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THE IIF & DEBT RELIEF

HOW THE INSTITUTE OF INTERNATIONAL FINANCE LOBBIES TO PREVENT PRIVATE DEBT RELIEF FOR DEVELOPING COUNTRIES

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List of abbreviations and terms used

B20: Business 20, the G20 official engagement group from business
Bond: a unit of debt issued by governments, authorities or companies, which is tradeable and bought by investors, also referred to as fixed income investment
C20: Civil Society 20, the G20 official engagement group from civil society organisations
CACs: collective action clauses in bond contracts, detailing majority decision making in case of bond restructuring
CAIM: IIF Council on Asset and Investment Management
Clearing: is the process of facilitating the practicalities of the buying and selling of equities and derivatives, and ensure the money transfer between the parties takes place
Creditor committee: committee of private creditors for relations or negotiating debt restructuring with a(n over-indebted) country's authorities
Common Framework : G20 Common Framework for Debt Treatments beyond the DSSI
Comparability of treatment: providing debt restructuring or debt relief in a similar way as other creditors
CSRM: IIF Committee on Sovereign Risk Management
Debt: loans, bonds or other forms of credit received
Debt sustainability: a debt burden that can be repaid by the country without too much harming its population and economy
DSSI: G20 Debt Service Suspension Initiative, also referred to as G20/Paris Club Debt Service Suspension Initiative
DTWG: IIF Debt Transparency Working Group
EM and "emerging markets": are terms used by the IIF and the financial world to designate emerging market countries or middle income countries. EM recenty covers also more lower income countries, sometimes also referred to as "frontier markets".
EMAC: IIF Emerging Markets Advisory Council
ESG: environmental, social, and governance
ESG investing: investing in companies, and their shares or bonds, that integrate environmental, social, and governance (ESG) considerations
Eurobonds: bonds issued in a foreign currency (can be US$)
G20: Group of Twenty, an intergovernmental forum comprising 19 high income countries and the European Union to discuss and agree on financial, economic and other global affairs
G20 finance track: refers to all the G20 finance-related activities and meetings by the G20 Finance Ministers and Central Bank Governors and working groups
GDDS: General Data Dissemination System to disclose data to the IMF by member countries
Group of Trustees: governance and supervisory body of the Principles for Stable Capital Flows and Fair Debt Restructuring
ICMA: International Capital Markets Association, an international lobby and private standard setting group
IDA countries: list of 74 poor countries that can hardly borrow
IFA WG: G20 International Financial Architecture Working Group
IFIs: international financial institutions including the IMF and World Bank Group
IMF: International Monetary Fund
IR: investor relations
IRO: investor relations office
IRPs: investor relations programmes
OECD: Organisation for Economic Co-operation and Development
Paris Club: group of official creditor countries
PCG: Principles' Consultative Group, the steering group of the Principles on Stable Capital Flows and Fair Debt Restructuring
PCWG: Private Creditor Working Group
(the) Principles: the Principles for Stable Capital Flows and Fair Debt Restructuring (explained in Chapter 4)
QE: quantitative easing
SDDS: IMF's Special Data Dissemination Standards
SDGs: United Nations Sustainable Development Goals
SDRs: Special Drawing Rights
SFWG: IIF Sustainable Finance Working Group
Sovereign debt: debt due by national authorities
ToR: terms of reference
UNCTAD: United National Conference on Trade and Development
UNECA: United Nations Economic Commission for Africa
Vulture funds: hedge funds that hold bonds and compel an issuer country through litigation to fully pay back the stock and interest rate on the bond in case a country is defaulting on its debt payments and involved in a debt restructuring process

SUMMARY

This report exposes how the Institute of International Finance (IIF) has been given a privileged role by the G20 to facilitate debt relief by private creditors to the poorest countries, but has failed to deliver debt payment suspension or cancellation under the G20 Debt Service Suspension Initiative (DSSI). The IIF's global and highly globally influential lobbying strategies successfully argued that requesting debt relief from private creditors would prevent further market access to commercial credit by low to middle income countries, including to finance sustainable development and climate change goals.

As this reports contends, the IIF's strategy leads to even higher indebtedness to private creditors and promotes a profitable sustainability-linked financial industry, which the IIF actively supports in the interest of its members. The report reveals that the IIF continues to resist that its members and other private creditors are being compelled to provide debt relief to the world's poorest countries. This does not bode well for further debt relief initiatives during these times of increasing debt repayment stress due to the Covid-19 pandemic and accelerating climate change.

By contrast to the G20's official endorsement of IIF market based standards, this report recommends that the G20 introduce regulatory measures to compel private creditors to participate in official debt relief initiatives, including the G20 Common Framework for Debt Treatments beyond the DSSI. The G20 should also decide to reverse and prevent further excessive debt on the part of low to middle income countries through changed debt contract clauses, new sustainable finance criteria for private creditors, and truly international discussions on new global debt management governance arrangements, among other measures.

The report proposes that the G20 should be fully transparent about, and halt, its behind-closed-doors cooperation with the IIF and end the IIF's privileged access, while the IIF should publish its debt data, statistics, and reports about private debt holdings.

Overview of the report

To expose the unbalanced relationships in the debt markets and the global debt and financial decision-making fora, this technical report focuses on the IIF's activities in response to G20 debt relief initiatives from April 2020 to May 2021 (DSSI and Common Framework) based on publicly available information. The report is intended to encourage more research and analysis about the IIF. The IIF is not much scrutinised despite its significant influence on international debt management and international financial policies and regulation. Research for the report was the basis for a critical analysis and assessment of the IIF in SOMO blogs on 6 April and 6 July 2021.[1] Each technical chapter in the report ends with a set of reflective comments and conclusions.

Chapter 1 gives an insight into the motivation and capacity of the IIF to lobby on issues related to the sovereign debt of low to middle income countries. The more than 450 IIF members include a wide range of financial firms operating globally in the sovereign debt markets, with common and divergent interests. The mission and basic lobbying position of the IIF are enshrined in its by-laws, namely to be the most influential financial lobby organisation at international level that promotes voluntary market based approaches to financial or debt crisis prevention and management. The IIF's mission also involves giving special attention to emerging market countries. The IIF has a lobbying strategy that interlinks research on debt markets and public policies, the organisation of events – in some of which finance ministers and central bank governors participate – and an array of influencing activities. Its lobbying is supported by a budget of US$ 33.6m (2019), 81 staff members (as of September 2021), and well-paid and experienced senior managers. Members discuss the IIF's lobbying positions in various IIF committees. Overall responsibility lies with the IIF Board of 46 active Directors, consisting of top managers of international financial conglomerates, and the chair of the IIF Board chair, the chairman of the Board of Directors of UBS, Axel Weber.

The chapter concludes that the lack of transparency surrounding the IIF's lobbying activities and the fact that the IIF's unique debt data sets are only available to members, provides the IIF with unique advantages compared to public authorities and is at odds with the IIF's own Voluntary Principles for Debt Transparency.

Chapter 2 describes how the IIF became officially designated by the G20 as the interlocutor for the voluntary private financial sector contribution to the G20 DSSI debt relief effort. The IIF subsequently engaged in frank discussions with public creditors (such as Paris Club members) and private creditors, including IIF members, and with debtor country authorities. This chapter analyses how key arguments in IIF lobbying letters to the G20 and IIF DSSI related documents claimed to facilitate private creditor participation in the DSSI. They specified that DSSI countries should maintain "market access" – that is, continued access to private credit without a credit rating downgrading – while arguing that debt payment suspension initiatives should be case by case, and voluntary for private creditors. Moreover, the IIF DSSI related documents highlighted the costly and complex processes that debtor countries are required to undergo to obtain debt relief due to the many legal protections and financial engineering against debt defaults put in place by private creditors. The IIF DSSI documents provide for little if any commitment on the part of private creditors to debt forbearance or simplification of legal process. They have discouraged debtor countries and convinced most of them not to request private creditor debt relief.

Chapter 2 concludes that the IIF's lobbying positions and behind-closed-doors working meetings with officials of the G20 and DSSI debtor countries have resulted no obligation for the private sector to provide debt relief the poorest countries, debt management and restructuring to be country by country, and no debt relief being provided by the private sector. The impact is that the poorest countries continue to repay their debts to private creditors at high interest rates, while the money could have been spent fighting the Covid-19 pandemic and climate change.

Chapter 3 covers the activities and arguments of the IIF after the G20 Finance Ministers and Central Bank Governors proposed a Common Framework for Debt Treatments beyond the DSSI (Common Framework) in October 2020. This vague framework included the principle of comparable debt restructuring efforts between bilateral public creditors and private creditors. IIF lobbying letters continually sought access to G20 decision-making involved in further developing the Common Framework. The chapter reveals that IIF lobbying letters indicated its lack of commitment to the comparable treatment principle while arguing for transparency on the part of all creditors. The IIF and its members continued to promote a non-transparent case-by-case approach to debt restructuring and the use of IIF standards (which are explained in Chapter 4). The IIF reinforced its key argument about safeguarding continued access to private credit for low to middle income countries by emphasising countries' need to finance achievement of the UN Sustainable Development Goals and Paris climate commitments. The IIF referred to the growing range of climate and sustainability linked finance products in whose upscaling it is involved.

Chapter 3 concludes that the IIF's promotion of a private credit market for sustainable development and climate change mitigation creates a new and subsidised profitable business for the financial industry, which enhances the debt burden of poorer countries and their populations while withholding any debt relief.

Chapter 4 reveals how the IIF stimulates the adoption by low to middle income countries of policies and relationships in the interest of private creditors and their risk management. It describes the Principles for Stable Capital Flows and Fair Debt Restructuring (the Principles), which are a set of market-based standards and requirements for debtor countries, which the IIF refers to in its letters to the G20 and have been endorsed by the G20. The chapter exposes how governance of the Principles, by the Group of Trustees and the Principles Consultative Group (PCG), consists in practice of public-private partnership with members and non-members of the IIF as well as former and current high-level financial officials, co-chaired by the Central Bank Governors of France and China with the IIF Chair. This provides a platform for discussing cases of countries in debt distress or default. The IIF serves as secretariat for the Trustees and PCG. It actively promotes implementation of the Principles through related IIF private standards: the IIF Best Practices for Investor Relations, whose detailed and demanding requirements are annual evaluated by the IIF, and the IIF Best Practices for the Formation and Operation of Creditor Committees with requirements especially for debt restructuring negotiations. The Principles are to be updated in 2021 and submitted to the G20 for further endorsement. The IIF has also promoted implementation of the IIF Voluntary Principles for Debt Transparency through an external private debt data repository to be introduced by the OECD and subsidised by the UK.

Chapter 4 concludes that the Principles establish an industry-led standard that embeds an imbalanced relationship between debtor countries and private creditors. This will continue when environmental and social information requirements are added to the updated Principles, as already announced by the IIF.

The **final conclusions** of this report highlight that the IIF's arguments and lobbying strategies manage to allow private creditors to make no debt relief efforts for the poorest countries. This will affect the upcoming debt restructuring negotiations under the G20 Common Framework and in a context of increasing debt payment problems impeding the fight against Covid-19 and climate change. The conclusions highlight how the current situation is one of many serious imbalances in relationships between the IIF and private creditors, on the one hand, and on the other hand public international and national financial decision-makers, parliamentarians, citizens, and other affected stakeholders. Proposals for structural reforms in these relationships, and for internationally agreed debt market and debt restructuring rules, are currently not on the G20's table.

The report **recommends** that G20 countries introduce in their jurisdictions **compulsory debt restructuring and debt cancellation** by private creditors in each case where debt relief is initiated. Supervisory authorities could also intervene to arrange for risky debt holdings to be written off. Changes in laws on bond and loan contracts could also avoid protracted debt restructuring or cancellation processes. **Preventing and reversing** excessive debt burdens should include G20 measures that avoid the financial industry's proclaimed sustainability linked agenda, supported by the IIF's lobbying, being more private debt creating. The G20 should at least demand more transparency about private creditors' debt holdings and discussions with debtor countries. In the longer term, the G20 should encourage international inclusive structural reforms of debt creation, management, restructuring, and cancellation. In order to **promote equitable treatment and more transparency**, the G20 and country authorities should disclose and halt the privileged relationship and cooperation they grant to the IIF, while the IIF should be transparent about all its lobbying activities and disclose its debt data statistics and reports.

