HM Treasury

G20 Operational Guidelines for Sustainable Financing: UK Self-Assessment

December 2024

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Foreword

At a time where over 50% of low-income countries are either in, or at high risk of debt distress[1], and where debt servicing costs are at their highest since the 1990s[2], it is more important than ever for lenders, borrowers, and international financial institutions to be committed to transparency in their activities and practices. Debt transparency is critical to building a full and comprehensive picture of global debt vulnerabilities, allowing for more accurate analysis and monitoring of debt dynamics. It also enables and encourages overall fiscal discipline and good debt management on a country-level, and facilitates better debt restructurings where needed – all of which support sovereign debt sustainability.

The UK is committed to providing sovereign financing on sustainable terms, and to acting in an open and transparent manner to support global debt sustainability. We have been strong advocates of the G20 Operational Guidelines for Sustainable Financing since endorsing them at the G20 Finance Ministers and Central Bank Governors meeting in 2017. The Guidelines are an important tool for encouraging high standards for G20 countries in the provision of sustainable and consistent financing, information sharing, transparency, coordinating with stakeholders, and building resilience into the system. In adherence with the Guidelines, UK Export Finance publishes reports on its new sovereign lending transactions each quarter, and HM Treasury publishes annual report on the total stock of debt owed to the UK by other countries. The reports can be found here: https://www.gov.uk/government/collections/uk-lending-to-national-governments.

1 https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf

2 IMF, *Macroeconomic Development and Prospects for Low-Income Countries* (2024)

Previously, the UK submitted a self-assessment of our compliance with the Guidelines to the IMF and World Bank, who coordinated a review of the self-assessment returns from participating countries. This year, the UK is proud to be going a step further by being the first country to publish our self-assessment. We report a strong performance across the practices on the whole and remain focused on retaining these high standards as well as striving for continued improvements.

We are publishing our self-assessment alongside our annual stock of debt report for 2024, demonstrating our continued commitment to strong transparency for our sovereign financing activities and practices, and would encourage other G20 lenders to follow suit. Efforts from private sector lenders, as well as borrowers, will also be critical to ensuring a comprehensive transparent picture of global sovereign debt levels.

We continue to work closely across HM Treasury, the Foreign, Commonwealth and Development Office, and UK Export Finance, to ensure that the UK upholds the G20 Guidelines to a high standard and remains a constructive and reliable partner in the international financial system.

The Rt Hon Rachel Reeves
Chancellor of the Exchequer
HM Treasury

The Rt Hon Anneliese Dodds
Minister for Development
Foreign, Commonwealth and Development Office

Tim Reid
Chief Executive Officer
UK Export Finance

Dimensions and Principles

1. Adequacy of Financing
1.1. Safeguarding debt sustainability
☒ Strong: The creditor has an internal framework for debt sustainability assessments, also informed by private sector or IFIs existing frameworks, which guides borrowing volumes or terms. ☐ Sound: The creditor has an internal framework for debt sustainability assessment in place, which guides borrowing volumes or terms. ☐ Room for Improvement: The creditor does not have a framework in place that informs lending based on debt sustainability considerations.
Creditors should take the borrower's debt sustainability situation into account when deciding on extending financial support to avoid raising debt vulnerabilities. This requires an internal governance structure that places debt sustainability as a leading consideration for all government agencies when providing financing to other governments or their agencies. Creditors may rely on various models for assessing debt sustainability, including the Joint IMF/World Bank debt sustainability analysis (which is publicly available, based on extensive consultations and reviews, and reflects a broad understanding of debt risks in developing countries).
Assessment The UK has a clear internal framework in place to guide lending decisions, including the volume of lending, which is informed by a number of relevant frameworks including those of the International Financial Institutions (IFIs). The UK has two main institutions which provide sovereign financing. UK Export Finance (UKEF) which is the UK's Export Credit Agency (ECA) and the Foreign Commonwealth and Development Office (FCDO). His Majesty's Treasury (HMT) can also provide lending where appropriate and other Government departments can provide some finance through grants. FCDO conducts a Sustainable Lending Assessment on a case-by-case basis to provide advice to His Majesty's Treasury (HMT) for prospective guaranteed financing or direct loans in respect of sovereign/public transactions in developing countries which are subject to the OECD Sustainable Lending Principles (SLPs)[3].

