and risks.

Comments:

4. Coordination of Stakeholders

4.1. Conducting regular dialogue with stakeholders

☐ Strong: The creditor, in addition to participating in regular dialogue with other stakeholders through international meetings on debt related issues, promotes discussions on specific methodological or operational issues where relevant.

☐ Sound: The creditor participates in dialogue with other stakeholders through international meetings on debt related issues.

☐ Room for Improvement: The creditor does not engage in regular dialogue with other stakeholders.

Comments:

4.2. Facilitating dialogue among international financial institutions to promote coordinated policies

☐ Strong: The creditor takes steps to encourage interaction between the IMF, the World Bank, and other IFIs, and takes an active role in promoting coordination on debt related issues.

☐ Sound: The creditor takes steps to encourage interaction between the IMF, the World Bank, and other IFIs.

☐ Room for Improvement: The creditor does not promote inter-agency coordination.

Comments:

5. Promoting of contractual and financial innovation and minimizing litigation issues to strengthen resilience
5.1. Continuing to work on financial innovation in lending and enhancing resilience to shocks
☐ Strong: The creditor, in addition to supporting initiatives that explore and develop financing solutions to enhance resilience to shocks as a member of international fora, offers and promotes, when relevant, financial instruments that embed more resilience into the debt structure of the borrower country. ☐ Sound: The creditor, as a member of international fora, supports initiatives that explore and develop financing solutions enhancing resilience to shocks. ☐ Room for Improvement: The creditor does not actively engage in exploring new innovative financing options.
Comments:
5.2. Promoting enhanced contractual clauses in foreign-law sovereign bond issuances
☐ Strong: The creditor, in addition to meeting sound practice, promotes enhanced contractual clauses (modified *pari passu* and enhanced collective action clauses) by providing or supporting coordinated technical assistance in this area. ☐ Sound: The creditor includes enhanced contractual clauses (modified *pari passu* and enhanced collective action clauses) when it issues international sovereign bonds. ☐ Room for Improvement: The creditor does not actively engage in supporting enhanced contractual clauses.
Comments:

5.3. Addressing the challenges posed by some litigating creditors
☐ Strong: The creditor, in addition to supporting initiatives to enhance monitoring of litigation by non-cooperative minority creditors and seek appropriate ways to take action, provides or supports technical assistance to countries with limited capacity in addressing litigation challenges. ☐ Sound: The creditor supports initiatives to enhance monitoring of litigation by non-cooperative minority creditors and to seek appropriate ways to take action. ☐ Room for Improvement: The creditor does not support initiatives to enhance monitoring of litigation by non-cooperative minority creditors and to seek appropriate ways to take action.
Comments:

Annex II. Guidance Note

1. Adequacy of Financing

1.1 Safeguarding debt sustainability
Creditors should take the borrower's debt sustainability situation into account when deciding on extending financial support to avoid raising debt vulnerabilities. This requires an internal governance structure that places debt sustainability as a leading consideration for all government agencies when providing financing to other governments or their agencies. Creditors may rely on various models for assessing debt sustainability, including the Joint IMF-World Bank debt sustainability analysis (which is publicly available, based on extensive consultations and reviews, and reflects a broad understanding of debt risks in developing countries).
ST: The creditor has an internal framework for debt sustainability assessment, also informed by private sector or IFI's existing frameworks, which guides borrowing volumes or terms. SD: The creditor has an internal framework for debt sustainability assessment in place, which guides borrowing volumes or terms. RfI: The creditor does not have a framework in place that informs lending based on debt sustainability considerations.
METHODOLOGICAL NOTES Practice 1.1 consists of two elements, the availability of a debt sustainability analysis, and whether the analysis guides borrowing volumes and terms or the provision of grants. Debt sustainability assessments might include international credit rating reports (e.g., Euromoney, Institutional Investor International Country Risk Guide, Business Environment Risk Information); OECD country risk classifications; the Joint IMF-WB Debt Sustainability Framework. Relying on any of these but without an internal model would support a "sound" categorization. As regards "guiding borrowing volumes or terms", adjustments to the financing mix based on debt sustainability considerations could include: cancelling the loan provision; adapting the financing mix (e.g., by applying a higher grant element through applying lower interest rates); or other similar adjustments. If debt sustainability assessments do not guide borrowing terms and conditions, a rating of with *room for improvement* should be applied. For a sound rating, only one method of adjustments is offered (e.g., only the possibility of cancelling the loan provision), and for a strong rating more than one method is offered.