INTRODUCTION

Context and reasons for this report

When Covid-19 became a global pandemic in March 2020, the G20 Finance Ministers and Central Bank Governors were confronted with excessive over-indebtedness of low to middle income countries. The growing debt payment problem had already raised concerns before the pandemic but became more problematic as the pandemic and the resulting economic downturn caused borrowing countries more difficulties in repaying the debt. The G20 recognised that debt repayment prevented expenditure that would tackle the pandemic, let alone the climate crisis and the Sustainable Development Goals. Moreover, a disorderly default of debt on the part of low to middle income countries would have financial instability effects in a globally interconnected financial sector, during a time when financial markets were in such serious turmoil that central banks had to intervene.

The G20 finance meetings had been an important decision-making body for dealing with the financial crisis of 2008-9 and its aftermath, but in recent years hardly took any decisions for new financial reforms. In order to deal with the over-indebtedness problem during the pandemic, the G20 Finance Ministers and Central Bank Governors decided at their 15 April 2020 meeting to introduce the Debt Service Suspension Initiative (DSSI): the 73 poorest countries could request to have their debt payments delayed, although not cancelled. At the same time, the communiqué of that meeting called on the private sector, "working through the Institute of International Finance", to equally suspend payments. Indeed, 22 of the 73 DSSI countries owed an estimated fifth of their debt to commercial creditors, the majority in the form of bonds.[2] The G20 in this way officially nominated and appointed as its interlocutor a global financial industry group that lobbies in the name of the private financial sector.

This report investigates who the Institute of International Finance (IIF) represents, how it operates in its representative and lobbying role, how it has interacted with the G20 between April 2020 and September 2021. It focuses on what the IIF arguments have been regarding the participation of commercial creditors in the DSSI. The role of the IIF is especially of interest because the G20 Finance Ministers and Central Bank Governors expressed in their October 2020 communiqué their disappointment that commercial creditors had not suspended debt servicing by DSSI countries. Also, months later, no debt relief had been provided by the private sector for the poorest countries, while some public creditors provided around US$ 10.3 bn in debt suspension, raising the concern that public money might (indirectly) be spent to repay the private sector.

Aim of the report and methodology

This report is a technical report with findings from publicly available information about the role and arguments of the IIF towards the G20 regarding the DSSI (which has been extended to end-2021) and the mechanism initiated by the G20 to succeed the DSSI, the Common Framework for Debt Treatments beyond the DSSI (already operational in 2021). Although this report cannot be seen in isolation from the bilateral interaction that took place between private creditors and debtor countries in debt distress, it focuses on the IIF's role and the instruments it has put in place to shape those bilateral debt relations through private standards it has developed. The report does not explain how the IIF's long history of intervention during previous debt crises, starting with its origins in 1983 during the Latin American debt crisis, has shaped the current IIF modus operandi or its influence in international financial decision-making structures on debt. In contrast to its important international role, not much research has been undertaken about the IIF.[3]

This technical report **aims** to be a source of information on how the private sector has influenced one forum where decisions on debt relief are taken, namely the G20 in relation to the DSSI and the Common Framework between April 2020 and May 2021. The report provides abundant details of the lobby position of the IIF to expose the arguments by which it has ensured that the private sector has not had to contribute to debt payment suspension under the DSSI and has continued to receive full debt payments. Critical comments and conclusions on the IIF's position are included at the end of each chapter. Research for this report was the basis for earlier critical analysis and comments published in two SOMO blogs, on 6 April and 6 July 2021 respectively.[4] The report indicates the need for far more critical analysis and comments than covered here or the SOMO blogs. Its objective is to encourage further research, analysis, conclusions, and recommendations, and even strategies for change to promote a solution to the recurring debt burden problems, which is beneficial for the wellbeing of all citizens of indebted countries and for tackling the pandemic and climate emergencies.

The report is based mainly on desk research using publicly available information up to the end of September 2021. The IIF is not transparent about its internal decision-making processes but has published its lobbying letters to the G20 and other documents regarding the DSSI up to the end of April 2021 (little public information is found between May 2021 and September 2021). The research could therefore not expose details about the IIF's interaction with non-IIF members, or its behind-closed- door lobbying and discussions with G20 working groups and ministers, or at G20 country level, or with Paris Club, World Bank, IMF, and OECD officials, and in other debt fora.

To identify which IIF members were debt holders of DSSI countries, results from the Refinitiv database were used – which still could not reveal all debt holders. Exchange of information with civil society organisations researching or advocating for the reduction of private debt provided further background information and feed back. Within the timeframe of this research, no interviews with the actors or decision-makers described were possible. The IIF refused to give an interview.[5]

Overview of the chapters

Chapter 1 of the report describes, from the perspective of IIF activities and lobbying on debt issues, the governance of the IIF, its membership and working groups, activities and strategies of the IIF secretariat, and the IIF's annual budget. This chapter provides an insight into the positions taken by the IIF and the strength of its influence in financial political decision-making.

Chapter 2 describes how in 2020 the IIF engaged with the G20 on the DSSI and what positions it presented. The second part of the chapter describes the various documents the IIF presented and proclaimed to be voluntary instruments that support participation of private creditors in the DSSI. The details show how the arguments actually discouraged DSSI countries from requesting commercial creditor participation.

Chapter 3 describes the arguments with which the IIF has continued to lobby for its interests and influence over official decision-making in the DSSI and successor "Common Framework", notwithstanding that it was openly criticised by the G20 for not providing debt payment suspension. The chapter reveals that the IIF has increasingly promoted the new the argument that lower income countries need continued private credit to finance climate change mitigation and other environmental and social objectives.

Chapter 4 describes in detail the voluntary standards the IIF has promoted and designed to shape relations between debtor countries and their private creditors, in good times and in times of debt crisis. It covers the voluntary Principles for Stable Capital Flows and Fair Debt Restructuring, serviced and promoted by the IIF in its lobbying documents, including the IIF's Best Practices for Investor Relations, which the IIF annually assesses especially regarding information channeled to private creditors by debtor countries.

The **final chapter** provides overall conclusions and recommendations to the G20 and the IIF.

CHAPTER 1.

HOW THE IIF IS ORGANISED TO LOBBY ON DEBT ISSUES

In order to understand the capacity and motivation of the Institute of International Finance (IIF) to lobby on issues related to sovereign debt of middle to low income countries, it is important to understand its mission, its structure and activities based on its governance, membership and its financial and human resources.

This chapter reflects research into publicly available information about these issues, which provides an insight into the IIF's lobbying strategy and arguments related to debt problems of low and middle income countries at the G20 in 2020-21, which will be explained in the next chapters.

1.1 IIF activities – an interlinked strategy

The IIF's **mission is to be "the most influential global association of financial institutions**" with the aim "to sustain and enhance its distinctive role on the basis of the professional excellence of its research, the unmatched breadth of its membership, its extensive relationships with policymakers and regulators, and the strength of its governance".[6] The **special focus on expanding the private financial sector in so-called emerging market countries** is incorporated in the IIF's mission as to "[p]romote the development of sound financial systems, with an emphasis on emerging markets". [7]

To achieve this mission, the IIF's work is **organised around three pillars**: economic research, events, and advocacy/lobbying. These are interlinked and support each other.

1.1.1 Economic research

The IIF's wide-ranging research activities consist of regular updates of macroeconomic analyses, economic and financial market monitoring with "a focus on key emerging economies" in which IIF members mainly operate or own debt.[8] They cover "timely analysis of capital flows to emerging markets", statistics, financial regulatory and legislative decision-making monitoring, etc. This fulfils the IIF's mandate to provide "high-quality, timely, and impartial analysis and research to its Members on emerging markets and other central issues in global finance" and to "**systematically identify, analyze, and shape regulatory, financial, and economic policy issues of relevance to its Members globally or regionally**".[9] Some of the IIF's data and reports draw on "first-hand insights from our interactions with policymakers and member firms and our close involvement with the global regulatory debate".[10] This also feeds into IIF processes of lobbying (see below) and presentations or discussions at IIF events.

Only members, and some approved journalists, have access to the IIF's specialised data, statistics and reports. Most of the research, data, briefings, and reports are not publicly accessible, that is, not available for policy and public discussions, except for a very short summary on the IIF website[11] and sometimes reporting in the financial press. A few publications are occasionally made publicly accessible.

The data tools **give members valuable and unique information**, including on debt and capital flows, on which to base their lending and investing decisions. Members can ask IIF research staff "for custom briefings on a range of macro, regional, and country issues".[12] Particular countries have dedicated IIF research staff, and country specific reports are published on a non-regular basis. These country or regional staff experts are also involved in organising trips with IIF members to middle to low income countries where members have (potential) financial operations.[13]

Specialised and unique data tools and reports on debt

The IIF provides the following data tools and reports that inform members about the status of debt, with focus on middle income countries and some low income countries (so-called frontier markets). The IIF states that its databases have **advantages over existing official debt and development statistics**, because among other factors they "are unique in our approach to reconciling capital flows with changes in debt stocks". Overall, IIF research tools and publications aim to cover "nearly 60 emerging and frontier markets in Asia, Europe, Latin America, the Middle East and North Africa (MENA) and Sub-Saharan Africa".[14]

The following debt data and updated statistical reports are available to IIF members.

The Global Debt Monitor

The *Global Debt Monitor* and its corresponding dataset are published at least on a quarterly basis. It covers high-income and emerging market countries, "different aspects of debt dynamics in emerging markets", a "currency breakdown of sectoral debt, bond and syndicated loan redemption profiles, and the foreign ownership structure of local currency government bonds".[15] The IIF is also publishing a *Frontier Market Debt Monitor*, covering lower income countries with external debt included in the IIF database.[16]

EM Bank Lending Survey[17]

The IIF's *EM Bank Lending Conditions Survey* is in principle updated on a quarterly basis but has not been published since November 2019. It was produced based on surveys with 26 questions sent to senior lending and risk officers of banks "based in five emerging market regions: Emerging Asia, Latin America, Emerging Europe, Middle East & North Africa and Sub-Saharan Africa".

Weekly Insights[18]

Various IIF *Weekly Insight* briefings regularly cover debt issues, for instance on transparency initiatives of public debt[19] or on the G20's debt service relief initiatives for the poorest countries, with debt statistics. These are not publicly available.[20]

Sustainable Debt Monitor[21]

The IIF has introduced a new debt monitoring briefing that claims to contribute to sustainability, in practice mainly focused on the **green bond market**.[22] This is separate from the IIF's *Sustainable Finance Monitor* that was published since June 2020[23] on important developments in sustainable finance such as global and country policy and regulatory agendas, market trends and initiatives, climate liability and shareholder activism, and analysis from research.[24]

Research and economic analysis on capital flows

Capital flows to emerging markets reports[25]

These IIF reports provide datasets, analysis and forecasts of capital flows to and from 25 emerging market countries, published at least twice a year.

Capital Flows Tracker[26]

The *Capital Flows Tracker* provides monthly updated data about global portfolio investment flows and "net capital flow estimates". Part of the data is used in the above mentioned report on capital flows to emerging markets.

EM Growth Tracker dataset[27]

This IIF monthly publication tracking and estimating emerging market countries' real GDP growth, based on 41 macroeconomic indicators, has not been published since September 2020.

Other regular IIF publications[28] also cover capital flow and debt issues, including those relating to emerging market countries, such as a series of *Macro Notes* and *Global Macro Views*.

1.1.2 IIF events[29]

The IIF regularly hosts **events, from large conferences to sessions focused on particular issues.** The annual membership meeting, a multi-day conference, is according to the IIF by-laws in principle scheduled to coincide with Annual Meetings of the IMF and the World Bank.[30] The Finance Ministers and Central Bank Governors attending the Annual Meetings, as well as the IMF Managing Director, have been regular guests on-stage, and perhaps off-stage.

