Debt Sustainability Assessments
& Their Role in the Global Financial Architecture

ECONOMY AND FINANCE

# How Transparency Makes Debt Sustainability Analyses a Trusted and Effective Tool

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## Summary

This paper analyses the extent to which the Debt Sustainability Analyses (DSAs) carried out by the International Monetary Fund (IMF) and World Bank are sufficiently transparent, and what measures have been taken to improve their transparency. It identifies three key pillars of transparency: (i) public disclosure; (ii) openness in the data, methodology and assumptions used; and (iii) processes for engagement and looks at how well DSAs measure up against them. Overall, it finds that while recent steps have been taken to improve key foundational aspects of transparency, particularly those related to public disclosure, more qualitative aspects of transparency, such as access to key data and understanding how key assumptions have been derived, are still lacking. There are also differences in public disclosure regimes for low-income countries versus market-access countries that can be challenged. Access to information in times of debt distress is also more limited. Improved transparency in DSAs is vital for driving continuous improvement, fostering trust and confidence, and enabling the formulation of better policy advice. The paper outlines a number of ways in which transparency can be strengthened in DSAs. It also emphasises that this must be part of a wider effort to strengthen transparency and accountability across the whole borrowing cycle, and that concerns around impartiality and potential bias in DSAs are ultimately only likely to be resolved when DSAs are conducted by an independent entity.

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# 1. Introduction

Transparency in the Debt Sustainability Assessments (DSAs) carried out by the IMF and the World Bank is a longstanding issue. While there have been several efforts over the years to review and reform the debt sustainability frameworks, including measures to increase transparency, civil society has recently described the framework for market access countries as a continued 'black box' (Bretton Woods Project 2021). Why is transparency in DSAs important, however? Important to whom? What steps have already been taken to improve transparency? What more needs to be done? And how can transparency help to make DSAs a trusted and more effective tool? This is the subject of this paper, which looks at both the debt sustainability framework for market access countries (MACs) implemented by the IMF (now known as the Sovereign Risk and Debt Sustainability Framework – MAC SRDSF), and the debt sustainability framework for low-income countries (LIC DSF), implemented jointly by the IMF and the World Bank.

DSAs matter. The assessments, which are performed through standardised templates, are used to determine vulnerability to debt distress and are meant to alert sovereign states to potential debt stress. Many official-sector lenders, including multilateral development banks (MDBs) and bilateral lenders, use them to determine access to concessional finance, and they are also used to inform negotiations on sovereign debt restructurings.

They are also particularly relevant in the current context. The recent period has seen large and rapid increases in both public debt and debt vulnerabilities. Overlapping shocks and crises, including the recent COVID-19 pandemic, the spillover effects of the war in Ukraine on food, fuel and fertiliser prices, conflicts, and increased climate change risks have combined to undermine economic growth, squeeze public revenues and increase poverty and inequality. They have led to higher borrowing needs for all countries, but particularly countries of the Global South. In 2021, 60 developing countries registered public debt levels higher than 60 per cent of GDP – up massively from 24 per cent just ten years earlier (UNCTAD 2023). Eleven low-income countries are currently classified by the IMF and World Bank as 'in debt distress' while a further 51 are classified as at 'moderate' or 'high' risk (IMF List of LIC DSAs for PRGT-Eligible Countries). Developed countries' failure to adequately scale-up concessional finance for sustainable development and climate action is another factor which has contributed to high public debt burdens.

The world has now passed the midpoint for achieving the UN 2030 Agenda for Sustainable Development. Yet over the last two years the UN reports that 'no progress' has been made towards the Sustainable Development Goals (SDGs) and that the 2030 Agenda for Sustainable Development is 'a promise in peril' (UN 2023). There is widespread recognition that the SDGs face an uphill struggle – they will not be met without large and unprecedented increases in public investment in a context in which increased turbulence and instability are the new norm, and where large increases in donor-provided concessional funds are unlikely (NBER).

Against this backdrop, DSAs can clearly play a key role in supporting borrowers and lenders in responsibly navigating this increased uncertainty. And where debt difficulties do arise, they can advise on what is required to restore sustainability. To enable them to perform these functions, however, it is vital that DSAs are a robust and trusted tool. Transparency is one way to help ensure that DSAs are 'fit for purpose'.

# 2. Transparency in DSAs: What are the issues?

### *2.1 Transparency issues can be grouped into three broad categories*

1. Public disclosure and accessibility: the extent to which DSAs are publicly available, are published in a timely matter, and are presented in a format such that interested parties (both expert and non-expert) are able to understand and utilise DSAs effectively.

2. Methodological: the extent to which there is transparency and clarity in the methodologies, assumptions and data being used to arrive at an overall assessment of the risks of debt distress, and that this assessment is impartial.
3. Dialogue and engagement: the extent to which clear and transparent processes are in place which provide a means for external actors to engage meaningfully in DSAs, and also foster trust and inform change.

All three elements are needed to ensure 'effective transparency', which is understood to be a situation in which key constituents for DSAs, who include parliamentarians, civil society organisations (CSOs), borrowers, lenders, development partners, credit ratings agencies, academic researchers and the media, are empowered with the information, tools and processes they need to understand a country's debt situation and to drive change.