1.2 Providing various financing options

1.2.1 Flexible financing options

Creditors can offer a variety of financing instruments and lending terms to enable borrowing countries to contract grants, or loans that mitigate costs and risks of their existing debt portfolio.

ST: The creditor provides a range of financing terms that enable borrowers to mitigate risks of the debt portfolio at reasonable costs.

SD: The creditor provides a limited menu of financing terms to borrowers.

RfI: The creditor does not provide for much flexibility on financing terms.

METHODOLOGICAL NOTES

The range of financing terms considered for the evaluation of this practice would sit broadly within three categories: grants, concessional financing, and non-concessional financing. If a creditors' agencies offer at least of two out of these three categories, the creditor is classified as sound. Creditors that in addition offer flexible financing options within at least one of the categories (e.g., lengthening maturities to avoid bunching of debt service with other loans; or adapting grace/ amortization periods; or offering loans in different currencies), are considered *strong*.

1.2.2 Provision of collateralized debt

Collateralized debt can be a means for providing financing on reasonable terms for countries with debt vulnerabilities. However, by delinking debt sustainability from repayment capacity, it also presents risks for delayed adjustment and overborrowing and, by earmarking future revenues, reduces future policy flexibility. In addition, the increased seniority may lead to increased borrowing costs for conventional credit and will complicate any debt resolution efforts if such are needed.

ST: The creditor uses best efforts to ensure a collateralization structure does not breach applicable NPCs, provides full transparency on the contractual terms of the collateralized debt (including the collateralization structure), focuses on related assets or revenue streams, and the reduced risks resulting from collateralization are reflected in improved financial terms.

SD: The creditor uses best efforts to ensure a collateralization structure does not breach applicable NPCs, focuses on related assets or revenue streams, and provides full transparency on the contractual terms of the collateralized debt (including the collateralization structure).

RfI: The creditor provides collateralized lending without improving financial terms and information is not made publicly available.

METHODOLOGICAL NOTES

Collateralized lending should be understood as any lending where the borrower pledges an asset or future receivable to the creditor as recourse in case the borrower defaults on the debt.

A negative pledge clause (NPC) is essentially a contractual clause that restricts the ability of a borrower to pledge an asset or future income stream to another creditor. This restriction takes different forms, including by outright prohibiting the granting of pledges or by requiring that the original creditor be treated equivalently.

Related assets or income streams are those which the collateralized lending directly gives rise to. For instance, trade credit is usually collateralized by the goods in question; and project finance is often collateralized by an income stream generated by the financed project (e.g., the tolls for a bridge project)

Improved terms and conditions should be understood in the context of 1.2.1: when options are offered by a creditor, if collateral is one option, then other terms and conditions (e.g., interest rate, maturity terms) should become more advantageous to the borrower compared to non-collateralized options. In the event the creditor does not offer non-collateralized financing options, the other terms and conditions should be more advantageous in relation to terms and conditions of available non-collateralized lending from other creditors. In all cases the comparison should take into account the additional costs that are usually involved in collateralized debt such as export credit premia, remuneration of financial intermediaries, and legal costs.

Full transparency should be understood in the context of 2.1.1 to encompass publication of the size and the terms of the loan, the collateral arrangements that are being used and the amount of collateral provided.

If relevant creditor institutions do not provide any collateralized lending, this practice should be rated as *not applicable* (n/a).

2. Information Sharing and Transparency

2.1 Building a common understanding of the macroeconomic and financial situation of the borrower country—*by enhancing information sharing by creditors*
Accurate and comprehensive information on borrower' debt profiles is needed for creditors to make informed decisions regarding new financial operations. Therefore, creditors should facilitate information sharing among themselves and with the IFIs by disclosing comprehensive and updated information on their existing and new lending operations. The information provided should be sufficiently detailed to allow for accurate assessment of the structure of the debt and potential debt vulnerabilities. Contractual clauses that limit the disclosure of volume, terms or other conditions should be avoided. In this context, regular data reconciliation with the borrower is key to prevent operational errors or misinterpretation of the agreements that could undermine the soundness of the debt data.
2.1.1 Sharing information on existing and new lending
ST: A government agency collects and publishes loan-by-loan information for all of its country's official creditor agencies vis-a-vis borrowers on a single website, and updates it within three months of new lending, including financial terms. SD: Government creditor agencies disclose all loan-by-loan information, including financial terms, to the IMF and the World Bank, on existing exposure to borrowers and new lending at least on an annual basis. RfI: No or limited information on exposure and new lending is made available on a yearly basis.
METHODOLOGICAL NOTES The type of data to be made available include (but should not be limited to): the amount; the beneficiary; the use of proceeds; the interest rate; the maturity and grace period; and the structure of the collateral and the amount of collateral provided if relevant. Reporting options in line with sound practices include individual lenders' public reports, information published on their websites, and others. Disclosure in line with strong practices, however, requires publishing relevant information on a single government web site. Membership in the OECD should be used to assess compliance as consistent with *sound* practices, since OECD members report loan-by-loan information for their export credit agencies to the IMF and the World Bank.