Apart from the annual membership conference, the IIF (co-)organises **conferences just before and during the G20 meetings of Finance Ministers and Central Bank Governors – successfully inviting many of the latter to speak at the conference.** There are also regional conferences, bringing together public and private sector actors to discuss regional developments (such as an Asia-Pacific Summit and a Latin America Summit).

Theme-focused events can be about technological developments in the financial sector (FinTech) or policy issues (such as a Global Debt and Financial Stability Roundtable).[31] Lately, **one hour online sessions on specific issues** have been organised, with speakers from the private and the public sectors, including on debt issues.[32]

Events are frequently sponsored by members and non-members. Events on debt have, for instance, been sponsored by Fitch Ratings.[33]

1.1.3 Advocacy and lobbying

Lobbying, or "advocacy" as the IIF calls it, at global to national levels on financial policies, regulation (by supervisors and central banks), and legislation, to serve its members interests, is the core of the IIF's mission and activities. The IIF's by-laws clearly state the basic principles of its lobbying activities and positions, namely:[34]

- "Develop and advance representative views and constructive proposals that **influence the public debate** on particular **policy proposals**, including those of multilateral agencies, and broad themes of common interest to participants in global financial markets."
- **"Work with** policymakers, regulators, and multilateral organizations to strengthen the efficiency, transparency, stability and **competitiveness** of the global financial system, with an **emphasis on voluntary market-based approaches** to crisis prevention and management."
- "Provide **a network** for Members to exchange views and offer opportunities for **effective dialogue among policymakers, regulators**, and private sector financial institutions."
- "Define, articulate, and disseminate best practices and **industry standards** in such areas as risk management and analysis, disclosure, corporate governance and regulatory compliance."

There are also **guiding principles**[35]:

- **"continually endeavor to understand and respond to its Members' evolving needs and interests"; and**
- **"concentrate on priority areas, where it can achieve substantial impact in representing the interests of its Mem**bers based on its expertise, capabilities, and comparative advantage".

The by-laws mean that the IIF's basic lobbying position is to promote market based solutions, standards developed by the financial industry itself, and voluntary approaches as seen in the interest of its members.

There are many ways in which the IIF conducts its lobbying, not all of which are referred to above or are covered in this report, since they encompass the whole range of financial policies and regulation. This report will focus on lobbying towards the G20 in relation to debt relief and debt treatment initiatives.

The IIF does not always make its lobbying activities and positions publicly accessible on its website. Responses to official consultations of national, regional and global financial regulatory bodies are public. Also IIF letters addressed to the G20 and to public financial institutions regarding debt relief in 2020 and 2021 were published, at least up till May 2021, and were used as the basis of the analysis in Chapters 2 and 3 of this report. The substance of behind-closed-door meetings with G20 officials (see Chapter 2) has not been published. The exception seems to be the publication of the prepared speech that the **IIF's President and CEO was given the opportunity to deliver at the G20 Finance Ministers and Central Bank Governors Meeting on 8 June 2019** (in Fukuoka, Japan, during the Japanese G20 Presidency). He warned about rising debt and asked for endorsement by the G20 of the IIF Debt Transparency Principles (see also below, the IIF Debt Transparency Working Group).[36]

The lack of transparency about the IIF's advocacy makes it unclear how national governments and finance ministries belonging to the G20 are bilaterally being lobbied by the IIF regarding their positions on debt.[37] In addition, IIF Board and other members may lobby to promote the IIF's positions, and such activity is also not published by the IIF. The IIF, which has a regional office in Brussels near the EU buildings, has registered under the EU Transparency Register, which shows that the IIF spent between € 500,000 and € 599,000 on lobbying in 2020. The meeting register, which appears to be poorly maintained, reveals meetings with the European Commission (which sits at the G20 table) but not regarding the debt issue.[38]

The issues and related lobbying positions on debt are discussed with IIF members in some of the IIF's members in committees and working groups (see below part 1.3 of this chapter) while the Board might also participate in the development of these IIF positions.[39]

1.2. Structure and governance of the IIF

1.2.1 IIF membership

The IIF asserts to be a member-driven organisation with more than 450 members often operating globally in the financial sector.[40] The members are based in more than 70 countries with headquarters in Europe (153), Africa (109), North America (100), Asia-Pacific (81), and South America (50).[41] The membership includes the full range of the private financial sector, ancillary industry (such as accountancy and law firms) and a few official financial bodies.

There are **a wide range of members that are involved in the international sovereign debt market**. The following list provides only examples of members that are directly or via their subsidiaries involved in lending operations through bank loans or the issuing, underwriting, trading of, and investment in, sovereign bonds of middle and low income countries:[42]

- Banks that provide all kinds of loans to middle to low income countries, e.g. ING (NL), Barclays (UK), Sumitomo Mitsui Financial Group Inc. (SMFG, Japan), Export-Import Bank of China, and Industrial Commercial Bank of China.
- Investment banks that service middle to low income country governments and underwrite their issuance of bonds, e.g. divisions of Morgan Stanley (US), Citi (US), JP Morgan Chase & Co. (US), and Standard Bank Group (South Africa).
- Rating agencies that rate the countries/governments and the sovereign bonds: Fitch Ratings (US), Moody's Corporation (US), S&P Global (US).
- Clearing houses that process and register sovereign bonds before they are traded, e.g. Euroclear (Belgium).
- Stock exchanges where bonds and debt products are traded, e.g. London Stock Exchange Group (UK).
- Closed platforms and over-the-counter (OTC) trading on which most emerging market countries' bonds and debt products are traded, e.g. London Stock Exchange Group (XLON) (UK).
- Institutional investors that buy bonds issued by middle to low income country governments, including insurance companies like Allianz (Germany), AXA (France), and Metropolitan Life Insurance (US), pension fund managers like TIAA (US).

- Providers of an EM bond index: JP Morgan Chase (US).
- Asset managers and fund managers that buy, hold and manage bonds in funds, e.g. BlackRock (US), State Street (US), Amundi Asset Management (France), Fidelity Management & Research (US), UBS (Switzerland), and HSBC Holdings (UK); Vanguard (US), globally the second largest fund manager, is not a member of the IIF.
- Hedge funds that buy and speculate on bonds, including on bonds of countries in debt distress or default ("vulture funds"), e.g. Greylock Capital Management (US).
- Providers of derivatives based on issued debt instruments such as credit default swaps (pay out in case of default), e.g. Barclays (UK), Credit Suisse (Switzerland), and Bank of America (US).
- Advisers on debt management and restructuring, e.g. Newstate Partners (UK), Deutsche Bank (Germ), Rothschild & Co. (France), and Lazard Frères (France).

A minority of IIF members are **official bodies**, including:

- Central banks of countries issuing debt, e.g. Bank of Ghana, Bank Indonesia, Central Bank of Kenya, Central Bank of Egypt, Central Bank of Iraq).
- Multilateral financial agencies, e.g. World Bank Group, International Monetary Fund (IMF) and European Investment Bank.
- Governmental development banks, e.g. Japan Bank for International Cooperation and China Development Bank.

Some IIF members are involved in the whole range of emerging market country sovereign debt market activities, from underwriting bonds and emerging market (EM) index design, to management of funds with EM bonds and providing credit default swaps, for example JP Morgan. Some IIF members have conflicting interests in the sovereign debt markets, for instance credit rating agencies have to lower the rates of middle-income countries when they are meeting difficulties to pay off their debt, reducing or annihilate the investment grade of sovereign bonds. In contrast investment banks who underwrite sovereign bonds and asset managers who buy sovereign bonds want to keep the value of bonds as high as possible. Many IIF members are active in several working and activity committees, some of which focus on middle and low income country financial sectors and debt risk management (see part 1.3 of this chapter).

Members voting rights

The Board determines the annual dues to be paid by the members.[43] **Annual dues give voting rights**. Members do not have equal votes, but voting rights are determined by the amount of dues paid: a member has one vote for each US$ 10,000 in annual dues paid.[44] The current IIF by-laws do not specify the different groups of members, based on the amount of assets, that have to pay different amounts of membership dues. However, the by-laws of 2012 specified that five groups of members have to pay dues between US$ 2m (for members with more than US$ 200bn in assets) and US$ 10,000 (members with up to US$ 1bn in assets).[45]

Approval by IIF members of matters presented during (annual) meetings, including the budget, requires a quorum of 40 per cent of the votes present and a majority of the votes.[46]

The IIF's annual meeting of members is preferably held around the time of the Annual Meeting of the IMF, according to the IIF's by-laws.[47] This provides the opportunity of IIF members to meet and **influence** the IMF Board members, and the Finance Ministers and Central Bank Governors who attend the Annual Meetings and the G20 finance meetings organised around the Annual Meetings. It also provides the opportunity to invite those senior financial officials to speak and dialogue at the IIF annual meetings.[48]

1.2.2 The IIF Board of Directors[49]

The IIF is governed by a Board of 46 members, consisting of **top executives of many of the largest international financial conglomerates** based in various countries around the world, many of whom are involved in the debt market.

The IIF **chairman and three vice-chairmen** are all executives and chairpersons from various parts of the financial industry around the world. The chairman of the IIF Board is Axel Weber, chairman of the

Board of Directors of UBS Group, the Swiss investment bank, and former president of the German Bundesbank. There are three vice chairmen, each responsible for a particular area of the IIF's activities: Piyush Gupta (CEO, DBS Group, Singapore) for banking, Michel Liès (chairman of the Board, Zurich Insurance Group, Switzerland) for insurance, and Sim Tshabalala (CEO, Standard Bank, South Africa) as Treasurer.

The **IIF Executive Committee** has 11 members in total, including the Board's chair and there vice-chairs. The other Board members are: Ana Botín (Group executive chairman, Grupo Santander, Spain), Sergio Ermotti (chairman, Swiss Re Ltd, Switzerland), Frédéric Oudéa (CEO, Société Générale, France), Brian Porter (former IIF vice-chairman and Treasurer[50]; president and CEO, Scotiabank, Canada), Makoto Takashima (president and CEO, Sumitomo Mitsui Banking Corporation, Japan), John Waldron (president and CEO, Goldman Sachs, US), and the IIF president and CEO, Timothy Adams .

Six IIF Board members are also member of the **IIF's Emerging Markets Advisory Council**, consisting of vice-chairs Piyush Gupta and Sim Tshabalala, as well as Saeed Al-Ghamdi (chairman, Saudi National Bank [formerly National Commercial Bank], Saudi Arabia), Abdulla Al-Khalifa (Group CEO, Qatar National Bank), Walter Bayly (CEO, Credicorp Ltd, Peru), and Suzan Sabanci Dincer (chairman and executive board member, Akbank TAS, Turkey).[51] Senior governance of the IIF is geographically spread among the membership – for instance, if the CEO of the IIF is from the US, the Chairman of the Board is European or Asian.

The Board members not only manage the IIF's affairs but also have the **duty to reach out in their home country to other IIF members as well as to financial regulatory authorities** to "explain the position of the Institute on important policy issues and to provide guidance to the media as appropriate".[52]

The IIF by-laws do **not explain in detail how decision-making by the Board** takes place **particularly on lobby positions** of the IIF. The by-laws mention that the Board members "participate in the development of the policy positions of the Institute".[53] According to the IIF website, in practice "[t]he Board of Directors of the Institute defines overall views on regulatory and related issues, as articulated by the Institute to the G20, International Monetary Fund (IMF), and Financial Stability Board (FSB)."[54]

1.2.3 Staff and secretariat

The IIF headquarters are located in Washington DC, but a small part of the staff operates in four regional offices in Beijing, Brussels, Dubai and Singapore.

The president and CEO of the IIF is Timothy Adams, an American national with extensive experience in international financial politics. He was involved in international financial decision- making as Under Secretary of Treasury for International Affairs under the George W. Bush administration, and chief of staff of two Treasury Secretaries.[55] IIF president and CEO Adams is supported by seven staff members, including two other American nationals with strong US government backgrounds: Clay Lowery (IIF Executive Vice President for Research and Policy) and Greer Meisels (IIF Chief of Staff).[56]

The IIF has **81 staff members**[57] **in total, divided over several departments**.