### *2.2 Transparency in DSAs is expected to achieve*

**Better accountability:** Transparency in DSAs can enable better scrutiny and oversight in debt management. It can help to reduce the potential for mismanagement, corruption or politically biased decisions, and ensure that debt supports national development priorities and productive and efficient public investment. It also helps to ensure the accountability of the IMF and the World Bank as the institutions which are leading on the DSAs.

**Informed decision-making:** Transparency allows diverse stakeholders to understand the public debt burden and its associated risks. DSAs provide key information to borrowers, lenders, legislators and other stakeholders, who need this information to make informed decisions about borrowing, lending and appropriate fiscal policies. Transparency can help increase confidence in DSAs, which in turn can enhance their role as an important preventative tool and a key tool to assist in debt-restructuring negotiations.

**Strengthened international coordination and policy responses to debt:** Transparency can help foster confidence in the debt sustainability frameworks as a robust and trusted international tool. This can promote dialogue and engagement amongst international financial institutions, sovereign states and other stakeholders, and enable a more coordinated and coherent approach on the most appropriate policy responses.

**Learning and improvement:** Through sharing methodologies, assumptions, data and other information, the Bank and Fund can receive valuable feedback on how DSAs can be refined, leading to improvements in analytical frameworks, more accurate DSAs and better policy advice. Access to information (and to IMF and World Bank staff members who prepare DSAs) also builds the capacities of external stakeholders like parliamentarians, civil society and the media to become engaged, which enables them to be more knowledgeable and effective advocates. Transparency can also be beneficial where there may be differences of opinion on the debt vulnerabilities of a particular country.

How do DSAs currently measure up next to these three critical dimensions of transparency?

## 3. Transparency in DSAs: the current picture

### *3.1 DSAs: Public disclosure and accessibility*

Public disclosure is the first critical layer of transparency. Are DSAs available in the public domain? There is undoubtedly more awareness today about the importance of transparency and public disclosure within the IMF and the World Bank.[1] The 2017 LIC DSF review process, after which the availability of information has improved

[1] Perspective shared in stakeholder interviews. See annexe for full list of interviews (institutional affiliation only).

considerably, has been described as particularly important.[2] In its 2017 review of the LIC DSF, the World Bank reported at the time that 'The reforms [will] adapt the framework to make it simpler and easier to use, more comprehensive and transparent' (World Bank 2017).

DSAs for most low-income countries are now routinely published and are relatively easy to locate. The Bank and the IMF also have dedicated DSA sections on their websites (IMF 2023, World Bank Debt and Fiscal Rules Toolkit, Debt Sustainability Analyses). On the World Bank's website, there is a consolidated list of the most recent DSAs for low-income countries which covers 67 countries (World Bank Debt Toolkit). In the few country cases where the full DSA is not available, the Bank and IMF report that this is because the relevant country authority has not authorised publication (World Bank Debt and Fiscal Rules Toolkit, Debt Sustainability Analyses).[3] Publication requirements for LIC DSAs include the staff's overall debt risk assessment, including whether judgement has been applied, and the underlying data on which the DSA is formulated. The 2017 LIC DSF review has also acknowledged the need to build knowledge and accessibility of the framework for country officials and other external stakeholders. Guidance Notes, videos, an online training course, periodic workshops and consultations are also all now available (IMF Debt Sustainability Framework for Low Income Countries online course).

DSAs for market access countries are, however, subject to different public disclosure requirements, and several important restrictions on public disclosure are in place. Key information which is deleted prior to publication include the country's near-term debt sustainability assessment, its final debt risk assessment, and summary assessment, including the use of judgement. Key references as to the 'probability of sustainable debt' have also been removed (IMF 2022). As with the LIC DSF, key technical materials are available to explain the frameworks more fully, including Guidance Notes and a public Excel tool. However, the public Excel tool presents only a theoretical example of a MAC SRDSA and the underlying data sets are not publicly disclosed (IMF Debt Sustainability Analyses for Market-Access Countries). Unlike LIC DSAs, MAC SRDSAs are not easily 'searchable' and are not located in one centralised place online; the IMF's website on the SRDSF also does not signpost where interested parties might find them (IMF Sovereign Risk and Debt Sustainability Analysis for Market-Access Countries).

In 2022, enhanced disclosure of market access DSAs was put to the IMF Board as part of the 2021 MAC SRDSF review. However, the Executive Board decided to maintain these restrictions on public disclosure for at least twelve months following rollout of the new updated framework. It is valid to ask, however, whether a case can be made for these differences in public disclosure.

Typically, the main reason given for these different public disclosure regimes is 'market sensitivity' and the concern that transparency could negatively affect a country's access to markets. However, market-access countries are subject to a suite of disclosure requirements when they wish to issue debt on international markets, and these countries' debt risks are pretty much well-known (and are followed closely) by markets. Moreover, if DSAs are frequently over-optimistic in their assessments, as alleged by many civil society organisations and researchers (explored in more detail in the next subsection), then this would in fact send a positive signal to markets and could be seen to benefit a borrower country. Other reasons also favour enhanced disclosure. For example, a key concern of some developing country governments today is that credit ratings agencies are in some cases 'misrating' their risk, leading to higher borrowing costs.[4] Fully public DSAs could in this context provide credit ratings agencies with a useful 'second view' to inform their own models, judgement, and risk ratings. The publication of both the DSAs and rating agencies' models and approaches could then, in turn, enable external stakeholders to compare different sets of analysis, increasing trust and confidence and reducing opportunities for potential bias (either by the Bretton Woods Institutions or the credit ratings agencies).