2.1.2 Creditors reconciling data with borrowers and IFIs

Accurate data is necessary for debt analytics, including medium-term debt management strategies and debt sustainability analysis. Differences in the underlying data between creditors and borrowing country introduce uncertainties, weaken the quality analysis and may damage creditor-borrower relationships. Hence, all possible efforts should be undertaken by creditors and borrowers to eliminate data inaccuracies and inconsistencies.

ST: The creditor undertakes data reconciliation with borrowers at least on an annual basis and with IFIs upon request.

SD: The creditor undertakes data reconciliation with borrowers on an annual basis.

RfI: The creditor does not undertake data reconciliation with borrowers.

METHODOLOGICAL NOTES

Creditors should reconcile all debt instruments and guarantees with borrowers to ensure that they were recorded in the same way in their respective debt monitoring systems. Discrepancies can arise due to recording errors, including when there are changes in loan terms and conditions.

Data reconciliation should be conducted periodically as a standard exercise; upon request by the authorities; in case of arrears; in the context of a WB/IMF program; upon detection of missing large public liabilities in the DSA of a borrower country; or upon some other eventuality. Such exercise should comprise all contractual obligations and include all lending agencies.

Creditors that do not conduct annual reconciliations with the authorities (except upon request or in the event of arrears) should be rated with *room for improvement*. Creditors that report conducting annual reconciliations with borrowers should be rated *sound*. Countries that conduct periodic data reconciliations with borrowing authorities and check data recorded by IFIs in the context of an IMF program, and additionally also conduct reconciliations at the request of borrowers and IFIs should be rated as *strong*.

Membership in the Paris Club may help a country achieve sound or strong practices (since the Paris Club periodically conducts data reconciliations), but more regular actions are necessary to secure such an assessment.

2.1.3 Contractual clauses
Contractual clauses imposing confidentiality can cause problems for the efficient allocation of capital. Both creditors and borrowers can face problems in evaluating and assessing loans in the absence of comprehensive information. Transparent and publicly available contractual information would over time result in more favorable financing terms for borrowers.
ST: The creditor uses publicly available templates for financing agreements and refrains from confidentiality clauses. SD: The creditor refrains from using confidentiality clauses with respect to information sharing with the IMF and the World Bank and the inclusion of a loan in aggregate public debt statistics. RfI: The creditor uses comprehensive confidentiality clauses.
METHODOLOGICAL NOTES A confidentiality clause specifies information that cannot be disclosed by the borrower. Such clauses may simply protect trade secrets (i.e., commercially sensitive information) but can take on more blanket forms. Creditors should avoid clauses that prevent borrowers from reporting details on the amount and the terms of financing, as well as the use of proceeds, to the IMF and World Bank. Publicly available loan templates, required for a *strong* rating, are standardized loan contracts which are publicly disclosed, e.g., on lending agencies' web sites, and provide details of the standard terms and conditions of different agencies.[1]

[1] An example of such a standard publicly available template can be found on USAIDs web site, at: https://www.federalregister.gov/documents/2016/09/22/2016-22856/usaid-sovereign-loan-guarantees-standard-terms-and-conditions