The Regulatory Affairs department is responsible for monitoring and lobbying financial regulatory and legislative processes at international, EU and national levels. The 13 staff members are not the only ones involved in lobbying, because the CEO and part of his team and members of other IIF departments are also active. The **department on Global Policy Initiatives (10 staff members)** is also involved in lobbying and is the one that **deals with most of the sovereign debt related issues**. It is headed by Sonja Gibbs, Managing Director and Head of Sustainable Finance, who also coordinates research, events and lobbying on debt issues. The department of Economic Research has 14 staff members, headed by Robin Brooks. The department on Digital Finance has 7 staff members. Other staff work in the departments of Global Events (8), Corporate Communications (4 including two press officers), Global Membership (10) and Finance and Administration (7).

The IIF's publicly available by-laws do not specify how the IIF secretariat decides on its lobbying positions. The lobby letters by the IIF towards the G20 analysed in this report were all signed by the IIF's President and CEO, Timothy Adams.

1.2.4 Funding

The IIF's annual budget is presented by the CEO and the Board based on the cost of proposed activities, and the membership approves. The budget is the basis on which the Board determines the membership dues.[58]

In 2019, the latest year for which information is publicly available, the **IIF's annual revenue was US$ 33,604,106**,[59] sourced mostly from membership dues (US$ 30,125,201) and to a lesser extent from sponsorship (US$ 2,201,274), registration fees for events, and investments. In the previous decade, annual revenue was mostly between US$ 33m and US$ 35m.

The IIF's 2019 expenses of US$ 33,475,456 were mostly (58% or US$ 19,306,344) spent on staff salaries (not including pension and other benefits). Top management was well compensated (28% of salaries), with CEO Adams earning US$ 2,780,962 in salary and US$ 56,153 in other compensation. Sonja Gibbs, leading the IIF's work on debt and sustainable finance, earned US$ 545,763 and received US$ 28,360 in other compensation.[60]

None of the Board members apart from CEO Adams receive compensation, according to the IIF by-laws[61] and the 2019 accounts. Given that Board members also engage in lobbying to promote IIF positions at national level and beyond, the cost of their lobbying activities should also be included when calculating the lobbying budget of the IIF.

1.3 IIF member committees and working groups on debt, G20 debt relief initiatives and related lobbying

What follows is an overview and insight of the IIF committees and working groups that are actively involved in discussing and lobbying on debt management of emerging market countries, including the G20 Debt Service Suspension Initiative (DSSI). The IIF does not publish information regarding the members or the (co-)chairs of each group, when meetings are held or what has been discussed. IIF regulatory updates are not accessible to non-members.

1.3.1 The IIF Committee on Sovereign Risk Management (CSRM)

Members

The CSRM has "over 200 members from more than 100 financial services firms worldwide".[62] It is "composed of senior executives from IIF member firms".[63] The IIF does not disclose who those members are, but refers to them as "over 100 of the world's foremost asset managers, banks, and others across the intermediation spectrum",[64]such as "banks, bondholders (including asset managers, insurers, pension funds and sovereign wealth funds), law firms and specialized sovereign advisory firms".[65] Committee members have "in excess of $45 trillion assets under management",[66] and account "for a significant proportion of the external sovereign debt service of in-scope countries in 2020" as they "are investing in or lending to countries in scope for the DSSI".[67]

It is not clear whether the three credit rating agencies that are IIF members are also members of CSRM, but a senior manager represents Moody's view at the IIF.[68] Hans Humes, chairman and CEO of Greylock Capital Management (a hedge fund specialising in "distressed debt"), is, or at least was in February 2020, reportedly co-chair of the IIF's CSRM and a member of the IIF Market Monitoring Group; he is also a trustee of the Principles for Stable Capital Flows and Fair Debt Restructuring (see Box 1).[69]

Function

Since 2001, the CSRM has guided the IIF's work on sovereign debt crisis prevention and resolution. The committee "undertakes broad-based efforts to advance policy issues in economies confronting challenges related to debt management". Its discussions "inform the IIF communications on sovereign debt policy issues". The CSRM is the platform for coordinating the view of private creditors when debt crises occur.[70] It is active in the "ongoing development of the **voluntary** contractual approach to sovereign debt restructuring".[71]

The committee played an important part in creating the Principles for Stable Capital Flows and Fair Debt Restructuring.

Activities related to G20 DSSI, the G20 Common Framework for Debt Treatments beyond the DSSI (Common Framework) and sovereign debt of middle to lower income countries

The CSRM has been the most important IIF committee, "and a leading forum" for discussions, in response to the G20's call for private sector participation in the DSSI, for developing tools related to the private sector's voluntary participation in the DSSI, for leading discussions between the official and private sectors, and for IIF relations with public financial institutions and organisations such as the G20.[72]

By mid-July 2020, the IIF had held "over 30 group and bilateral discussions with the members of the CSRM".[73] According to the IIF, the "CSRM members have been highly engaged and constructive, providing a valuable sounding board as well as a source of technical expertise to the official sector. This has allowed the IIF to **channel candid feedback and reaction to public sector authorities**. In turn, the [CSRM] group has benefited from the guidance and clarifications provided by your staff [of the G20, IMF, World Bank and Paris Club] and other official sector stakeholders." A "frank and productive dialogue has been established between the official and private sectors, with genuine willingness to air questions, understand complexities and propose novel solutions. Importantly, the process has also **facilitated meaningful direct dialogue between countries and creditors –** a positive step forward for all stakeholders."[74]

Next to the CSRM, the IIF also worked on solutions "with the Group of Trustees of the Principles for Stable Capital Flows and Fair Debt Restructuring and the affiliated Principles Consultative Group" (see Box 1).[75]

The CSRM and its members have engaged in the following activities and production of IIF documents since the start of the DSSI in May 2020 until May 2021 (see also Chapter 2 for full explanation).[76]

(1) **Briefings, letters and meetings on private sector perspectives to and with the G20, IMF, World Bank, Paris Club and UNECA:** Discussions at the CSRM provided the content for the IIF's regular letters and briefings ahead of meetings of the G20 finance track and other public international financial institutions to convey the IIF's views and documents on private sector voluntary participation in the DSSI.[77] The CSRM was also involved in meetings and close collaboration on debt issues between the IIF and the G20 International Financial Architecture Working Group.[78]

(2) **Two formal surveys of CSRM members.** To make an assessment of private sector support for the G20 DSSI, the G20 and the Paris Club requested information from the IIF. One survey of CSRM

members was conducted in June and early July 2020, resulting in the IIF's *Progress Update on Private Sector Engagement in the Debt Service Suspension Initiative* published on 14 July 2020.[79] The survey responses "represented a wide range of thoughtful and detailed responses, from both IIF member firms and non-member firms, including banks, asset managers and consultancies. Collectively these survey respondents account for nearly $25 trillion in assets under management and represent many of the largest global firms active in international debt markets."[80] This July IIF progress update was **mentioned in the communiqué issued following the G20 Finance Ministers and Central Bank Governors virtual meeting on 18 July 2020.**[81] Another survey was conducted in September 2020.[82]

(3) **Meeting with the Paris Club on 28 April 2020:** A number of CSRM members are likely to have been among 70 private sector representatives during the extraordinary session of the annual IIF–Paris Club meetings held on 30 April 2020.[83] The Paris Club of official creditor countries did not report on other meetings with the IIF or mention another annual IIF–Paris Club meeting in 2021.[84]

(4) Developing the **IIF's Terms of Reference for Voluntary Private Sector Participation in the G20/Paris Club DSSI** through a "consultative process" that also "included coordination with the International Monetary Fund, World Bank, Paris Club, United Nations Economic Commission for Africa, and more than a dozen finance and development ministers representing DSSI-eligible countries".[85]

(5) Publishing a **Technical Guidance Note** that provides more technical guidance than the above Terms of Reference regarding how to amend existing bond terms for DSSI countries requesting the suspension of debt service payments.[86]

(6) Proposing a **Voluntary Debt Service Suspension Framework Agreement for banks** "for a streamlined, market-based approach for banks and sovereign debtors to amend their loan contracts while addressing concerns about breaches of contract and cross-default risks. It includes a waiver element, a standstill element and an adherence mechanism."[87]

(7) Providing a **Template Waiver Letter Agreement** after the United Nations Economic Commission for Africa (UNECA) asked the IIF **in June 2020 to develop a waiver from private lenders so that a request by a government** for debt payment suspension under the DSSI would not be considered as a debt payment default. A debt payment default results in degrading a country's rating by credit rating agencies and higher interest rates for new borrowings, and affects clauses in loan contracts.[88]

(8) Engaging in the **IIF Review of the implementation of the Principles for Stable Flows and Fair Debt Restructuring**, especially the importance of countries' investor relations and data transparency practices for investment decisions. Annually, the IIF seeks feedback from CSRM members as well as members of the IIF Council on Asset and Investment Management (CAIM) and the private sector members of the PCG" (Principles Consultative Group: see chapter 4).[89]

1.3.2 Debt Transparency Working Group (DTWG)

Members

DTWG members include representatives of over 30 IIF member firms.[90] The original 20 members included banks, insurers, and asset managers, while other IIF members and "emerging market debt management offices" were invited as observers.[91] The Principles Consultative Group (see Chapter 4) has closely followed the group's work, because transparency is an important element of the Principles for Stable Capital Flows and Fair Debt Restructuring and the DSSI.[92]

The DTWG was complemented in 2020 by a joint IFI–IIF Working Group on Implementation of the Voluntary Principles for Debt Transparency, which included the IMF, World Bank and Bank of International Settlement (BIS).[93]

The DTWG reportedly has had "regular outreach to civil society organizations (CSOs)".[94]

Function and work related to developing countries' debt
The IIF launched the DTWG to support efforts for better disclosure of information about sovereign debt markets and country debt situations, due to "strong demand from our members and a range of private/public sector collaborators".[95] The first task of the DTWG was to create the **IIF Voluntary Principles for Debt Transparency**. This task had a clear mandate from the IIF Board of Directors "with the encouragement from official sector collaborators".[96] These debt transparency principles are to be used by private sector lenders, especially regarding loans to emerging and low income developing countries.[97] This is a private financial sector standard to complement the public creditors and borrowers' transparency initiatives and the G20 Operational Guidelines for Sustainable Financing.

The overall aim of the debt transparency principles was to improve ways of disclosing and making more accessible wide-ranging debt data from the private sector (mainly lenders). Greater transparency is considered important for the private sector to make good credit assessments and decisions, for better debt management by borrowers, and to improve debt sustainability. Transparency is one of the IIF's endorsed Principles for Stable Capital Flows and Fair Debt Restructuring (see Box 1 and Chapter 4).

Activities related to the G20 DSSI, the G20 Common Framework and sovereign debt of middle to lower income countries
The Voluntary Principles for Debt Transparency were **supported by the G20 Finance Ministers and Central Bank Governors** at their meeting in Fukuoka, Japan, on 8-9 June 2019, during which IIF President and CEO Adams was allowed to address the meeting directly.[98] The IIF's Terms of Reference for Voluntary Private Sector Participation in the DSSI claim adherence to the IIF's Voluntary Principles for Debt Transparency.

In 2020, the DTWG planned to operationalise the Voluntary Principles for Debt Transparency. One element was to find an appropriate debt data repository to house the disclosed information. The **IFI–IIF Working Group on Implementation of the Voluntary Principles for Debt Transparency** discussed and made recommendations regarding the governance, uptake, distribution, financing and reporting system of such a debt data repository, which should have the capacity to disclose data in a continuously experienced way.[99] In October 2020, the Organisation for Economic Co-operation and Development (OECD) Secretariat made a proposal to host the data repository (together with subsidies from the UK and private sponsoring).[100] Since then, the DTWG has worked closely with the OECD to launch a pilot programme to manage the data repository, analysis, and reporting.[101] (For more information about the OECD's data repository initiative, see also Box 4 in Chapter 3.)

