

FDL
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COT and IDA in the Debt Crisis

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Properzi) – See <https://findevlab.org/ida-in-the-debt-crisis/>

Main arguments

- MDBs – esp. IDA - hurting from the current LMIC debt crisis
 - Grants ~1/3 NT; 60% leakage in red countries...
- MDBs would gain by pushing more forcefully for debt restructuring
 - .. by sharing more openly the burden.
- But the traditional “proportional” COT rule is not fair in the presence of diverse creditors with differing “grant elements”
- **We develop a FAIR COT rule, accounting for grants and grant elements**
 - **cost to IDA low (~ +20% more lending during 3-years program)**

Comparability of Treatment in LMICs

Proportional COT: all share burden equally
= same haircut on PV of loans.

Eg. If debt relief is 50%, each creditor exchanges a dollar of old PV debt for a new instrument valued at 50 cents.

A wide diversity of creditors to LMIC, with very different grant elements:

→ a “proportional COT” is not fair, as the grant part is not taken into account

A high diversity of lenders ..

	Face value		Present Value
	2010	2021	
PPG external debt stock (\$billions)	221	592	423
IDA (%)	28%	23%	17%
Multilateral ex-IDA (%)	27%	21%	19%
Bilateral ex-China (%)	31%	17%	16%
China (%)	7%	17%	18%
Private creditors (%)	6%	22%	30%

External debt stocks, Public and Publicly Guaranteed (PPG) IDA countries Source: IDS, WB, 2022

A Fair CoT rule

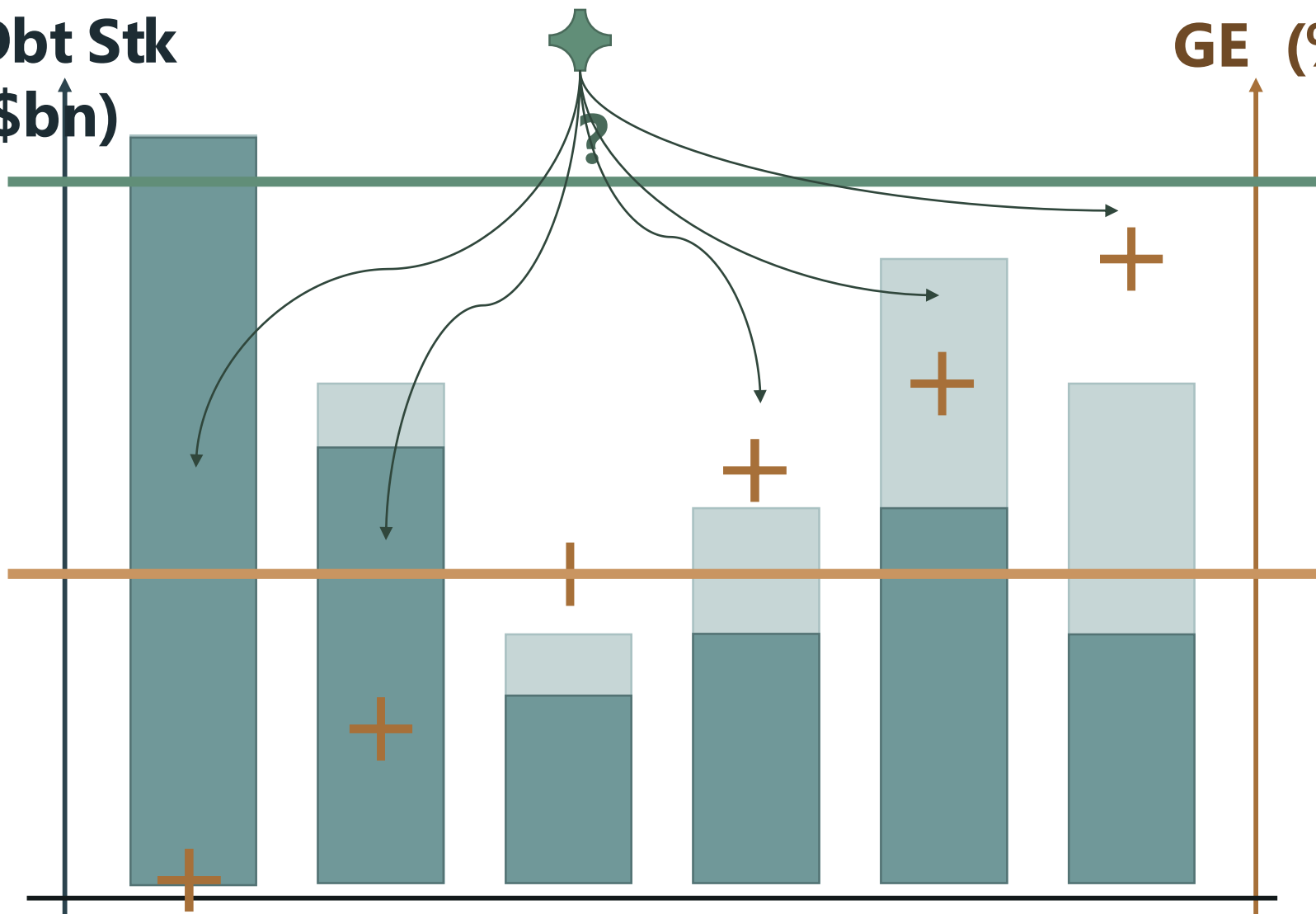
IDA has proposed to consider the grant as *ex-ante* debt relief. We operationalize the idea:

