



July 2023

MAKING PUBLIC DEBT PUBLIC—ONGOING INITIATIVES AND REFORM OPTIONS

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- The **Staff Report** prepared by IMF staff and completed on June 22, 2023.

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**International Monetary Fund
Washington, D.C.**



June 22, 2023

MAKING PUBLIC DEBT PUBLIC—ONGOING INITIATIVES AND REFORM OPTIONS

The paper develops and assesses options to improve public debt transparency. It first makes the case, both conceptually and empirically, for greater public debt transparency. To guide the development and assessment of options, it examines the factors hindering transparency, including capacity and governance gaps, and borrower and creditor incentives. The paper then provides a high-level overview of existing initiatives to improve public debt transparency, identifying priorities for progress and policy gaps. Next, it presents and analyzes the merits of a range of options to improve public debt transparency, drawn from reform proposals gaining prominence in policymaking circles while reflecting Fund policy priorities. The IMF could contribute to these reforms with actions within its mandate but would need significant additional resources.

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INTRODUCTION

1. **There is a clear case for enhancing public debt transparency, a key dimension of fiscal transparency.** By better guiding economic policy and improving debt management and access to global capital, debt transparency contributes to macroeconomic stability and growth. In debt restructuring cases, debt transparency contributes to a faster resolution.
2. **Creditors and debtors have space for considerably improving debt transparency.** Governance gaps in borrowers' domestic legal, institutional, and operational frameworks and capacity limitations hinder public debt transparency. Self-assessments by many G20 creditors suggest that while their lending practices are generally sound, information-sharing and transparency remain key areas for improvement.
3. **Inadequate public debt transparency is often the outcome of an interplay between institutional, governance and capacity gaps, and adverse incentives.** These factors are particularly relevant for developing countries where insufficient resources, weak information systems, and inadequate inter- and intra-agency information flows on public debt may hamper their ability to effectively record and report on their public debt position, and to make authorities accountable for their borrowing decisions. Limited information and accountability, in turn, amplify adverse incentives for the authorities to circumvent fiscal rules and/or to accept disadvantageous borrowing terms that favor creditors and/or myopic fiscal policies.
4. **Building on progress under ongoing initiatives, measures in several reform areas hold the promise of advancing further the transparency agenda.** Since 2018, the Joint IMF-World Bank Multipronged Approach to Address Debt Vulnerabilities (MPA) has emphasized the importance of public debt transparency, tracked progress, and supported a broad set of initiatives that are ongoing. In addition to ongoing initiatives, several reform areas that involve actions by creditors and debtors could further enhance debt transparency: (i) strengthening domestic legal frameworks for public debt; (ii) standardizing clauses that promote transparency in public debt contracts; (iii) frameworks for voluntary disclosure and reconciliation of loan-level information by borrowers and creditors; and (iv) introducing direct incentives from International Financial Institutions (IFIs).
5. **The IMF could contribute to advance such reforms but would need significant additional resources for this purpose.** These actions include: the provision of CD related to legal and institutional frameworks, and on loan-level disclosure; promoting the use of standardized non-disclosure clauses in debt contracts; using tailored conditionality related to debt transparency when critical for achieving the goals of or monitoring the implementation of the IMF supported program; and providing in-depth public debt transparency assessments if requested by member countries. Significant progress over the next five years on ongoing initiatives under the MPA would already require stepping up resources allocated to this area. Significant additional resources and time would be needed to contribute to the four additional reform areas outlined in this paper.
6. **This main paper is accompanied by a Background Paper.** The Background Paper provides further empirical evidence of benefits of public debt transparency and elaborates on two elements

that can be used to enhance it: (i) sound practices in public debt management and (ii) available international data standards and publicly available debt databases.

THE CASE FOR PUBLIC DEBT TRANSPARENCY

A. Definition and Scope

7. Definition. Public debt transparency refers to processes and outputs through which timely, accurate, and sufficiently comprehensive information on public debt—and related procedures and policies—is available to stakeholders. The dissemination of public debt data should aim at presenting a detailed and clear picture of contracted and outstanding stocks of public debt and public contingent liabilities, their key financial and legal terms, creditor profile, and debt service payments. Another important area of public debt transparency is the disclosure of public debt management policies and processes, which ensures their efficiency and accountability within the broader remit of fiscal governance (see Chapter II in the accompanying Background Paper).

8. Public debt transparency should start with a comprehensive concept of public debt, contingent liabilities, and risks that can result in future debt increases. The IMF's Fiscal Transparency Code (FTC) and Public Sector Debt Statistics Guide for Compilers and Users are used to guide the definition of the sectoral and instrument coverage for the purposes of this paper:¹

- International statistical standards call for a broad definition, including general government, all central bank liabilities (not just those contracted on behalf of the general government), and liabilities of all public corporations as part of the public sector debt. Coverage of public debt-related risks should, at a minimum, include explicit contingent liabilities, such as government guaranteed and non-guaranteed debt of public non-financial corporations that are market producers (state-owned enterprises or SOEs, herein) and liabilities related to private-public partnerships (PPPs).² While contingent liabilities are not debt per se, their disclosure is essential to account for fiscal risks that may materialize.
- Debt instruments include all liabilities (both performing and in arrears), for which future payments of interest and/or principal are required from the sovereign (public sector with coverage as above) to the creditor, such as loans, deposits, securities, suppliers' credits, and other accounts payable. The latter can be particularly significant in low-income countries (LICs) and should be disclosed regularly.

9. Transparency would preferably go beyond historical public debt data and cover the expected future evolution of debt, including key debt portfolio composition and risk indicators. Publishing detailed information on existing debt helps improve public debt transparency

¹In practice, Debt Sustainability Frameworks may allow for narrower sectoral and instrument coverage depending on data availability in the country.

²Contingent liabilities are payment obligations whose timing and amount are contingent on the occurrence of a particular discrete and uncertain future event or a series of future events.

but does not provide forward-looking information on debt risks. To capture the latter, information would be needed on the projected public debt evolution arising from borrowing decisions over the medium term along with the key portfolio composition and risks, based on a medium-term debt management strategy. Information on projected public debt should include the key assumptions on sources of new borrowings and their financial terms.

10. Different degrees of granularity of disclosure may effectively meet the needs of different stakeholders:

- For policymakers, creditors, analysts, and international financial institutions, disclosure of aggregate data with analytical breakdowns, such as by instrument and creditor type, may be sufficient for macro-level analysis and policy formulation.
- The general public, creditors, analysts, and international financial institutions would further benefit from access to information on individual public debt instruments, including key financial and legal terms, for the purposes of public accountability and more in-depth risk analyses.
- In borrowing countries, relevant government officials, legislatures, and state audit institutions should have access to individual debt contracts to allow them to effectively exercise their *ex-ante* or *ex post* control roles. Debt advisors in restructuring contexts also require such access, given their role in rewriting contracts.

11. The IMF’s Articles of Agreement establish the obligation for IMF members to provide the Fund with information deemed necessary for its activities, except when members lack capacity.³ While members are obligated to provide such data to the Fund, they are not required to publish it. Beyond the data required from all members for surveillance purposes, the Fund can request additional data as a condition for the provision of financing under an IMF-supported program, if it determines that such information is of critical importance for achieving its goals or for monitoring its implementation (IMF and World Bank, 2020c). Issues related to member’s furnishing information to the Fund for its activities are addressed in periodic Reviews of Data Provision to the Fund for Surveillance Purposes (IMF, 2012).

12. The main responsibility for public debt transparency lies with sovereigns and their creditors, supported by initiatives in this area by the international community (IMF and World Bank, 2020b). Public debt transparency is primarily the responsibility of the borrower, who is accountable to its citizens and is best placed to comprehensively record, monitor, and publish all commitments and obligations to its creditors. In practice, however, disclosure by borrowers may be hampered by governance issues, weak information technology, and capacity constraints, as well as weak incentives and confidentiality clauses. At the same time, creditors also have an important role in disclosure of their lending to sovereigns both to ensure accountability to their own citizens or shareholders and help overcome capacity constraints in debtor countries. Creditor disclosure could

³See Article VIII, Section 5 and Annex A to the 2004 Board Decision on strengthening the provision of data to the Fund.

also provide an important signaling effect of shared responsibility for data transparency as a global public good. The IMF supports public debt transparency as part of its international economic and financial stability mandate (Section III below, provides details on specific initiatives).

B. Why is Public Debt Transparency Important?

13. Public debt transparency contributes to macroeconomic stability and inclusive growth by better guiding economic policy and improving debt management and access to global capital. Together with other dimensions of fiscal transparency, public debt transparency supports sound macroeconomic policies by enabling an accurate assessment of debt sustainability. By facilitating comparability of public debt statistics, it also enhances evenhandedness in debt assessments and policy advice. In addition, public debt transparency helps lower the average risk premia across borrowers and average credit risk in creditor portfolios, supports stable and adequate access to financing, and facilitates orderly public debt restructurings. It reduces uncertainty among creditors about the true public debt burden of borrower countries and about creditor seniority, improving the amount and terms of access to financing for countries with sustainable debt. Public debt transparency helps guard against debt crises, by allowing borrowers, creditors and IFIs to identify risks before they materialize. It also makes crises easier to resolve, by facilitating decisions regarding the restructuring perimeter and the required debt relief and ensuring fair burden-sharing across creditors (IMF, 2020a). Any possible adverse impact on trade and capital flows in the transition towards greater public debt transparency is likely to be more than offset by the benefits noted above.

14. Empirical evidence supports the positive effect that public debt and broader data transparency have on sovereign financing conditions. Recent IMF research shows that increased fiscal and public debt transparency can more than pay for itself by meaningfully lowering emerging markets' bond spreads and increasing foreign investors' willingness to hold EM sovereign debt (Choi and Hashimoto, 2018; Kemoe and Zhan, 2018). Gonzalez-Garcia (2022) presents further evidence of significant reduction in sovereign spreads across countries following improvements in their data transparency practices through subscription to the IMF Special Data Dissemination Standard (SDDS) or dissemination of recommended macrofinancial data by countries participating in the Enhanced General Data Dissemination System (e-GDDS). Public debt transparency also promotes a diversified investor base and therefore greater access to finance (see Chapter I in the accompanying Background Paper).

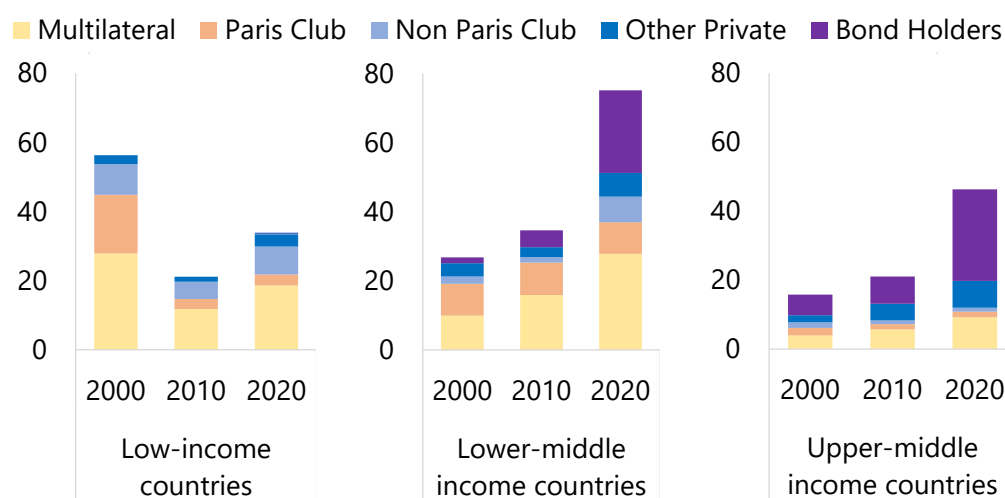
DISCLOSURE PRACTICES AND UNDERLYING DRIVERS

A. Disclosure Practices

15. The last 10 to 15 years have seen rapid growth of public debt across the world.

According to the April 2023 World Economic Outlook (IMF, 2023b), public debt (domestic plus external) in percent of GDP has increased by about 30 percentage points globally since 2007, with large increases among advanced economies, emerging markets, and low-income countries. According to data from the World Bank’s International Debt Statistics (IDS), the stock of external public debt has at least doubled in nominal US dollar terms across emerging markets and developing economies (EMDEs) since 2010 (Figure 1). In low-income EMDEs, this development reversed the steady decline of external debt-to-GDP ratios prior to 2014, which was driven by debt relief under the Heavily Indebted Poor Countries and Multilateral Debt Relief initiatives (HIPC and MDRI) and strong GDP growth. Across all EMDEs, the shares in external public debt held by commercial creditors—including bondholders and other private creditors—and non-Paris Club creditors increased significantly.