During 2020 and 2021, DTWG members were involved in **letters written by the IIF to the G20** regarding the lobbying position and participation of the private sector in the G20 DSSI and G20 Common Framework for Debt Treatments beyond the DSSI for the poorest countries.[102]

1.3.3 Council on Asset and Investment Management (CAIM)

Members
The membership of the CAIM consists of "senior executives from the global institutional investment community, including major asset managers, life insurance companies, pension funds, and sovereign wealth funds collectively accounting for some $28 trillion in assets under management".[103]

Function[104]
During the regular meetings of the CAIM, its members discuss issues of "long-term investment, challenges for asset allocation, regulatory reforms affecting the financial services industry and the impact of structural change and new financial technologies". Recent issues covered by the CAIM include development of emerging market countries' **local currency bond markets**, **global debt** and changing demographics, increased attention by regulators and supervisors of the (less strictly regulated) asset management industry, pension reforms, and the impact of new financial technologies on the asset management industry.

The CAIM is **the IIF instrument for lobbying on behalf of institutional investors**. Such advocacy and lobbying is done **through dialogue, position papers, policy letters, and submission of comments to public consultations** on draft laws, draft regulations, or draft policies by legislators, policymakers, and supervisors or regulators. In practice, the CAIM has in recent years "established a robust dialogue with leading international policymakers, including **via interactive small-group meetings alongside G20 Ministerial Meetings** and during IMF/World Bank Meetings". This has included lobbying on principles for strengthening investor/creditor rights and "collaboration" with the G20 and B20's work on mobilising private sector funding for infrastructure investment.

The CAIM also has more regionally focused lobbying and advocacy strategies through **region-focused meetings with officials and policymakers** including in "London, Frankfurt, Madrid, Tokyo, Shanghai, Buenos Aires, Doha, Jakarta and Lima as well as New York and Washington DC".

Activities related to the G20 DSSI, G20 Common Framework and sovereign debt of middle to lower income countries

The CAIM was amongst others consulted during the discussion prior to the IIF letter sent to the G20 on 9 April 2021 (see Chapter 3). CAIM members are assumed to hold bonds issued by emerging market countries and they are, as mentioned above, used to dialogue in different ways with the G20, including on principles for strengthening investor/creditor rights.

CAIM members, as private investors, provide feedback, among other IIF committees (see CSRM, point (8)), for the annual IIF review about the importance of countries' investor relations and data transparency practices for decision-making by investors.[105]

1.3.4 Emerging Markets Advisory Council (EMAC)

Members

EMAC members comprise around 38 chief executive officers or chairmen of major banks and financial corporations headquartered in 24 emerging market countries.[106] "Membership is fee based and by invitation only."[107] Only those IIF Board members who are member of EMAC are disclosed: Piyush Gupta (CEO, DBS Group, Singapore), Sim Tshabalala (CEO, Standard Bank, South Africa), Saeed Al-Ghamdi (chairman, Saudi National Bank [formerly National Commercial Bank], Saudi Arabia), Abdulla Al-Khalifa (Group CEO, Qatar National Bank), Walter Bayly (CEO, Credicorp Ltd, Peru), and Suzan Sabanci Dincer (chairman and executive board member, Akbank TAS, Turkey).[108]

Function

Since 2008, the EMAC aims to strengthen the input from the private financial sector based in emerging market countries within the IIF and the **IIF's advocacy regarding reforms in the global financial system**. During regular meetings, EMAC members are briefed by IIF staff and discuss issues of concern to and implications for EMAC members, such as the development of local currency debt markets, **credit ratings of emerging market financial institutions**, the **regulatory framework,** and international regulatory proposals that affect emerging markets. The EMAC had in the past two working groups to discuss some of these issues in depth.[109] The EMAC meets regularly with other IIF bodies such as the CAIM and with CEOs at regional level for "a productive exchange of ideas".[110]

Activities related to the G20 DSSI, G20 Comprehensive Framework and sovereign debt of middle to lower income countries

The EMAC meets regularly with other IIF bodies and CEOs at regional level for "a productive exchange of ideas"[111] regarding emerging market country financial and debt issues. It is not clear how EMAC members might have been directly involved in the internal IIF discussions on the DSSI and Common Framework.

Box 1

THE PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING AND THEIR ADDENDUM – THE BASICS

The Principles for Stable Capital Flows and Fair Debt Restructuring are standards set by private and current or former public financial sector representatives. They provide detailed prescriptions on how debt and debt restructuring processes should take place. The main principles are:

1. Transparency and timely flow of information
2. Close debtor–creditor dialogue and cooperation to avoid restructuring
    - Regular dialogue
    - Best practices for investor relations
    - Policy action and feedback
    - Consultations
    - Creditors' support of debtor reform efforts
3. Good-faith actions
    - Voluntary, good-faith process
    - Sanctity of contracts
    - Creditor committee policies and practices
    - Debtor and creditor actions during restructuring
4. Fair treatment
    - Avoiding unfair discrimination among affected creditors
    - Fairness of voting

The addendum to the Principles provides more details on:

1. Data and policy transparency for crisis prevention
2. Close debtor–creditor dialogue and cooperation for crisis prevention
3. Good-faith actions in cases of debt restructuring
    - Voluntary good-faith process
    - Debtor and creditor actions during debt restructuring
    - Creditor committee policies and practices
    - Tools for debt restructuring
4. Fair and comparable treatment of all creditors

The Principles are governed, monitored, and updated by the Group of Trustees and the Principles Consultative Group (PCG). G20 Central Bank Governors (France, China) are the co-chairs of the Group of Trustees and also officially sit in G20 meetings of Finance Ministers and Central Bank Governors.

For full information and analysis, see Chapter 4.

Source: Principles for Stable Capital Flows and Fair Debt Restructuring, Report on Implementation by the Principles Consultative Group, October 2020, p. 43-50.

1.4 Comments and conclusions

- The IIF has a well-resourced and effective functioning structure and operations that allow it to achieve its mission of being the most influential lobbying association on international financial policies and regulatory matters, with a particular attention to middle income countries and their debt markets.
- The IIF's objective and basic lobby position are incorporated in its statutes, namely to promote market based solutions, standards developed by the financial industry, and voluntary approaches as seen to be in the interests of its members. This position is opposed to a publicly structured debt

market and debt crisis management, strict regulation and laws on private creditors behaviour, and compulsory involvement in debt restructuring initiatives in the public interest of debtor countries.

- The IIF's activities and lobbying instruments reinforce each other, with research and regularly updated unique data, active Board members, conferences and seminars, committees and working groups to get inputs from members, as well as lobby meetings and activities (writing position papers, policy letters, responses to consultations, etc.). These activities are supported by the well-resourced IIF secretariat (budget approximately US$ 34m per year). The well-paid IIF staff targets especially financial policymakers at international level, while Board members also have a role at national level. As a result, the IIF has a range of engagement tools for lobbying the G20 regarding the DSSI and Common Framework initiatives.

- The IIF membership covers the largest international financial conglomerates with common and also diverse interests regarding sovereign debt of middle-to-lower income countries: from private and public Chinese banks and Wall Street investment banks, to credit rating agencies, asset managers and hedge funds. But also official authorities like the IMF and World Bank, and even the central banks of some middle and low income countries, are members. On the one hand, this diversity of members involved in the international debt market can enable members more easily to exchange views and coordinate. On the other hand, members' very diverse interests may block positions and solutions that are proposed in the IIF's lobbying activities.

- Many IIF lobbying activities and debt data and debt research reports are not publicly disclosed. This gives the IIF and its members a formidable comparative advantage. The non-disclosure of debt data is at odds with the IIF's own Voluntary Principles for Debt Transparency.

- Ultimately, the IIF Board is responsible for the positions taken. However, very little attention has been given to, and little public accountability has been demanded concerning, the IIF's lobbying positions (see also Chapter 2).

CHAPTER 2.

HOW THE IIF ESCAPED THE G20 DEBT RELIEF INITIATIVE (DSSI): THE LOBBYING STRATEGIES AND ARGUMENTS

"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."[112]

This chapter provides insight into the arguments used and lobbying by the IIF targeting the debt relief initiatives of the G20 Finance Ministers and Central Bank Governors and their working groups (the G20 "finance track").

The IIF's long record of actively discussing with and lobbying the international financial institutions (IFIs) as well as national policy- and decision-makers around the world on debt markets and debt restructuring in times of crisis, is not described in this chapter.[113] The IIF was, for instance, heavily involved – with its resources, membership networking, and expertise – in proposing solutions for the Greek debt crisis (2010-12), which were in the interests of its member banks as far as possible in the given dramatic context.[114] Before, during, and since the Greek crisis, the IIF has remained faithful to its mission and managed to establish an approach to deal with debt crises that is market based, contract based, industry led, and ad hoc. [115] The IIF promoted and supported the Principles for Stable Capital Flows and Fair Debt Restructuring (see Box 1, Chapter 1) that oppose a more systemic approach to sovereign debt resolution mechanisms and does not compel private creditors to contribute but rather allows them to drag out the most profitable solution when countries cannot repay their debt.[116] The IIF contributed in this way to the lack of advancement in creating a multilateral debt workout mechanism and a "debt architecture" (governance, agreed rules for debt treatment, responsible lending and borrowing principles, etc.) in which the private creditors are compelled to participate. As a result, debt resolution and restructuring now take place based on collective action clauses (CACs) if included in the debt contract, and/or often in a protracted and disorderly case-by-case negotiation process.

An indication that the IIF has had a long relationship with the G20 finance track is the fact that it successfully ensured that the G20 endorsed in 2004 the Principles for Stable Capital Flows and Fair Debt Restructuring, and in 2019 the IIF Voluntary Principles for Debt Transparency.

Already before COVID-19, in 2019, the IMF,[117] the World Bank[118], and even the IIF[119] among many others, were warning about the excessive debt burdens in an increasing number of countries, while no structural solutions were officially being discussed. When the COVID-19 pandemic reached low and middle income countries from March 2020 onwards, and their governments needed to spend money to combat the virus and prop up their economies, it became clear that the debt servicing burden of the poorest countries would be too high to finance the fight against the pandemic and result in defaults on debt payments. This chapter covers how the IIF interacted with the G20 on debt issues from April to September 2020.

2.1 Close relationship between the IIF and G20 in 2020

2.1.1 How the IIF became central in responding to the official debt relief effort for the poorest countries

On 9 April 2020, ahead of the World Bank–IMF spring meetings on 15-19 April, around which the G20 Finance Ministers met, the IIF wrote a letter to the heads of the IMF, World Bank, and Paris Club and to the G20 Finance Ministers about its concern that many developing countries would not be able to serve their debt nor be able to continue to have access to commercial credit ("market access").[120] The IIF proposed that in the short term during the pandemic, the IFIs and public creditors should continue to coordinate, dialogue, and finance developing countries. It proposed that official bilateral creditors should provide forbearance on debt servicing. It also stated that private creditors should, only when requested, "forbear payment default" for the poorest countries mostly affected by the pandemic "without waiving the payment obligation".

Once the pandemic had abated, all public creditors should provide debt relief, the IIF suggested in its letter. It warned that the composition of creditors had become complex and that "bondholders, in particular, may have diverse perspectives that can be difficult to reconcile". Greater debt transparency would help the private sector assess credit risk so that developing countries would have access to continued private credit. Therefore, clear communication and coordination "as well as market-based resolution mechanisms" would be needed. The IIF proposed that negotiations with borrowing countries in debt distress should be based on the IIF-supported Principles for Stable Capital Flows and Fair Debt Restructuring, with a reminder that these had been endorsed by the G20 in 2004. The IIF offered to support a close dialogue between debtors and creditors and to explore "market-based approaches to debt service problems prior to default".[121]

At their meeting on 15 April 2020, the G20 Finance Ministers and Central Bank Governors **launched the Debt Service Suspension Initiative (DSSI)** to offer the poorest countries the opportunity to suspend servicing their debt during the pandemic and to free up their budgets to confront the pandemic ("provide liquidity"). The communiqué of the G20 Finance Ministers and Central Bank Governors officially made a **"call on private creditors, working through the Institute of International Finance, to participate in the initiative on comparable terms"**.[122] The G20 statement repeated that "[p]rivate creditors will be called upon publicly to participate in the initiative on comparable terms". The G20 also called for all creditors "to continue to closely coordinate in the implementation phase of this initiative". In practice, this G20 call did not make it compulsory for the private sector to participate. It also revealed that the G20 Presidency of Saudi Arabia had already had close contacts with the IIF, which would continue during the Saudi Presidency.