- Decide on needed \$ amount of haircut.
- Rank Creditors from less to more concessionnal
- Allocate losses to the first creditor until its “ex-post GE” equalized to the 2nd
- If more DR is needed, go down to the 2nd, and allocate losses to both until their ex-post GE equal that of 3rd..
- Keep going until the debt reduction target is reached...

Creditor	Grant element
Private	0
All China	21
Other MDBs	36
Paris Club bilat.	39
IDA loans	45
Total IDA (wt grants)	58

Dbt Stk (\$bn)

GE (%)



Legend (right)

- + Grant Element
- Avg Concess. (GE)
- ★ ? Post DR GE
- Avg Concess. (GE)

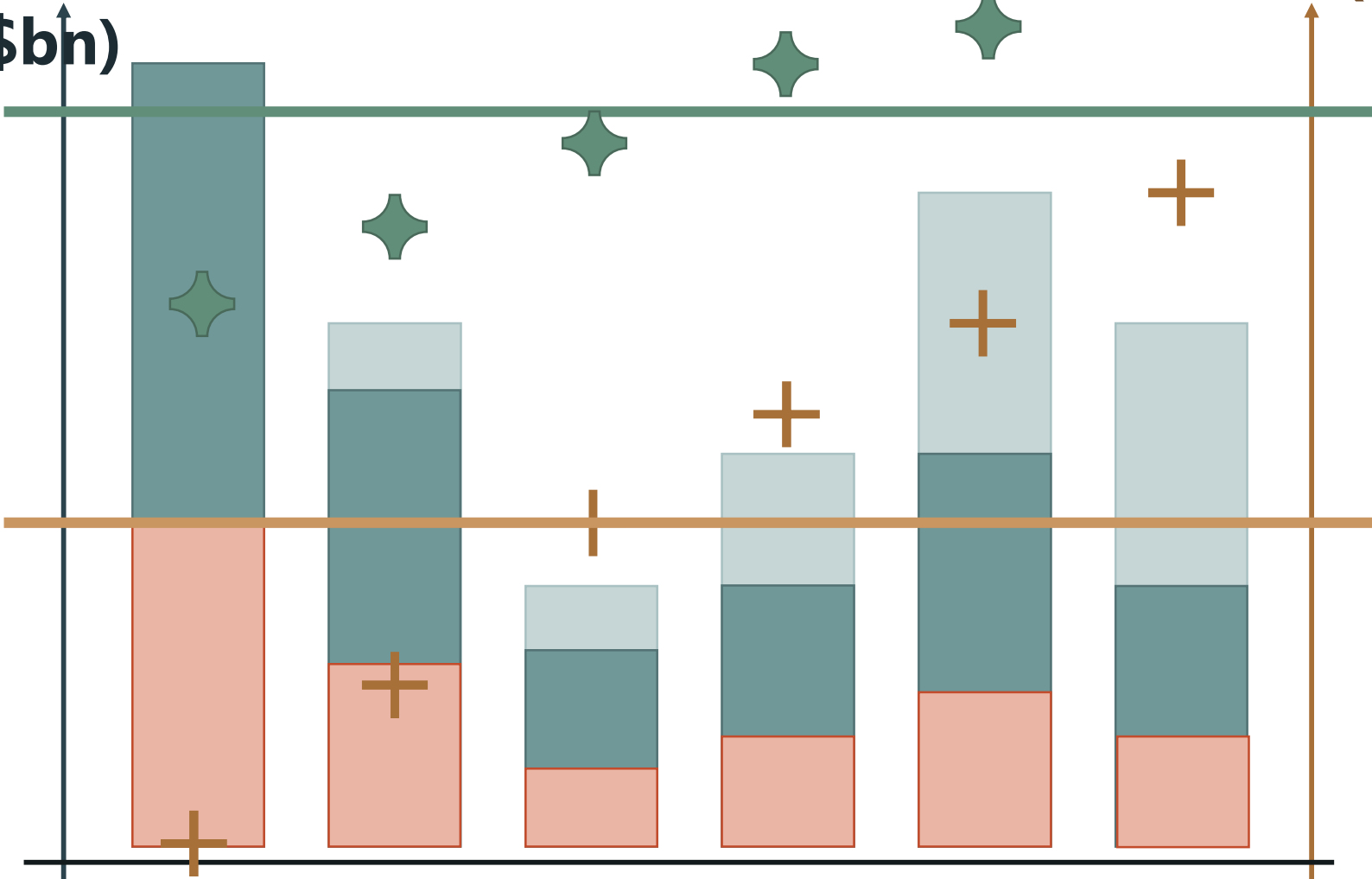
Legend (left)