Figure 1. EMDEs: External Public and Publicly Guaranteed Stock of Debt by Creditor Type, 2000–20
(Percent of GDP)



Source: World Bank International Debt Statistics.

Notes: Data covers public and publicly guaranteed, long-term, external public debt in 121 countries.

16. The increase in sovereign indebtedness has been matched by rising complexity that has been captured imperfectly.

Debt with more complex lending terms (e.g., collateralization) and/or indirect forms of financing, such as SOE- or PPP-related transactions, has often fallen outside the perimeter of regular public debt reporting (IMF, 2020b):

- **Collateralized borrowing.** In recent years, collateral-like features on public debt transactions have become prevalent and include use of escrow accounts, debt service reserve accounts, and

deposit accounts.^{4,5} Data from Dealogic—which captures syndicated sovereign commercial borrowing and bonds but does not capture loans from official creditors or involving non-related collaterals and “collateral-like” features on non-financial assets—shows increased reliance on such borrowing in low- and lower-middle income countries since 2010 (Figure 2). As noted in IMF (2020b), several countries that experienced serious public debt problems in recent years had collateral and collateral-like arrangements as an important contributing factor to debt distress (e.g., Angola, Chad, Ecuador, Republic of Congo, and South Sudan).⁶ Mihalyi and others (2022) find that only half of the identified commodity-backed loans in sub-Saharan Africa were reported in the World Bank’s Debtor Reporting System (DRS).⁷

- **State-owned enterprises (SOEs).** Efforts to expand the coverage of public debt data in LICs to include SOEs have in several cases identified sizable amounts of public and publicly guaranteed debt not captured previously (e.g., around 10 percent of GDP in the Republic of Congo; IMF, 2020b). The March 2023 update of the IMF Public Sector Balance Sheet database has shown that accounts payable—usually in the balance sheets of public corporations and not included in the debt of the general government—have increased by an average of 5 percent of GDP over the last two decades in the 25 countries for which time-series data is available.⁸
- **Public-private partnerships (PPPs).** PPP arrangements and potential public sector payments deriving from them are rarely documented in public debt databases. Between 2013 and 2018, PPP investments in LICs increased from 0.4 percent of GDP to 2.4 percent of GDP, with the largest rises registered in sub-Saharan Africa and Asia and the Pacific regions. PPP contracts typically involve some form of a public guarantee or payment commitment that can represent either a contingent or direct liability for the sovereign, depending on the sharing of risks and rewards with the private counterparty (IMF, 2020b). Beyond the annual disclosure of government total rights, obligations, and other exposures under PPP contracts, the IMF’s Fiscal Transparency Code establishes as more “advanced” practices, disclosing the expected annual receipts and payments over the life of the contracts and imposing a legal limit on accumulated obligations (IMF 2014).⁹

⁴For example, a borrower’s deposit account is held at, and managed by, the lender to hold the proceeds of certain commodity sales that are unrelated to the loan as a kind of commercial or quasi-collateral.

⁵A debt instrument is collateralized when the creditor has rights over an asset or revenue stream, which would secure repayment of the debt if the borrower defaults.

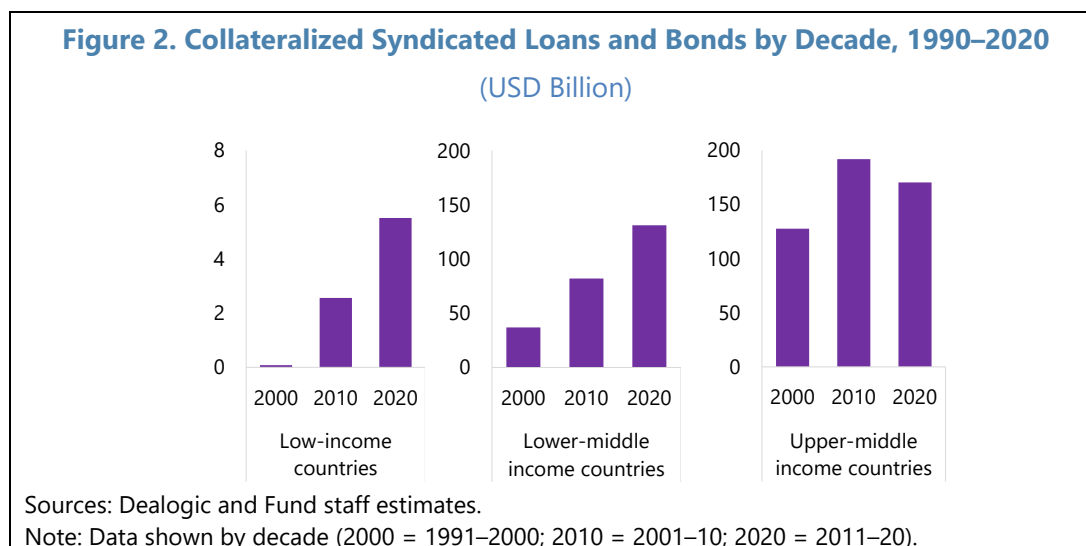
⁶The presence of collateral can raise the risk of debt distress by reducing budget flexibility (through the earmarking resources) and impairing access to non-secured financing, particularly after adverse shocks (IMF, 2020b).

⁷All World Bank member countries with open balances with the World Bank are required to report the amount and terms of external public and publicly guaranteed (PPG) debt, loan-by-loan, through the DRS.

⁸See data.imf.org/psbs.

⁹For good practices on controlling fiscal costs of PPPs see IMF (2018).¹⁰The World Bank’s IDS database is the most comprehensive database of long-term, public external debt with breakdowns of aggregate external debt data by individual creditor country (see review of public debt databases in Chapter III of the accompanying Background Paper).

- Central bank debt issuance and foreign-currency swaps are increasingly being used to facilitate government financing**, rather than to implement monetary policy or manage liquidity or foreign exchange reserves. Central bank liabilities contracted on behalf of the government are rarely reported in public debt statistics, with the exception of transactions with the Fund.

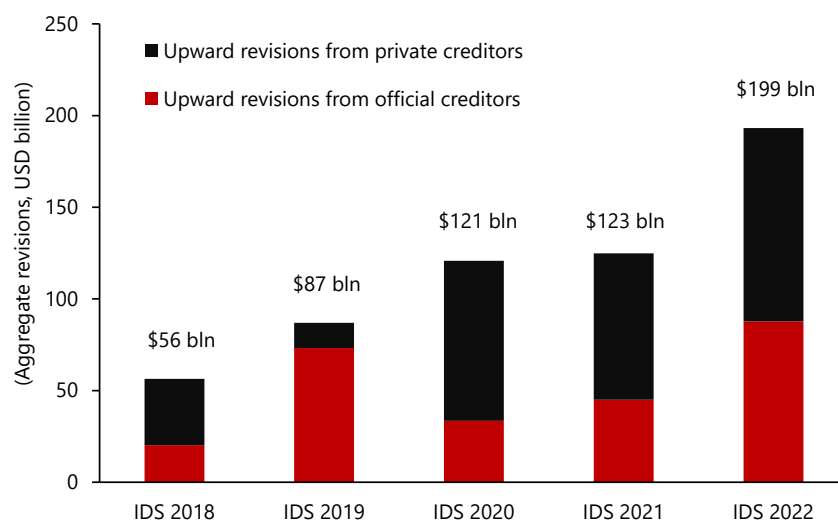


17. Against this backdrop, the external public debt data in cross-country databases are fragmented, incomplete, and subject to large revisions. Cross-country data on public debt is dispersed across over a dozen main databases (see Chapter III in the accompanying Background Paper). The databases have different analytical coverage and rely on a variety of reporting frameworks and methodologies, which implies duplication of effort by countries' data providers and can lead to inconsistencies across databases. While nearly all databases aim at universal country coverage, the actual availability of data falls far short. Most databases include breakdown of aggregate public debt data by instrument, but instrument coverage is partial in many cases. Breakdowns by creditor type feature in more than half of the databases, but definitions vary, and data availability is limited. Moreover, analysis by World Bank staff of public external debt data reported by countries and published in the World Bank's IDS database suggests that from 2018 to 2022, ex-post revisions to external public loan commitments added nearly USD 600 billion in previously unreported debt (Figure 3; see also Horn and others, 2023).¹⁰ Newly identified loans were extended in almost equal parts by official and private creditors. Whereas some revisions to historical data are to be expected, their magnitude and persistence suggest systematic underreporting, the causes of which are examined in the next section.

¹⁰The World Bank's IDS database is the most comprehensive database of long-term, public external debt with breakdowns of aggregate external debt data by individual creditor country (see review of public debt databases in Chapter III of the accompanying Background Paper).

Figure 3. EMDEs: Ex-Post Revisions of Past Loan Commitments by Vintage of World Bank International Debt Statistics Database

(USD Billion)



Source: Horn, Mihalyi and Nickol (2022).

Note: The chart shows the revisions in data on loan commitments between consecutive IDS vintages. For example, the 2022 vintage identified and added USD 199 billion in loan commitments to the data published in the 2021 vintage.

18. Domestic public debt is often less transparent than external debt across EMDEs.

Problems of debt missing from official statistics, non-comparability in definitions across countries, and lack of data in cross-country databases are at least as prevalent with public domestic debt as with external debt. To enhance overall public debt transparency, it is also critical to get a better understanding of countries' public domestic debt, both marketable and non-marketable. The breakdown of debt issued under domestic law by holder type (including residency), maturity, and currency (including whether inflation-linked) is key to an accurate assessment of sustainability risks.

19. Revisions to historical data in debt sustainability analyses (DSAs) further contribute to a perception of unreliability of public debt data. The prevalent practice in DSAs is to use public debt data published or provided directly by member countries, rather than relying on information in public databases, which can lead to discrepancies in data in the public domain, due to differences in coverage or frequency of revisions. Historical revisions of data used in the DSAs are often the result of the backward propagation of expansion of coverage (Rivetti, 2021 and 2022).

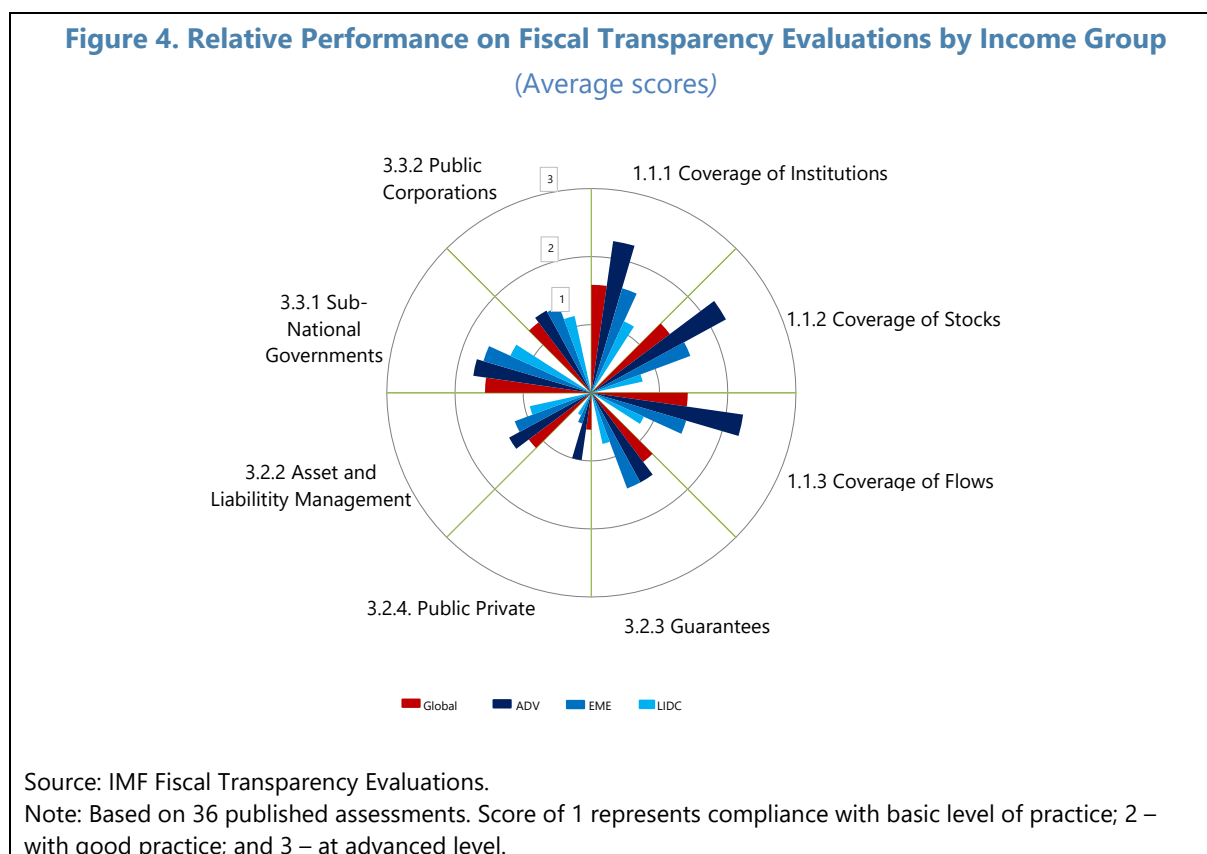
B. Borrower and Creditor Practices and Underlying Drivers