[2] Perspective shared in stakeholder interviews.
[3] These countries are: Bangladesh, the Democratic Republic of the Congo (DRC), Mozambique and Timor-Leste.
[4] Perspective shared at expert roundtable discussion, September 2023.

In addition to this, it is important to note that the distinction between market-access and low-income countries is extremely artificial and increasingly questionable in light of many low-income countries' increasingly complex creditor profiles, including recent borrowing on international markets. For some external stakeholders, the failure to apply a uniform approach across countries also leaves a false impression that poorer countries must be more closely financially surveilled because they cannot make excellent decisions.[5]

Another observation is that while efforts have been made to strengthen the availability of technical-level resources and to build the capacity of more technical-oriented audiences with regard to the frameworks, it does not necessarily follow that DSAs are then being picked up by a wider set of stakeholders. DSAs are without question most important – and consequential – at the country level. Yet, many civil society organisations suggest that the documents are not well-used at a national level, particularly by key stakeholders like parliamentarians. This is because they are poorly understood.[6]

Perhaps by their very nature, DSAs are not especially accessible to non-specialist audiences. However, even CSOs and researchers experienced in international debt policy and analysis report that they still struggle to 'untangle' DSAs.[7] The documents have been described as 'extremely dense', 'heavy' and 'difficult to digest' It is easy to see how the reader could quickly become overwhelmed by the volume and complexity of the data, the various fan charts and the other considerations which make up a DSA. Their limited availability in local languages further hinders accessibility to national-level stakeholders. Translations, where they do exist, are less visible and easy to locate and are not published alongside the English-language versions or signposted within the two institutions' websites.

It has been suggested that the format and language in which DSAs are published caters more to stakeholders like lenders than to domestic stakeholders, including legislators, civil society or the media.[8] The drive to incorporate the huge variety of shocks that could possibly impact a country and its public debt dynamics – from natural disaster shocks to commodity price shocks, to bailing out state-owned enterprises, and more, means that the simplicity and transparency of assessments have been lost. Beyond the short up-front summaries, it is fair to suggest that DSAs remain largely inaccessible to non-specialist stakeholders, and more attention could be paid to strengthening their accessibility to key domestic stakeholders in particular.

### *3.2 Transparency in data, methodology and assumptions*

For those able to understand and digest DSAs in more depth, transparency in the data, methodology and key assumptions being used to formulate them is crucial. The key question is whether the tools and information currently available are sufficient to enable researchers, civil society actors and other stakeholders to recreate DSAs for themselves and challenge the approach and results where appropriate.

Data disclosure has improved but remains more comprehensive in the LIC DSF than the MAC SRDSF. The underlying data sets used to formulate MAC SRDSAs are not publicly available (though they can sometimes be accessed on request from the IMF).[9] This stands in contrast to the LIC DSF, where the completed Excel templates are available online and external stakeholders can in principle explore the various data inputs, assumptions and scenarios in detail (World Bank Debt and Fiscal Risks Toolkit, Debt Sustainability Framework).

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[5] Perspective shared in stakeholder interviews. See also: Development Reimagined, Policy Brief, How can the IMF, World Bank and other global financing mechanisms be reimagined to work better for Africa? 2022: https://developmentreimagined.com/imf-and-world-bank-annual-meetings-policy-brief-reimagining-the-international-finance-system-for-africa/
[6] Perspective shared in stakeholder interviews.
[7] Perspective shared in stakeholder interviews.
[8] Perspective shared in stakeholder interviews.
[9] Perspective shared in stakeholder interviews.

## Box i: Public disclosure in times of crisis

Transparency and the public disclosure of information in times of debt distress and when negotiations are ongoing around a potential debt restructuring constitute a more complex and contentious issue. For many civil society organisations, access to information and the DSA are critical at this time, since the negotiations – and their outcome – will have a real and material impact on the country and its citizens. The DSAs are meant to reflect the 'independent assessment of the Fund' and provide guidance on the amount of debt that may need to be written down in order to restore debt sustainability. Public scrutiny of this analysis is therefore critical. On the other hand, there is the concern that, once this information is in the public domain, it will prompt large-scale capital flight, including the possible sale of debt to vulture funds, aggravating a country's debt risks and vulnerabilities. Governance challenges can also come into play and complicate the picture.

