

## G20 Operational Guidelines for Sustainable Financing

The Addis Ababa Action Agenda on Financing for Development recognizes that “borrowing is an important tool for financing investment critical to achieving sustainable development, including the sustainable development goals. Sovereign borrowing also allows government finance to play a countercyclical role over economic cycles. However, borrowing needs to be managed prudently”. In this regard, UN member states “reiterate[d] that debtors and creditors must work together to prevent and resolve unsustainable debt situations”, that “maintaining sustainable debt levels is the responsibility of the borrowing countries; however [...] acknowledge[d] that lenders also have a responsibility to lend in a way that does not undermine a country’s debt sustainability”, and agreed to “work towards a global consensus on guidelines for debtor and creditor responsibilities in borrowing by and lending to sovereigns, building on existing initiatives.”

Against this backdrop, G20 countries endorse and will promote the following operational guidelines, taking into account national circumstances. 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.

These operational guidelines are classified into five dimensions: adequacy, transparency, consistency, coordination and resilience.

### **1. Adequate financing for sustainable development**

- **Exploration of options to provide adequate financing for developing countries.** Sovereign debtors and creditors will work together to strike a right balance between meeting financial needs for investment and sustainable development and maintaining debt sustainability. They will continue to explore various financing options to help developing countries access long-term financing and bolstering potential growth, while preserving sustainable debt levels.

### **2. Information-sharing and transparency**

- **Promotion of transparency regarding macroeconomic indicators and debt sustainability assessments.** Sovereign creditors and debtors should build a common understanding of the macroeconomic and financial situation of the borrower country, based on the most recent estimates of the international financial institutions (IFIs), including the latest *Debt Sustainability Analysis (DSA)*. In this regard, G20 countries will enhance information sharing with respect to debt sustainability, including signaling to IFIs’ staff if large public liabilities appear not to have been included in the DSA of a debtor country. Moreover, they encourage borrowing countries to continue to enhance fiscal transparency and public debt management, as well as to provide the IMF, and other IFIs as appropriate, information on their debt and indirect liabilities (e.g. as guarantors of public entities).

- **Promotion of transparency regarding relevant cases of past sovereign debt restructurings.** As a general policy, information on past debt restructurings from official and private creditors should be made public, as appropriate.

### **3. Consistency of financial support**

- **Consistency of borrowing and lending practices with debt limit policies as a shared responsibility of debtors and creditors.** As emphasized in the Addis Ababa Action Agenda, borrowing countries and lenders, including sovereign lenders, share responsibilities in maintaining debt on a sustainable path. G20 countries recognize the applicable requirements of the IMF’s Debt Limit Policy (DLP) and of the International Development Association’s Non-Concessional Borrowing Policy (NCBP), and commit, as shareholders of those institutions, to improving the transparency in providing financing to debtor countries and working closely with the IFIs to help debtor countries meet those debt sustainability requirements. In order to achieve that, IFIs need to have early consultation with and if necessary alert creditors on borrowing countries’ debt levels to avoid any potential inconsistency. Debt ceilings and most recently reported borrowing levels are being collected in one table which is public and regularly updated

by the IFIs, helping in providing information to all lenders and borrowers about possible opportunities and constraints.

- **Committing to the long-term debt sustainability of borrowing countries**, notably by aiming at ensuring that commercial creditors adequately contribute to debt relief when required, and by ensuring that official creditors deliver on their own commitments. When unavoidable, debt restructuring should be conducted in good faith in a timely, orderly, and effective manner, facilitating appropriate burden-sharing.

- **Provision of the necessary technical assistance to debtor countries**, directly or through the international institutions in order to enhance their debt management capacities, while ensuring recipient countries take ownership over building their debt management capacities. This specifically covers the ability to staff and train debt management offices, and to ensure their familiarity with the different forms of sovereign borrowing, as well as the costs and opportunities attached to them. G20 countries support the Debt Management Facility (DMF) of the IMF and the World Bank and the Debt Management and Financial Analysis System (DMFAS) program of the United Nations Conference on Trade and Development (UNCTAD), and the ongoing work aimed at strengthening the Debt Sustainability Framework (DSF) of the IMF and the World Bank as a shared reference by all potential lenders in their dealings with a borrower.

#### **4. Coordination of stakeholders**

- **Ensuring a regular dialogue between sovereign creditors, debtors and international financial institutions.** Interaction on a regular basis between these stakeholders, and not only at times of distress, is the most efficient way of fostering trust among sovereign actors. This will consequently make it easier for crises to be identified and anticipated, and for their resolution to be implemented. The IMF, the Paris Forum and Paris Club meetings, and UNCTAD are examples of venues where such a dialogue can take place.

- **Ensuring coordinated policies between international financial institutions.** Interaction and policy coordination on a regular basis between the IMF, the World Bank, the regional development banks, and other financial and development institutions will promote more efficient development, budgetary and other loan policies and ensure a consistent approach for safeguarding financial sustainability.

#### **5. Promotion of contractual and new financial instruments and minimizing litigation issues to strengthen resilience**

- **Continue to work on and consider usage of new financial instruments, when relevant, that embed more resilience into the debt structure of the recipient country**, for instance GDP-indexed contracts, debt instruments with extendible maturities, and natural disaster mechanisms, targeted to limit patterns of repeated over-indebtedness in the most vulnerable countries. G20 countries encourage the development of local currency bond markets as a way of improving the resilience of the domestic economy and financial system.

- **Promotion of enhanced contractual clauses most often found in foreign-law sovereign bond issuances (modified *pari passu* and enhanced collective action clauses – CACs).** International sovereign bonds are an increasingly prevalent form of external indebtedness for countries. G20 countries commit to continue promoting the standards best suited to avoid protracted negotiations with minority holders.

- **Address the challenges posed by some litigating creditors.** Aggressive litigation by non-cooperative minority creditors poses challenges in the financing and debt restructuring processes, especially for the poorest countries that lack the technical capacity to face such a legal challenge. G20 countries commit to explore enhanced international monitoring of litigation by non-cooperative minority creditors and take action as appropriate.