20. The empirical analysis of countries' public debt transparency practices and causes of existing data gaps draws upon the findings of various studies, surveys, and assessments. The main sources of information on disclosure practices include: (i) Fund staff review of the 36 Fiscal Transparency Evaluations published between 2014 and 2022; (ii) the World Bank's Debt Reporting

Heatmap for low-income developing countries (LIDCs), which is based on analysis of information available on national authorities’ websites in 2022; (iii) Fund staff survey of national websites of 105 low- and middle-income countries carried out in 2020 (Roy, 2023); (iv) Fund staff analysis of the second round of voluntary self-assessments of adherence to the 2017 G20 Operational Guidelines for Sustainable Financing by 37 lending agencies from 14 G20 creditor countries (IMF and World Bank, 2021a); and (v) Fund staff review of over a dozen main publicly available databases. The analysis of the main causes of inadequate public debt disclosure relies on: (i) Fund staff review of the domestic legal frameworks of 60 EMDEs and LIDCs (Vasquez and others, 2023); (ii) Fund staff survey of LIDC public debt managers (IMF, 2022); and (iii) country case studies.

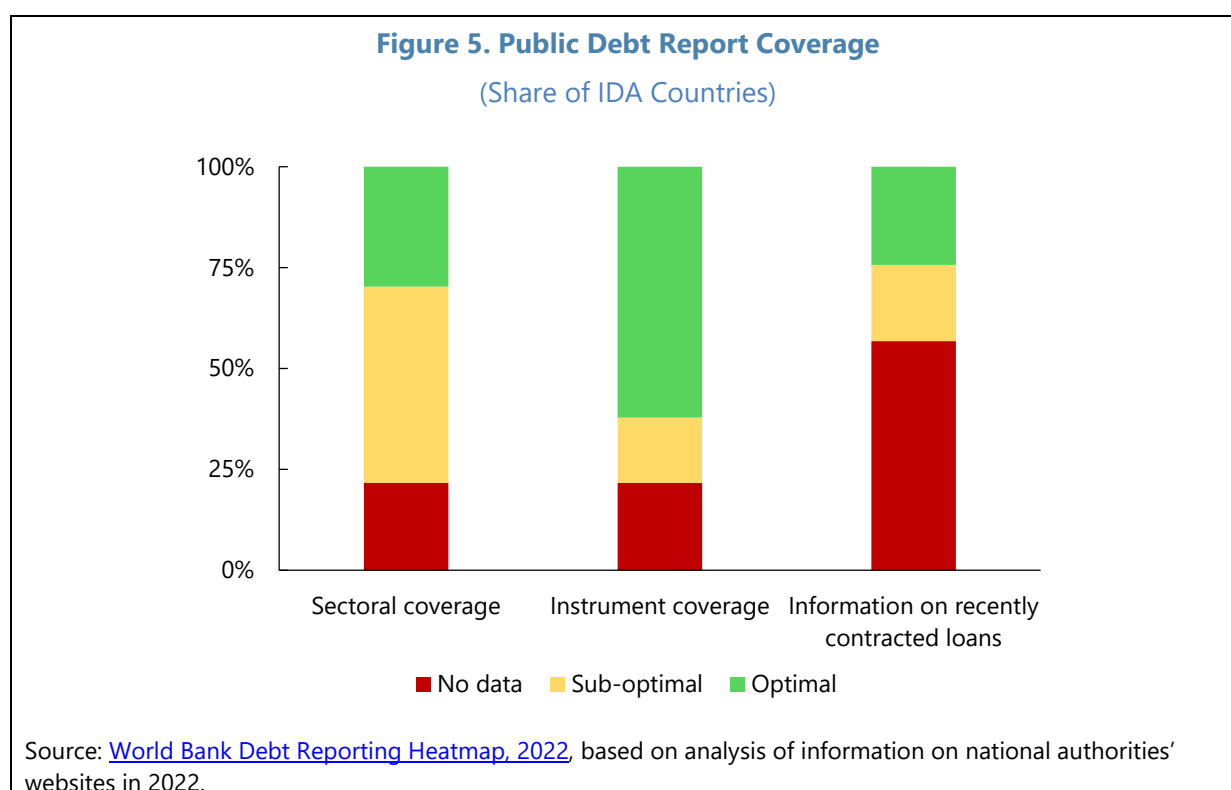
Transparency Practices of Borrowers

21. Public debt disclosure practices, on average, fall short of the standards prescribed in the IMF’s Fiscal Transparency Code across all country income groups. Fiscal Transparency Evaluations seek to provide a comprehensive picture of a country’s balance sheet, particularly its public debt and key contingent liabilities, using the FTC as a goalpost (IMF, 2014a; IMF, 2019). Analysis of the 36 published evaluations suggests that common gaps across all countries include insufficient disclosure of public liabilities outside of budgetary central government balance sheet, government guarantees, liabilities of public corporations and related to PPPs, as well as liabilities stemming from other accounts payable and insurance, pensions, and standardized guarantee schemes (Figure 4).



22. In advanced economies, gaps are narrower, but there is still significant space for improvement in practices. In these economies, a large share of government debt is marketable debt,¹¹ debt of SOEs is less common or systemic, and fiscal and central bank accounts conform to international standards. However, several of these economies still face transparency challenges in guaranteed and contingent public debt, including risks from PPPs.

23. There are large disclosure gaps in LIDCs and EMs, where the share of non-marketable debt and SOEs' role in the economy are greater, and accounting and reporting practices are less developed. One fifth of all LIDCs and middle-income countries (MICs) do not publish overall public debt data regularly (either they have never published any public debt data or published public debt data are more than two years old) (Figure 5, Rivetti, 2021 and Roy, 2023). Among the LIDCs that publish public debt data, common problems include insufficient aggregate data on public liabilities not on the central government balance sheet (nonguaranteed SOE liabilities and PPP-related ones), inadequate coverage of debt flows and some debt instruments, lack of sufficient breakdowns by creditor type and of granular information on key terms of individual debt contracts (Table 1).



¹¹In the case of international sovereign bonds, bond prospectuses that describe the main financial and legal provisions (though not all contractual terms which are set out in the indenture) are often available online.

Table 1. LIDCs: Common Debt Data Disclosure Gaps

Sectoral coverage	<ul style="list-style-type: none"> • Only a small share of LIDCs publishes public debt statistics where sectoral coverage aligns with what is expected based on their legal framework and borrowing practices (Figure 5). • In most cases, public debt statistics cover only the central government not the broader general government. • Little information is also published on liabilities of public corporations and those related to PPPs (Figure 4).
Instrument coverage	<ul style="list-style-type: none"> • While the majority of LIDCs publish data on both external and domestic public debt (Figure 5), the findings from the Fiscal Transparency Evaluations suggest that budgetary payables and arrears generally remain unreported (Figure 4). • IMF CD missions have further highlighted the build-up of expenditure arrears that has gone undetected in official debt data in several LIDCs. CD missions on oversight of public corporations, PPP projects and loan guarantees further underscore the impact fiscal risks might have on the level of public debt.
Terms of non-marketable borrowing	<ul style="list-style-type: none"> • Only about a quarter of LIDCs provide information on the contracted amounts and financial terms of new external public loans by instrument (Figure 5). • Only around one fifth of the EMDEs report on new external public borrowings with detailed information based on individual instruments. • In the case of domestic, non-marketable debt, information on the terms of government borrowings from domestic financial and non-financial institutions is usually not publicly available.
Debt holder profile	<ul style="list-style-type: none"> • Fund staff review of national websites shows that close to 80 percent of 105 emerging markets and developing economies (EMDEs) report external loans by creditor category and over 60 percent also disclose individual creditor positions. • However, only the World Bank’s IDS database among the main cross-country databases provides breakdowns of the public external debt data by creditor type, as well as by individual creditors. • Only 44 percent of EMDEs provide information on holders (investor base by institutional sector) of domestically issued government securities debt (Roy, 2023).
Debt flows	<ul style="list-style-type: none"> • EMDEs’ reporting on government borrowing and debt service payments is comparatively weaker than reporting on government debt stock positions. Among countries reporting data on government debt stock positions, around 80 percent report debt service payments and only 65 percent report on gross/net borrowings.
Sources: Fund staff analysis of IMF Fiscal Transparency Evaluations, national websites of 105 low- and middle-income countries (Roy, 2023), and World Bank Debt Reporting Heatmap, 2022 .	

24. There are a number of LICs and EMs that adhere to high degree of public debt transparency, including disclosure of loan-level information, signaling that challenges can be overcome (Vasquez and others, 2023; [IMF Country Report No. 2022/382](#)). For example:

- In Kenya, public debt statistics bulletins with public and publicly guaranteed debt coverage and medium-term public debt management strategies are published regularly, and the Budget Policy Statement and the annual Public Debt Management Report include information about contingent liabilities. Moreover, the 2021 External Public Debt Register publication provided loan-level information about amounts contracted and drawn, interest rate, maturity, and currency denomination for all loans.
- In Ghana, the Annual Public Debt Report provides a list of all disbursing external loans, including the name of creditor, the purpose of the loan and the outstanding amount, as well as a list of newly contracted loans showing the committed amounts.
- In Seychelles, terms of repayment, debtor identification, interest rate, the amount of debt, and other details, such as the purpose of the facility and the manner in which public debt should be accounted for, are published in the Official Gazette, which is a condition for debt agreement to enter into effect.
- In Thailand, the Ministry of Finance is required to publish in the Government gazette the following information within 60 days from the conclusion of a loan agreement by a central government entity or an SOE: source of loan, currency, amount, conversion of foreign currency to Thai baht, interest rate, fees, expenses, discount, repayment period of principal, use of loan proceeds, and conditions and terms of the transaction.
- In Jamaica, the Ministry of Finance must prepare quarterly reports on new borrowings by the Government, including the amounts raised, purposes of the loans, and terms and conditions.

Transparency Practices of Creditors

25. Many official creditors report data on their lending to sovereigns through multilateral initiatives, but reported data is not comprehensive. Since 2008, the Paris Club (PC) has posted on its website on an annual basis the aggregate amount of its claims on other countries, but without breakdown by creditor and instrument or information on the average terms of these claims or their treatment in a restructuring.¹² Many OECD and non-OECD countries and IFIs report detailed information about individual grants and concessional loans to the Creditor Reporting System (CRS),¹³ established jointly by the OECD and the World Bank in 1967. The comprehensiveness of the

¹²See clubdeparis.org/en/communications/press-release/the-paris-club-releases-comprehensive-data-on-its-claims-as-of-31-5.

¹³See stats.oecd.org/Index.aspx?DataSetCode=CRS1. Data is published by creditor and recipient country with breakdown by sector.

published data is, however, hampered by the non-participation of the largest official bilateral creditor to EMDEs.

26. The increased use of broad confidentiality clauses in non-marketable loan contracts may limit the granularity of published data. A recent study comparing the provisions of 100 contracts between a major non-PC lender and government borrowers in 24 developing countries with those of contracts by other bilateral, multilateral, and commercial creditors shows that this non-PC lender is more likely to include confidentiality clauses. Challenges to debt transparency arise when clauses imposing the duty of confidentiality upon the borrower are broad in scope, going beyond proprietary, commercial/price sensitive or related to national security considerations (Gelpern and others, 2022).

