Objectives for this session

To substantially progress the commitment made by G20 Leaders in St Petersburg to hold further inclusive discussions with low-income countries (LICs) on sustainable financing to LICs.

Sustainable financing to low-income countries

Sustainable financing to LICs is a topic of considerable interest to G20 members. The IMF notes that many fragile countries have benefited from debt relief under the Highly Indebted Poor Country (HIPC)/Multilateral Debt Relief Initiative (MDRI) process, but about one-half of these fragile countries were deemed to be either at high risk of, or already in, debt distress in the latest IMF-World Bank Debt Sustainability Analyses. It is likely that G20 members - many of whom have played a central role in the HIPC/MDRI process - will be expected to play an important role as part of the international community’s efforts to meet the future debt financing needs of LICs.

In 2013, G20 discussions on sustainable financing commenced with a French proposal that members commit to sustainable lending principles when lending to LICs. This proposal focussed on principles relating to borrowers’ macro debt sustainability, avoiding support for unproductive expenditures not line with poverty reduction strategies or development goals, and sharing information to promote good governance and transparency.

A number of members supported a commitment by the G20 to sustainable lending principles, viewing this as a natural extension of the G20’s public debt agenda. These members expressed a sense of shared responsibility to help preserve debt sustainability in LICs and considered that this initiative would appropriately demonstrate G20 commitment to this objective. Other members called for: (i) consideration of both lenders’ and borrowers’ perspectives when making financing decisions; and (ii) G20 discussions to encompass a broader constituency of developing countries than LICs; and (iii) a stronger involvement of

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1 The IMF 2013 Low-Income Countries Global Risks and Vulnerabilities Report identifies fragile states as the 27 LICs where “severe institutional weaknesses have significantly impaired the pace of economic development over time”. In all, the IMF defines 74 LICs that are eligible for concessional financing from the IMF. These countries typically face the steepest challenges in meeting the Millennium Development Goals and are increasingly the focus of global development assistance.

2 More generally, the International Development Association and the IMF’s 2013 Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) - statistical update notes that, for 36 beneficiary countries from the HIPC/MDRI process, overall external debt servicing/GDP fell by around 2 percentage points and poverty reducing expenditure/GDP increased by around 2.8 percentage points between 2001 and 2010.

3 February 2013 France non-paper Promoting Sustainable Lending in Developing and Low Income Countries.
targeted constituencies. These members considered that a more detailed discussion was needed to establish a common understanding on key objectives and ensure that any proposals avoid imposing rigid and prescriptive rules.

G20 Finance Ministers and Central Bank Governors subsequently discussed an approach that sought common ground and focussed on concepts of responsible lending in the context of existing standards of sustainable debt, considering a number of programs and initiatives that aim to promote sustainable lending practices.

A guide for these discussions was the IMF-World Bank Debt Sustainability Framework for LICs. Under this framework, country-specific debt sustainability analyses are conducted regularly. These consist of an analysis of a country’s projected debt burden and its vulnerability to external and domestic policy shocks, an assessment of the risk of debt distress in that time, and recommendations for a responsible borrowing (and lending) strategy that limits the risk of debt distress. The risk assessments that form part of these analyses provide the flexibility to account for country-specific circumstances.

The effectiveness of the debt sustainability framework depends on its broad use by:

- countries in developing medium-term debt management strategies that assess the cost-risk trade-offs in their debt portfolio while allowing future borrowing choices to finance development goals; and
- creditors in using debt sustainability assessments to inform their lending decisions.

Beyond the IMF and the World Bank, the risk assessments also inform the lending practices of the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank and the International Fund for Agricultural Development. The Debt Sustainability Framework is being used by country authorities in their borrowing decisions, and by a growing community of donors and lenders to help inform financing decisions.

The G20’s discussions were further guided by a number of related work streams that guide sustainable lending and borrowing practices. In particular, the OECD’s Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries focus on the obligations of the lender associated with the provision of official export credits to LICs. In addition, the UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing explicitly considers the perspectives of sovereign borrowers and lenders.

Following these discussions, G20 Leaders stated in St Petersburg in September 2013 that (emphasis added):

*Events in recent years have shown the importance of debt sustainability for all. We, therefore, endorse continued attention to this issue by the IMF and the World Bank. We also support the implementation of the IMF-World Bank Debt Sustainability Framework for Low-Income Countries and will take the Framework into consideration in order to better inform our practices and promote sustainable financing and sustainable growth and development through appropriate channels. We agree that further inclusive discussions with low-income countries are needed on these issues, including on the possibility of developing guidelines for sustainable financing. We ask the IMF and the World Bank to continue assisting low-income countries at their request in developing prudent medium-term debt management strategies and enhancing their debt management capacity.*
In Sydney in February 2014, Finance Ministers and Central Bank Governors agreed to convene a seminar with LICs on sustainable financing practices in the first half of 2014, with the assistance of relevant international organisations.

The World Bank Group and the Australian G20 Presidency will hold a two hour session on developing country experiences with sustainable financing during the World Bank’s Debt Management Facility’s (DMF) Stakeholders Forum. France and South Africa will then convene a G20 sustainable financing seminar on 9 April 2014 in the margins of the IMF-World Bank Spring meetings in Washington. These sessions will substantially progress the call for further inclusive discussions with LICs and inform consideration of any next steps in the G20.

Questions

1. To ensure debt sustainability, do you use existing frameworks, principles and guidelines, including those of the World Bank, IMF, OECD and UN, to develop medium term debt management strategies and/or inform your financing decisions?

   a. If yes, are existing frameworks, principles and guidelines adequately helping to identify the key information required to underpin sustainable financing decisions?

   b. If not, why not? What elements or guidelines are missing from this consideration?

2. Is there a role for the G20 in developing new guidelines to promote sustainable financing decisions?