- FV PPG Debt Stock
- PV PPG Debt Stock
- ? PV Haircut?

? DR Losses / total PV haircut ?

Dbt Stk (\$bn)

GE (%)



Legend (right)

- +** Grant Element
- Avg Concess. (GE)
- ★ Post DR GE
- Avg Concess. (GE)

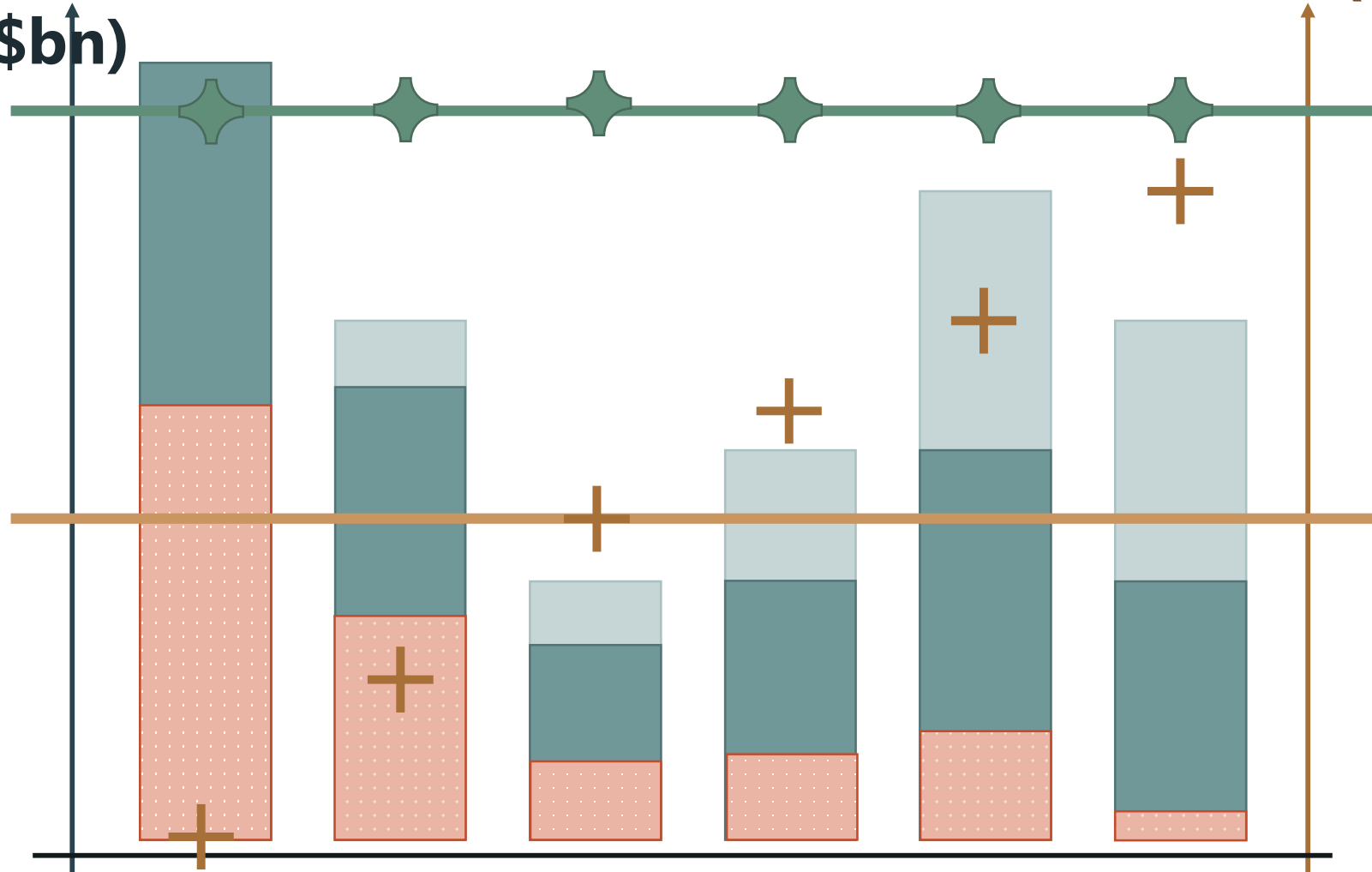
Legend (left)

- FV PPG Debt Stock
- PV PPG Debt Stock
- PV (fair+) Dbt Stk
- PV Haircut
- unfair

DR Losses / total PV haircut

Dbt Stk (\$bn)

GE (%)



DR Losses / total PV haircut

Legend (right)

- +** Grant Element
- Avg Concess. (GE)
- ◆ Post DR GE
- Avg Concess. (GE)

Legend (left)

- FV PPG Debt Stock
- PV PPG Debt Stock
- PV (fair+) Dbt Stk
- PV Haircut
- unfair
- fair

Impact on IDA

- Projections: debt reduction to bring down debt ratios to moderate debt distress (per IMF)
- Cost for IDA in DR high under proportional rule
- But low under fair and extra-fair rules.
- Losses can be taken in the form of haircut, or new extra loans or grants

IDA financial contributions under various COT rule (\$ billions) – 23 countries

	# cases	IDA annual allocation	IDA Loss	Loss as new loans
Unfair	23	12.7	7.7	14.5
Fair	8	4.2	1.0	1.7
Extra-fair	6	3.7	0.7	1.1

Example of a back of the envelop average rule for IDA: provide 20% more loans during 3 years adjustment period

