**The Joint IMF-WB Multipronged Approach for Addressing Emerging Debt Vulnerabilities—Update on recent progress and key milestones ahead.**

***Executive Summary***

**1. The joint Bank-Fund Multipronged Approach (MPA) aims at addressing the increase in debt vulnerabilities in emerging market- and low-income economies over the past decade.** This increase took place amidst a changing creditor landscape and new debt instruments. The April and October 2018 IMFC and Development Committee communiqués called for a multi-pronged work program to reduce debt vulnerabilities and enhance debt transparency. This was delivered to the Executive Boards of the IMF and the World Bank in November and December 2018.

**2. The MPA for Addressing Emerging Debt Vulnerabilities has four pillars:** i) improving debt analysis and early warning systems; ii) enhancing debt transparency to better guide borrowers in maintaining sound macro-fiscal policy frameworks, and in determining the appropriate magnitude and terms of lending; iii) strengthening debt management capacity in support of stronger public debt reporting, prudent borrowing strategies, and adequate monitoring of fiscal risks; and iv) the review of debt policies to set stronger incentives for sustainable borrowing and lending, and promote timely restructuring of debt when necessary.

**3. Notable progress has been achieved in the implementation of the MPA during December 2018-April 2019**:

*I. Improve debt analysis/early warning systems*

a) Continued implementation of the revised *Debt Sustainability Framework for Low-Income Countries* (LIC DSF). In this context, debt coverage in LIC DSAs was broadened in several countries, including Cameroon, Mozambique and Senegal. Scaled-up training on the revised LIC DSF continued throughout FY2019,[1] and an innovative interactive user-guide on the LIC DSF became publicly available in April 2019. In addition, there were further informal discussions at the IMF's Executive Board on the *Debt Sustainability Assessment for Market Access Countries*.

b) Several *projects on enhancing debt analysis* were undertaken. The IMF fiscal space and fiscal transparency assessments were extended to additional countries. The Fiscal Transparency Code now includes a fourth pillar on resource revenue management. The World Bank debt vulnerability assessment for Emerging Markets was initiated in April 2019, and the World Bank's fiscal sustainability toolkit has been strengthened.

*II. Enhance debt transparency*

c) *Capacity to produce debt data* was improved, with 10 countries supported through capacity development to close their debt-related data gaps. A debt statistics workshop was held with 6 countries under the IMF's Data for Decisions Fund (D4D).

d) *Debt transparency* considerations have featured in several *technical assistance* (TA) and operational engagements, including improved debt reporting in Ethiopia and better state enterprise monitoring and reporting in Cabo Verde.

[1]The IMF and World Bank fiscal year 2019 covers May/July 2018-April/June 2019.

e) Several activities focused on *enhancing creditor outreach*. These included DSA training through the joint China-IMF Capacity Development Center in early 2019 and expanded technical Multilateral Development Bank (MDB) meetings on debt (organized by the World Bank).

*III. Strengthen debt management capacity*

f) The *launch of the Debt Management Facility III (DMF III)* in April 2019 further enhances debt management TA, allowing for programmatic and targeted capacity development.

g) The revised *Medium-Term Debt Management Strategy* (MTDS) was published in February 2019.

**4. Key forthcoming milestones in 2019 under the four pillars include:**

*I. Improve debt analysis/early warning systems*

h) *Improving debt analysis:* (i) presentation of a proposal for a revamped Debt Sustainability Analysis Framework for Market Access Countries in late 2019; and (ii) continued analysis of public sector balance sheets via an updated and expanded database for 76 countries in 2019, and related capacity development missions.

*II. Enhance debt transparency*

i) *Improving debt data*: (i) expansion of the World Bank Debtor Reporting System; (ii) scaled up TA missions/ regional workshops to enhance debt transparency, funded by the DMF, the D4D fund and bilateral donors; and (iii) considerations on public debt definitions and reporting requirements.

j) *Continued creditor outreach*: (i) workshops and training to non-Paris Club official creditors, and further expansion of the MDB network; and (ii) a note for the G20 on "Operational Guidelines for Sustainable Financing".