For example, civil society organisations are often concerned at the 'fragmented landscape of opaque, informal creditor forums' which can result in long-drawn-out closed-door negotiations. One particular case, that of Puerto Rico, illustrates that a scenario can potentially arise in which an authority tasked with a debt restructuring might be seen as being more aligned with creditors' interests than with the wider public interest. The Financial Oversight and Management Board put in place from 2016 to assist Puerto Rico restructure over 72 billion US dollars in debt was plagued by allegations that US Government appointees to the Board were likely to favour a restructuring deal more favourable to bondholders, while imposing punishing austerity on the island's citizens. While an IMF or World Bank led DSA does not apply in this case due to the territory's particular constitutional status, the key point remains that access to information and transparency in the context of a debt restructuring can act as an important check and balance. For some civil society actors and research bodies, this type of concern lends weight to the argument that some form of independent evaluation body is required for the sovereign debt restructuring processes, which would both serve as a reliable source of information and also provide advice on the options for future policy.

New guidance from the IMF on information sharing in the context of debt-restructuring operations states that, 'in general, the draft debt sustainability analysis document itself cannot be shared and should be kept confidential until it is endorsed by the Executive Board and published'. However, it also provides for some flexibility on a case-by-case basis, including the disclosure of more limited information to different stakeholders at different stages of the debt negotiation process, including principally the private-sector and official-sector creditors, subject to certain confidentiality safeguards being in place. These include for example private-sector actors being required to sign a non-disclosure agreement (NDA) or agree not to trade debt. They all require however, the approval of the debtor country. As such, the IMF is keen to emphasise that it is at 'its legal limit' with regard to what it can share with external stakeholders.

Overall, it is clear that many actors believe there is insufficient information in the public domain, both while negotiations are ongoing as well as after agreements on restructuring are reached. This includes, but is not limited to, the DSA. This means there is a lack of accountability to ordinary citizens, who are ultimately those who are required to pay, according to the terms of any final agreement. As debt risks have risen, UN, civil society and academic proposals for some form of 'fair and transparent sovereign debt resolution mechanism' are increasingly relevant. According to civil society, this type of mechanism would resolve some of their key transparency and accountability concerns by putting in place processes which establish a right for all stakeholders to be heard in the debt restructuring process (including creditors and citizens organisations), while standardised debt restructuring procedures and the publication of the outcomes of the process would enhance legitimacy.

Some of these ideas are in fact endorsed by many countries around the world. In 2015, 136 countries voted in favour of a non-binding UN resolution which states that debt restructuring operations should be guided by key principles, such as transparency, equitable treatment and impartiality. Overall, the need to improve the architecture for debt crisis resolution is pretty much universally acknowledged, including by the G20 and in the UN. The UN's 2023 Financing for Sustainable Development Report for example argues that "improving debt transparency supports cooperation in restructuring negotiations" including by building trust between different stakeholders. Slow and limited steps have been taken to strengthen cooperative approaches, most notably through the Common Framework, which brings together key official bilateral creditors to agree on a joint debt restructuring approach with a debtor in trouble. But their slow pace and a lack of transparency has undermined confidence in such new initiatives, and it is clear much more must be done.

Beyond simple data disclosure however, researchers also want to understand more qualitative aspects of the approach. For example, how debt sustainability thresholds and targets have been derived for individual market access countries. In contrast to the LIC DSF, which sets standardised debt sustainability thresholds for countries, debt sustainability thresholds can be set at very different levels under the MAC SRDSF. For example, Suriname's debt sustainability target is to reduce public debt to 60 per cent of GDP by 2035, whereas for Sri Lanka it is to reduce debt to 95 per cent of GDP by 2032 (IMF Suriname 2023, IMF Sri Lanka 2021). Yet how these thresholds were reached is not transparent or explained.

Another key transparency issue concerns data quality. By definition, a DSA is only as accurate and robust as the data which informs it. This means that the credibility of DSAs depends not only on the availability (coverage) of data but the quality of that data, including whether the data are timely, accurate and include all debt-producing liabilities. With the most recent review processes, the IMF and the World Bank took steps to strengthen disclosure requirements related to contingent liabilities and to build in a contingent liabilities stress test, including full disclosure of the assumptions being used about what those contingent liabilities might be. However, the overall quality of the data which informs DSAs is not known and DSF Guidance Notes do not explicitly require an assessment in the DSA of data quality (Hettinger and Chelsky 2023). Additionally, DSAs do not signal the degree of confidence that IMF and World Bank staff have in the data on which their analysis is based. This is problematic, since many low-income countries, in particular, do not meet minimum standards of public debt recording and reporting, and there are often significant discrepancies in the data reported to different systems and publications.

For example, the World Bank reports that one in five IDA-eligible countries does not report data which is comprehensive or of satisfactory quality to the World Bank's Debt Reporting System (DRS) on which DSAs are based (World Bank IEG 2023). Even where debt data has been routinely reported, the Bank reports that it can be challenging to interpret it and assess its quality, leading in turn to multiple (often upward) revisions to the debt data. Over the last five years that Bank reports that upward revisions occurred in more than 60 per cent of countries which reported debt data to the DRS (World Bank IEG 2023). Data quality problems are particularly acute in fragile and conflict-affected states but are also present in market access countries. Data quality concerns have recently been flagged by the World Bank's Independent Evaluation Group (IEG) which proposes that there should be more transparency around data quality issues and the final reports should explicitly include an assessment of data quality (World Bank IEG 2023).