27. Multilateral development banks generally adhere to high standards of transparency in lending practices. The IBRD, IDA, and regional development banks (the Asian Development Bank, the African Development Bank, and the Inter-American Development Bank) all publish the terms and conditions of their loans (Maslen and Aslan, 2022).

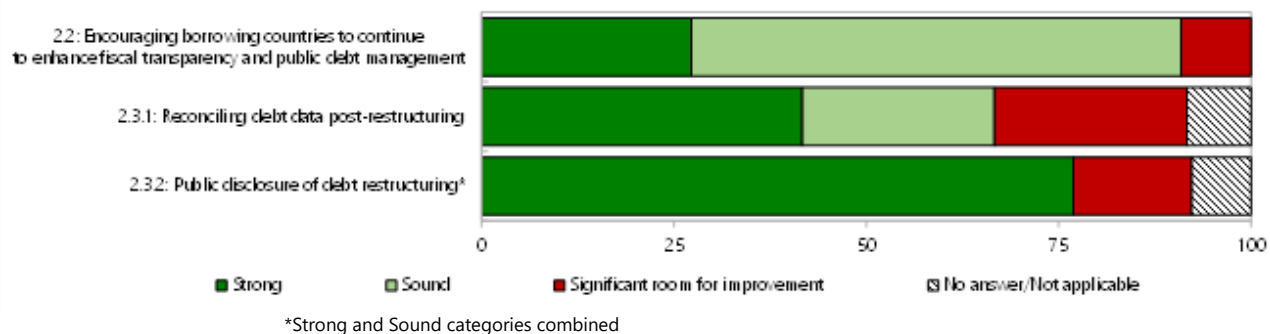
28. Self-assessments by many G20 creditors suggest that while their lending practices are generally sound, information-sharing and transparency remain key areas for improvement. The 2017 G20 Operational Guidelines for Sustainable Financing aim to “enhance access to sound financing for development while 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” (G20, 2017). The guidelines encourage creditors to share information on their lending and contractual terms. Upon a request by the G20, the IMF and the World Bank developed a set of practices that allows bilateral creditors to evaluate their level of compliance with the guidelines.¹⁴ Results from the second round of voluntary self-assessments, carried out by 37 lending agencies from 14 G20 members in 2021, found progress with publicly sharing details on lending along with ample scope for improvement (Figure 6; IMF and World Bank, 2021a). In particular, about 40 percent of respondents assessed their information-sharing practices as strong and another 40 percent of respondents assessed their practices as sound. On the other hand, 20 percent of the respondents do not share data on their lending. Most respondents report reconciling loan-level data with borrowers at least annually, while over 60 percent are willing to reconcile such data with IFIs upon request, assessing their practices in the area as sound and strong, respectively. Twenty percent of the sample do not participate in reconciliation activities. About 90 percent of respondents report that their lending does not include any confidentiality clauses.

29. Private creditors that are members of the Institute of International Finance (IIF) have recently started to report some transaction-specific information on their lending to sovereigns, but this data is not yet public. The voluntary reporting under the auspices of the IIF

¹⁴See www.imf.org/external/np/q20/pdf/2019/111519.pdf.

Voluntary Principles for Debt Transparency (IIF, 2019) covers loans to sovereigns and sub-sovereigns (like SOEs) and sovereign guarantees, with initial focus on LICs. The OECD acts as the repository/reporting entity for the initiative (see www.oecd.org/finance/debt-transparency/). Data collection on new loan contracts has started, but participation by private creditors has so far been limited, and published loan-level data is scarce and mostly on marketable debt.

Figure 6. G20: Self-Assessments of Information Sharing and Transparency Practices
(Share of G20 countries, percent)



Sources: IMF and World Bank (2021).

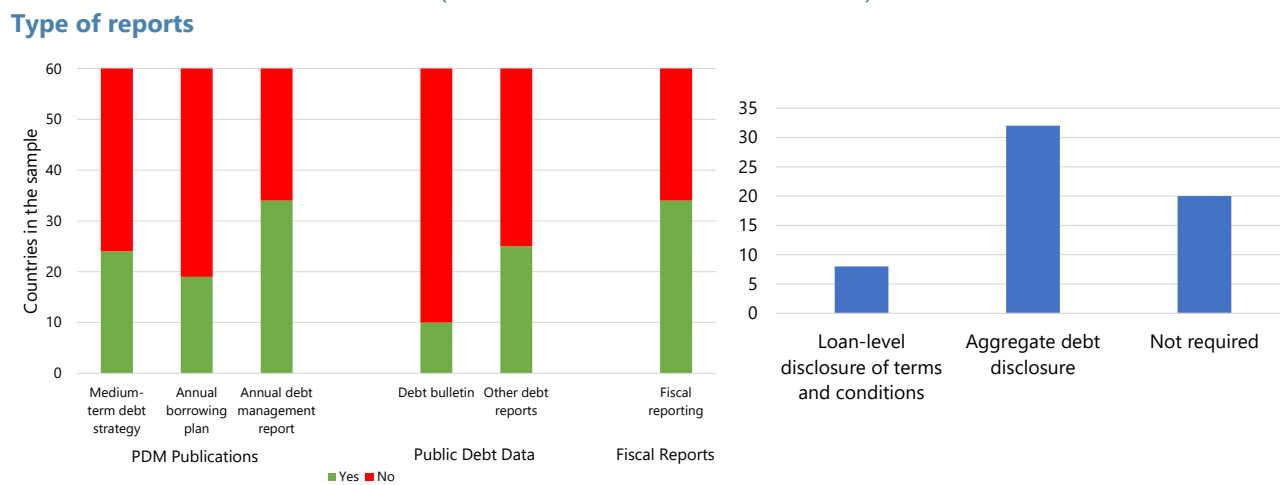
Underlying Drivers

30. Governance gaps in borrowers' domestic legal, institutional, and operational frameworks and capacity limitations hinder public debt transparency.

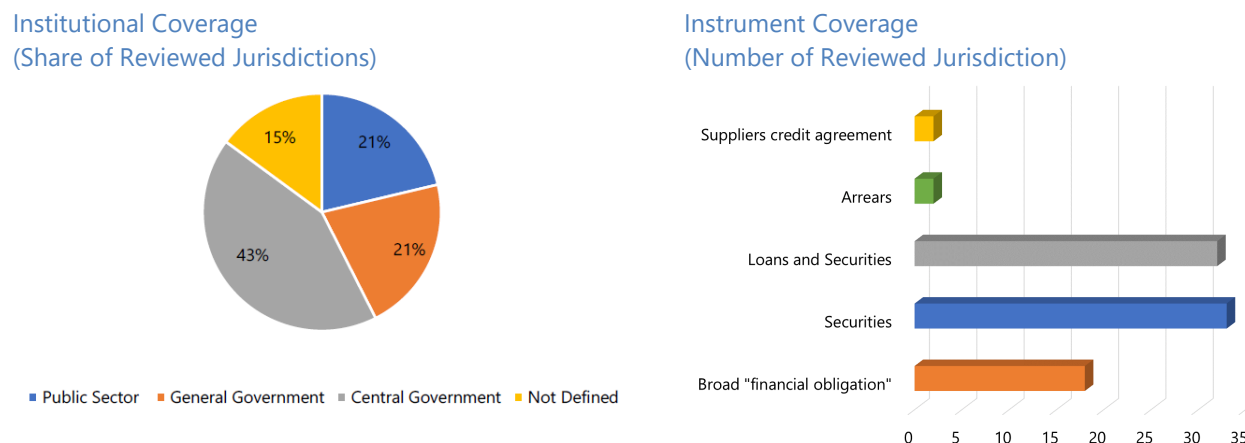
- EMDEs and LIDCs often lack a clearly defined legal framework requiring the compilation and reporting of public debt statistics and prescribing their coverage.** Fund staff review of domestic legal frameworks of 60 EMDEs and LICs found that less than half require the preparation of medium-term public debt strategy, annual borrowing plans, or disclosure of public debt data in debt bulletins or other reports (Figure 7). Less than a quarter of surveyed countries include public sector entities outside the general government in the definition of public debt (Figure 8), also excluding special purpose vehicles that can play a significant financing role in some countries. Debt instruments other than loans and securities are often not included in such definition. Reporting requirements for SOEs are weak, usually relying on publication of financial statements. Less than a quarter of countries require disclosure of loan-level information of financial and non-financial terms of public debt contracts.
- Ambiguously defined authority and responsibilities limit the ability of the government to manage monitor and disclose public debt in a comprehensive manner.** The review of EMDEs and LIDCs legal frameworks highlights inadequate governance arrangements for public debt monitoring, consolidation and disclosure; use of broad confidentiality contractual clauses without appropriate legal safeguards that limit abusive use; and deficient accountability mechanisms (external audit and limited legislative controls).

- The ability to effectively account, record and report on public debt position is often impeded by the lack of adequate inter- and intra-agency information flows on public debt and information technology.** In departure to best practices, debt management offices in developing economies are typically made responsible for managing only a fraction of total public debt and are therefore unaware of public debts that have been contracted by other government entities. The fragmented institutional arrangements on debt management limit accountability, slow the information flows on public debt to a centralized information center, and result in a public debt database that lacks comprehensive coverage with completeness of records, and are not updated on a timely basis.
- Inadequate resourcing, both in terms of staffing and physical/technological resources, and weaknesses in institutional and operational arrangements for data recording, monitoring, and receiving public debt data** were among the most frequently reported challenges in a recent Fund staff survey of LIDC public debt managers (see IMF, 2022). In LIDCs, government resources—both human resources and IT infrastructure—are scarce and constrain the capacity to collect, compile, and disseminate public debt statistics. The debt recording, highly dependent on the performance of the back-office, largely relies on a manual entry process and, therefore, is exposed to human errors and operational risks. The situation is exacerbated by weak information systems and lack of a digitalization strategy to improve debt recording and debt dissemination. Absence of legally constituted agencies/units, ineffective internal processes and coordination among agencies, and weak incentives in an environment of limited public scrutiny and internal audit functions further hinder public debt transparency.

Figure 7. EMDEs and LIDCs: Public Debt Disclosure Requirements in Domestic Legal Frameworks
(Number of Reviewed Jurisdictions)



Source: Fund staff review of domestic legal frameworks of 60 EMDEs and LICs.

Figure 8. Public Debt Definition in Domestic Legal Frameworks in EMDEs and LICs


Source: Fund staff review of domestic legal frameworks of 60 EMDEs and LICs.

31. In environments with large governance and capacity gaps, incentives for non-transparency by both borrowers and creditors also come into play:

- On the borrower side, incentives to not be fully transparent include the wish to obtain better terms from new lenders by hiding existing borrowing and political agency problems as the lack of disclosure makes it easier to divert public funds for private gain or circumvent fiscal rules (see case studies of Mozambique in 2013–16 and Greece in 2009–10, respectively in Box 1).¹⁵
- Poor public debt transparency may also be in the interest of creditors, by allowing better contract terms (for example, the use of undisclosed collateral to gain creditor seniority); making it more difficult for shareholders, regulators, or home country governments to limit lending volumes or lending risks; and blunting competition (transparency of debt contracts may allow potential borrowers to find or negotiate better deals). Creditor's leverage in hindering transparency is likely to be larger when negotiating with borrowers that have fewer financing options, as is typically the case of high-risk borrowers.

32. Developments of late appear to point to an interplay between environment and incentives. In particular, the recent proliferation of broad confidentiality clauses in public debt contracts, especially for non-marketable debt, appears to be one consequence (though used properly, confidentiality clauses can legitimately protect creditors proprietary knowhow of how to structure public debt contracts to minimize risks).

¹⁵Agency problems arise from the fact that the sovereign bears the ultimate responsibility for honoring the debt, whereas officials taking the decisions can benefit privately, in cases of malfeasance, or politically.