*III. Strengthen debt management capacity*

k) *Increased TA on debt management and debt transparency:* (i) operationalization of DMF III with scaled up TA on debt transparency and fiscal risk management; (ii) implementation of enhanced World Bank debt management and fiscal risk toolkits from FY2020; and (iii) extension of the Debt Reduction Facility in late 2019.

*IV. Review debt policies*

l) *Enhancement of IMF/WB debt policies:* Presentation of proposals on the IMF's Debt Limit Policy and the World Bank's Non-Concessional Borrowing Policy to Executive Boards at end-2019.

**5. Continued implementation of the Joint IMF-WB MPA will remain a key priority for the two institutions.** Key challenges are capacity constraints and building consensus on a joint approach across the international creditor community. Enhancing debt transparency as well as debt and fiscal management capacity will be an incremental process, considering countries' capacity constraints. Building consensus among creditors on a joint action plan to promote sustainable and transparent lending practices will require further outreach activities.

# THE JOINT IMF-WB MULTIPRONGED APPROACH FOR ADDRESSING EMERGING DEBT VULNERABILITIES:

## Update on recent progress and key milestones ahead

May 22, 2019

# BACKGROUND

- In April and October 2018, the communiqués of the Thirty-Seventh and Thirty-Eight Meetings of the IMFC and of the Development Committee called for a multi-pronged work program to reduce public debt vulnerabilities and enhance debt transparency.

- In November/December 2018, a work program to implement the *Joint IMF-WB Multipronged Approach for Addressing Emerging Debt Vulnerabilities* was presented by the IMF and World Banks staffs to their respective Executive Boards.

- This presentation updates the IMF and World Bank respective Executive Boards on progress in implementing the Multi-pronged Program from December 2018 to April 2019.

# KEY PILLARS OF THE IMF-WORLD BANK MULTIPRONGED APPROACH

**Identified Vulnerabilities**

- High debt levels and vulnerabilities (incl. due to weak macro-fiscal frameworks)
- Shift in creditor composition
- Limited debt transparency
- Debt management capacity shortfalls
- Debt resolution challenges

**Work Streams and Objectives**

**I. Improve debt analysis/early warning systems**

- Assess risks inherent in fiscal and financing plans
- Identify debt vulnerabilities for policy corrections
- Examine impact on debt sustainability of alternative policy paths

**II. Enhance debt transparency**

- Guide borrowers' sound macro-fiscal policy frameworks
- Determine appropriate magnitude, terms and conditions of lending
- Design effective adjustment program (crisis prevention) and debt resolution strategy (crisis resolution)
- Facilitate debtor-creditor and creditor-creditor coordination

**III. Strengthen debt management capacity**

- Monitor, assess, and adequately report debt vulnerabilities and fiscal risks
- Develop prudent borrowing and risk mitigation strategies
- Inform borrowing decisions and overall macro policy stance

**IV. Review debt policies**

- Better address current and new debt challenges
- Set incentives for sustainable borrowing and lending
- Support debt resolution architecture by: (i) balancing debtors' and creditors' interest; (ii) protecting integrity of the international financial system

**Outputs of Work Program** **Outputs of Work Program**

Better tailored IMF/WB reform support and advice in both surveillance/monitoring and program/operational contexts

# I. A. IMPROVE DEBT ANALYSIS AND EARLY WARNING SYSTEMS

## Progress in strengthening Debt Sustainability Assessments (DSA)

### IMF and World Bank Implementation of revised LIC DSF

**By the numbers**

- As of May 1, out of 69 LIC DSF countries, 28 revised DSAs have been considered by the IMF/World Bank Executive Boards and 24 additional draft DSAs have been prepared.
- Two changes in DSA risk ratings so far: one upgrade and one downgrade.
- Broadening of debt coverage (e.g. Cameroon, Mozambique, and Senegal).