2.2 Encouraging borrowing countries to continue to enhance fiscal transparency and public debt management
The responsibility for enhancing fiscal transparency and strengthening public debt management rests primarily with the borrowing authorities. However, creditors can contribute by verifying that decisions by borrowing countries to contract new loans are taken in accordance with the country's legal frameworks and debt management requirements. In particular, the creditor could clarify that the operation is: (i) approved by the relevant authorities following a transparent decision-making process; and (ii) adequately accounted for in the country's debt statistics.
ST: The creditor, in addition to ensuring that the borrower meets its own legal requirements (and only proceeding if it does), verifies that lending operations are adequately disclosed ex-post in public debt statistics. SD: The creditor verifies that the lending operation is in adherence with the borrower's primary and secondary legislation and that the amount of financing appropriately reflects the value of the project. If this is not the case, the creditor does not proceed with the operation. RfI: The creditor proceeds with lending operation without inquiring whether the lending operation is in adherence with the borrowing country's primary and secondary legislation and that the amount of financing appropriately reflects the value of the project.
METHODOLOGICAL NOTES There are several aspects to verifying that transactions are consistent with a country's legal framework. These include checking whether: the borrowing entity/individual has the authority to commit the country to a loan, the loan is consistent with any debt limit a country might have, and the country is following its stated procedures for contracting loans (including on disclosure). Verifications that legal requirements are met can be sought in writing from the authorities. An independent view, for instance from the legal advisors to the transaction, should also be sought if needed. Verifications of adequate disclosure can be assumed if the creditor has written procedures requiring such (e.g., requiring that an assurance of publication be obtained from the authorities).

2.3 Promoting disclosure of information on past restructurings
Comprehensive information on past debt restructurings is key to promoting a collaborative approach among creditors and facilitating a sound understanding of the implications of the debt restructurings. Such information is also important to ensure that borrower's debt data accurately reflects the terms of past restructurings.
2.3.1. Post-restructuring data reconciliation
ST: The creditor conducts a post-debt restructuring data reconciliation with the borrower, ensuring accurate reflection and public availability of changed terms and conditions in the official debt data. SD: The creditor conducts a post-debt restructuring data reconciliation with the borrower, ensuring accurate reflection of changed terms and conditions in the official debt data. RfI: The creditor does not undertake post debt restructuring data reconciliation with the borrower.
METHODOLOGICAL NOTES Data reconciliation involves data checks between the creditor and the borrower on loans and guarantees as defined in practice 2.1.2. As opposed to practice 2.1.2., this practice specifically evaluates data reconciliation exercises after debt restructuring was undertaken. Post-restructuring information could be disclosed in public reports; on creditor agencies' web sites; on the single government website; to IFIs and other fora; or in other ways.
2.3.2. Public disclosure of participation in debt restructuring
ST: The creditor publishes information about its participation in debt restructurings, and details on its contribution, including amounts and changes in terms. SD: The creditor makes public its participation in debt restructuring. RfI: The creditor does not make public its participation in debt restructuring.
METHODOLOGICAL NOTES Disclosure regarding the participation in debt restructuring could be made in public reports, on creditor agencies' web sites; on the single government website etc.

3. Consistency of Financial Support

3.1 Providing financing consistent with IMF/WB debt policies
The responsibility to adhere to the policies attached to the financing from the IMF/WB lies squarely with the borrowing member country. However, as shareholders in the IMF and the World Bank, official bilateral creditors should also on a best effort basis seek assurances with the appropriate borrowing country authorities that the new financing is consistent with the IMF's Debt Limit Policy (DLP) and of the International Development Association's Non-Concessional Borrowing Policy (NCBP), its Sustainable Development Finance Policy (SDFP) and its NPC. The IMF and the World Bank offer technical support to bilateral official borrowers and creditors in these efforts, notably, through the Lending-to-LICs mailing box.
ST: The creditor seeks, on a best effort basis, assurances with the appropriate borrowing country authorities that the new financing is consistent with the IMF's Debt Limits Policy (DLP), IDA's Non-Concessional Borrowing Policy (NCBP) and Sustainable Development Finance Policy (SDFP), and the World Bank's Negative Pledge Clause (NPC,), and clarifies any technical questions with the IMF and/or World Bank as needed. SD: The creditor seeks, on a best effort basis, assurances with the appropriate borrowing country authorities that the new financing is consistent with the IMF's DLP, IDA's NCBP and SDFP, and the World Bank's NPC. RfI: The creditor does not seek on a best effort basis to ensure compliance with the IMF's DLP, IDA's NCBP and SDFP, and the World Bank's NPC when contemplating new financing operations.
METHODOLOGICAL NOTES The consistency of financing with the IMF and World Bank debt limits and NPC could be verified with the authorities directly; or be assumed by the direct involvement in the transaction of the Ministry of Finance of the borrower country. Examples of seeking clarifications from the IMF and/or the World Bank include interactions through the Lending-to-LICs mail boxes. For reference, creditors who use these tools provide information on future loans or on a loan agreement that has already been signed; inquire about whether loans would be considered concessional, or non-concessional; and inquire about any debt limits in place under a program (among other issues).