[3] https://www.oecd.org/trade/topics/export-credits/sustainable-lending/

For relevant projects, these are rigorously assessed by FCDO against the SLPs. A sustainable lending questionnaire is used to collect evidence against three broad categories:

1. Debt Sustainability, including Joint IMF & World Bank Debt Sustainability Analyses, ensuring on a best-efforts basis that non-concessional limits are not exceeded.
2. Positive Economic Returns
3. Governance and Transparency

Where UKEF is able to consider providing medium/long term financing support it sets a country limit for total exposure which reflects the quantum of the risk and the size of the economy according to a simple matrix. Debt sustainability is one of a number of risk variables that UKEF considers in its credit risk assessment, UKEF also considers economic developments, such as GDP figures, inflation etc as well as Environmental, Social, Governance developments and climate change risks. For countries subject to the OECD SLPs, all transactions will be assessed in relation to the OECD rules and so if the IMF/WB borrowing limit were lower than UKEF's country limit these would constrain the size of sovereign business that UKEF could take on, with FCDO playing its normal role in assessing the transaction against the OECD rules as set out above. It is worth noting that UKEF country limits are a limit on all exposure on a country (i.e. sovereign, public and corporate), not just sovereign exposure. There is not, therefore, a direct correlation between the size of any country limit and any IMF/WB borrowing limits.

1.2. Providing various financing options - by making available various financing alternatives

1.2.1. Flexible financing options

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

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

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

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

Assessment

The UK's sovereign financing for sustainable lending countries is primarily provided by UKEF on non-concessional terms. UKEF complies with international rules including the terms set out in the OECD Arrangement for relevant export credit transactions and therefore, there are only limited measures to change the key terms of such financing. UKEF is also able to consider providing support in a wide range of local currencies which can help to reduce the debt risk profile, compared to financing in one of the major currencies.

Building on the groundbreaking work of Grenada and Barbados to integrate Natural Disaster Clauses (NDCs, also known as climate resilient debt clauses, CRDCs) in their debt restructuring agreements, UKEF became the first Export Credit Agency in the world to offer NDCs in its sovereign lending to low-income countries (LICs) and small island developing states (SIDS), in 2023. NDCs are contractual provisions in lending arrangements that provide for net present value (NPV)-neutral principal and interest deferrals in the event of a range of severe environmental shocks, such as earthquakes, hurricanes, floods, droughts, or health crises. Following the occurrence of a severe shock, the borrowing country may submit a NDC deferral request to UKEF. NDC deferral requests cover upcoming payments (principal and interest) falling due within a 12-month period specified by the borrowing country in the NDC deferral request. Once approved, principal and interest payments over a 12-month period will be capitalised, deferred, and repaid according to a 'door-to-door' tenor of up to 5 years following an initial 1-year grace period. Under the door-to-door model, the borrowing country can choose how to structure the repayment schedule, as long as the repayment profile does not exceed 5 years following a 1-year grace period. This allows the borrowing country to repay the deferred amounts quickly or to opt for greater forbearance and repay the deferred amounts towards the end of the repayment profile, providing borrowing countries with a flexible repayment structure with which to best respond to the crisis at hand. NDCs do not come with any additional premium charge. UKEF's template NDC was published in June 2023 to assist other creditors considering adopting NDCs.[4]

The FCDO does not generally provide direct grant budget support to sovereign governments, though does provide indirect grant support through ODA programming. In addition, some government agencies (including British International Investment (BII)) provide credits or guarantees to commercial organisations operating in developing countries. The Government also makes substantial financial contributions to multilateral development banks' concessional lending and grant financing arms, e.g., the World Bank's International Development Association.[5]

1.2.2. Provision of collateralised debt

[4] https://www.gov.uk/government/publications/climate-resilient-debt-clauses

[5] https://www.gov.uk/government/news/new-uk-investment-to-unlock-billions-to-tackle-root-causes-of-irregular-migration-climate-change-and-growth-crises--2

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

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

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

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

Assessment

N/A - The UK does not provide any collateralized lending to sovereign borrowers, except for specific UKEF aero transactions with state-affiliated airlines which are not classed as sovereign lending.