Source: FDL simulation

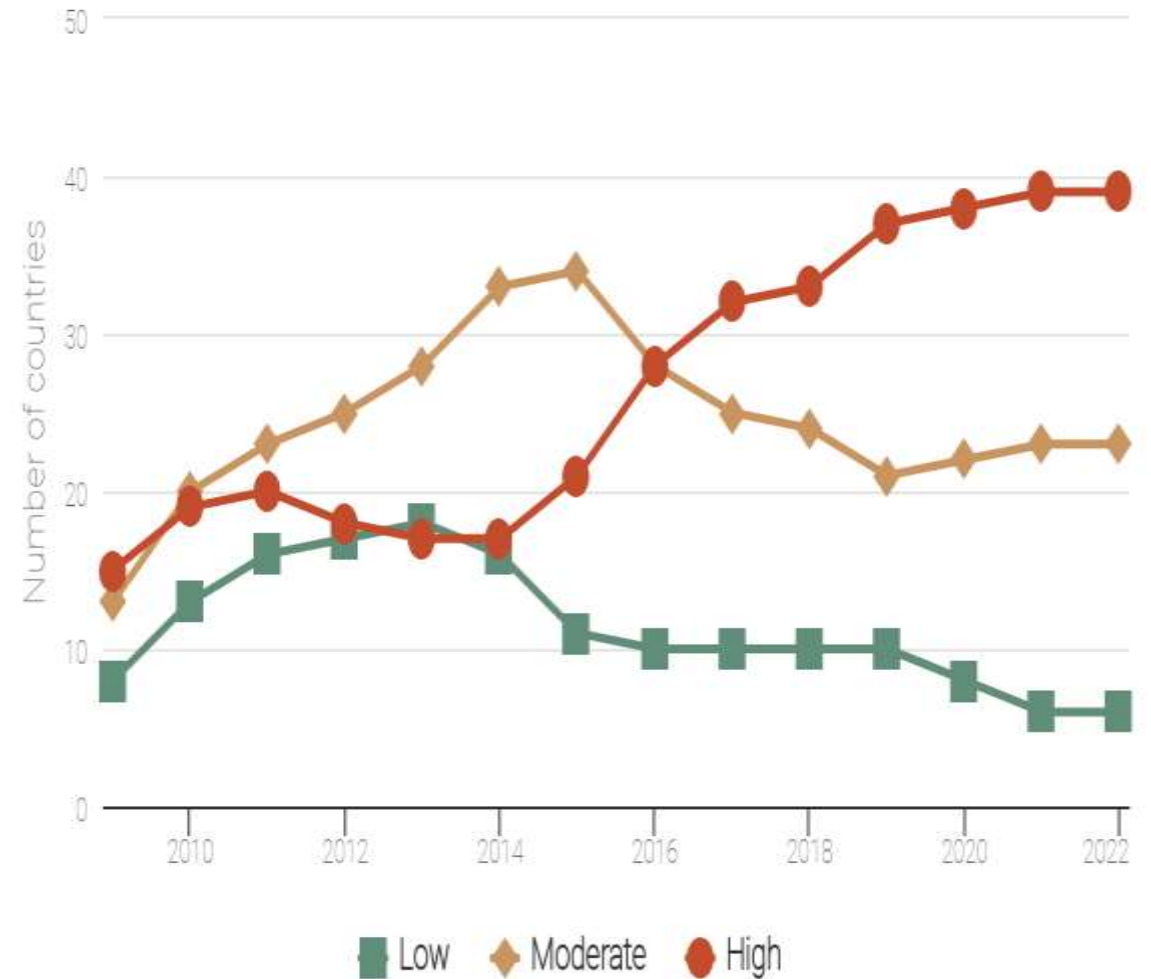
IDA hurt by debt crisis, should try harder to push for restructuring where needed

IDA funding model: 3 about equal parts

- Donors' contribution (~\$22b every 3 years)
- Debt service reflows
- IDA bonds from markets.