In the annex of the April communiqué, the G20 Finance Ministers and Central Bank Governors stated that **one of the conditions** for countries asking for debt payment suspension under the DSSI was "to **contract no new non-concessional debt during the suspension period**, other than agreements under this initiative or in compliance with limits agreed under the IMF Debt Limit Policy (DLP) or [World Bank Group] policy on non-concessional borrowing". This contrasted with the IIF's plea for continued "market access" by developing countries, that is, access to private credit during and after the pandemic through loans and bond issuance.

Box 2

THE G20 DEBT SERVICE SUSPENSION INITIATIVE (DSSI) EXPLAINED[123]

The DSSI was announced by the G20 on 15 April 2020, started on 1 May 2020, and has been extended by the G20 to the end of 2021.

Under the DSSI the world's 73 countries poorest countries are eligible for the temporary suspension of both principal repayments and interest payments on sovereign debt owed to bilateral public creditors. None of the debt will be cancelled under the DSSI. Debt payments owed to multilateral development banks are not to be suspended (unless these banks can maintain their high credit ratings). The private sector can voluntarily provide debt service suspension in a comparable way as bilateral creditors, after being asked by a country.

DSSI eligible countries have to fulfil the following conditions:

- Have a debt servicing progamme with the IMF and the World Bank (and not have payment arrears with those IFIs).
- Make a request to bilateral public creditors for debt service suspension.
- Made a request for, or have, an IMF (emergency) financing programme.
- Use the freed money for social, health or economic spending in response to the pandemic, with spending monitored by the IFIs.
- Disclose all public sector debt.
- Contract no new non-concessional debt during the suspension period when required within limits according to agreed IMF and World Bank criteria.

Since the DSSI took effect, more than 40 eligible countries have benefitted from more than US$ 5bn in debt payment suspension by bilateral creditors (as of 24 September 2021). According to Eurodad, debt suspension under the DSSI actual constitutes 1.66% of total debt servicing due in 2020 by *all* developing countries.

As far as disclosed, either a formal or an informal request for debt payment suspension was unsuccessfully made to private creditors by Grenada in April or May 2020[124], and by Chad[125] and Zambia[126] before the end of September 2020. Private creditors only provided 0.2% of all debt suspension arranged to DSSI eligible countries by end-June 2021.[127] The IMF and World Bank provided a monitoring update on 16 September 2021.[128]
Suspended debt payments will have to resume in January 2022. The DSSI is being replaced by the G20 Common Framework for Debt Treatments Beyond the DSSI to negotiate debt restructurings.[129]

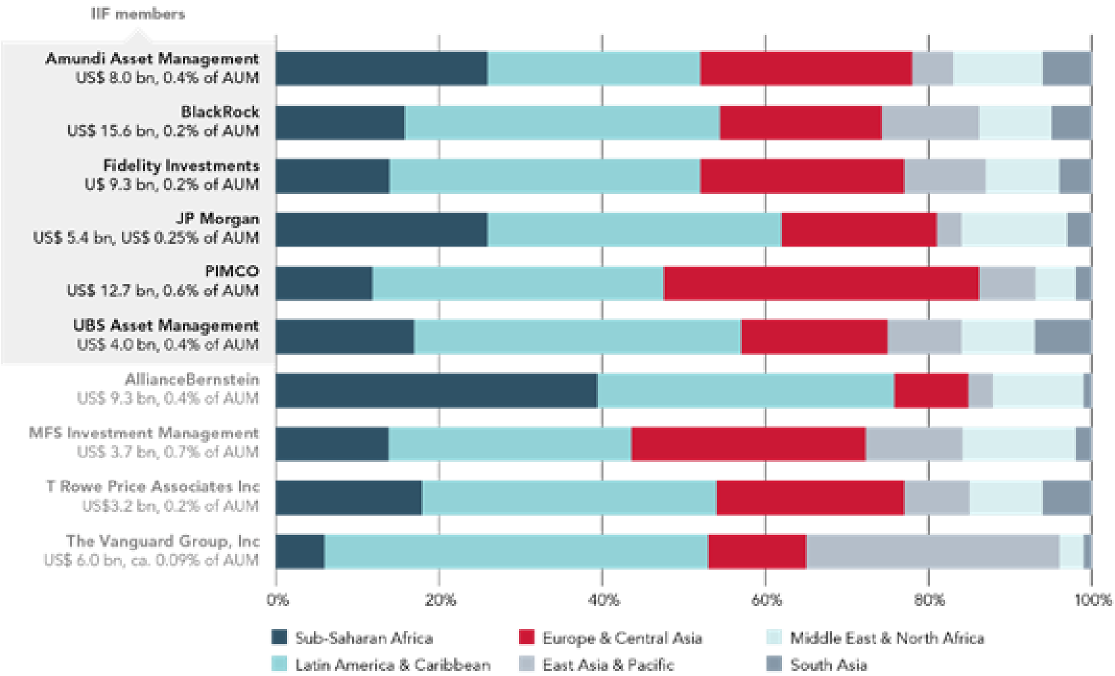
Debt payments and suspension by creditor group for the 46 countries applying DSSI, May 2020 - June 2021 (in US$ billion)

Creditor grouping	Payments suspended	Payments made	% of payments suspended
Bilateral	10.3	11	48%
Multilateral	0.6 (cancelled)	10.4	5%
Private	0.024	14.9	0.2%
Total	10.9	36.4	23%

Source: Jubilee Debt Campaign, How the G20 debt suspension initiative benefits private lenders, October 2021, p. 6, https://jubileedebt.org.uk/press-release/g20-initiative-leads-to-less-than-a-quarter-of-debt-payments-being-suspended

The IIF interpreted the G20 call as being asked "to serve as a principal point of contact, knowledge partner and clearinghouse to generate private sector feedback and support".[130] After 15 April 2020, the IIF reportedly actively engaged with private sector creditors, public sector officials, and civil society (with no names mentioned) in "robust discussion".[131] Through its longstanding contacts with the G20, the IIF was designated as the coordinator for the private sector, although many private sector creditors to DSSI countries were not member of the IIF (see Figure 1).

Figure 1: Top 10 identified holders of sovereign bonds issued by lower-middle-income and middle-income countries, and IIF membership



Sources: D. Munevar, Sleep now in the fire, Eurodad, May 2021, p. 23-27: identification via database Refinitiv and percentage estimations AUM; https://www.iif.com/Membership/Our-Member-Institutions (viewed 26 June 2021): identification of IIF members.

On 28 April 2020, the IIF had an extraordinary online **meeting with the 22 official creditors of the Paris Club**. The IIF meets the Paris Club of private creditors every year in June but had an extra meeting due to the pandemic and the DSSI. More than 70 representatives from the private sector, assumed to be mostly IIF members, attended the meeting.[132] Not much information is available about the discussions about the DSSI provisions, which were reportedly a productive exchange of views to increase understanding and dialogue about participation in the DSSI by public and private creditors.[133] The IIF publicly reported that the **private creditors expressed "strong support" for the DSSI** and committed to work constructively to find ways for private creditors to implement the DSSI on comparable terms, "while noting the constraints on private sector participation".[134] The private creditors reconfirmed their work to develop terms of reference for voluntary private sector participation in the DSSI. The official creditors agreed with the private creditors "on the importance of **active collaboration between official and private creditors** on this vital initiative".

In its letters of 1 May[135] and 28 May[136] 2020 to the heads of the IMF, World Bank and Paris Club with copy to the G20, the IIF summarised its endeavours to build consensual support among private creditors for the DSSI and to develop its own private sector approach for participating in the DSSI. Within the IIF, the most important forum for its discussions was the Committee on Sovereign Risk Management (CSRM; see Chapter 1), which includes over 100 "of the world's foremost asset managers, banks, and others across the intermediation spectrum firms",[137] while it is unknown how many members are investors and lenders to countries eligible for the DSSI. The CSRM reportedly functioned as a sounding board and source of technical expertise for the official sector so that the IIF could **"channel candid feedback and reaction to public sector authorities"**.[138] The IIF held discussions with the Principles Consultative Group (a public–private sector body explained in Box 1 in Chapter 1, and in Chapter 4). The IIF was also contacted by other private creditors and lenders that wished to be informed about the DSSI. In addition, the IIF initiated discussions with official creditors –the IMF, World Bank, Paris Club, United Nations Economic Commission for Africa, and "more than a dozen finance and development ministers representing DSSI-eligible countries".[139]

These discussions clarified the DSSI's features to the IIF members and other private sector debt holders. They allowed the IIF to sound out about and advocate for the private creditor approach. The IIF considers that all these meetings and discussions have resulted in a **frank,** productive, and meaningful direct dialogue between countries and private creditors "with genuine willingness to air questions, understand complexities and propose novel solutions".[140] In its letters, the IIF emphasised the **complexity** of the range of creditors and borrowers – which it claimed was a challenge for the private creditors with regard to participation in the DSSI – as well as the need for a **case-by-case approach** and for **continued access to private credit by developing countries** because public credit would be insufficient in the future.

In the meantime, the **IIF worked closely behind closed doors with the members of the G20 finance track's International Financial Architecture Working Group, under the G20 Presidency of Saudi Arabia,** on whether and how private creditors would participate in the DSSI in case of request by eligible countries.[141] On 3 May 2020, the Finance Minister of Saudi Arabia and Chair of the G20 finance track made a **public appeal** in the *Financial Times*.[142] The minister mentioned that **poor DSSI-eligible countries owed the private sector an estimated US$ 18bn** in 2020 as compared to the US$ 22tn total value of the global private sector that was now much more robust to withstand the financial impact of the COVID-19 outbreak.[143] The minister quoted the IIF, which had "recommended that private creditors voluntarily grant IDA-eligible countries, upon request, debt payment forbearance for a fixed period of time – similar to what the official sector has announced today" (referring to 15 April 2020). He also mentioned that "many private creditors have indicated to us that they are seriously considering debt suspension". However, the minister also recognised that the private sector's participation in the DSSI should be **voluntary,** and that **governments "should avoid imposing anything on the private investors**, as it may **distort markets** and limit future demand for emerging market debt from the private sector … Governments cannot dictate these terms but the need is immediate." Other calculations estimated that $8 bn of debt payments were due to external private creditors.[144]

The many external and internal meetings, frank discussions, and letters initiated or coordinated by the IIF, and the official public appeals, resulted in the IIF publishing on 28 May 2020 its promised **Terms of Reference for Voluntary Private Sector Participation in the G20/Paris Club Debt Service Suspension Initiative.** These ToR comprise an IIF **toolkit for DSSI-eligible countries** when requesting debt servicing suspension from their private creditors, not a toolkit for the private sector's best efforts to provide debt relief (see below in this chapter for an explanation of the Terms of Reference). The IIF considered these ToR it developed with its CSRM members[145] **"to be the best possible response** at this time to the call from the official sector for private sector participation".[146] "[W]e have had a very constructive dialogue with the public sector about these and feel confident that this process has resulted in a framework that will facilitate maximum cash flow relief, given **numerous legal and practical constraints**."[147]

2.1.2 The IIF document on how DSSI countries could avoid some problems of downgrading by credit rating agencies

The IIF indicated on 28 May 2020 that debt service obligations to private creditors (both bond holders and lenders) were **concentrated in a subgroup of DSSI-eligible countries**.[148] Only 22 DSSI countries had foreign currency "Eurobonds" outstanding, and many had no private creditors at all. Indeed, a group of poor African DSSI-eligible countries had, for instance, bonds to be repaid in the next decade (including Angola, Benin, Côte d'Ivoire, Ethiopia, Ghana, Kenya,[149] Mozambique, Namibia, and Zambia) with interest rates between 9.5% (Angola) and 5.75% (Benin)[150] and on average 7% on bonds issued by DSSI countries.[151]