Concerns around data quality illustrate just one of the many reasons why judgement might be called for in a DSA. Acknowledging the myriad complexities that are involved in a DSA, both frameworks allow for the use of judgement to arrive at a final debt risk rating. According to the Bank and Fund, this can allow for a more 'nuanced and flexible approach', allowing the DSF user to take into account specific country circumstances that might not be fully captured by purely quantitative metrics, such as a crisis situation, or when countries face other exceptional circumstances. Users are advised to 'combine the signals from the model on the risk of debt distress with judgment based on knowledge of the country analysed to arrive at a final assessment' (IMF-World Bank 2017). Since 2017, LIC DSAs have carried a short table up-front which states, in brief, whether judgement has been applied and the issues this judgement took into account.

From a transparency point of view, however, this flexibility also introduces the possibility that judgement will be inconsistently applied. Analysis of the most recent LIC DSAs finds that judgement has been used fairly frequently in LIC DSAs – though not in a majority of cases (World Bank Debt and Fiscal Risks Toolkit[10]). In the 65 most recent LIC DSAs, judgement has been used in 14 countries in total, while in 51 it has not.[11] In ten cases,

[10] This covers 65 countries where the final reports are publicly available and covers DSAs carried out between 2019 and 2023.
[11] Author's research based on data published by the IMF and World Bank. The countries where judgement had been used are: Afghanistan, Bhutan, Burkina Faso, Cambodia, Haiti, Kyrgyz Republic, Mali, Federated States of Micronesia, Nepal, Rwanda, Samoa, Timor-Leste, Togo and Tuvalu. The author's research updates the most recent analysis on the use of judgement published by the Independent Evaluation Group (IEG) in April 2023.

judgement led the country to be 'downgraded', i.e. assessed at higher risk than the model suggested, and risk ratings were adjusted from low to moderate or moderate to high (Afghanistan, Burkina Faso, Haiti, Kyrgyz Republic, Mali, Federated States of Micronesia, Rwanda, Samoa, Togo and Tuvalu); in the other four cases, the country was 'upgraded', i.e. deemed at lesser risk than the model suggested (Bhutan, Cambodia, Nepal and Timor-Leste). Of the countries where judgement was used, the reasons cited included: political instability, insecurity, violence or conflict (Haiti, Mali); uncertainty over continued access to concessional finance or a potential shift in the future financing mix from grants to loans (Afghanistan, Burkina Faso); temporary breaches which would be mitigated in some way (Bhutan, Nepal and Timor-Leste); export volatility (Cambodia, Tuvalu); vulnerability to natural disasters and/or climate change, or simply to 'multiple shocks' (Haiti, Rwanda, Samoa, Togo, Tuvalu).

One observation is that it is not especially clear why judgement has been applied in some country cases but not in others, particularly when – on the surface – they face quite similar stresses. For example, climate risk and exposure to natural disasters are cited as reasons for the application of judgement only in Haiti, Samoa, Rwanda and Tuvalu yet these are widespread (and increasing) vulnerabilities. Security considerations and institutional fragilities are highlighted in Haiti and Mali but are also a challenge in several other low-income countries. Similarly, uncertainty over access to future donor concessional finance would also seem to be a fairly widespread concern in the current context.

When it comes to SRDSAs, less information is available on the use of judgement. Here, IMF made available data at an aggregate level but not at an individual country level. This showed that, based on 75 countries, the use of judgement led to changes in the overall risk assessment in eight cases; seven of these were downgrades, i.e. the sovereign risk was deemed higher than the model suggested, while one was an upgrade.[12]

Notwithstanding the more limited information available on SRDSF countries, it is not necessarily clear to outside observers why judgement has been applied in one case and not another. This leads to questions over the extent to which judgement is being applied consistently across countries, the extent to which its use is adequately explained, and whether it is leading to better, more accurate results. The IMF reports that the use of judgement in LIC DSAs has fallen recently (down to about 22 per cent versus 30 per cent prior to the last review).[13] Despite this, the IMF acknowledges continued challenges. In its 2021 review of the SRDSF framework, the IMF reported itself that, '[judgement] has not been applied in a transparent manner' (IMF 2021). It also stated that, in most cases, team judgement did not actually perform any better than the econometric model in accurately predicting debt risks. Of 16 debt stress episodes recorded in market access countries between 2013 and 2017, six were correctly predicted by the framework, while in only three cases (Albania 2014, Bosnia and Herzegovina 2016, and Suriname 2016) did team judgment accurately predict greater risks than were picked up by the model. In six cases, team judgement did worse than the model (IMF 2021).

This last point is crucial. If flexibility is intended to support DSF users in incorporating other factors to arrive at a more accurate result, then combined with 'realism tools,' which are meant to perform a reality check on the assumptions that sit behind DSAs, one question is why such a strong bias towards optimistic growth forecasts persists. Indeed, researchers and civil society actors have found over-optimism to be 'regular and intrinsic' within DSAs over the last decade (Rehbein 2022). For example, the German debt campaign organisation, Erlassjahr, found that in 90 per cent of DSAs carried out between November 2020 and September 2022, the IMF determined that 'downside risks' predominated. In 30 per cent of cases, these downside risks were considered 'exceptionally high', yet the DSA forecasts were not adjusted accordingly (Erlassjahr 2023). Erlassjahr also found that in DSAs over the last 20 years, the higher the debt level and the higher the debt distress risks, the more optimistic are the DSA forecasts for economic growth and fiscal adjustment (Erlassjahr 2023).

