Aligning Sovereign Debt Instruments with UNCAC: The Case for Governance-Linked Bonds (GLBs)

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What is a Governance-Linked Bond and How Does it Work?

A governance-linked bond (GLB) is a novel sovereign debt instrument that reduces coupon payments that a country must make if it meets pre-agreed governance targets by an evaluation date.[1] GLBs work by embedding measurable governance criteria, such as procurement transparency, strengthened anticorruption institutions, or improved fiscal reporting, into the bond contract. If these criteria are met, there is a reduction in the coupon rate, generating direct fiscal savings for the government. The coupon reduction creates clear incentives to implement reforms. Bondholders also benefit from reduced governance-related risks, which supports stronger secondary-market valuations and lower default risk.[2] GLBs, therefore, financially incentivize countries to introduce and/or implement governance reforms that strengthen public institutions, fiscal transparency, and accountability.[3]

In 2024, GLBs were included for the first time in a debt restructuring,[4] marking the first sovereign debt instrument tied solely to governance ("G") indicators rather than broader Environmental, Social indicators in an ESG Bond.[5] If the country achieves the governance targets in the first GLBs, it stands to benefit from a 75-basis-point reduction in the coupon rate, amounting to approximately USD 70 million in savings over the life of the interest repayments on the bond.[6]

The standout feature in the first GLB is that it has no downside for the country, in that the country faces no negative financial consequences for failing to meet the target. Preserving this feature in future issuances of GLBs is vital to ensure that bondholders pay for and promote improved governance rather than benefit from non-compliance.

The United Nations Convention Against Corruption (UNCAC) emphasizes the importance of transparency, accountability, and effective governance to prevent corruption. These priorities must now contend with increasing sovereign debt vulnerabilities, especially among developing countries.[7] In this context, the data shows that low and moderate-income

1 Nishan de Mel and Raj Rajakulendran, *A Novel Governance-Linked Bond: As a Pareto Improving Instrument for Debt Restructuring,* (Verité Research, June 2024) https://www.veriteresearch.org/wp-content/uploads/2025/09/20240617_WorkingPaper_GovernanceLinkedBonds_F.pdf; Nishan de Mel, Shanta Devarajan, and Raj Rajakulendran, *Proposal for a Governance-Linked Bond in Restructuring Sri Lanka's Debt* (Version 3), (Verité Research, 2024) https://www.veriteresearch.org/wp-content/uploads/2024/05/20231207_GovernanceLinkedBonds_InvestorPitch_V3.pdf; Eric Lalo, "Important Innovations in Sovereign Finance: the Arrival of Macro-Linked Bonds (MLBs) and Governance-linked Bonds (GLBs)," *Rothschild & Co Global Advisory,* December 13, 2024, https://www.rothschildandco.com/en/newsroom/insights/2024/12/ga-important-innovations-in-sovereign-finance/.

2 de Mel, Devarajan, and Rajakulendran, *Proposal for a Governance Linked Bond*, 2,4.

3 Nishan de Mel, Inoshini Perera, and Nikhil Wilmink, "Guest Post: Global Lessons from Sri Lankan Civil Society for Post-Crisis Governance Reform," *Global Anticorruption Blog*, April 24, 2025, https://globalanticorruptionblog.com/2025/04/24/guest-post-global-lessons-from-sri-lankan-civil-society-for-post-crisis-governance-reform/.

4 GLBs were included for the first time in Sri Lanka's debt restructuring in 2024. London Stock Exchange, "Announcement of Final Results of Invitation," December 16, 2024, Announcement of Final Results of Invitation - 07:00:00 17 Dec 2024 - 70ZL News article | London Stock Exchange.

5 Lalo, "Important Innovations in Sovereign Finance".

6 Nishan de Mel, Raj Prabu Rajakulendran, and Harshana Wickramaarachchi, " Verité Research Debt Update 28 July 2025" *Verité Research*, 2025, https://www.veriteresearch.org/wp-content/uploads/2025/10/20250728_DebtUpdate_July28_Issue6-1.pdf; London Stock Exchange, "Announcement of Final Results".

7 Five countries have already defaulted on their debt, while 54 countries across the world are suffering from a debt crisis. In addition, there are 9 countries at risk of a private debt crisis, 32 countries at risk of a public debt crisis, and 5 at risk from both a private and public debt crisis. Joseph Foti, "Beyond Debt Transparency: Better Borrowing with Bond Oversight," *OGP Horizons* (Medium), March 11, 2025, https://medium.com/ogp-horizons/beyond-debt-transparency-better-borrowing-with-bond-oversight-be25e0438866; Debt Justice, "Our Analysis," *Debt Data Portal*, https://data.debtjustice.org.uk/our-analysis.php.

countries with unsustainable debt underperform across multiple governance indicators.[8] GLBs offer an innovative solution that can both advance UNCAC objectives, whilst mitigating debt vulnerabilities. This submission draws the attention of the State Parties to the relevance of GLBs and demonstrates how GLBs can complement and support Member States' implementation of UNCAC obligations.