Some weeks prior to issuing its DSSI Terms of Reference, the IIF had organised with United Nations Economic Commission for Africa (UNECA) a virtual meeting on 11 May with delegates from 15 African finance and development ministries and private creditors. The meeting highlighted "the importance of keeping private market access available for countries post-crisis". On 15 May 2020, 25 hedge funds that were bond holders and other private creditors had created an **Africa Private Creditor Working Group (PCWG) to represent private creditors** and assist with coordination with African countries.[152]

The working group stated that of upmost importance was the belief that a one-size-fits-all solution will be counterproductive for Africa and risks cutting countries off from international commercial debt markets, needed for financing development after the crisis.[153] In the meantime, the IIF supported UNECA that worked with PIMCO, an asset managing company specialised in bonds and IIF member via its parent company Allianz, on a market based instrument (Liquidity and Sustainability Facility) that would make investing in bonds issued by African countries more attractive (see box 3).[154]

Therefore, on 28 May 2020, the IIF could reconfirm that for "private creditors to help maintain liquidity and avoid future solvency problems, **market access at an acceptable cost must be preserved**. Conversations with **borrowing countries suggest they concur with this view**, believing that their development financing objectives cannot be fully met via long term reliance on official creditors and donors."[155]

In practice, one problem for DSSI countries requesting debt payment suspension arising from keeping market access to private finance was the perceived and real **risk of being downgraded by credit rating agencies**. When a country gets a lower grade, interest rates rise, making private credit too expensive, or the grade is too low and a no-go for investors. Although credit rating agencies claimed that a country requesting bilateral public debt suspension as part of the DSSI would face no credit rating downgrade, their rhetoric and the arguments by the IIF and other private creditors, reinforced fears among DSSI countries of a downgrade and the consequent loss of market access, especially in case of a debt service suspension from private creditors.[156] Both Zambia and Suriname saw their credit rating downgraded after requesting private creditors a for a debt payment suspension. The fear of a downgrade dissuaded many DSSI countries to request debt service suspension from private creditors (see box 3).[157]

Having **worked closely with the IIF, UNECA** requested in June 2020 the IIF to develop a waiver from private lenders (not bond holders).[158] Such a waiver would state that a request from sovereign borrowers for debt servicing suspension or actual forbearance from official creditors would not constitute a default against loan and debt contracts, which could trigger a rating downgrading. IIF **CSRM members held "intensive discussion[s]" with borrowing countries** to develop a new **Template Waiver Letter Agreement**[159] with "guidance and support from the IMF and World Bank legal teams".[160] This Template Waiver Letter Agreement was published on 10 July 2020.[161] The template did not provide a proposal for a "blanket" waiver but should be a tool to simplify the process once a country has requested a waiver. As explained below, the waiver letter **does not provide provisions or clarity on how the credit rating agencies would handle the rating** of countries asking for debt payment suspension under the DSSI. The only thing it will help DSSI countries with is that they can request an exemption from being sanctioned by their lenders following a rating downgrade due to clauses in loan contracts. In other words, although the three global credit rating agencies and their users are members of the IIF, the IIF did not deal with the downgrade problem. Retrospectively, downgrade risks for countries requesting DSSI have actually materialised only to a limited extent.[162]

As the pandemic spread and continued, the debt burden became even more serious and in the longer term becoming a debt solvency problem since the DSSI did not *cancel* any debt, only deferred debt payments. The IIF reported on 15 July 2020 that it had **expanded its discussions** by "bringing together leading academics, lawyers, private sector market practitioners, public sector experts and representatives of borrowing countries to help develop **solutions** for both liquidity and solvency problems".[163] Such solutions included contractual remedies, instruments with credit enhancements (that is, subsidised), and innovations in debt restructuring (such as incorporating environmental, social and governance [ESG] considerations).[164] The IIF continued to work with its CSRM members as well as with the Group of Trustees and the Consultative Group of the Principles for Stable Capital Flows and Fair Debt Restructuring, who regularly discussed the situation.[165]

At the request of the Paris Club and the G20 for an assessment of private sector support for the G20 DSSI, and in order to find information about private creditor relations with DSSI countries, **the IIF with the CSRM held two formal surveys** (see also Chapter 1, CSRM). The respondents were IIF members and non-members – banks, asset managers, and consultancies – including the largest global firms active in international debt markets.[166] The first survey, the "Progress Update on Private Sector Engagement in the G20 Debt Service Suspension Initiative (DSSI)", was released on 15 July 2020,[167] ahead of the G20 finance meeting. These surveys reportedly provided "a wide range of thoughtful and detailed responses".[168] The key findings of the first survey included the **commitment of nearly all the respondents to use, or consider using, the IIF Terms of Reference for voluntary DSSI participation and the importance of access for DSSI countries to markets** (which were starting to reopen, with bonds again being issued). The survey also found that by July 2020 no formal requests were made to private creditors for debt service suspension while some informal discussions were held with private lenders and informal requests to private bondholders were made to explore the process for deferring interest payments.[169]

In **their meeting communiqué on 18 July 2020, the G20** Finance Ministers and Central Bank Governors stated that they "**take note of the Institute of International Finance (IIF) Terms of Reference for Voluntary Private Sector Participation**. We note the **need for further progress** and strongly encourage private creditors to participate in the DSSI on comparable terms when requested by eligible countries. We also look forward to an update on the **implementation of IIF's Voluntary Principles for Debt Transparency, including on work to identify a data repository**."[170] In the annex, **the communiqué referred in addition to the IIF** Template Waiver Letter Agreement and the first IIF review on private sector engagement in the DSSI.[171] It also mentioned the fact that the G20 International Financial Architecture working group dealing with the debt issue (the IFA WG) "**will continue to work closely with the IIF** on the participation of private creditors" in the DSSI.[172] The G20 was also considering whether to extend the DSSI as the pandemic and DSSI country financial needs continued.

2.1.3 No debt relief under the DSSI from private creditors

On 22 September 2020, the IIF letter to G20 on the DSSI highlighted that the debt situation had deteriorated and that some countries no longer had temporary liquidity problems but had more fundamental solvency concerns that needed to be addressed.[173] A new approach would still have to be underpinned by market access to private finance, a case-by-case approach, and sound policies that included long-term sustainable development, that is envronmental, social and governance (ESG) or Sustainable Development Goals (SDGs) considerations.[174] The IIF stated: "We recognize that the rise in debt levels is not necessarily a problem in all cases."[175] It warned the G20 to not impose "any coercive or top-down approach" on private creditors. In a thinly veiled threat, it argued that this would "undermine the functioning of the private financial markets, jeopardizing market access and capital flows well beyond those to DSSI-eligible countries".[176]

Notwithstanding all of the engagement discussions and meetings, the G20 Finance Ministers and Central Bank Governors stated in their communiqué of 14 October 2020 that they were **"disappointed by the absence of progress of private creditors' participation in the DSSI**, and **strongly encourage them to participate** on comparable terms **when requested** by eligible countries". In their report to the G20, the IMF and World Bank Group expressed their impression that the **IIF Terms of Reference** for Voluntary Private Participation in the G20/Paris Club DSSI **had not been used.**[177] They reported that private creditors had been reluctant to reschedule debt servicing on comparable terms to those applied by public creditors, because that would often result in a financial loss. Also, they referred to the many reasons why **DSSI countries had been reluctant to request debt service suspension**, especially with private creditors, including **fear from credit rating downgrades and lack of market access to private credit**. Also, the IIF's Voluntary Principles for Debt Transparency, its 2019 framework for private lenders to disclose information about their lending to states, had hardly resulted in the disclosure of information about amounts and terms of public debt held by most creditors.[178]

The IIF had hinted that continued public–private discussions could lead to agreed improvements or amendments to the IIF Terms of Reference[179]. It continued to work out detailed tools and published an **Addendum**[180]**, a Technical Note to the Terms of Reference** and a voluntary debt service suspension **framework agreement for loans,** as explained below.

Box 3

HOW THE IIF CONVINCED AFRICAN MINISTERS THAT MARKET ACCESS AND SERVICING DEBT ARE BETTER THAN ASKING FOR DEBT RELIEF

During 2020, the IIF cooperated closely with the United Nations Economic Commission for Africa (UNECA) to establish a dialogue between representatives of finance and development ministries of African countries, presumably those indebted with commercial debt, and the private creditors holding that debt (loans, bonds, trade finance). This contributed to many heavily indebted African countries not requesting debt relief from private creditors, for fear of facing credit rating downgrades that would prevent "market access" by making commercial debt inaccessible or more expensive through higher interest rates.

On 11 May 2020, the IIF and UNECA organised a virtual meeting between private creditors and delegates from 15 African finance and development ministries.[181] The meeting was chaired by the African Union Special Envoy on Covid-19, Tidjane Thiam, former CEO of Credit Suisse. Discussion at the meeting was less about debt relief than about the range of options for "emerging African countries" to access financial flows during the Covid-19 crisis, "while honoring obligations to creditors and preserving future market access" post-crisis. The purpose was also to highlight "the importance of keeping private market access available for countries post-crisis". Issues covered included recognition that "a one-size-fits-all solution may not apply" and the need to manage communication to avoid disruption of private capital flows in order to preserve "a strong recovery" and "societal development".[182]

An Africa Private Creditor Working Group (AfricaPCWG) was launched on 15 May 2020 "to represent the views of international private creditors invested in Africa and to work with countries on their financing needs during the COVID-19 crisis".[183] The group was intended to provide African governments, UNECA, the G20, the IMF and multilateral development banks with a forum to "engage transparently and constructively with different categories of private international investors". The latter were 25 global private debt holders, including Aberdeen Asset Management, Ninety One, and hedge funds, such as Farallon Capital Europe, Amia Capital, Pharo Management and Greylock Capital Management.[184] The latter was co-chair of the IIF Committee on Sovereign Risk Management (CSRM).[185] Only Ninety One and Aberdeen Asset Management are also members of the IIF.[186] The participants in this AfricaPCWG agreed on principles, most importantly that a one-size-fits-all solution will be counterproductive for Africa because it risks cutting countries off from international commercial debt markets, needed for financing development after the crisis.[187]

On 10 June 2020, UNECA requested the IIF to develop a waiver from private lenders (not bond holders).[188] Such a waiver would state that a request from sovereign borrowers for debt service suspension or actual forbearance from official creditors under the DSSI would not constitute a default under loan contracts, which could trigger a rating downgrading and loan contracted clauses.[189] The IIF published a Template Waiver Letter Agreement on 10 July 2020.[190] The Template Waiver provides a draft legal letter by which debtor countries can request commercial lenders to waive their contractual rights to take action against a borrowing country when it requests from sovereign creditors forbearance under the DSSI.

On 15 June 2020, UNECA Executive Secretary Vera Songwe wrote in the ***Financial Times*** that UNECA proposed to create a special purpose vehicle, the Liquidity and Sustainability Facility (LSF).[191] This was modelled on the US Federal Reserve's repurchase "repo" facilities and was intended to attract more commercial capital with lower interest rates through subsidisation. The proposal was developed together with PIMCO, a major global asset managing company specialising in bonds, and a member of the IIF via its parent company, Allianz.[192] The proposal has met with criticism for being a complex financial market instrument that would benefit only a few countries that remain indebted while still being vulnerable to the vagaries of the financial markets, and for subsidising the private sector.[193] The Liquidity and Sustainability Facility was launched in March 2021 but still not operational as of end September 2021.[194]

On 1 October 2020, UNECA and the IIF co-organised another virtual meeting between African ministry representatives and private creditors. At the meeting reportedly all agreed "that access to private capital is essential to economic growth and development, the post-COVID-19 recovery, as well as raising living standards and creating greater prosperity across Africa", and that this market access gained through efforts of African countries needs to be maintained.[195] At the same time, new initiatives to lower the cost of capital or provide more capital would have to be promoted, such as the Liquidity and Sustainability Facility. Also, more capital would be needed by the international financial institutions to subsidise private creditors to the poorest countries. Potential debt insolvencies and restructurings were recommended to be resolved case-by-case. Any new debt restructuring mechanism, such as the Common Framework, had to be developed in "open, inclusive and transparent consultation with private creditors and African Sovereigns".[196]

Vera Songwe, UNECA's Executive Secretary, has been a panellist at several IIF events, including its annual meeting on 15 October 2020 and the IIF conference on "Building Stronger and More Sustainable Capital Markets" on 8 July 2021.[197]

2.2 Analysis of IIF DSSI documents

The various toolkits that the IIF has offered as instruments for promoting debt payment suspension by private creditors need further analysis,[198] including discussion of why DSSI-eligible countries have hardly[199] requested such suspension, and why by summer 2021 reportedly no private creditor had provided debt payment suspension. Rather, a few DSSI countries were involved in issuing new commercial bonds, which would be contrary to one of the conditions of the DSSI.[200]

In 2020, the IIF developed the following documents, some of which were extended when the G20 also extended the DSSI until the end of 2021:

- Terms of Reference for Voluntary Private Sector Participation in the G20/Paris Club DSSI.
- A follow-up Technical Note in the form of expanded documentation of the IIF Terms of Reference on considerations for debtor countries prior to suspension of debt payments to private creditors.
- A Template Waiver Letter Agreement for debtor countries participating in the DSSI and requesting debt payment suspension.
- The Voluntary Debt Service Suspension Framework Agreement for non-bonded debt.