[12] Information supplied by the IMF in November 2023, as requested by the author.

[13] Perspective shared at expert roundtable, New York, September 2023

The latest MAC SRDSF review has proposed some changes to enhance transparency in the use of judgement, and to further mitigate against overoptimism. These include analysing sovereign debt risks over three time-horizons (near, medium and longer-term), with a judgement based risk assessment assigned at each time horizon, and any deviations from the model better explained (IMF 2021). At the same time, external publication of many of these details is restricted, limiting external stakeholders' ability to scrutinise them. These 'technical fixes' also do not address the 'elephant in the room' – namely the extent to which DSAs are truly independent and impartial analyses, and whether the institutions (or individuals) that carry out DSAs may face political pressure to show debt risks in a particular way.

Political pressure to present an assessment in a particular way can occur for several reasons. One is related to the IMF's role as a lender in times of crisis. According to its statutes, the IMF is only authorised to provide loans to countries that are highly likely to be able to repay them. The need to start an IMF programme means there is a clear institutional interest in showing that debt risks may be lower than they actually are. Another is related to DSAs' signalling role around access to concessional finance. Higher sustainability thresholds might help to compensate for a lack of concessional financing committed from the international donor community. In the case of countries already in default or undergoing debt restructuring negotiations, overoptimistic projections can also lead to a lower potential debt-relief envelope, lowering the burden on creditors. Pressure to show low(er) debt risks can also be brought to bear by large systemically important borrowers to the institutions who are keen to access new funds from them. All of these reasons fuel perceptions that the documents are not fully impartial or transparent.

Although this issue is recognised as problematic, the measures being adopted to address it are less persuasive. In the most recent MAC SRDSF review, for example, it is suggested that changes in the way judgement are used will help insulate staff from political pressure (IMF 2022). Ultimately however, this tension can only fully be resolved when DSAs are carried out by a truly neutral body.

### *3.3 Dialogue and engagement*

Trust and confidence in DSAs are also built through active engagement with external stakeholders, via clear and transparent processes which provide a means for external actors to engage in DSAs, inform policy dialogue, and recommend changes in approach. It can be particularly important where there may be differences of opinion. External stakeholders need to be confident that their suggestions will be heard and taken seriously.

Dialogue and engagement on DSAs are described as important by the Bank and the IMF. They report that external stakeholders are invited to provide input into periodic DSF review processes, and consultations with civil society and other stakeholders also take place on the frameworks. Staff report that they are receptive to being challenged.[14] Civil society and researchers also report that requests for information and data are usually met positively.[15] There is also a means to send comments on the MAC SRDSF template online via the IMF website (IMF Debt Sustainability Analysis for Market Accesss Countries).

Less clear however is the extent to which this engagement has had a material impact on the design and implementation of the frameworks, and has led to key shifts in approach. While key documentation on the regular DSF review processes is publicly available which explains what changes have been made to the frameworks, it does not indicate how interactions with (or research by) external stakeholders may have influenced particular changes in approach.[16] Why certain ideas were not taken further is also not clear. For example, civil society organisations and researchers have made long-standing calls for more public disclosure and have also raised concerns around over-optimism bias, the role of the Country Policy and Institutional Assessment (CPIA) in the LIC DSF, and the need for the frameworks to integrate the Sustainable Development Goals (SDGs) and climate

[14] Perspective shared in stakeholder interviews.
[15] Perspective shared in stakeholder interviews.
[16] Perspective shared in stakeholder interviews.

change risks more systematically. They have also raised issues around the narrow focus in DSAs on ability to repay versus the needs to take a broader view and consider states' abilities to meet the basic needs of their populations or pursue green growth investment pathways.[17] Yet there is a perception that these proposals have received limited attention – though climate change has been picked up on more recently.

**Box ii: DSAs need to incorporate climate change more fully to remain relevant**

There is a consensus that climate change poses macro-critical risks to national economies, yet to date climate risks have been inadequately incorporated into both the MAC SRDSF and the LIC DSF, a point acknowledged by the institutions in their various review and evaluation processes. For example, the World Bank's Independent Evaluation Group (IEG) recently reported that attention to climate change issues and natural disasters had improved. But at the same time it stated that only 60 per cent of all DSAs discuss the issue. This is despite calls from member countries, civil society, researchers and others that better incorporating climate change is needed to make DSAs both effective and relevant.

Recent research from the Global Development Policy Centre at Boston University took the methodology for market access countries and attempted to incorporate climate-related shocks more fully in order to explore the results. Data was provided for the exercise by Colombia and Peru. It looked at risks related to both a 'physical' climate event and those associated with the higher investment levels required to adapt to climate change during the transition to a 'greener' economy. It found that climate risks lead to higher public-debt trajectories than suggested by both countries' DSAs, but rise particularly sharply where countries pursue higher investment levels to respond adequately to climate change. They find that only a low 'green' investment pathway creates no significant risks for public-debt sustainability in the case of Colombia.