Box 1. Country Case Studies that Illustrate Incentives for Limited Public Debt Transparency

Mozambique¹

From 2013 to 2016, three SOEs borrowed over USD2 billion (13 percent of GDP) through government-guaranteed loans for the purchase of vessels and equipment to develop the tuna fishing industry and improve maritime security. The issuance of the government guarantees was done without following proper legal procedures and in breach of legal limits. Credit Swiss and VTB Capital arranged and marketed the loans to international investors. Results of an independent audit revealed that USD500 million were diverted from the investment projects, of which at least USD200 million was used to pay bribes and kickbacks to government officials and bankers (Kroll, 2017). Among those accused of illegal enrichment were the Former Finance Minister, Manuel Chang, and the son of the ex-President Armando Guebuza and three former Credit Suisse employees, who have admitted accepting bribes. Government officials and bankers involved in arranging the deals were also accused of making misrepresentations about the use of the loan proceeds, the amount and maturity structure of Mozambique's public debt and the country's ability to repay the investors.

The scandal came to light in the course of a PSI program with the Fund, which subsequently went off-track, and resulted in a misreporting case and freezing of donor support. Credit Suisse agreed to pay USD475 million in fines and write off USD200 million in debt owed by Mozambique as part of a series of settlements, in addition to USD22.6 million in restitution to investors who were defrauded. VTB Capital agreed to pay more than USD6 million to settle SEC claims of negligence in disclosures relating to a 2016 bond offering.

Greece²

The Greek budget deficit for 2009 was almost three times as big as previously reported, and public debt was revised up by 15 percent of GDP. An investigation found that Greek officials knew about the data discrepancies but failed to address them. There seems to have been a desire to keep some sovereign liabilities outside of the Eurostat statistics and hence the EU monitoring mechanisms.

A 2004 report by Eurostat revealed that Greek authorities repeatedly misreported public debt and deficit data, going back to 1997. The underreporting of public debt was mainly due to keeping some expenses off-budget (e.g., military expenses, capital transfers to SOEs), improper consolidation and the exclusion of obligations linked to capitalized interest and share-exchangeable bonds from the calculation of general government debt. The revised data show that the fiscal deficit had consistently exceeded the convergence criterion for joining the Euro area in the run-up to Greece adoption of the euro in 2001, raising questions in the international press that the underreporting had been deliberate (NY Times, 2004). A 2010 European Commission report established that in addition to the methodological weaknesses and unsatisfactory technical procedures, the institutional set-up did not guarantee the independence, integrity, and accountability of the national statistical authorities.

¹See Financial Times, 2021, "Credit Suisse pays \$475m in fines to settle Mozambique 'tuna bonds' case"; Financial Times 2022, "Credit Suisse to pay \$22.6mn in restitution in Mozambique 'tuna bonds' case"; Kroll, 2017, "Independent Audit Related to Loans Contracted by ProIndicus S.A., EMATUM S.A. and Mozambique Asset Management S.A."; US District Court for Eastern District of New York, 2018, and "USA vs. Boustani et al."

²See New York Times, 2004, "Greece Admits Faking Data to Join Europe"; Eurostat, 2004, "Report by Eurostat on the Revision of the Greek Government Deficit and Debt Figures"; and European Commission, 2010, "Report on Greek Government Deficit and Debt Statistics".

PROMOTING PUBLIC DEBT TRANSPARENCY

33. Improving public debt transparency requires public policy intervention, especially in environments with governance and capacity constraints, and adverse incentives. Policies should aim to:

- **Close the main data gaps identified by the review of borrower and creditor practices.** The biggest data gaps relate to: (i) the lack of information on public debt breakdowns by creditor and instrument type in most of the widely used public databases; (ii) inadequate aggregate information on public liabilities not included on the central government balance sheet, including unguaranteed SOE liabilities and PPP-related ones; and (iii) the general lack of granular information on key terms of individual debt contracts.
- **Address the underlying distortions that incentivize weak transparency.** Addressing weaknesses in capacity, and institutional and operational frameworks can help reduce information costs. This would, in turn, lower the cost of adopting and implementing transparent practices, and reduce agency problems that create incentives to hide debt, by improving the information that the principals (governments or taxpayers) have about the actions of agents. Increasing competition in the sovereign debt market provides additional credit options for the borrower and makes it harder for a creditor to force confidentiality conditions on the borrower that may risk upsetting other current or future creditors.
- **Lean against the incentive to misreport debt, liabilities, and risks.** Although it may be best to address the underlying causes of non-transparent borrowing practices, raising the costs or penalties for non-disclosure may have a beneficial effect.

34. Coordination of initiatives by borrowers, creditors, and the international community will be key for the success of policy initiatives. Coordination is especially important due to the global nature of the sovereign debt market and the transborder reach of the negative externalities of non-transparent practices of individual borrowers and creditors.

A. Ongoing Initiatives

Overview

35. In 2018, the IMF and the World Bank developed a strategy aimed at enhancing public debt transparency within the broader framework of the Multipronged Approach to Address Debt Vulnerabilities (MPA). The four pillars of the MPA encompass: (i) enhancing debt transparency; (ii) strengthening capacity; (iii) improving analytical tools; and (iv) reviewing debt policies. Under the MPA, ongoing and planned initiatives in the area of public debt transparency span the entire policy agenda with measures that address data gaps and generate incentives for debt transparency (Table 2).

Table 2. Multipronged Approach to Address Debt Vulnerabilities: Progress Under Ongoing Initiatives and Future Work to Promote Debt Transparency

Policy agenda	Ongoing initiative	Progress so far and future work
1. Closing data gaps	a. Improving debt data reporting, debt management strategies, and legal frameworks through provision of CD	<ul style="list-style-type: none"> • Gradual increase in countries reporting to Quarterly Public Sector Debt Statistics database, aided by the D4D fund initiative. • The World Bank promotes the adoption and implementation of accrual based IPSAS accounting standards in the public sector. • Going forward: CD work will include: 1) enhancing reporting of public debt data in official publications and investor relations functions; 2) producing and publishing medium-term public debt management strategies and annual borrowing plans; 3) strengthening legal frameworks and institutional capacity in creditor and debtor countries to support public debt transparency; 4) improving coverage of contingent liabilities, including those arising from SOEs and PPPs, and systematically tracking lending commitments as well as disbursements.
	b. Improving the coverage and validation of loan-level data	<ul style="list-style-type: none"> • World Bank Debtor Reporting System (DRS): <ul style="list-style-type: none"> • Ongoing development of new templates covering additional debt instruments, voluntary domestic debt data, and harmonization of debt reporting methodologies with international statistical standards. • Going forward: (i) expect to integrate the new templates into existing debt recording and reporting systems from UNCTAD and COMSEC; (ii) pursue the initiative by World Bank and Japan, where G7 and PC share loan-by-loan data of LICs with the World Bank (WB) on confidential basis.
	c. Developing and promoting the adoption of international standards and codes	<ul style="list-style-type: none"> • 2022 review of IMF Data Standards Initiatives expanded list of granular data on public debt, including breakdowns by creditors type and top creditors. • Statistical standards and guidance to promote best practices for debt data disclosure. • Improving the quality of projections and data on public debt and contingent liabilities.
	d. Publishing national data in statistical databases	<ul style="list-style-type: none"> • Databases include BIS/OECD/IMF/WB Joint External Debt Hub, QPSD, and IMF GFS. • IMF compiled public sector balance sheet database.

Table 2. Multipronged Approach to Address Debt Vulnerabilities: Progress under Ongoing Initiatives and Future Work to Promote Debt Transparency (concluded)

2. Addressing underlying distortions	a. Reviewing analytical tools and policies	<ul style="list-style-type: none"> • Expanded perimeter of DSAs for LICs and MACs. • Review of Debt Limits and Arrears Policies with required debt breakdown by creditor type. • New enhanced safeguards for accessing the resources of the Poverty Reduction and Growth Trust (PRGT) require granular discussion of the composition and evaluation of public debt in LIC programs involving high access or when public debt risks are high. • WB's inclusion of targeted performance and policy actions (PPAs) in WB lending conditionality. • Going forward: Review of the LIC DSF is expected over the following few years, providing an opportunity to review debt coverage and disclosure requirements.
	b. Assessments of public debt management and reporting practices	<ul style="list-style-type: none"> • Carrying out IMF Fiscal Transparency Evaluations and WB's DeMPAs.
	c. Supporting creditor's efforts to enhance public debt transparency	<ul style="list-style-type: none"> • IMF and WB support creditors to carry out voluntary self-assessments of adherence to G20 Operational Guidelines for Sustainable Financing. • Several G20 creditors have started publishing loan-by-loan data. • Going forward, efforts in this area will also aim at strengthening coordination of IFIs work and exploring potential synergies among various initiatives (such as the use of the OECD work on the IIF Voluntary Principles, OECD's CRS, BIS data on International Banking Statistics, and data collected under the Sustainable Lending Principles for Official Export Credits in the WB work on public debt data reconciliation).
3. Leaning against incentives to misreport	a. Including debt data disclosure requirements under the G20 DSSI and Common Framework	<ul style="list-style-type: none"> • The WB published detailed data on external public debt for DSSI-eligible countries. • Debt breakdowns by creditor type have been published for all countries with operations with the WB.
	b. Upgrade public debt provision requirements in the ongoing Review of Data Provision to the Fund for Surveillance Purposes	<ul style="list-style-type: none"> • Expanding coverage of mandatory public sector data provision to cover debt for a broader perimeter (general government) and providing additional debt breakdowns.

36. Multilateral organizations have launched other initiatives to strengthen creditor disclosure practices, close data gaps, and enhance access to transparent sovereign financing.

In 2021, the G7 launched the Partnership for Global Infrastructure and Investment (PGII), which aims at mobilizing USD600 billion by 2027 of transparent financing to meet global infrastructure development needs of low- and middle-income countries (G7, 2022). The G20 Data Gaps Initiative (DGI), launched in the aftermath of the global financial crisis, also included initiatives in enhancing available information on debt securities and public debt statistics. In October 2022, the G20 Finance Ministers and Central Bank Governors welcomed the workplan for the new DGI.

Progress Made and Road Ahead

37. Since the last MPA update, CD activities on public sector debt statistics (PSDS) compilation and reporting have expanded significantly.

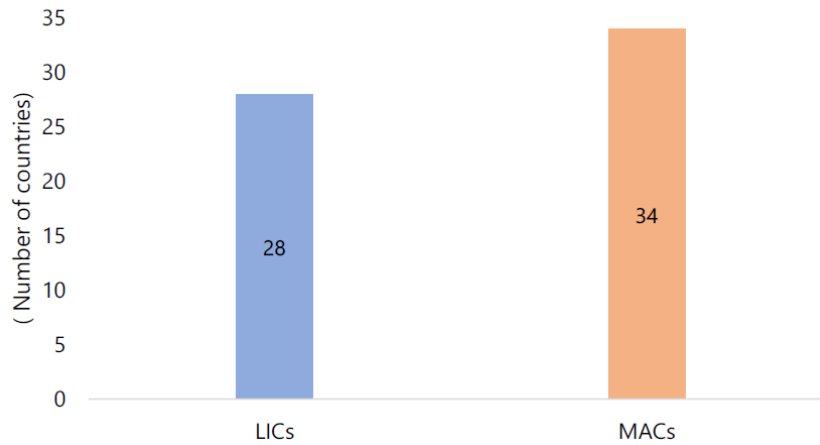
In FY22, debt transparency training was provided to 32 sub-Saharan African countries. The IMF has scaled up fiscal risk capacity development, delivering CD activities to more than 50 member countries and rolled out new fiscal risk CD tools to help countries quantify and manage fiscal risks. Likewise, the World Bank (WB) enhanced its fiscal risk toolkit and assessments, including by undertaking fiscal risk assessment missions, integrated state-owned enterprise assessments and assessments using the joint WB/IMF PFRAM tool. The modalities of CD delivery on debt issues have also been revamped. Since July 2021, the IMF online learning program rolled out three new Massive Open Online Courses (MOOC). These courses, along with other pre-existing courses have attracted, since May 2021, over 2,000 active government officials. Other formats that the Fund staff has used include targeted sessions, roundtables, and how-to guides for countries' authorities.

