

Timothy Adams
President and CEO

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Daniele Franco
Minister of Finance and Economy
Italy

Kristalina Georgieva
Managing Director
International Monetary Fund

David Malpass
President
World Bank Group

Emmanuel Moulin
Director-General of the Treasury
Chairman, Paris Club
Ministry of the Economy and Finance
France



Dear Minister Franco, Managing Director Georgieva, President Malpass and Chairman Moulin,

On behalf of our global membership, let me first express our strong support for the far-reaching G20 agenda promoting a multilateral approach to crisis recovery, climate resilience and broader sustainable development objectives. We believe that the private financial sector has an integral role in achieving these goals, notably in ensuring sustainable long-term capital flows to emerging and developing economies.

In light of the 2021 Spring Meetings of the World Bank Group and International Monetary Fund, and as implementation of the Common Framework for Debt Treatments beyond the DSSI takes shape, this letter provides private sector views that build on our November 2020 [letter](#) to the G20. These perspectives are informed by discussions with the IIF Committee for Sovereign Risk Management, the Principles Consultative Group of the Group of Trustees of the [Principles for Stable Capital Flows and Fair Debt Restructuring](#), and the IIF Debt Transparency Working Group, as well as the IIF Sustainable Finance Working Group. Our recent discussions with these working groups have centered on four key themes:

- **Building meaningful, regular public-private sector dialogue** and consultation, particularly regarding the implementation of the Common Framework, the importance of a case-by-case approach, assessment of debt sustainability, preserving market access and new financing;
- **Improving the sovereign debt restructuring process**, via addressing scenarios arising from exogenous shocks, transparency, meaningful public-private sector dialogue, appropriate use of collective action clauses (CACs), and effective creditor committees;

- **Promoting transparency** around all sovereign obligations for all creditors—this will support sound debt management, good faith negotiations during debt treatments and effective pricing of sovereign risk, in turn supporting stable capital flows;
- **Supporting green, sustainable capital flows to emerging and developing economies**, including via blended finance, scaling voluntary carbon markets, ESG integration and building green and ESG-linked capital markets more broadly.

Building meaningful, regular public-private sector dialogue and consultation, including on the Common Framework

The pandemic has underscored a fundamental tenet of the *Principles for Stable Capital Fair Debt Restructuring*: that **sovereign debt crisis prevention and resolution is a shared responsibility between sovereign borrowers, public and private sector creditors, and the international financial institutions**. Rising debt levels and an increasingly diverse creditor base over the past decade have made it still more important to promote dialogue and coordination. Focusing on vulnerable DSSI-eligible countries, government debt has risen from 32% to over 55% of GDP since 2010. We recognize that the rise in debt levels is not necessarily a problem in all cases, but the use of net new debt is critical as these countries need the additional financing to meet their sustainable development goals. The share of public and publicly guaranteed (PPG) external debt owed to non-Paris Club official creditors has risen from 10% to 25% over this period, while the share owed to commercial creditors has risen from less than 10% to over 20%. Multilateral lenders remain the largest creditors of many DSSI-eligible countries, accounting for more than 40% of PPG external debt. Debt instruments too are more diverse: a decade ago, over two-thirds of commercial PPG external debt for these countries took the form of bank loans, whereas in 2021 over 65% of commercial debt owed by DSSI-eligible sovereigns is in the form of bonds, 30% is bank loans, and 5% is owed to other creditors including providers of trade finance, export credit agencies, commodity trading and private equity firms.

Recognizing the important role of private sector creditors in financing DSSI-eligible countries—and the notable success of the initiative in achieving debt relief from official creditors—we underscore our work on developing a [Terms of Reference](#) and toolkit to enable private sector participation in the DSSI (where requested by the relevant debtor), and the granting of [waivers](#) to enable DSSI to occur without triggering other defaults. An [extension](#) to the Terms of Reference was published in December 2020, and another will be provided in response to the final extension of the DSSI through December 2021. However, we note that while there have been requests for the aforementioned waiver, very few formal requests for forbearance from DSSI-eligible countries have been made to private creditors. This reflects borrowers’ concerns not only about implications for their credit ratings and market access, but also the fact that only 22 of the 73 DSSI-eligible countries have Eurobonds outstanding, and many have no commercial debt at all. Accordingly, we would not expect a further extension of the DSSI to result in significant formal private sector participation. We note that countries participating in the DSSI (and that may participate in the Common Framework) are expected to use freed-up resources to increase social, health or economic spending in response to the COVID-19 crisis. Appropriate and timely disclosure on the appropriate use of such resources, and on the resulting impact will assist with the overall goal of stable capital flows.