3.2 Committing to the long-term debt sustainability of borrowing countries – by facilitating smooth debt restructurings when needed
Debt restructurings—when necessary—should be carried out as swiftly and efficiently, with a treatment that would be consistent with restoring debt sustainability. A protracted process will further deteriorate the economic situation of the borrower, weaken its repayment capacity, and delay the restoration of macroeconomic viability. While an inadequate treatment—one that falls short of what is required to restore sustainability—will lead to future payment difficulties and the need for repeated restructurings. To this end, creditors should promptly engage with the borrower when a borrower seeks a consensual debt restructuring, and when appropriate, creditors should seek to collaborate with other creditors in good faith.
ST: The creditor has a debt restructuring framework in place, that is conducive to providing required relief in a timely fashion, and participating in a collaborative approach with other creditors, when appropriate. SD: The creditor has a debt restructuring framework in place. RfI: The creditor does not have a debt restructuring framework in place.
METHODOLOGICAL NOTES A country's debt restructuring framework should have several attributes including: a provisioning policy (or some equivalent way for a creditor government to provide resources to its own lenders who are affected by the restructuring); a policy about when and how to conduct a restructuring in government majority-controlled creditors; a mandate for their respective Boards to implement debt restructuring; a framework to coordinate its own lenders internally and to coordinate externally; and a framework to monitor on delivery of restructuring commitments by its lenders. Participating in a collaborative approach can be achieved via membership in existing international fora, i.e., the Paris Club; or having in place procedures for ad hoc coordination with other creditors (e.g., coordinating with the Paris Club on an ad hoc basis, or hiring advisors to facilitate coordination with other creditors).

3.3 Providing technical assistance on debt related issues
In the absence of adequate debt-related technical capacity, Governments may not be in a position to take informed decisions regarding appropriate borrowing options from a cost/risk perspective. The degree of sophistication in modern finance further increases the complexity of such decisions. These factors underscore the need for technical assistance (TA) to borrowing countries to narrow the information asymmetry between creditors and borrowers on various aspects of public debt management, financing options, and risk assessment.
ST: The creditor, when encountering insufficient understanding of the financing terms or capacity on the borrower's side, provides technical assistance in coordination with the WB and IMF or requests such from IFIs. SD: The creditor takes steps to ensure the borrower's understanding of the financing terms of the loan in every lending operation, including on associated costs and the risks. RfI: The creditor does not ensure the borrower's understanding of financing terms, including associated costs and risks.
METHODOLOGICAL NOTES Limited capacity on a borrower's side could be the result of an inadequately-resourced debt management function. The support of legal and financial advisors may help the borrower but is not necessarily a sign of adequate capacity. Steps to ensure borrower understanding could include procedures to allow adequate time for country authorities to review documentation, and procedures to jointly review documentation and legal, financial and economic risks, Country authorities must request TA from IFIs. IFI TA can be coordinated with bilateral TA efforts on request.

4. Coordination of Stakeholders

4.1 Conducting regular dialogue with stakeholders
A continuous dialogue among stakeholders can help enhance creditor coordination and help safeguard debt sustainability. There are numerous fora devoted to public debt. Creditors, borrowers and IFIs should take advantage of these events to address topics of mutual interest.
ST: The creditor, in addition to participating in regular dialogue with other stakeholders through international meetings on debt related issues, promotes discussions on specific methodological or operational issues where relevant. SD: The creditor participates in dialogue with other stakeholders through international meetings on debt related issues. RfI: The creditor does not engage in regular dialogue with other stakeholders.
METHODOLOGICAL NOTES Dialogue with other stakeholders includes events such as debt conferences (including those held by UNCTAD; the Paris Forum); IMF or World Bank seminars on debt issues; or other relevant meetings. Engagement by both economic oversight ministries and lending agencies should be considered. Methodological/operational issues could include emerging risks and how to address them, as well as developing methods, standards, and guidance for debt data management and reporting. Identifying these and asking for them to be put on the agenda of debt conferences would meet the *strong* categorization.

4.2 Facilitating dialogue among international financial institutions to promote coordinated policies
Inter-IFI cooperation is important to develop effective policies and foster strong practices, while avoiding duplication of efforts. Creditors, as members of the Executive Board at these institutions, have an important role in directing their activities, and can encourage the strengthening of collaborations among the IFIs.
ST: The creditor takes steps to encourage interaction between the IMF, the World Bank, and other IFIs, and takes an active role in promoting coordination on debt related issues. SD: The creditor takes steps to encourage interaction between the IMF, the World Bank, and other IFIs. RfI: The creditor does not promote inter-agency coordination.
METHODOLOGICAL NOTES Assessing whether the creditor facilitates dialogue among international financial institutions to promote coordinated policies can include whether steps were taken to encourage interaction between the IMF, the World Bank, the regional development banks, and other financial development institutions. For instance, identifying issues for joint IFI work, and requesting information on synergies between new IFI policies. An active role could involve financially supporting joint IFI debt capacity development efforts (and participating in the oversight thereof).