Why Are Governance-Linked Bonds Relevant Now?

Many countries facing debt distress today are confronting a challenge that is not merely financial but fundamentally governance-related. Current restructuring processes often fail to tackle the core issue that drives repeated crises: weak governance environments that undermine fiscal stability, investment confidence, and long-term recovery.

Data from 1975–2020 show that 59% of countries that restructured their debt had to do so more than once because underlying governance problems were left unresolved. Countries with lower governance scores (measured by the Worldwide Governance Indicators) are markedly more likely to have multiple restructuring cycles, while those that improve governance see stronger credit ratings and reduced risk premiums. The social costs of such cycles are severe, including increased poverty levels and unemployment.[9] Avoiding a return to crisis requires strengthening the governance foundations that support transparency, accountability, and fiscal prudence.

The particular relevance of GLBs today rests on **three considerations** crucial to countries recovering from crisis:

i. ***They help break the cycle of repeated restructurings by addressing governance gaps***

Weak governance makes countries more vulnerable to repeat debt distress. GLBs provide a mechanism that links financial relief to actions that reduce corruption risks. By doing so, they support reforms that are essential to restoring stability and preventing a return to another debt crisis by reducing corruption vulnerabilities.

ii. ***They align incentives between the country and bondholders around stronger governance***

GLBs reduce interest costs for the issuing country when key governance reforms are completed. For international sovereign bondholders, better governance reduces risk and can improve secondary-market valuations. For the country, meeting these governance commitments unlocks tangible and significant savings. The design, therefore, promotes shared interest in credible, trackable reforms.

iii. ***They reinforce domestic political incentives for transparency and accountability***

Countries emerging from crisis require tools that strengthen political incentives for governance reforms. GLBs do this by selecting governance criteria that are clear, publicly visible, and verifiable, such as publication of procurement contracts or tax expenditure transparency. For example, a trigger for debt relief could require a government to publish a "Fiscal Strategy Statement".[10] By linking these actions to financial gain for the country, GLBs elevate the domestic political cost of inaction and strengthen incentives for governance reforms.

8 Transparency International U.S., *Corruption and Debt: The Case for Leveraging U.S. Diplomacy for Governance Reforms in IMF Lending*, (August 2024), https://us.transparency.org/resource/corruption-and-debt-the-case-for-leveraging-u-s-diplomacy-for-governance-reforms-in-imf-lending/.

9 Transparency International U.S., *Corruption and Debt*.

10 The triggers for the world's first GLBs adopted in Sri Lanka were 1) the achievement of a revenue target of 15.3% for 2026 and 15.4% in 2027, 2) the publication of a fiscal strategy statement, and 3) the publication of a range of reports on debt and macroeconomic data. See Tellimer, "Sri Lanka: Exploring the Benefits and Impact of Governance Linked Bonds," https://tellimer.com/events/sri-lanka-exploring-the-benefits-and-impact-of-governance-linked-bonds; de Mel, Perera, and Wilmink, "Guest Post: Global Lessons from Sri Lankan Civil Society".

Using GLBs to Advance UNCAC Priorities

GLBs require governance criteria that are transparent, measurable, in the public interest, and have high public support.[11] These criteria could be aligned with internationally recognised governance and anti-corruption standards, such as the UNCAC. When so aligned, GLBs provide a practical mechanism for advancing UNCAC commitments by translating legal commitments into performance-linked financial incentives. This is demonstrated below for a few core articles:

- **UNCAC Article 5** requires each State Party to develop and maintain effective anti-corruption prevention policies to ensure the application of rules, procedures, and funds.[12] GLBs reinforce this commitment by conditioning debt relief upon the implementation of anti-corruption policies.