These are critical findings which, if incorporated adequately into DSAs, could help to inform international policy discussions on public debt and the availability of adequate concessional finance. From a transparency point of view however, it is not clear why this critical issue has taken so long to start to be addressed more seriously, despite multiple calls from external experts for the DSAs to do so.

## 4. Ways forward

DSAs are anything but easy, since they involve making a prediction about an unknowable future. But in a world characterised by increased uncertainty, and where debt risks are on the rise, it is critical that DSAs should be a tool that is fit for purpose. Increased transparency can help to drive continuous improvement, foster trust and confidence, and enable better policy advice.

As this paper has shown, some important steps have been taken over the years to improve transparency in DSAs, including better public disclosure, initiatives to upskill various stakeholders in the frameworks, and strengthened external engagement. There are however further transparency measures which can be taken to ensure DSAs can be a trusted, relevant and effective tool.

One is to move towards a system where there is a 'presumption of public disclosure' in all DSAs. DSAs are meant to inform new borrowing by decision-makers, including elected parliamentarians. This borrowing is, in turn, meant to support the public interest. As such, this information should be in the public domain and restrictions on disclosing information should be extremely limited and based on evident public interest. This means that different public disclosure policies as currently applied to market-access countries and low-income countries would no longer stand. The underlying data sets should also be publicly available to enable external stakeholders to scrutinise the data and the assumptions on which the DSAs are being formulated.

[17] See for example: Civil Society position on the IMF and World Bank Debt Sustainability Framework Review, 2018: https://www.eurodad.org/civil_society_position_on_the_imf_and_world_bank_debt_sustainability_framework_review

Another key issue relates to how DSAs could be made more accessible to non-specialised stakeholders, particularly at the national level where DSAs are most important but are often underutilised. This component is about much more than simple publication on a website and is about what stakeholders are able to interpret with the information provided to them. This is essential to drive accountability, particularly at the borrower country level. Important and relatively straightforward steps could be taken which would help to make DSAs more 'user-friendly'.

These include adding an up-front table which summarises the main macroeconomic and debt assumptions which underpin the DSA and have been used to arrive at the overall risk level. This could help non-specialised audiences to more easily understand that the output is a result of these assumptions. Up-front tables should also provide more detail around how and why judgement may have been used and what its results were. A more simplified Excel template could also be useful. Better availability in local languages, and much better signposting on the two institutions' websites as to where different language versions may be available, could help to enhance take-up at the country level. Access to historical DSAs could also be simplified to enable interested actors to easily scrutinise past DSAs and understand what the documents 'got right'. Historical DSAs are however not that easy to locate. While the World Bank's DSA site includes a link to the 'full inventory of historical DSAs', the link instead takes the user to a broader online 'library' which does not list DSAs as a searchable category of documents. Neither the Bank nor the IMF has a search function on its website specifically for 'Debt Sustainability Assessments', as they have for many other categories of documents. The development of a user-friendly searchable DSA database could be useful for increasing 'traffic' to the documents.

This paper has also shown that there is a need for more transparency in the institutions' confidence levels in the quality of the data being used to formulate DSAs. Understanding where there may be concerns around data quality is crucial since DSAs are meant to inform policymakers' decisions to enter into new loans. Yet readers are not alerted to potential concerns around poor quality data. The institutions need to be more explicit around whether the quality of the data they are working with is considered satisfactory, where there may be deficiencies, and what impact these deficiencies have on the assessment (and their confidence levels in it). A potential scorecard or traffic-light approach, similar to that employed in the Debt Management Performance Assessment (DeMPA) diagnostic tool, could alert the reader to whether or not the data is considered high quality and complete (World Bank IEG, 2023). The DSAs could also indicate whether the country's debt data is in compliance with the World Bank's Debt Reporting System. These could help to incentivise and raise standards in debt reporting by borrowing countries. These measures would, in turn, be reinforced via the automatic publication of borrowing countries' DeMPA assessments, most of which are not currently publicly available. Currently, only two countries – Cabo Verde and Honduras – have recent DeMPA reports that were published later than 2020 available online.[18] As with DSAs, there should be a "presumption of disclosure" with DeMPA reports, which would provide external stakeholders with a fuller picture of a country's strengths and weaknesses in terms of debt management, including how well it performs on transparency. It would also enable external stakeholders to scrutinise the DeMPA methodology and its findings more closely, thereby supporting the World Bank in strengthening its approach where needed and also reducing opportunities for potential bias in DeMPA reports.

Greater transparency is also needed around the use of judgement versus the mechanical model. This is particularly important in a context in which increased volatility and uncertainty are anticipated due to climate change and other risks, which may lead, in turn, to the need to employ 'judgement calls' more frequently. While the most recent MAC SRDSF review acknowledges previous transparency concerns around the use of judgement, it still allows judgement calls to be partially deleted prior to publication. The use of judgement in all DSAs must be clear, and transparency would be enhanced with more detailed descriptions of the use of judgement oriented towards non-specialised audiences. As the analysis has shown, a common set of issues also tends to crop up that may (or may not) require the use of judgement. These include issues like climate change, environmental disasters, political or institutional instability, conflict and insecurity, access to

[18] For the full list of published DeMPA reports, see: https://www.worldbank.org/en/programs/debt-toolkit/dempa Of the DeMPA reports that are publicly available, most are extremely old (i.e. 10-15 years old).

concessional finance, and others. Improved guidance to staff on the use of judgement when these common sets of issues arise could help to better standardise their use in DSAs, while strengthening transparency.