38. The heightened focus of Fund policies and CD activities on debt issues has resulted in improvements in country transparency practices, though progress in different areas has been uneven:

- Over the past five years, on average, about 130 countries reported data to the IMF GFS database, an increase from 110 countries 6–7 years ago, also reflecting a substantial increase in donor-funded TA. However, some data on government debt/balance sheet was submitted by only 85 countries (out of 130) in 2022.
- The implementation of the joint IMF/WB LIC DSF has continued with 49 new DSAs prepared in 2021 and 54 in 2022 (Figure 5). Twenty-five countries adjusted the contingent liability stress test to reflect narrow coverage and contingent liabilities, while debt coverage under the baseline scenario was expanded in 7 countries since end-2020.
- Since the start of implementation of the revised Debt Limits policy in mid-2021 and the rollout of the revised MAC DSA in mid-2022, information on creditor and instrument breakdown of aggregate public debt data has been published in Fund documents for 28 LICs and 34 MACs (Figure 9).

- Under the IMF Data Standards Initiatives, the number of e-GDDS countries that started publishing data on central government debt and external debt data on their National Summary Data Pages increased from 40 to 57 and from 35 to 54, respectively, since 2019.

Figure 9. Number of Countries with Published Debt Holder Profile Data in Fund Reports, 2021–23

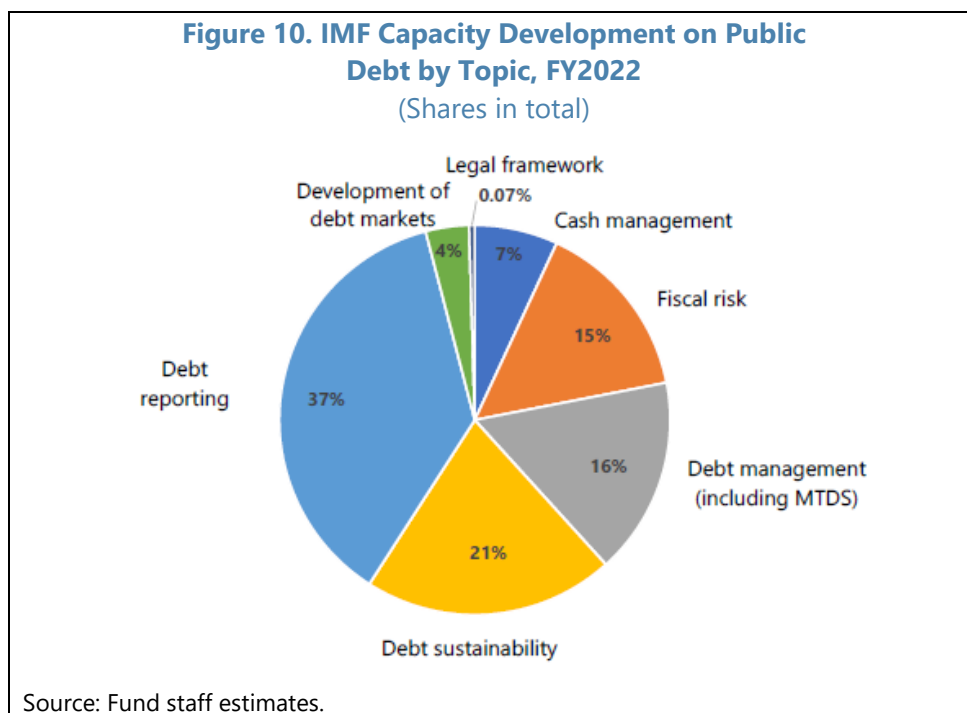


Source: Fund staff estimates.

Note: Total number of LICs and MACs is 69 and 126, respectively. Creditor breakdown information is provided in the form of a debt holder profile table under the Fund Debt Limits Policy in LIC and MAC program documents and as part of the standard presentation of the MAC SR DSF.

Resource Allocation

39. IMF CD represents about a third of the Fund’s total spending and is one of the key conduits of the MPA to address debt vulnerabilities. In FY22, CD on public debt under the MPA reached USD15 million, about 7 percent of overall CD spending. The largest share of CD under the MPA was on debt reporting, followed by debt sustainability, and debt management (Figure 10). But CD in debt transparency goes well beyond debt reporting, as CD in other areas including debt management, legal frameworks, fiscal risks, and debt sustainability also contributes to enhancing debt transparency. In total, it is estimated that CD in debt transparency-related areas amounted to USD11 million in FY22, of which, close to 50 percent was directed to enhancing public debt reporting and 30 percent to broadening the debt perimeter to include contingent liabilities from SOEs and PPPs. Strengthening legal frameworks (at 7 percent of total CD in debt transparency) is an area where additional efforts are likely to be needed (see section B on Reform Areas).



40. Under current plans, the resource envelope for debt related CD in statistics is expected to increase by close to 40 percent by FY24 relative to the average of FY22-23. STA’s CD activities will continue to aim to increase the number of countries reporting data, improve the quality of the data that is reported, increase the breadth (expanding coverage from the budgetary central government to the general government, for example), and depth of data reported including adding debt or balance sheet data. Over the next 2–3 years, it is expected that 5 to 10 new countries will begin reporting data to the GFS.

41. In the medium term, finishing the agenda set forth by the MPA will take a long time and significant resources. For example, at current rates, increasing coverage of public debt in GFS from the 85 countries currently reporting some data to full coverage across country income groups will take decades. Covering most of the agenda over the next five years would require a large increase in resources allocated to this area.

B. Additional Reform Areas

Context

42. There is an emerging consensus among external observers and researchers on the need for action in several areas that complement the scope of ongoing initiatives. Reform proposals put forwards by institutions, such as the G30 (G30, 2021) and the Bretton Woods Committee (SDW Group of Bretton Woods Committee, 2022), academics (Gelpern, 2018), and the World Bank (Rivetti, 2021) focus on: (i) strengthening domestic legal frameworks for public debt; (ii) standardizing clauses that promote transparency in public debt contracts; (iii) frameworks for

voluntary disclosure and reconciliation of loan-level information by borrowers and creditors; and (iv) introducing direct incentives from International Financial Institutions (IFIs).

43. IMF contributions to these reform areas would require time and significant additional resources. They would need to be considered together with other Fund priorities as part of the budget process. In this context, the effectiveness of resources allocated to CD in debt transparency versus other areas needs to be assessed. Although most cost estimates refer to the provision of CD, these contributions also require additional work from staff in Area and Functional Departments that would need to be accounted for.

Reform Area 1. Strengthening Domestic Legal Frameworks for Public Debt

44. Statutory legal regimes for public debt and financial management, including authorization, recording, monitoring, and reporting and disclosure requirements, play a critical role in achieving public debt transparency. Box 2 discusses how each of these aims could be achieved in practice.

45. The borrowing authorization framework of debtor countries, another key element of the domestic legal framework, has been a focus of other proposals. The Bretton Woods Committee and the G30 proposed that public disclosure of sovereign debt be part of the debt authorization requirements under domestic laws and thus a condition for validity and enforceability of such debt by domestic and foreign courts.

46. In addition to legal reform by borrower countries, a number of proposals have been made to enhance transparency via legally mandated creditor disclosure. Creditor countries could contribute to public debt transparency by mandating disclosure of private and bilateral lending to sovereigns. For example, the SDW Group of Bretton Woods Committee (2022) proposed that domestic legal frameworks in creditor countries include mandatory disclosure of loan level information by large financial institutions of lending arrangements with sovereigns (public and private). The G20 and IIF have also recommended both sovereign and private lenders to disclose transaction-level financial and non-financial information. But absent legislative requirements, implementation of disclosure by creditors has largely been voluntary.

Box 2. Enhancing Debt Transparency by Strengthening Legal and Institutional Frameworks

Enhancing debt transparency requires strengthening the legal framework of borrowing countries along several key dimensions, including:

- ensuring consistency and clarity in the legal concept of public debt, aiming for a broad coverage of the whole public sector and of all debt instruments;
- providing a clear authorization to borrow, comprising the definition of powers, roles, and responsibilities within the borrowing process and a clear delegation process;
- enhancing the institutional arrangements for debt compilation, monitoring and disclosure by strengthening the legal mandates of the Ministry of Finance and the Debt Management Office, providing sufficient powers to request information from public sector entities other than central government, and introducing legal mechanisms to facilitate intergovernmental coordination (as further elaborated below);
- ensuring that the law provides for narrow exceptions to disclosure and that tight controls on confidentiality agreements are in place by providing clear guidance on the conditions and scope of confidentiality, as well as parliamentary oversight; and
- strengthening the oversight role of the legislature over public debt disclosure and the proper scrutiny by independent institutions such as Supreme Audit Institutions.

Robust institutional and operational frameworks for public debt management will also be needed.

The wider public sector debt is typically managed within sub-portfolios across institutions at different levels of government. As a result, the central agency responsible for public debt management needs to coordinate with different stakeholders dealing with public debt transactions. Since public debt management responsibilities are fragmented between various departments and agencies in many LIDCs, it is imperative to establish an apex middle office within the Ministry of Finance that has complete view of debt liabilities, as well as on their on-lending and guarantees, of the government and SOEs. The Ministry of Finance should be vested with oversight function over the entire public debt portfolio and empowered to collect information from public sector entities outside the central government.

Analysis

47. Strengthening the domestic legal frameworks of debtor countries is key for preventing opaque debt. Laws entrench good practices and bind the discretion of policy makers and public debt managers alike. They can also help align the incentives for disclosure for creditors and taxpayers in the debtor country. Clear and unambiguous debt disclosure requirements for the contracting of public debt create an incentive for creditors and debtors to disclose new transactions from the outset. Robust reporting requirements in laws help taxpayers in debtor countries monitor the behavior of government officials and hold them accountable. Legal frameworks can also help address challenges in enhancing the control on borrowing by entities outside the central government, fragmented institutional arrangements for debt data collection and disclosure, and lack of proper monitoring and oversight of public debt.

48. Proposals to link disclosure with authorization requirements and public debt validity and enforceability would require careful consideration given its impact. The proposals have the potential to create positive incentives for creditors and borrowing countries to ensure that public debt be disclosed in order to be legally authorized and enforceable. However, introducing a new

element to the debt authorization frameworks of borrowing countries may face several capacity constraints for implementation and may create legal uncertainty in the sovereign debt market. Further, with regard to foreign law public debt, such an approach may entail additional enforcement uncertainty to the extent that debt deemed unauthorized under the law of the issuing country (owing to disclosure or any other deficiency) may still be enforced in New York or English courts.¹⁶

49. However, significant hurdles for law reform must be acknowledged. Law reform is a time-consuming and complex process. Policymakers in borrower countries need to consider, inter alia, whether sufficient political support has been gathered and the scope and ambition of the legislative packages. Implementation must also be adequately sequenced in light of resource constraints while the gradual development of institutional capacity is simultaneously promoted. Should legal reform not be feasible in the short term, some areas of reform could be advanced pragmatically through secondary legislation depending on the interpretive flexibility afforded by the current laws.

50. On the creditor side, a move from voluntary to mandatory disclosure would require amendments to their domestic laws. Parallel legislation in advanced economies requiring large private creditors to disclose similar loan level information may be difficult. There may be legal impediments for countries and other sovereign lenders that wish to voluntarily disclose more granular loan level information (e.g., due to privacy laws, banking secrecy regulation, or limitations of disclosure regulated in freedom of information acts). These will need to be assessed on a case-by-case basis, and the proper legal authorizations be made.

Potential Fund contribution

51. The IMF may contribute to promoting reform option 1 via capacity development:

- The IMF can provide demand-driven capacity development to support members in strengthening their domestic legal and regulatory frameworks, including on prescribing loan-level dissemination of information in line with best practices in public debt transparency for lenders and borrowers.
- There is ample scope to leverage complementarities through collaboration with other institutions. Collaborating with other IFIs and development partners on CD can be particularly beneficial. IMF Regional Technical Assistance Centers and Regional Training Centers should serve as essential resources in developing the authorities' capacity. Limited resources heighten the importance of maximizing efficiency and exploring synergies between CD, including outreach, analytical work, surveillance, and program work.

¹⁶Such uncertainty could be mitigated, for example, through clear drafting of the domestic authorization requirements as well as specific language in the relevant foreign law contracts on the implications of undue authorization due to improper disclosure.