- **UNCAC Article 6** mandates the establishment of independent anti-corruption authorities or equivalent.[13] GLBs may require actions that strengthen institutions, as anticipated by Article 6. For example, by requiring the formulation and implementation of rules for appointing Commissioners to the Corruption Investigation Office.[14]

- **UNCAC Article 9** mandates transparent, competitive public procurement and accountability in public finance management. It specifically requires the public dissemination of procurement information,[15] and transparency and accountability in public financial management through the establishment of timely revenue and expenditure reporting, risk management systems, etc. GLBs may tie debt relief to fiscal transparency targets that directly advance a State Party's commitments under Article 9. The world's first GLB, for example, requires exceeding International Monetary Fund (IMF) projected revenue targets and regularly publishing a fiscal strategy.[16] GLBs may also require the disclosure of public procurement contracts, commitments to update the country's fiscal reporting framework, and commitments to enact a Public Procurement Law that reflects international good practice.[17]

- **UNCAC Article 10** calls for proactive publication of information on government activities and public administration. GLBs may encourage this by embedding transparency obligations in bond contracts. For instance, a GLB may require compliance with the information disclosure covenant that conforms to UNCAC expectations in the GLB contract.[18]

- **UNCAC Article 13** requires State Parties to promote the active participation of civil society, non-government organisations, and community-based organizations in the fight against corruption. By making governance criteria transparent, time-bound, and publicly monitored, GLBs provide civil society with the information required to enhance their engagement and public scrutiny of governance reform. Thereby enabling civil society to hold the government to account.

GLBs can also be designed to support additional UNCAC provisions. For example, UNCAC Chapter V on Asset Recovery may be encouraged by conditioning relief on enacting a comprehensive asset-recovery law.

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11 de Mel, Devarajan, and Rajakulendran, *Proposal for a Governance Linked Bond*, 4,8.

12 United Nations Office on Drugs and Crime, *Legislative Guide for the Implementation of the United Nations Convention against Corruption*, 2nd rev. ed. (UNODC, 2012), 4, https://www.unodc.org/documents/treaties/UNCAC/Publications/LegislativeGuide/UNCAC_Legislative_Guide_E.pdf.

13 United Nations Office on Drugs and Crime, *Legislative Guide*, 19/20.

14 de Mel, Devarajan, and Rajakulendran, *Proposal for a Governance Linked Bond*, 8.

15 United Nations Office on Drugs and Crime, *Legislative Guide*, 29.

16 Karin Strohecker, "What We Know About Sri Lanka's Governance And Macro-Linked Bonds," *Reuters*, December 17, 2024, https://www.reuters.com/markets/rates-bonds/sri-lankas-ambitious-governance-macro-linked-bonds-2024-12-17/.

17 de Mel, Devarajan, and Rajakulendran, *Proposal for a Governance Linked Bond*, 8.

18 de Mel, Perera, and Wilmink, "Guest Post: Global Lessons from Sri Lankan Civil Society".

Embedding UNCAC Norms in Debt Instruments

GLBs provide a practical mechanism for embedding UNCAC-aligned governance commitments into sovereign debt contracts. By linking debt-service costs to governance outcomes, GLBs convert anti-corruption commitments into financially meaningful obligations. For example, Article 9 commitments may be built into the bond contract, with debt relief being conditional upon their achievement. GLBs thereby become a tool for promoting UNCAC compliance amongst States Parties.

The inclusion of GLBs in debt restructuring frameworks has been interpreted as reflecting creditor recognition of a country's debt servicing capacity improving through meaningful governance reform.[19] Market reactions further indicate a preference for GLBs over alternative instruments such as Macro Linked Bonds (MLBs), signalling investor demand. This demand demonstrates that GLBs are not merely a theoretical innovation but a practically viable tool that can be effective in supporting governance reforms. Accordingly, GLBs hold strong potential for application in other countries facing governance-related sovereign debt vulnerabilities.

Therefore,

- We urge the States Parties to acknowledge GLBs as a mechanism that supports UNCAC implementation, particularly in areas related to transparency, accountability, debt disclosure, and public financial integrity.
- We encourage States Parties engaged in debt restructuring to consider GLBs as part of their financing strategy, as a means of embedding contextualised transparency and integrity reforms within financial arrangements.
- We encourage international financial institutions, development partners, and creditors to support integration of GLBs into restructuring frameworks where appropriate, and to engage constructively with States Parties seeking to align debt instruments with governance reforms.
- We encourage the United Nations Office on Drugs and Crime(UNODC), in collaboration with multilateral institutions such as the IMF and World Bank, to develop UNCAC-aligned integrity guidance for sovereign debt instruments, including practical standards on how governance, transparency, or anti-corruption targets may be embedded in instruments like GLBs.
- We urge States Parties to reference UNCAC principles when negotiating or restructuring sovereign debt, to ensure transparency and accountability commitments are reflected in financial agreements.
- We request UNODC, alongside interested States Parties, to document lessons from the first GLB, assess its applicability in other jurisdictions, and explore how GLB commitments can complement and reinforce UNCAC peer-review processes, particularly under Chapter II.

19 Lalo, "Important Innovations in Sovereign Finance".