2. Information sharing and transparency

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

2.1.1. Sharing information on existing and new lending

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

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

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

Accurate and comprehensive information on borrower' debt profiles is needed for creditors to make informed decisions regarding new financial operations. Therefore, creditors should facilitate information sharing among themselves and with the International Financial Institutions (IFIs) by disclosing comprehensive and updated information on their existing and new lending operations. The information provided should be sufficiently detailed to allow for accurate assessment of the structure of the debt and potential debt vulnerabilities. Contractual clauses that limit the disclosure of volume, terms or other conditions should be avoided. In this context, regular data reconciliation with the borrower is key to prevent operational errors or misinterpretation of the agreements that could undermine the soundness of the debt data.

Assessment

The UK publishes its stock of sovereign debt on gov.uk on an annual basis[6], and UKEF updates its own website on a quarterly basis providing details of new lending and financial terms on a loan-by-loan basis[7].

The UK is a member of the Paris Club of official creditors, and so provides information on exposure via its reporting mechanisms which are reflected in the publicly available annual reports on Paris Club claims.[8]

2.1.2. Creditors reconciling data with borrowers and IFIs

6 https://www.gov.uk/government/collections/uk-lending-to-national-governments

7 https://www.gov.uk/government/publications/uk-lending-to-other-national-governments-in-2022-23

8 https://clubdeparis.org/en/communications/page/paris-club-claims

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

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

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

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

Assessment

UKEF invoices the Paris Club debtor before payment is due and also provides information about the total amount of principal and interest still outstanding on the debt. If the authorities identified a discrepancy with their own figures, they would be able to raise this with UKEF and the data will be reconciled bilaterally.

Where support is in the form of a guarantee to a commercial bank it will be the bank who administers the loan and receives payment from the borrower, dealing with any questions about what is outstanding. UKEF receives regular updates on the balances of its sovereign guarantees.

If a country requests a debt treatment through the Paris Club, before the negotiation takes place the debtor country and UKEF take part in an exercise coordinated by the Paris Club Secretariat to reconcile data.

FCDO checks data on historic aid loans when requested. Guarantees, specifically risk of default and outstanding balance, are regularly monitored by the FCDO programme and finance teams. FCDO also send out payment requests for some of their loans. Some countries request confirmation of balances.

The IMF/World Bank will have access to the aggregate data via the Paris Club but UKEF does not reconcile directly with IFIs. If the FCDO notice a large missing liability in the Debt Sustainability Analysis (DSA) of a borrower country the IFIs would be notified.

Where required under the terms of the OECD Sustainable Lending Recommendation, UKEF will have notified basic details of a transaction to the IMF/World Bank prior to entering into a commitment via the Lending to LICs mailboxes. The requirement to prior notify is set out in a spreadsheet maintained by the OECD Secretariat and updated on a regular basis based on new information supplied by the IMF/World Bank. The spreadsheet shows a list of lower income countries subject to the OECD Recommendation and is available on the OECD website.

The UK participated in the World Bank's Data Reconciliation Exercise for 2022 data and has committed to do so for 2023 data, allowing consistency checks to take place across creditor and debtor records.

2.1.3. Contractual clauses

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

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

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

Contractual clauses imposing confidentiality can cause problems for the efficient allocation of capital. Both creditors and borrowers can face problems in evaluating and assessing loans in the absence of comprehensive information. Transparent and publicly available contractual information would over time result in more favorable financing terms for borrowers.

<u>Assessment</u>

Contractual clauses under UKEF supported loan contracts align with those in market standard loan templates such as the Loan Market Association (LMA) forms.

Confidentiality prohibitions are not imposed on sovereign borrowers with regards to key terms of the loan contract. Similarly, UKEF has a right to disclose key terms of the loan contract for reasons of its public function including debt transparency.

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

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

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

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

The responsibility for enhancing fiscal transparency and strengthening public debt management rests primarily with the borrowing authorities. However, creditors can contribute by verifying that decisions by borrowing countries to contract new loans are taken in accordance with the country's legal frameworks and debt management requirements. In particular, the creditor could clarify that the operation is: (i) approved by the relevant authorities following a transparent decision-making process; and (ii) adequately accounted for in the country's debt statistics.