Reform Area 2. Standardization of Clauses Promoting Transparency in Public Debt Contracts

52. Some proposals have covered how confidentiality is handled in contracts (complementing proposals to strengthen how it is handled in borrowers' frameworks):

- Rivetti (2021) and Maslen and Aslan (2022) suggest that standardization of confidentiality clauses may help promote public debt transparency and recommend that lenders and borrowers restrict contractual confidentiality requirements to information that cannot be disclosed by law, noting that confidentiality clauses requiring secrecy are out of step with market practice. As an alternative to the development and adoption of standardized clauses, Maslen and Aslan (2022) suggest that a standardized template for transaction-level information could be developed which could be tailored to the specific transaction and included as a schedule to the loan/transaction agreement and agreed by transaction parties, at the time of signing, for public disclosure.
- The voluntary IIF/OECD Initiative (2020) proposes a similar approach by recommending a confidential information template carve-out in relevant public debt contracts. The carve-out would explicitly allow for the disclosure of all information to the OECD that is covered by the Debt Transparency Principles, even if the relevant public debt instrument features a confidentiality clause.

53. There have been some efforts to enhance transparency at the contractual level in the context of sovereign debt restructurings. The ICMA Model Collective Action Clauses (CACs) (ICMA, 2015) as well as the Majority Voting Provisions (MVPs) for commercial loan agreements for sovereign borrowers (ICMA, 2022) both include information covenants that require the borrower to provide to creditors certain information ahead of any restructuring of the payment terms of the relevant debt instruments.¹⁷ Both model clauses promote a uniform standard for information sharing across the public debt instruments covered. Uptake of the ICMA Model CACs, including the information covenant, has become market practice, with very high take up in sovereign bond issuances under New York and English law (IMF, 2020a). The standard MVPs in commercial loans have only been recently published and staff is working with the international community to encourage their adoption.

Analysis

54. Broad-based support from many stakeholders is indispensable for the success of efforts for contractual standardization. The stakeholders that decide on uniform contractual standards differ depending on whether the creditor is an official bilateral lender or a private creditor. Consequently, different parties need to be involved and ultimately agree on the clauses:

¹⁷CACs are designed to address collective action problems and facilitate orderly sovereign bond restructurings by relying on a qualified majority voting by creditors. Similarly, MVPs provide for a qualified majority voting in syndicated loan restructurings.

- As to private debt instruments, the relevant stakeholders to consult include: (i) the authorities of borrower countries, (ii) the authorities of key jurisdictions where international sovereign debt is commonly issued, (iii) market participants, and (iv) legal experts from relevant jurisdictions.
- In the bilateral lending space, the borrower and lenders tend to determine the contractual terms, in most cases without input from third parties, such as outside financial or legal advisors.

55. Given the variety of sovereign debt instruments, creditors, and their legal characteristics, different levels of contractual standardization may be necessary to align them with domestic disclosure laws. For instance, some private debt instruments, such as international sovereign bonds are typically subject to relatively broad public disclosure rules while certain bilateral debt agreements may be subject to non-disclosure obligations on the borrower. Hence, different approaches to ensuring public debt transparency may be warranted to reflect the characteristics of the specific debt instruments. Additionally, depending on the law governing the debt agreement and its respective framework for the disclosure of public debt instruments, full alignment between the contract and the governing law would be needed. Finally, standardized confidentiality clauses will need to be applied to new contracts only, giving rise to the need to address the outstanding stock issue.

56. Carve-out clauses in public debt contracts would promote legal certainty to the parties. However, consent from the lender may still be required in some instances under the pertinent contractual arrangements. There are few court precedents on these cases in the context of sovereign bilateral debt contracts to inform the effectiveness of carve-outs.

57. As a complement, confidentiality standards defined by the borrower’s legal and policy frameworks can support the standardization of contractual clauses. Domestic legal frameworks should provide clear guidance on the conditions and scope of confidentiality arrangements in public debt contracts and should not prevent the disclosure of key financial and legal terms of public debt contracts. When confidentiality clauses, in line with the legal framework, limit the disclosure of some of these terms, information should still be presented at higher level of aggregation. The law should also require parliamentary oversight and other safeguards mechanisms, such as administrative or judicial remedies, including declaring confidentiality clauses that have not complied with these requirements null and void. Confidentiality policies in borrowing countries will need to be developed by the appropriate agency for debt-related information, defining what type of public debt information could be subject to non-disclosure; term/length of validity of such agreement; exemptions that apply to confidentiality agreements (e.g., already publicly available information, court orders, information made available to Parliament or state audit institutions, etc.); consequences for non-compliance; and how will confidential information be managed.

Potential Fund Contribution

58. The IMF may help build consensus on contractual standardization and help members develop domestic legal and policy frameworks on confidentiality. For this, the Fund would draw on its experience with the promotion of enhanced CACs in international sovereign bonds (IMF,

2014b). Employing its convening power and drawing on its expertise in the area of public debt management and transparency, the Fund could help build consensus on reform initiatives by trade associations or other industry groups, CSOs, and/or governments. In addition, the IMF staff can provide capacity development to support members in strengthening their domestic legal and policy frameworks on confidentiality.

Reform Area 3. Framework for Voluntary Dissemination and Reconciliation of Granular Public Debt Data

59. Some proposals point to the need for a framework for voluntary dissemination and reconciliation of granular public data. Disclosure to the public of public debt contracts (in their entirety) by borrowers has been proposed by academia (Gelpern, 2018) and observers (G30, 2021). Other proposals promote the introduction of templates for transaction-level information as schedules to the loan agreements (Maslen and Aslan, 2022). The World Bank has also recently advanced a proposal for an International Loan Repository (Box 3; see Rivetti, 2021, Annex V). The objective is to set up a third-party platform for reconciliation and dissemination of data on external loans records between creditors and debtors. Other mechanisms that would advance the dissemination and reconciliation of granular public debt data including, for example, loan-level data already being provided to WB’s DRS and to the OECD DTI would contribute significantly to debt transparency.

60. Disclosure before and during debt restructuring operations has long been promoted as a transparency improvement. Lack of transparency on the sovereign borrower’s public debt, its terms, and its composition by creditor hampers creditors’ ability to assess comparable treatment in a debt restructuring and delays the process. The incidence and magnitude of bilateral debt restructurings, information that is not systematically disclosed currently (Horn, Reinhart and Trebesch, 2022), is contributing to delays in finding solutions for restoring debt sustainability that may lead to increased costs to borrowers over the long run.

Box 3. International Loan Repository

An international loan repository (ILR) is a third-party platform for reconciliation of external loans records between creditors and debtors. The envisioned technological solution through voluntary participation would allow automation of data entry in borrowers’ debt recording systems and of data submissions to the World Bank’s DRS and, when fully in place, enable reconciliation of stock of public debt data in cross-country databases.

As a technological solution, the ILR could take different forms that require different degrees of commitments by debtors and creditors. It would generally require all (or most) sovereign debtors and their official and private creditors to be connected to it, for it to achieve its goal. In its more basic form, submission of data on transactions by debtors and creditors would be voluntary, with a third party reconciling the data. In a much more constraining but effective form, the system would function as a mandatory clearing house for all loan-related transactions. In any event, the contribution of this system to debt transparency would depend on the extent to which the data from this system can be made public.

Box 3. International Loan Repository (concluded)

The implementation of the ILR would imply significant challenges. Beyond the technological aspect, it does not seem to provide a clear solution for the adverse incentives that currently hamper transparency. Such adverse incentives would still keep debtors and creditors from voluntarily participating in this system, let alone committing to making the use of this system for transaction completion. Benefits to borrowers from the reconciliation services and reporting facilities that the ILR can provide would be important. However, it is likely that for the ILR to be an effective reconciliation tool and get traction from the sovereign borrowers, the existing non-technological obstacles to maintaining an updated and reconciled public debt database by the sovereign borrower would need to be addressed.

Analysis

61. Disclosure of more comprehensive, detailed, and better validated public debt data is key to strengthening public debt transparency. For general public debt contracts, this would include the creditor name and purpose of the loan, as well as the key financial and legal terms for all public debt instruments (see also Box 5). Moreover, transaction-level disclosure obligations should also extend to SOEs, notably because their debt obligations may ultimately result in fiscal liabilities to the sovereign (Maslen and Aslan, 2022). When confidentiality clauses legitimately limit the disclosure of some of these terms, information can still be presented at higher level of aggregation. Debt data validation and reconciliation of granular data are essential features of the business process in public debt management. Cross-validation of debtor and creditor data at a granular level would help identify and address data gaps, increase data accuracy and consistency, limit operational risks, and bolster confidence in data while promoting shared responsibility between the borrower and creditor for data transparency. Where significant data gaps are identified, comprehensive data reconciliation of borrower and creditor records should be undertaken to reflect the level of indebtedness more accurately. Progress in this area may incentivize more country participation to level up to best practices.

62. The use of templates for transaction-level information as schedules to loan agreements would need to be supported by legal reforms. Contractual obligations are piecemeal and may not be as effective as a uniform statutory standard. Capacity constraints would need to be evaluated, especially to clarify how new disclosure requirements align with any existing ones. To prevent the recourse to unregulated debt instruments to circumvent disclosure requirements, granular reporting must be placed within the broader framework and principles of the Revised Guidelines for Public Debt Management and the IMF's FTC, potentially addressing non-debt liabilities, fiscal risks, and debt-related contingent liabilities in public sector balance sheets.

63. Efforts to disclose and reconcile high granularity public debt data would entail costs and present implementation challenges. Maximum granularity of public debt disclosure could be encouraged as long as it is a prevalent practice in the jurisdictions and/or required by their constitutional or domestic legal framework as part of their transparency and accountability mechanisms. In addition, the reporting burden for debtors and creditors may increase, potentially leading to duplication or inconsistencies with existing reporting systems. Concerns about reporting

burden are, however, mitigated by the widespread digitalization of public debt records. For example, more than 70 percent of EMDEs use either UNCTAD's or the Commonwealth Secretariat's debt management and recording systems, both of which offer automated capabilities that can be used to submit loan-level information to the World Bank's DRS. Creating a new platform for data storage, arbitration of differences in creditor and borrower data, and dissemination would also be costly. If launched in a voluntary way, it may be limited in effectiveness, unless accompanied by sufficient incentives. Countries may also initiate time-consuming changes in domestic legal frameworks to shield themselves from legal challenges of more stringent data disclosure requirements.

64. The proposed ILR would help reduce errors in manual entries in borrower debt recording systems and automate the reporting of reconciled data (Box 3). However, it would require complex institutional arrangements to operationalize and sustain. An alternative solution for a reconciled debt database could be to extend online access by respective creditors through their financial management information systems to sovereign borrowers that provides a real-time view of the debt liabilities of the sovereigns and transactions on such liabilities.

65. The transparency of debt restructuring operations could be increased. Enhanced transparency in the debt restructuring process under the Common Framework process could result in faster resolution of sovereign debt restructuring. This includes greater clarity required on the different steps and timelines in the CF process, including on the enforcement of comparability of treatment between creditors. To resolve this impasse, the Global Sovereign Debt Roundtable agreed on the importance to urgently improve information sharing including on macroeconomic projections and debt sustainability assessments at an early stage of the process (IMF, 2023a). In addition, disclosure of terms of official bilateral restructurings with non-Paris Club creditors would contribute to finding collaborative solutions by creditors to help put debt in borrower countries on a firmly sustainable path.

Potential Fund Contribution

66. To support dissemination of granular public debt data, the Fund could potentially contribute to this reform option in the following areas:

- **Advocacy and coordination of granular data disclosure.** Building on the Fund's ongoing collaboration with the World Bank, COMSEC, and UNCTAD as part of the technical working group on improving the WB DRS template, methodology, and electronic reporting template, Fund staff could contribute to the design of a standardized template for direct reporting by LICs of loan-level information automatically generated by the COMSEC's Meridian and UNCTAD's DMFAS debt recording and reporting systems. The Fund can also play an advocacy role in promoting creditor data disclosure, promoting alignment of data reporting templates to a common standard for different creditor reporting initiatives like the Paris Club, G20 Operational Guidelines, and OECD DTI, given that achieving consistency of data would be possible if creditors also publish granular public debt data, matching the level of granularity required/expected from debtor countries.

- **Capacity development.** There is scope to improve the quality of loan-by-loan data through capacity development (Box 4). Main data gaps include instrument classification and sectorization (external vs. domestic) issues, data inconsistencies, and issues with country and data coverage. In some cases, the interagency cooperation (mostly Ministry of Finance and Central Bank) is also an issue that could be addressed through Fund TA missions, especially by promoting data sharing procedures and developing data consistency among different datasets.
- **Helping stakeholders navigate existing public debt databases.** Until comprehensive and reliable loan-level information becomes publicly available and in parallel to working with other IFIs on ensuring internal consistency of various databases, the Fund can leverage its statistical expertise to help data users navigate through the currently fragmented universe of aggregate public debt data databases (see Chapter III in accompanying Background Paper) by listing all main databases on a single webpage and explaining their different characteristics, thus facilitating their usage in policy analysis.
- **IMF Data Standards Initiatives.** Over the medium term, the Fund’s global data transparency framework, the Data Standards Initiatives, could be further enhanced to introduce more granular public debt data into the framework, in addition to those introduced in the Tenth Review of IMF Data Standards Initiatives (as also anticipated in the latter),¹⁸ reflecting the evolving surveillance and policymaking priorities and membership data needs.