**Training**

- An interactive guide on the application of the DSF became available in April 2019 (www.IMF.org/dsalic; http://www.worldbank.org/en/topic/debt-sustainability)
- 7 external DSF training courses were held in FY 2019 and 3 more are planned to take place before end-June.

### IMF review of the DSA for Market Access Countries

The Informal Executive Board meeting in January, 2019, discussed staff's main proposals, including:

- Improving the framework's capacity to identify risk of sovereign stress by:
  - Introducing risk assessments at different horizons (near-, medium-, and long-term);
  - Shifting toward a probabilistic assessment of risks (use of a logit regression and fan charts for the near- and medium-term risk assessments, respectively); and
  - Better accounting for country heterogeneity beyond advanced/emerging market distinction (e.g. use of structural variables, information on investor bases and liquid asset buffers).
- Using sharper mechanical outputs—to enhance transparency around the exercise of judgment, and to ensure evenhandedness—while accounting for market sensitivity.

# I. B. IMPROVE DEBT ANALYSIS AND EARLY WARNING SYSTEMS

## Other work to support debt analysis and transparency

### IMF

*Expand IMF Debt Surveillance Toolkit; implementation of new features and progress in review*

**Fiscal space**

- Out of 31 additional countries in 2019, as of May 1, 6 cases completed, o/w 1 commodity exporter and 1 LIC.

**Fiscal Transparency Evaluations**

- 3 more evaluations completed between December and May;
- Fiscal transparency code updated in January 2019 with a new Pillar IV (resource revenue management).

**CSR and the Review of Data Provision for Fund Surveillance**

- Informal Executive Board Meeting on Data Provision to the Fund held March 1; endorsement of proposed work program to identify data needs for Fund surveillance, including on data on public sector debt and SOEs.

### World Bank

*New Tools to support Macro-Fiscal-Debt Analysis; implementation of new features and progress in review*

**Fiscal Risk Assessments**

- Fiscal Risk Assessment Toolkit has been integrated with other tools to allow for analyzing fiscal risks specific to certain sectors and issues, such as the energy sector.
- 3 fiscal risk assessments implemented in IDA-eligible countries (Bangladesh, Malawi, Senegal), 2 in IBRD countries.
- 3 fiscal risk assessments currently ongoing.

**Debt Vulnerability Assessment**

- A debt vulnerability assessment for Emerging Markets has been launched.

# II. ENHANCE DEBT TRANSPARENCY

## Improving the quality and coverage of debt statistics

### IMF

Since November 2018, progress has been made :

- Data dissemination: Mongolia moved to the Special Data Dissemination Standard (SDDS) and North Macedonia moved to the SDDS Plus. Nine additional countries launched National Summary Data Pages.
- Data Quality: 10 STA/Regional Capacity Development Center TA missions and a workshop covering 6 Portuguese-speaking countries, financed by the D4D, helped address gaps on public sector debt statistics in Africa, Asia, and Latin America.

### World Bank

Expansion of the WB Debtor Reporting System (DRS):

- G20 workshop on government finance and debt statistics organized by the IMF and the World Bank in Washington DC, April 2019.
- Pilot survey to assess countries' potential to report on domestic debt (incl. legal and statistical capacity); and assess the quality of domestic debt recording and classification.

## Enhancing Creditor Outreach

- **Support to Multilateral Development Banks (MDBs):** MDB meetings in February 2019 (on NCBP) and in April 2019 (on debt) were extended to include additional multilateral creditors. Also, 10 MDBs participated in a MDB survey on sustainable financing.
- **Outreach to non-Paris Club creditors:** DSA training through the joint China-IMF Capacity Development Center in early 2019.