Dialogue and engagement with external stakeholders are essential to foster trust and drive improvements to the frameworks but can only really be seen as effective when there are meaningful feedback loops in place, and external stakeholders are clear on how their research and policy advice are being used and acted upon. The regular review processes and the documentation which are released afterwards could easily contain details of the organisations and institutions that were consulted, the issues that were raised in these discussions, the proposals that were put forward, and the institutions' responses to them. This would help to drive more accountability.

All of these measures could help to make DSAs a more transparent and trusted tool. But they are also just one small piece of a much bigger picture. Transparency in DSAs must also be situated in a much wider context – one in which there are increased efforts by both borrowers and lenders to put in place an enhanced transparency regime throughout the whole borrowing cycle. This is increasingly recognised as critical to help ensure both accountability and long-term debt sustainability.

There are a number of initiatives aiming to do this. These include UNCTAD's, AFRODAD's and EURODAD's voluntary guidelines which set out what responsible – and transparent – behaviour looks like when it comes sovereign borrowing and lending (UNCTAD 2012). These state clearly that both lenders and borrowers have a duty to uphold transparency, and that there should be limitations on legal restrictions to public disclosure when it comes to debt information. In addition, there are ongoing efforts to support developing countries to strengthen their debt management capacities, including building capacities on debt recording and reporting, improving IT systems and strengthening legal frameworks for the public disclosure of debt information. These are provided by organisations like the Commonwealth Secretariat, UNCTAD and the World Bank. A greater share of efforts, however, has tended to focus on transparency by borrowers, and this has not yet been replicated by improved transparency practices by most creditors – whether public or private. For example, new initiatives like the OECD Debt Transparency Initiative, which aims to collect data on private-sector lending to developing economies, has enjoyed only limited success to date and, overall, the landscape of debt data is characterised by a fragmented set of databases, with limited data points and often little comparability (OECD). Often this is more to do with creditors' recalcitrance than with that of borrowers. Some debt data is also hidden behind expensive paywalls, putting it out of reach for many nonprofit organisations or research bodies. These challenges all need to be addressed if true transparency (and, by extension, accountability) is to be achieved.

Concerns around political pressure and its perceived or actual influence on assessments are also only likely to be fully addressed once there is confidence that DSAs are truly independent and impartial assessments. Transparency can certainly mitigate some of this, but it will only go so far. While the Bretton Woods Institutions clearly have the requisite skills to carry out such technical assessments, there is also a strong case that they should be developed by an institution (or institutions) that does (or do) not have clear conflicts of interest. Longer-term, this could help to establish more trust in DSAs. It could also help lay the foundations for an enhanced transparency regime for sovereign debt as a whole. With debt risks on the rise, the time is right.

## Table 1

**Transparency in DSAs: a snapshot of published material**

| Description | Availability | Observation |
|---|---|---|
| LIC DSAs | Mostly available | Mostly publicly available, though some are published with a delay. Staff assessments published |
| MAC SRDSAs | Often available but with publication restrictions | Staff risk assessments, underlying data sets and assumptions not published |
| Guidance Notes | 2018 Guidance Note for LIC DSAs<br>2013 Guidance Note for MAC SRDSF<br>2022 Guidance Note for MAC SRDSF | Oriented towards technical audiences |
| MAC SRDSF excel template | Public template published in 2014 | Blank template only |
| LIC DSF excel template | Publicly available | Completed templates available online but not the most recent data |
| Training materials | LIC DSF Interactive Guide<br>LIC-DSF online training course | Mostly oriented towards technical audiences |
| LIC DSF review materials | 2017 review materials | |
| MAC SRDSF review materials | 2003, 2005, 2011 and 2021 review materials | |
| Historical DSAs | Mostly available for LICs | Not easily ‘searchable’ online. No single point where they can be accessed |

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## Interviews

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- Erlassjahr
- European Network on Debt and Development (EURODAD)
- International Monetary Fund (IMF)
- Latin American Network on Debt and Development (LATINDADD)
- Overseas Development Institute (ODI)
- United Nations Department of Economic and Social Affairs (UN DESA)
- United Nations Conference on Trade and Development (UNCTAD)
- World Bank
- World Bank Independent Evaluation Group

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Gail Hurley is a senior advisor and expert on sovereign debt and development finance. She has held senior positions at Finance Earth, UNDP and EURODAD. She has also served as a Senior Fellow at Development Initiatives. She has authored many research papers and articles on the issue of sovereign debt, including a particular focus on the debt challenges of small island developing states. She is author of the chapter on 'sovereign debt and the right to development' in the Oxford University Press publication, 'Sovereign Debt and Human Rights' published in 2018.

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