Box 4. Strengthening Loan-by-Loan Transparency

The IMF could help countries further strengthen loan-by-loan transparency through targeted CD.

Enhanced loan-by-loan transparency would require implementing systems and developing procedures for recording, compiling, and disseminating in a timely manner public debt data and all relevant terms of public debt contracts. Jointly with the World Bank, the IMF could provide CD in this area aimed at ensuring greater consistency with macroeconomic statistics and international statistical guidelines.

IMF support to countries in compiling loan-by-loan data could be provided through two types of CD engagement. In particular,

- **Technical assistance.** The IMF, in coordination with the World Bank, could provide guidelines for data collection and clarify the methodology to be applied, such as instrument classification, sectorization, and the treatment of publicly guaranteed debt.
- **Workshops/training.** The Fund could also expand the current training courses to include sessions on loan-by-loan compilation practices and add on the current pipeline of joint workshops aimed at improving consistency between micro- and macro-level data by bringing together countries, international partners, and software developers.

¹⁸See www.imf.org/-/media/Files/Publications/PP/2022/English/PPEA2022005.ashx.

Box 4. Strengthening Loan-by-Loan Transparency (concluded)

Efforts in this area would be helped by capacity development to strengthen the legislative basis for such disclosure (see Reform Area 1 above).

It should however be noted that CD is demand-driven, and its delivery cannot be guaranteed to all countries with reporting shortcomings (unless there is a change in policy or the Fund mandate).

Furthermore, expanding Fund engagement in new capacity development areas would have important resource implications. For example, TA missions that include a loan-by-loan component would be a new workstream for the Fund and would require intensive data work and longer or multiple missions, along with engagement with multiple agencies within countries.

Reform Area 4. Direct Incentives from IFIs

67. IFIs have three basic ways to directly incentivize public debt disclosure:

- **Evaluations against standards.** The World Bank's DeMPAs and the IMF Fiscal Transparency Evaluations (FTEs) cover public debt reporting and the World Bank's DeMPAs also cover governance, both key aspects of public debt transparency.
- **Conditionality on adequate public debt disclosure.** Fund program conditionality is governed by the Conditionality Guidelines that require parsimony, tailoring to country circumstances and criticality for achieving program objectives or monitoring program implementation. For example, conditionality on adequate public debt disclosure has been used recently in the cases of Angola and Ecuador (IMF, 2020b).¹⁹ Under the WB Sustainable Development Finance Policy, IDA-eligible countries at moderate or high risk of public debt distress are required to implement performance and policy actions (PPAs) to correct factors contributing to debt distress risks, including in the area of public debt transparency. Reporting of loan level external debt data to the Debtor Reporting System is mandated for all countries that have an open balance with the World Bank.
- **Direct requirements.** Fund policies on surveillance and program can further include requirements that support debt transparency. This is already the case with the Data Provision to the Fund for Surveillance Purposes policy (currently under review) which establishes the requirements for data provision to the Fund for the whole membership and implies making this data available to the Board members but not necessarily to the public. Similarly, the debt sustainability frameworks and the Debt Limits Policy (which applies to program-cases only) establish different debt disclosure requirements.

¹⁹In the case of Angola, the disclosure of characteristics of the collateralized public debt was a prior action for program approval. In the case of Ecuador, a prior action and a structural benchmark were used to ensure that updated information on loans with collateral-like features is provided regularly during the program.

Analysis

68. IMF program conditionality can be an effective way to strengthen transparency, but it will remain case-by-case. It creates strong financial incentives for both debtors and creditors (who also benefit from debtors having access to multilateral financing). However, this must remain a case-by-case choice governed by the Fund Conditionality Guidelines that require parsimony, tailoring to country circumstances and criticality for achieving program objectives or monitoring the program implementation.

69. On evaluation frameworks, coverage and coordination need to be improved. In the case of World Bank's DeMPA reports, the country coverage is limited mostly to PRGT-eligible countries. In addition, many DeMPA reports are not published and currently there is no mechanism for sharing of such reports with Fund staff. This can be overcome by making a template for carve outs from confidentiality clauses enabling information sharing with the IMF an integral part of the DeMPA process. On the IMF side, FTE coverage and frequency is limited, and there is need for a more detailed guidance on best practices in the principles' implementation in the public debt area.

Potential Fund Contribution

70. A stand-alone, in-depth public debt transparency assessment program could be considered to create an impetus for levelling-up to best practices (Box 5). Such country assessments, based on the existing international principles, can be carried out by Fund staff on a voluntary basis for countries with presumed publication or take the form of self-assessments.²⁰ More granular guidance on public debt and related fiscal transparency will need to be developed to implement these principles, also incorporating examples from sound country practices. Such granular guidance for a public debt transparency assessment may be developed by IMF functional departments with expertise in this area. However, this will entail resource implications, if the assessments are carried out by Fund staff or if staff is called upon by country authorities to assist in their self-assessments, with an estimated cost of USD0.2 million per mission and at least one mission per country requesting such assessment.

²⁰Existing guidelines include, inter alia, the IMF's FTC (IMF, 2019) and its associated Fiscal Transparency Handbook; the Revised Guidelines for Public Debt Management (IMF and World Bank, 2014); Debt Management Performance Assessment Methodology—2021 Edition (World Bank, 2021) and Public Sector Debt Statistics: Guide for Compilers and Users (IMF, 2011).

Box 5. Stand-Alone Public Debt Transparency Assessment

A public debt transparency assessment could be helpful but would need to be based on more granular guidance on best practices. These include:

- **Public debt data coverage.** There is need for more specific guidance on public debt reports. Data coverage in the guidance would be in consistency with the IMF’s FTC with a focus on areas of data gaps, including reporting on public sector liabilities beyond central government, reporting on SOE and PPP-related liabilities, as well as loan-level data (see section above). The issue of preventing “hidden debt” is addressed in the FTC through the coverage of institutions, coverage of flows, coverage of stocks and internal consistency principles.¹
- **Data comprehensiveness on public debt operations and outcomes.** More specific guidance on the content of country’s public debt reports could be provided. Guidance could cover analytical breakdowns of aggregate data and loan-level data, including contracted and disbursed loan amounts, currency denomination, interest rate, fees and penalties, maturity and grace periods, auction results and secondary market yields of domestic bonds, liability management operations, and public debt service payments and projections. In addition, the governing law, majority restructuring provisions, sovereign immunity waiver, and all material debt covenants that could subordinate other claims of the government or could have recourse to assets should also be disclosed. The guidance could also include information on guarantees, lending operations and derivatives. It would also leverage best practices of reporting on other aspects of transparency relating to risk management, linkages with monetary policy and market operations.
- **Public debt data consistency.** More specific guidance can be provided to ensure that public debt reports are internally consistent and are based on stock-flow reconciliations.
- **Public debt governance.** The assessment could gauge the strength of governance in public debt management in respect of the legal frameworks, institutional arrangements and accountability, legislative oversight, and internal controls. More specific advice can be provided on the granularity of financial statements on public debt liabilities and auditing debt management specific issues.
- **Policy orientation.** To enhance qualitative transparency there is a need to cover specific policy documents on public debt management operating framework, the decision-making process related to loan approval and market issuances, and coordination issues (with central bank, intra-government borrowing, borrowing by SOEs and other public sector entities). The discussion can be enhanced with focus on investor/creditor relations.

Based on preliminary estimates, the development of the methodology would take about 2 years at a total cost USD0.2 million, and country missions are expected to require 0.22 FTEs per mission at a cost of USD0.2 million per mission per country.

USD Million	FY24	FY25	FY26
Debt Transparency Assessments— development of methodology	4 FTE for 4 weeks = 0.1 + 50 days STX work = 0.15	STX Work 0.05	
Missions		3 missions – 0.6	5 missions – 1.0
Total	0.25	0.65	1.0

¹With respect to collateralized public debt, which are highly opaque, the FTC (dimension 3.2.2 and Pillar IV) addresses the liability and resource revenue management elements of these debt but there is room to expand by providing more specific guidance on disclosure of pledged assets.

CONCLUSION

71. Public debt transparency contributes to macroeconomic stability and inclusive growth by enhancing the efficiency of public debt management and global capital allocation.

Empirical evidence supports the positive effect that public debt and broader data transparency has on sovereign financing conditions.

72. There is significant space for improvement in debt transparency. Debt disclosure gaps in borrowing LIDCs and EMs are large, as the share of non-marketable debt and SOEs' role in the economy is greater than in advanced economies and accounting and reporting practices are less developed. Governance gaps in borrowers' domestic legal, institutional, and operational frameworks and capacity limitations hinder public debt transparency. Self-assessments by many G20 creditors suggest that while their lending practices are generally sound, information-sharing and transparency remain key areas for improvement.

73. The implementation of the MPA has led to significant efforts towards supporting debt transparency. This includes the review of analytical tools (e.g., debt sustainability frameworks), providing capacity development assistance, debt management assessments, setting international standards and codes, and supporting creditors' efforts to enhance debt transparency including in their lending activities. These actions have consumed and will continue to consume significant resources, with public debt transparency-related CD accounting for about USD11 million in FY22, and a significant increase in related CD missions expected over the next few years.

74. A number of reform areas have been identified by staff, where actions by creditors, debtors, and IFIs including the IMF and the World Bank would help advance debt transparency. These include: (i) strengthening domestic legal frameworks for public debt, including borrowing authorization, reporting, and related accountability mechanisms; (ii) standardizing clauses that promote transparency in public debt contracts; (iii) putting in place frameworks for disclosure and reconciliation of loan-level information by borrowers and creditors; and (iv) introducing direct incentives from IFIs. All these reform areas have pros and cons, and a careful implementation based on more detailed analysis preferably within the subsequent MPA updates will be required to mitigate potential adverse consequences while reaping their benefits.

75. The IMF could contribute to advancing these reforms with specific actions. This includes supporting countries through CD in debt transparency areas (especially related to legal and institutional frameworks, and loan-level disclosure); promoting standardized disclosure clauses in debt contracts; using tailored conditionality related to debt transparency in line with the Conditionality Guidelines; and providing in-depth public debt transparency assessments. These actions fit well within the MPA's objectives under the debt-transparency pillar but are not contemplated under the ongoing work and would require time and significant additional resources. Substantial progress in ongoing initiatives within the MPA agenda over the next five years already requires an increase in resources. Actions in the reform areas discussed above would need to be considered together with other Fund priorities as part of the budget process. In this context, the

effectiveness of resources allocated to CD in debt transparency versus other areas needs to be assessed. Although closing capacity gaps has advanced debt transparency in some cases, there have been failures too that partly reflect the impact of adverse incentives.

76. While past efforts to support debt transparency have allowed for some progress, concrete achievements will take time and resources. Progress will require steadfast commitments on the part of creditors and debtors and the supporting CD providers.

ISSUES FOR DISCUSSION

- Do Directors agree with the defined scope of the public debt transparency agenda and its relevance for the Fund mandate?
- Do Directors concur with the main findings on borrower and creditor debt transparency practices and the identified legislative, process, and data gaps?
- Do Directors agree with staff’s assessment of new initiatives to enhance public debt transparency?
- Do Directors consider that the following operational recommendations would advance the Fund’s public debt transparency agenda and that they would need to be considered together with other Fund priorities as part of the budget process, given significant additional resources required:
 - Continue work on ongoing initiatives under the Multipronged Approach to addressing public debt vulnerabilities;
 - More/deeper CD on strengthening the legal framework and loan-level disclosure by borrowers and creditors;
 - Use of the Fund convening powers to build consensus on standardized confidentiality clauses, closer collaboration on reconciliation of public debt data provided by creditors and borrowers, and development of practical solutions for loan-level disclosure by borrowers;
 - Use of tailored conditionality, where macro critical, and transparency assessments as tools to strengthen transparency practices.

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