Looking ahead, given the diversity of creditors and debt instruments—and heightened risks for debt sustainability in some countries—**an appropriate forum for creditor coordination is urgently needed.** The November G20 Statement specifies the need “*to facilitate timely and orderly debt treatment for DSSI-eligible countries, with broad creditors’ participation including the financial sector.*” In line with this recommendation, we would urge that the process for implementation of the Common Framework be orderly and inclusive. The G20 has called for all G20 and Paris Club creditors to coordinate engagement with debtor countries, and that the negotiation “*...be held in an open and transparent manner and before finalization of the key parameters.*” We believe that **this engagement should include private sector creditors early in the process** via regular briefings, consultation and exchange of data, with full transparency on actions taken by the official bilateral creditor committees as well as their composition, including the distinction between official and private (commercial) creditors for non-Paris Club creditors.

Borrowing countries should be fully engaged and represented throughout the Common Framework process. Private creditors remain concerned about the application of the comparability of treatment principles under the Common Framework, and continue to emphasize the importance of a case-by-case approach in the context of a full-fledged IMF program with appropriate and credible policy conditionality. **Greater clarity as to the processes and governance of any official creditor committee established on individual country cases under the Common Framework would also be welcomed,** especially in view of the possibility that in certain cases the group of official creditors may be small and concentrated—and also that the private sector percentage of stock of debt may be greater than the official creditor stock of debt. Private sector creditors—who have unique access to relevant market information—could usefully be advised and consulted early in the process of determining debt sustainability—as well as on the prospects of private creditor contributions to help close financing gaps and the implications for future funding needs of debtor countries of any proposed debt treatment. It would also be helpful to have greater clarity on how the IMF is updating lending policies including with respect to arrears and financing assurances. Such consultations will facilitate collaborative debtor-creditor negotiations, improve transparency, inter-creditor dialogue and knowledge-sharing, and ultimately support market access and stable capital flows.

Improving the sovereign debt restructuring process

The G20-endorsed *Principles for Stable Capital Flows and Fair Debt Restructuring* emphasize sound policies and transparency on the part of debtors, voluntary, cooperative debtor-creditor dialogue and good faith debt restructuring negotiations. Reflecting the changes in sovereign debt markets over the past decade, lessons learned from recent debt restructurings (including Ecuador, Argentina, Mozambique, Congo, Pakistan and others), the emergence of the DSSI and Common Framework, and the surge in investor interest in environmental, social and governance (ESG) considerations, the Consultative Group will be updating the *Principles* in 2021. These updates will focus a number of topics including: 1) addressing scenarios that arise from exogenous events such as climate change and pandemics, including through the use of state-contingent instruments; 2) strengthening debt transparency on the part of all creditors and borrowers to address information asymmetry; 3) promoting meaningful and regular public-private sector dialogue and consultation; 4) addressing concerns about comparability of treatment, IMF lending into arrears, broader IMF expectations about debtor good-faith engagement with creditors, and the role of the Debt Sustainability Analysis in the context of a restructuring; 5) refinements to the

use of the CAC framework; 6) encouraging the formation of single creditor committees, or a steering group in the event of multiple committees; and 7) integrating ESG considerations in restructuring negotiations, e.g. via the use of sustainability-linked bonds. We will present the 2021 updates to the *Principles* to the Group of Trustees for approval later this year, subsequently submitting the updated *Principles* to the G20 to seek renewed endorsement.