Assessment

For UKEF sovereign transactions, as part of its underwriting due diligence, UKEF would require an external legal opinion in the pre-disbursement phase that the appropriate approvals had been obtained and due legal process had been followed in the borrower country.

As part of their involvement in the sustainable lending process on UKEF transactions, FCDO seek proof (through the sustainable lending questionnaire) of correspondence that the project and loan has appropriate domestic approval, (e.g., budgetary, cabinet or parliamentary approval, and/or Public Procurement Authority approval in case of direct contract rather than open tender).

2.3. Promoting disclosure of information on past restructurings

2.3.1 Post-restructuring data reconciliation

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

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

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

Comprehensive information on past debt restructurings is key to promoting a collaborative approach among creditors and facilitating a sound understanding of the implications of the debt restructurings. Such information is also important to ensure that borrower's debt data accurately reflects the terms of past restructurings.

Assessment

Following a Paris Club debt treatment, debt restructured will either be repaid or cancelled. If it is to be repaid UKEF will invoice the debtor country before each due date. If there is a difference between the debtor country's and UKEF's figures, data is reconciled at that stage and agreement reached. If debt is cancelled amounts outstanding will have already been reconciled as part of the debt cancellation process. UKEF will write to the debtor country advising the percentage/amounts of debt to be cancelled.

The relevant bilateral debt agreements that implement the Paris Club agreements are published on the UK Treaties Online website[9]. These agreements would also detail the terms of the restructuring.

2.3.2 Public disclosure of participation in debt restructuring

☒ Strong: The creditor publishes information about its participation in debt restructurings, and details on its contribution, including amounts and changes in terms, on the agency's website.

☐ Sound: The creditor makes public its participation in debt restructuring on the agency's website.

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

Assessment

As a member of the Paris Club, the UK's participation in sovereign debt restructuring operations is disclosed at the Club level on the Paris Club website[10]. The Paris Club publication includes details on the terms of the restructuring, including amounts and changes in repayment terms.

Following this, the relevant bilateral debt agreements that implement the Paris Club agreements are published, as mentioned above, on the UK Treaties Online website. These agreements also detail the terms of the restructuring.

[9] https://treaties.fco.gov.uk/responsive/app/consolidatedSearch/

[10] Agreements concluded with Paris Club | Club de Paris

3. Consistency of financial support	
3.1.	**Providing financing consistent with IMF/World Bank debt limit policies**

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

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

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

The responsibility to adhere to the policies attached to the financing from the IMF/World Bank lies squarely with the borrowing member country. However, as shareholders in the IMF and the World Bank, official bilateral creditors should also on a best effort basis seek assurances with the appropriate borrowing country authorities that the new financing is consistent with the IMF's DLP and IDA's SDFP and the World Bank's NPC. The World Bank and the IMF offer technical support to bilateral official borrowers and creditors in these efforts, notably, through the Lending-to-LICs mailing box.

Assessment

UKEF and FCDO on a best-efforts basis, seek assurances with the appropriate borrowing country authorities that the new financing is consistent with the International Development Association's (IDA) Sustainable Development Finance Policy (SDFP), the IMF's Debt Limits Policy (DLP), and the World Bank's Negative Pledge Clause (NPC), and clarifies any technical questions with the IMF and/or World Bank as needed.

The consistency of financing with these policies is a critical part of our due diligence when undertaking the Sustainable Lending Assessments. As part of our checks on debt sustainability we undertake the following steps:

- Check the debt distress risk rating according to the latest DSA

- Check if the country is subject to a zero limit on non-concessional borrowing under the IMF Debt Limits Policy (DLP) or the World Bank Sustainable Development Finance Policy (SDFP)
- Where the country is subject to a non-zero limit on non-concessional borrowing (under the DLP or the SDFP), on a best-efforts basis, provide evidence of confirmation from the purchasing government that the project will not breach any borrowing limits
- Consult IMF Article IV for further detail on debt limits (e.g. priority projects).

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

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

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

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

Debt restructurings – when necessary – should be carried out as swiftly and efficiently, with a treatment that would be consistent with restoring debt sustainability. A protracted process will further deteriorate the economic situation of the borrower, weaken its repayment capacity, and delay the restoration of macroeconomic viability. While an inadequate treatment – one that falls short of what is required to restore sustainability – will lead to future payment difficulties and the need for repeated restructurings. To this end, creditors should promptly engage with the borrower when a borrower seeks a consensual debt restructuring, and when appropriate, creditors should seek to collaborate with other creditors in good faith.