# III. STRENGTHEN DEBT MANAGEMENT CAPACITY

## Various IMF and World Bank technical assistance (TA) tools and delivery facilities

- Third Phase of the **Debt Management Facility was launched in April 2019** to support increased **TA** to build debt management capacity. On track to be operational in summer 2019.
- The revised joint IMF-WB **Medium-Term Debt Management Strategy (MTDS)** has been made publicly available.
- Expanded **Debt Management Performance Assessment (DeMPA)** methodology has been launched.
- **Enhanced focus on debt transparency in TA**, for example:
  - Angola: support on MTDS and institutional setup leads to first publication of a debt management strategy.
  - ECCU: support on investor relations and transparency.
  - Ethiopia: expanded debt coverage and analysis in debt reports.
  - Cabo Verde: debt management reform and SOE monitoring.
  - Egypt and Georgia (publication of expanded DMS); Jordan (publication of DMS and policies on guarantees).
- Various CD activities on **Management of Fiscal Risks** since November 2018 (missions, workshops, short-term experts).

| **DMF-III: New Areas of Emphasis for Debt Management** |
|---|
| **Supporting debt transparency:** Bilateral training on debt sustainability analysis, and new line of implementation support focused on enhanced debt reporting and monitoring. |
| **Monitoring and managing fiscal risks:** Identification of off budget and other unreported direct liabilities, government guarantees, public-private partnerships and fiscal risks from public corporations. |
| **MTDS implementation:** Increased support for preparation of annual borrowing plan, asset-liability management, and debt-cash management integration TA. |
| **Improving governance and institutional arrangements:** Increased focus on the legal and governance arrangements, mandate, structure and operational arrangements of debt management institutions. |
| **Developing markets:** Greater support for implementation of domestic debt market development and tapping international capital markets in line with sound debt management. |

# IV. REVIEW OF DEBT POLICIES

## Review of the IMF Debt Limits Policy (DLP)

- Several outreach activities have been conducted, including surveys to OECD creditors and to borrowers.
- Pending: May, 2019: Informal Executive Board Session to Engage: Preliminary considerations.

## Review of the IDA Non Concessional Borrowing Policy (NCBP)

- Engagements so far on the NCBP:
  - Discussion with IDA Deputies on the paper "Debt Vulnerabilities in IDA Countries: Policy Options for IDA19" during the IDA19 First Replenishment Meeting on April 15, 2019.
  - Virtual Seminar with MDBs on debt sustainability issues and emerging ideas to assist IDA countries on February 28, 2019.
  - Survey of borrowers and World Bank country teams on feedback on NCBP.
- Consultation with borrowers in the Africa region planned for May 16 2019 (joint with AfDB).

# THE WAY FORWARD

## Key milestones in 2019

**Work Streams**

### I. Improve debt analysis/early warning systems

- Review of the **DSA for Market Access Countries**: Informal Executive Board discussion late 2019, with a formal meeting expected in early 2020.
- **Integrated MFMOD and DSA tool**, as well as **the early warning framework** for Emerging Markets, will be rolled out in fiscal year 2020.

### II. Enhance debt transparency

- Strengthening consensus by delivering a G20 note on **sustainable financing guidelines** and considerations on public debt definitions and reporting requirements in summer 2019.
- **Continued outreach to international creditor community** by i) delivering workshops and training to bilateral non-Paris Club creditors; and ii) further expanding the scope of MDB meetings and workshops.
- **Public Sector Balance Sheet analysis**: launch of an updated and expanded data base covering a total of 76 countries in 2019.
- **Enhanced information on LIC DSAs** available on web sites.

### III. Strengthen debt management capacity

- **DMF III** will become operational in summer 2019.
- Finalization of the revised **DeMPA** module in 2019.
- Development of an online **MTDS** module in late 2019.
- Extension of the **Debt Reduction Facility** in late 2019.
- A new version of **PFRAM** (2.0) to be launched in 2019.

### IV. Review debt policies

- Presentation of proposals on the **IMF's Debt Limit Policy** and the **World Bank's Non-Concessional Borrowing Policy** to Executive Boards at end-2019.