Promoting debt transparency

The growing risks to debt sustainability, importance of good-faith borrower-creditor negotiations, difficulties associated with comparability of treatment and asymmetry of information between and within sectors, official and private, and the challenges of creditor coordination all underscore the need for greater transparency in sovereign debt markets. Early cases of debt treatment under the Common Framework highlight that transparency should extend to all types of sovereign obligations (to Paris Club, non-Paris Club and private sector creditors, multilateral development banks, export credit agencies, etc.) and all types of debt instruments. Policymakers in borrowing countries need reliable debt information to make informed borrowing decisions. Creditors of all stripes, donors, analysts and credit rating agencies need full disclosure to accurately assess sovereign risk and price debt instruments—which in turn supports stable capital flows. Civil society and the general public also require access to timely and complete information. To the extent that there are concerns associated with the disclosure of material non-public information, these can be addressed through tried and tested techniques.

The multiple ongoing efforts to improve sovereign debt transparency are complementary and should be rapidly advanced and integrated, including the private sector [Voluntary Principles for Debt Transparency](#), the IMF and World Bank Group's Multi-pronged Approach for Addressing Debt Vulnerabilities, and proposed [reforms](#) in relation to transparency in the context of the international sovereign debt architecture. We are delighted to be partnering with the OECD in launching the [repository](#) for debt disclosures for the private sector Voluntary Principles for Debt Transparency and improving the dissemination of such data. We look forward to working with them and other transparency initiatives to advance the project, reiterating the equal importance of transparency on the part of borrowers and official sector creditors. Integration with official sector data hubs will increase the value and impact of these datasets.

Supporting green, sustainable capital flows to emerging and developing economies

There is growing attention to the massive financing gap for the 2030 UN Sustainable Development Goals—which for emerging markets alone is estimated at \$2.5 trillion annually. High and rising debt levels in emerging markets—exacerbated by the COVID-19 pandemic—are making these goals still harder to achieve. At the same time, ESG investing has moved into the mainstream for global financial firms, which face growing client demand for sustainable investment alongside an escalating policy and regulatory push towards sustainable finance. These trends create remarkable opportunities to develop new sources of capital for developing economies, supported by innovative public-private sector partnerships including blended and credit-enhanced financing for sustainable infrastructure and other ESG-linked use of proceeds or sustainability-linked debt raising transactions. In this context we would highlight the work of the [Taskforce on Scaling Voluntary Carbon Markets](#). This ambitious private sector-led initiative, which aims to create a large-scale, transparent, high-integrity carbon credit trading market, will also support the financing and deployment of carbon offset projects—the majority of which are

located in the Global South. Voluntary carbon markets are thus a good example of cross-border solutions that will also bring benefits for emerging and developing economies.

More broadly, international capital markets can play a much greater role in financing sustainable development goals. The sustainable debt universe has grown exponentially over the past decade, from virtually nil to nearly \$2 trillion at present. But it is still a niche market, and very small relative to the \$120 trillion global bond market. Ahead of the G20 Venice Climate Summit in July and COP26 in November, we will be collaborating with other industry bodies, market makers, market infrastructures, law firms and other financial services firms to build a blueprint for scaling global sustainable capital markets across asset classes—including equity finance, investment funds, green, blue and social bonds, SDG-linked and sustainability-linked instruments such as [nature performance bonds](#), green loans, money market products, derivatives and insurance solutions. Information services including providers of ESG data, indices, ratings and analytics will be an important element of sustainable capital markets development.

We hope you find these private sector perspectives helpful. Private finance is essential to ensuring flows of investment capital to low-income and developing economies to support sustainable development goals. We firmly believe that collaborative, market-supported solutions—bringing together policymakers, development finance experts and debt market practitioners—offer the best chance of successful long-term outcomes. We look forward to exploring ways to support these solutions, and to continued productive dialogue.

Sincerely,



cc:
Mohammed Al-Jadaan, Finance Minister, Saudi Arabia
Sri Mulyani Indrawati, Finance Minister, Indonesia
Angel Gurría, Secretary General, OECD
Paris Club Secretariat
G20 IFA WG Co-Chairs