<u>Assessment</u>

As a member of the Paris Club and the G20, the UK is committed to coordinate with its partners in providing debt treatments for countries that need them – whether via the Paris Club or the G20 Common Framework, depending on the country's eligibility and guided by the IMF and World Bank's debt sustainability analysis.

Following multilateral agreement on the terms of the restructuring, the UK will implement the agreed terms bilaterally through contractual amendments of the original loan documentation (in all relevant UKEF and FCDO financing arrangements). This is done bilaterally with close engagement with the borrowing country to ensure this is carried out in line with domestic laws and procedures.

3.3. Providing technical assistance on debt related issues

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

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

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

In the absence of adequate debt-related technical capacity, Governments may not be in a position to take informed decisions regarding appropriate borrowing options from a cost/risk perspective. The degree of sophistication in modern finance further increases the complexity of such decisions. These factors underscore the need for technical assistance (TA) to borrowing countries to narrow the information asymmetry between creditors and borrowers on various aspects of public debt management, financing options, and risk assessment.

Assessment

UKEF will develop a relationship with sovereign borrowers as part of normal due diligence procedures. This involves visiting the country to explain all aspects of financing, including associated costs, environmental requirements, sustainable lending, bribery and corruption restrictions etc. As part of this we will engage with IMF/WB, other IFIs, and FCDO particularly if there were any concerns around debt management capabilities.

FCDO provides technical assistance on debt related issues through both bilateral and multilateral channels. Bilateral assistance is administered by FCDO country offices and varies based on the need of the country.

FCDO's Public Finance and Tax Resource Centre has been established to provide technical assistance on tax, PFM and macro-fiscal management (including debt management), responding to demand for such support from partner countries.

FCDO contributes to the IMF's Regional Technical Assistance Centers[11] globally, providing capacity building in core macroeconomic and financial management areas. The remit of the work is broad, covering; revenue administration and taxation, public financial management, macroeconomic statistics, monetary operations and Payments System and Banking Supervision.

FCDO contributes to the Westminster Foundation for Democracy, which provides an e-course for parliamentarians across the world on public debt management and provides technical assistance to parliaments in Kenya and Sri Lanka.

[11] https://www.imf.org/en/About/Factsheets/Sheets/2017/06/14/imf-regional-capacity-development-initiatives

4. Coordination of stakeholders
4.1. Conducting regular dialogue with stakeholders
☒ Strong: The creditor, in addition to participating in regular dialogue with other stakeholders through international meetings on debt related issues, promotes discussions on specific methodological or operational issues where relevant. ☐ Sound: The creditor participates in dialogue with other stakeholders through international meetings on debt related issues. ☐ Room for Improvement: The creditor does not engage in regular dialogue with other stakeholders.
A continuous dialogue among stakeholders can help enhance creditor coordination and help safeguard debt sustainability. There are numerous fora devoted to public debt. Creditors, borrowers and IFIs should take advantage of these events to address topics of mutual interest.
Assessment HM Treasury leads the UK's engagement in international fora, representing the UK and actively participating in Paris Club (which UKEF also attend), Paris Forum, G20, and the Global Sovereign Debt Roundtable (GSDR) meetings. HM Treasury and FCDO also participate in the IMF and WBG Spring/Annual meetings at a senior level, with the Chancellor and Minister for Development attending the most recent Annual meetings in October 2024. The UK routinely makes recommendations for methodological and operational issues to discuss at the relevant international fora, including the Paris Club and the GSDR. For example, the UK has led the way in encouraging discussion of Climate Resilient Debt Clauses (CRDCs) and promoting their uptake by all lenders. HM Treasury also maintains regular engagement with national stakeholders, including civil society organisations and private sector partners, on international debt matters.
4.2. Facilitating dialogue among international financial institutions to promote coordinated policies
☒ Strong: The creditor takes steps to encourage interaction between the IMF, the World Bank, and other IFIs, and takes an active role in promoting coordination on debt related issues. ☐ Sound: The creditor takes steps to encourage interaction between the IMF, the World Bank, and other IFIs. ☐ Room for Improvement: The creditor does not promote inter-agency coordination.