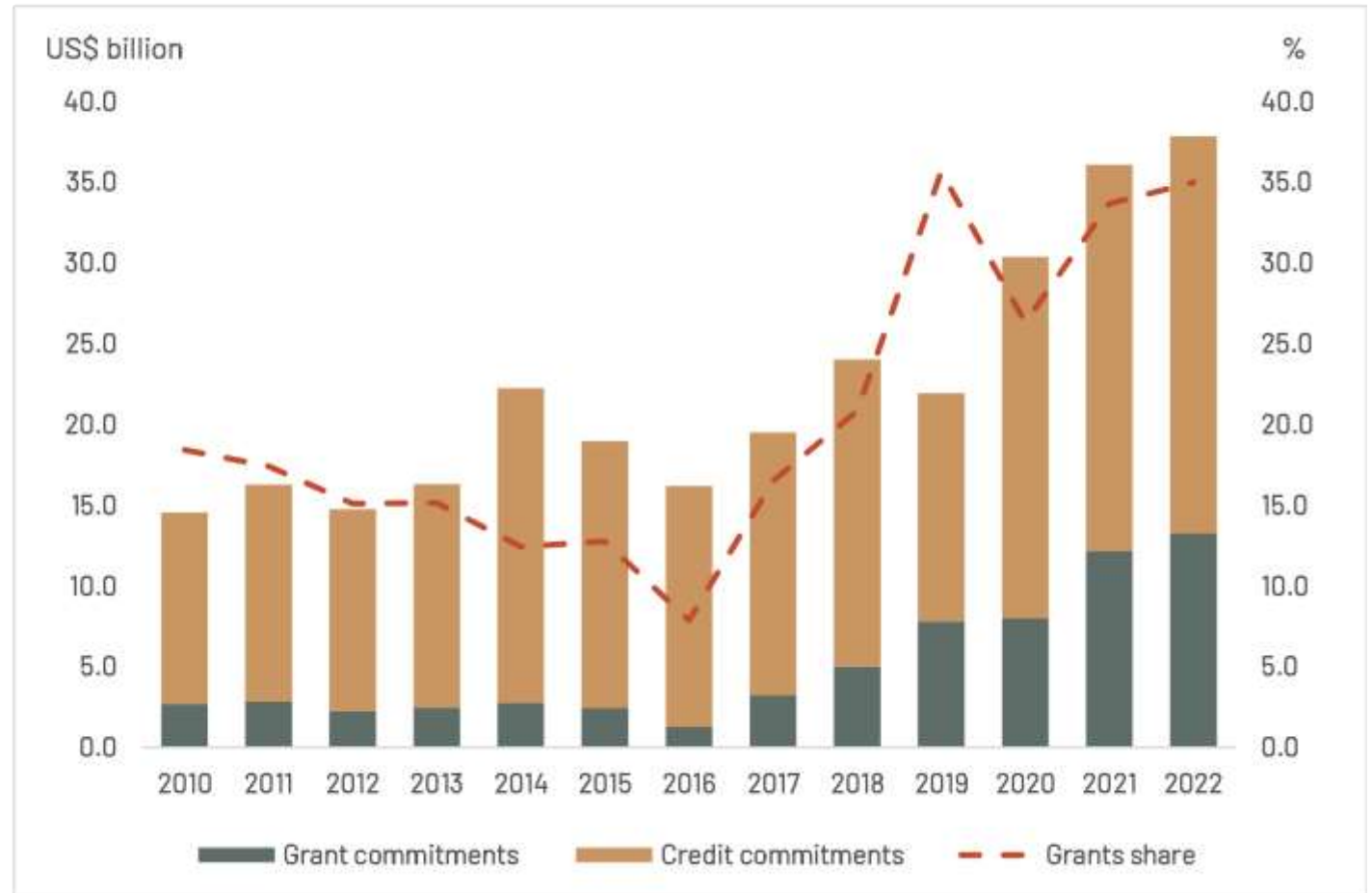
The model gets weakened as IDA's clients become more indebted – moving into red (100% grants) and orange (50% grants) status.

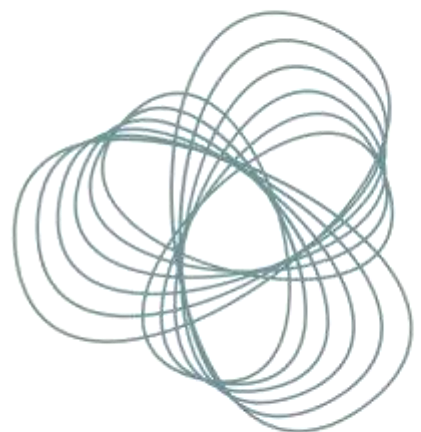
Traffic lights in IDA countries



IDA providing more of its support in the form of grants

- Since 2009, countries at high risk of debt distress get a 100% grants, those at moderate risk get 50% credit/50% grant), and country at low risk receive all their allocation in loans.
- Grants now around a third of IDA's NT – ~ \$6b. By now ~ \$80b of grants provided (vs \$180b in loans).





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