5. Promoting of Contractual and Financial Innovation and Minimizing Litigation Issues to Strengthen Resilience

5.1 Continuing to work on financial innovation in lending and enhancing resilience to shocks
G-20 countries could help borrowing countries preserve debt sustainability in the face of natural disasters or other adverse shocks (both external and domestic) by promoting and facilitating the use of new instruments specifically designed to promote resilience.
ST: The creditor, in addition to supporting initiatives that explore and develop financing solutions to enhance resilience to shocks as a member of international fora, offers and promotes, when relevant, financial instruments that embed more resilience into the debt structure of the borrowing country. SD: The creditor, as a member of international fora, supports initiatives that explore and develop financing solutions enhancing resilience to shocks. RfI: The creditor does not actively engage in exploring new innovative financing options.
METHODOLOGICAL NOTES Financial instruments that embed more resilience include (but are not limited to): debt instruments with extendible maturities, commodity price- or GDP-indexed contracts, and provision of insurance against climate change/pandemics. Supporting initiatives may involve undertaking or supporting research into instruments that enhance resilience, supporting efforts to develop model contracts/term sheets, and supporting/subsidizing regional initiatives to advance the use of such instruments.

5.2 Promoting enhanced contractual clauses in foreign-law sovereign bond issuances
The precise design of international bond contracts is a decision of the sovereign issuer, in consultation with its legal and financial advisers. However, enhanced contractual features can render the system much less vulnerable to delayed and drawn out restructurings, and minimize the risk of hold-outs and costly litigation. The IMF and the World Bank have endorsed such contractual features as a means to promote stability of the international financial system.
ST: The creditor, in addition to meeting sound practice, promotes enhanced contractual clauses (modified *pari passu* and enhanced collective action clauses) by providing or supporting coordinated technical assistance in this area. SD: The creditor includes enhanced contractual clauses (modified *pari passu* and enhanced collective action clauses) when it issues international sovereign bonds. RfI: The creditor does not actively engage in supporting enhanced contractual clauses.
METHODOLOGICAL NOTES In assessing the level of compliance, it is useful to explain the ways in which the update of new contractual clauses in sovereign bond issuances (modified *pari passu* and enhanced collective action clauses) have been implemented. Specific inclusion of such clauses in contracts support a *sound* rating. Promoting bilateral or IFI TA in debt management and financial market development can provide an opportunity for borrowing countries to learn about the enhanced features.

5.3 Addressing the challenges posed by some litigating creditors
Distressed debt investment funds have a role to play in resolving debt crisis, mainly, they can provide liquidity in secondary markets for sovereign bonds. However, a subset of these funds that buy distressed debt at a large discount with the intent to recover the full-face value through litigation has made restructurings extremely difficult. Thus, legislative efforts to curtail this type of investing could help and should aim to strike the right balance between further discouraging disruptive behavior and preserving secondary-market liquidity. Many developing countries also have limited technical capacity in addressing challenges with litigation. G20 members can also help addressing challenges by litigating creditors by providing technical support as needed to affected countries.
ST: The creditor, in addition to supporting initiatives to enhance monitoring of litigation by non-cooperative minority creditors and seeking appropriate ways to take action, provides or supports technical assistance to countries with limited capacity in addressing litigation challenges. SD: The creditor supports initiatives to enhance monitoring of litigation by non-cooperative minority creditors and seeks appropriate ways to take action. RfI: The creditor does not support initiatives to enhance monitoring of litigation by non-cooperative minority creditors and to seek appropriate ways to take action.
METHODOLOGICAL NOTES Monitoring and seeking appropriate ways to take action generally means having in place procedures to: observe the actions of non-cooperative litigating creditors and to come to a view about when their actions are disruptive; and to have tools available to assist the smooth implementation of the market-based approach to debt restructuring (e.g., methods to stay the execution of judgments when appropriate). In assessing these ratings, it would be useful to explain the ways in which the challenges posed by some litigating creditors were addressed. Specific identified actions in this area would support a *strong* rating.