Inter-IFI cooperation is important to develop effective policies and foster strong practices, while avoiding duplication of efforts. Creditors, as members of the Executive Board at these institutions, have an important role in directing their activities, and can encourage the strengthening of collaborations among the IFIs.
Assessment The UK is a shareholder in seven regional development banks and regularly encourages interaction, collaboration and sharing of best practice between them on numerous issues. As a member of the Paris Club and the G20, the UK regularly engages with our counterparts on live debt restructurings, including under the Common Framework. The UK is a strong supporter of the Common Framework and is committed to working with the relevant stakeholders, including the IMF and World Bank, to push for further improvements to the process. We contributed to the recent G20 Lessons Learned process and are eager to continue to drive progress, building on the first four country cases, to make the Common Framework more timely, orderly, predictable and transparent. We also use our seats on the Boards of the IMF and World Bank to promote a coordinated approach to debt policy, in particular by taking an active role on country cases, the Low-Income Country Debt Sustainability Framework, and the IMF-World Bank Multi-Pronged Approach to Debt Vulnerabilities. We are also members of the Global Sovereign Debt Roundtable, which seeks to build greater understanding amongst key stakeholders on debt restructurings and work on shortcomings in the debt restructuring process.

5. Promoting contractual and financial innovation and minimizing litigation issues to strengthen resilience
5.1. Continuing to work on financial innovation in lending and enhancing resilience to shocks
☒ Strong: The creditor, in addition to supporting initiatives that explore and develop financing solutions to enhance resilience to shocks as a member of international fora, offers and promotes, when relevant, financial instruments that embed more resilience into the debt structure of the borrower country. ☐ Sound: The creditor, as a member of international fora, supports initiatives that explore and develop financing solutions enhancing resilience to shocks. ☐ Room for Improvement: The creditor does not actively engage in exploring new innovative financing options.
G20 countries could help borrowing countries preserve debt sustainability in the face of natural disasters or other adverse shocks (both external and domestic) by promoting and facilitating the use of new instruments specifically designed to promote resilience.
Assessment Under our G7 presidency in 2021, HMT established a Private Sector Working Group (PSWG), bringing together international financial institutions, G7 and borrowing countries, and the private sector, including major global banks, investment firms, legal and financial advisors specializing in sovereign debt, as well as academic experts to improve the international architecture governing privately held sovereign debt. The Working Group delivered two contractual innovations: National Disaster Clauses (NDCs, also known as Climate Resilient Debt Clauses (CRDCs)) and Majority Voting Provisions (MVPs). Building on the groundbreaking work of Grenada and Barbados to integrate NDCs in their debt restructuring agreements, the UK through the PSWG developed standardised NDCs term sheet for use when private credit is provided to debtor countries.[12] NDCs are clauses in debt instruments which can lead to a deferral of a country's debt repayments in the event of a pre-defined, severe environmental shocks, such as earthquakes, hurricanes, floods, droughts or health crises. In 2023, UKEF became the first Export Credit Agency in the world to offer NDCs in its sovereign lending to low-income countries (LICs)

[12] https://www.icmagroup.org/assets/Chairs-Summary-UK-Chaired-Private-Sector-Working-Group-Sub-Group-on-CRDCs.pdf

and small island developing states (SIDS). UKEF's NDCs do not come with any additional premium charge.

The UK has since proactively engaged with borrowing and lending countries, multilateral development banks (MBDs) and the private sector to promote and support the integration of NDCs into new and existing contractual agreements. UKEF also published its template NDC in June 2023 to assist other creditors considering adopting NDCs.[13] As a result, a number of G7 and G20 countries as well as MDBs now offer NDCs. In addition, the UK has decided to channel the coupon from our hybrid capital contribution to the World Bank, into subsidizing the fees for national disaster clauses to further incentivise their uptake.

The PSWG also developed specimen clauses for commercial loans to sovereign borrowers.[14] MVPs allow a majority of creditors to bind the minority to the terms of a restructuring, enabling smoother and more efficient changes to payment terms in syndicated loans. These act in a similar way as Collective Action Clauses (CACs) do for bonds. These clauses, along with a guidance note, were published by the world's major loan market associations for use by the private sector, and we continue to advocate for their uptake.

The UK has also championed disaster risk financing, shaping the system so that it responds better and earlier to food crises. The UK is a founding member of all four regional risk pools and has made capital investments in African and Caribbean pools. These enable governments and humanitarian agencies to insure themselves against major climate risks. This includes working with the City of London to transfer risk off government balance sheets to capital markets. By subsidising insurance premiums for low-income countries and humanitarian organisations, we ensure the most vulnerable are protected.

5.2. Promoting enhanced contractual clauses in foreign-law sovereign bond issuances

☒ Strong: The creditor, in addition to meeting sound practice, promotes enhanced contractual clauses (modified *pari passu* and enhanced collective action clauses) by providing or supporting coordinated technical assistance in this area.

☐ Sound: The creditor includes enhanced contractual clauses (modified *pari passu* and enhanced collective action clauses) when it issues international sovereign bonds.

☐ Room for Improvement: The creditor does not actively engage in supporting enhanced contractual clauses.

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[13] https://www.gov.uk/government/publications/climate-resilient-debt-clauses

[14] https://www.icmagroup.org/assets/Guidance-and-Explanatory-Note-relating-to-New-Specimen-Majority-Voting-Provisions-Final-1-November-2022-10238457381.35.pdf

The precise design of international bond contracts is a decision of the sovereign issuer, in consultation with its legal and financial advisers. However, enhanced contractual features can render the system much less vulnerable to delayed and drawn out restructurings, and minimize the risk of holdouts and costly litigation. The IMF and the World Bank have endorsed such contractual features to promote stability of the international financial system

Assessment

The UK has promoted the uptake of enhanced Collective Action Clauses (CACs) and modified *pari passu* clauses in sovereign bonds and has supported the G20 endorsement of CACs. As per practice 5.1, the UK has also adopted NDCs into its direct sovereign lending, and continues to advocate for greater uptake of MVPs in syndicated loan contracts.

5.3. Addressing the challenges posed by some litigating creditors

☒ Strong: The creditor, in addition to supporting initiatives to enhance monitoring of litigation by non-cooperative minority creditors and seek appropriate ways to take action, provides or supports technical assistance to countries with limited capacity in addressing litigation challenges.

☐ Sound: The creditor supports initiatives to enhance monitoring of litigation by non-cooperative minority creditors and to seek appropriate ways to take action.

☐ Room for Improvement: The creditor does not support initiatives to enhance monitoring of litigation by non-cooperative minority creditors and to seek appropriate ways to take action.

Distressed debt investment funds have a role to play in resolving debt crisis, mainly, they can provide liquidity in secondary markets for sovereign bonds. However, a subset of these funds that buy distressed debt at a large discount with the intent to recover the full-face value through litigation has made restructurings extremely difficult. Thus, legislative efforts to curtail this type of investing could help and should aim to strike the right balance between further discouraging disruptive behavior and preserving secondary-market liquidity. Many developing countries also have limited technical capacity in addressing challenges with litigation. G20 members can also help addressing challenges by litigating creditors by providing technical support as needed to affected countries.

Assessment

In May 2011, the UK passed legislation to make permanent The Debt Relief (Developing Countries) Act 2010. The legislation restricts the activities of 'Vulture Funds' and other creditors, preventing them from attempting to recoup the full value of debts in the UK courts for countries that participated in the Heavily Indebted Poor Countries (HIPC) Initiative.

The UK is not currently seeing further evidence of litigation in English courts, though we continue to keep this under review. In cases of non-cooperative litigating creditors in other jurisdictions, the UK has taken action where needed. For example, the UK, alongside France, submitted an amicus brief to support Sri Lanka's request to stay the suit filed by Hamilton Reserve Bank in the New York courts. The UK also supported subsequent extensions to the stay, allowing Sri Lanka to conclude restructuring negotiations with its private creditors.

The UK remains committed to ensuring that private sector creditors play their part in debt restructurings and continues to develop and promote a market-based approach to support this. For example, we helped to develop Majority Voting Provisions (MVPs), a contractual innovation to enable smoother and more efficient restructurings of syndicated loans, and continue to promote uptake of MVPs by private lenders.

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This document can be downloaded from www.gov.uk

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