These are now discussed in turn.

2.2.1 Terms of Reference for Voluntary Private Sector Participation in the DSSI

Issued on 28 May 2020, the IIF has promoted the "Terms of Reference for Voluntary Private Sector Participation in the G20/Paris Club DSSI" (**IIF ToR**) as a toolkit to facilitate private sector participation in the DSSI in case a debtor country requested private debt holders to participate in debt payment referral. In practice it was an instrument for especially debtor countries how to request private creditors a suspension of payment on existing debt, especially on bonds. The IIF stated this was the best it could offer at the time.[201] Extensions and updates to these ToR were published on 3 December 2020 ("Addendum") and on 28 April 2021, in line with the extension of the DSSI until the end of 2021.[202]
Analysis of these IIF ToR makes it clear that the ToR highlight that a debt payment forbearance request to private creditors is not easy or beneficial for debtor countries. The ToR include the following problems and limitations affecting requests to private creditors from debtor countries.

Voluntary participation

- IIF members and other private creditors have no obligation to respond positively to requests of debtor countries that have already requested debt payment suspension by official bilateral creditors under the DSSI. Any private sector participation is "on a voluntary basis"

and “will not affect the enforceability of obligations owed to such providers of finance by beneficiary countries”.[203] This means that private creditors can continue to ask for their due debt repayments.
- When debtor countries make requests, they are understood to “be seeking broad participation among such creditors to support fair burden sharing” of losses. However, this will be difficult when creditors have no obligation to respond. This also means that the required percentage of creditors to agree according to collective action clauses (such as 65% or 75% of all bond holders) is unlikely to be reached.
- DSSI countries have no obligation to make requests to private creditors (“Each eligible country may approach its private creditors as applicable, but shall not be obliged to”).

No comparable treatment of debt relief

Private creditors “will seek” to participate in the DSSI in line with the DSSI terms but with the understanding not to have to provide the same debt relief treatment as the public creditors (“comparability of treatment”[204]) under the DSSI.[205] However, comparability of treatment was requested by the G20 and the DSSI terms.

In practice, comparability of treatment may make private creditors insist that all creditors are involved, including Chinese and multilateral creditors, or otherwise not provide comparable debt treatment for debt payment suspension and relief.

Extra costs for debtor countries

The IIF ToR explain how requesting debt payment suspension from private creditors will make borrowing more costly for debtor countries for the following reasons:

- Private creditors will ask for interest on the unpaid suspended interest to be determined through negotiation of an agreement.[206] This is an important difference from arrangements with public bilateral creditors covered by the DSSI, which ask for the value of the deferred amounts not to change (“be net present value (NPV) neutral”).
- Private creditors can provide extra credit in order to pay for the deferred amount, at the same interest rate of the deferred amounts.[207]
- Several costs are involved for dealing with legal and contractual complexities.

Legal and contractual complexities

The IIF ToR warn about the legal and contractual complexities that may make it difficult for private creditors to come to the negotiation table to provide debt payment forbearance because:

- “[P]rivate sector firms will be subject to any contractual, or other legal obligations applicable to any in scope debt”;[208] and they will assess the request “on the basis of the underlying legal documentation in the most appropriate way”. For instance, “loan agreements could require unanimity” for changing repayment conditions.[209] This results from the many legal protections lenders and creditors have built into the debt contracts.
- Third parties might be involved, which makes debt payment suspension very complex, for example “through sub-participations, repackagings [selling debt contracts via securitisation], or as a result of hedging, credit insurance cover [such as credit default swaps] or similar”.[210] The debt and financial markets are complex and make it more difficult to achieve suspensions. The IIF ToR do not state how to overcome these difficulties.
- Before agreeing to provide debt payment suspension, private creditors will be “seeking to address any concerns about loss of market access internationally or domestically, risk of contractual defaults (including cross-defaults), difficulty of execution and other legal, accounting or regulatory constraints”.[211]
- Private creditors will want debt owed to state-owned enterprises to be involved.

Case-by-case approach

The IIF proposes that each country and its creditors agree on how to implement the debt payment suspension. This discourages debtor countries from organising themselves when facing the same creditors or from sharing information and experience about handling the problems they face in the most beneficial way.

Risks of credit rating downgrading
The IIF ToR describe that debt payment suspension may lead credit rating agencies to downgrade DSSI countries. This would affect the debtor country by both reducing or preventing access to more commercial debt, and also preventing access to especially asset managers whose fiduciary duty and regulations oblige them to avoid providing credit to, or holding bonds from, very low-graded countries. The ToR do not provide a solution but mention that "To the extent possible, the implementation of any debt service suspension would not lead to a default in the beneficiary country's financing arrangements."[212]

Market access will be constrained
The IIF ToR advise DSSI countries to consider whether they need access to private capital markets, because under the DSSI they can only obtain such access according to IMF and World Bank guidelines. The DSSI terms state that, when requesting debt payment suspension, countries have to make or should have an agreement with the IMF. Also, DSSI countries have to commit to "contract no new non-concessional debt during the suspension period other than agreements under this [DSSI] initiative or in compliance with limits agreed under the IMF Debt Limit Policy (DLP) or [World Bank Group] policy on non-concessional borrowing".[213]

Adherence to private sector and IIF standards
The IIF promotes the standards for debt restructuring it sponsors, namely that debtor and creditor parties "will have regard to the IIF Principles for Stable Capital Flows and Fair Debt Restructuring including Annex VI". The ToR also state that private creditors are "committed to the implementation of the IIF Debt Transparency Principles". Note, however, that both standards are voluntary for IIF members and that the IIF normally does not refer to the Principles for Stable Capital Flows and Fair Debt Restructuring as being an IIF standard (see chapter 4).

2.2.2 Technical Note[214]

On 28 April 2021, the IIF published a follow-up Technical Note in the form of expanded documentation for the ToR regarding considerations for debtor countries prior to debt payment suspension by private creditors. The Technical Note documents processes that countries that have issued bonds should consider "**prior"** to requesting the consent of bond holders to defer debt service payments as part of the DSSI ("consent solicitation"). The Note repeats, and explains in further detail than the IIF ToR, all the procedures, constraints, costs, private creditor requirements and expectations, and complexities of the creditors' structures and legal protections against non-payment. These include the following.

Bond documents have prescriptive procedures on how bond holders can consent and vote to amend the existing terms of the bond, or exchange existing bonds with new bonds that have other terms of payment. For instance, the systems that clear the bonds, and rules concerning where the bonds are listed and traded, may influence how a debt payment suspension is put into practice.

Among steps necessary to request suspension of payment of bonds, the following **assistance through advisers** may be needed, for which the debtor country will have to pay the **costs**:[215]

- Appointment of advisers, including a bank to act as consent solicitation agent or exchange agent as well as one or more dealer managers and a tabulation agent.
- External legal counsel to analyse the issued bonds and advise on legal requirements that would allow bond holders to consent to the debt payment suspension.
- A local legal counsel to internalise the procedures.
- A financial adviser to deal with credit rating agencies and bond holders (separately or organised as a group).
- An information agent to identify bond holders.

To get the bond holders to agree, the IIF advises debtor countries to consider:

- offering to pay a consent fee, or an "early bird premium", to bond holders as an incentive to encourage early participation and consent to debt payment suspension;
- the complex decision-making procedures involved in obtaining consent from the majority of

bond holders as prescribed in CACs, taking into account fund managers' fiduciary duties to protect financial value;

- what to do when not obtaining the necessary majority consent from bond holders;
- timing constraints that can be legally determined (English law);
- rules and legal requirements governing how new bonds are listed and cleared (all having costs);
- other legal and contractual requirements to ensure that debt payment suspension "does not inadvertently trigger cross-default/acceleration provisions" in other obligations;[216]
- contacting bond holders before an official request for debt payment suspension to explore whether that request should include a non-disclosure agreement, since such prior contacts might be considered market sensitive information, which might be forbidden by insider trading laws;
- compensating bond holders that seek reimbursement of new costs or ask for other "enhancements" in return for debt payment forbearance;
- that bond holders will ask debtor countries to "have regard to" IIF instruments (the Terms of Reference for Voluntary Private Sector Participation in the DSSI, Principles for Stable Capital Flows and Fair Debt Restructuring, and Voluntary Principles for Debt Transparency);
- that bond holders will ask debtor countries to provide information about the "different creditors and stocks of debt of the issuer and details as to its economic and fiscal condition and trajectory as well as current and future finance needs and debt sustainability profile", as well as "details as to the measures taken by beneficiary countries to lessen the impact of the Covid-19 pandemic" on which the suspended payment should be spent.

Regarding **risks that credit rating agencies will downgrade** a country's rating when it asks for private sector debt payment suspension, the IIF advises debtor countries to "consider carefully" and evaluate as essential elements:[217]

- The potential rating downgrades and their duration, which would be "**an essential part" of whether to proceed or not with a request** for debt payment suspension. Therefore rating agencies should be contacted "well in advance".
- The impact on preventing future market access. Creditors could "assist in evaluating this issue".
- The complexity of downgrades and debt payment suspension when they trigger credit default swaps, changes in the kind of bond holders (because institutional investors such as insurance companies have to sell too low-graded bonds, which might be bought by so-called vulture funds), or other impacts.

The IIF documents do not refer to the IIF Template Waiver Letter Agreement (issued in July 2020 and discussed below) or to potential solutions provided by the credit rating agencies themselves.

2.2.3 Template Waiver Letter Agreement to avoid consequences of potential downgrading of country credit ratings

On 10 July 2020, the IIF published a Template Waiver Letter Agreement for Debtor Countries Participating in the G20/Paris Club DSSI (official sector).[218] UNECA had asked the IIF in June 2020 to develop a waiver letter (see above) to avoid any country's request for debt payment deferral under the DSSI from resulting in what would be legally considered a default, which would trigger credit rating agencies to downgrade the country's rating and in turn affect clauses in commercial loan contracts.[219] The IIF template provides a draft legal letter by which debtor countries can request commercial lenders to **waive their contractual rights to take action against a borrowing country** when it requests from sovereign creditors forbearance under the DSSI. In other words, the template letter is a request to private sector lenders to sign a letter of agreement by which the lender will not take punitive action as made possible under the existing loan contracts, such as to accelerate repayment obligations, as a consequence of a country participating in the DSSI.

The template letter does not provide for a "blanket" waiver, because the IIF argues that complex legal documentation that underpins these debt arrangements makes this unachievable. Also, debtor countries have to take into account that many **commercial lenders will have hedged their debt exposure** "through derivatives, sub-participations, insurance, repackagings or other means". This is likely to be the norm rather than the exception, and such a lender would need to consult with, or seek instructions from, its hedge provider",[220] which would take time and delay the process. Moreover, all other rights of lenders remain.

There are **controversial clauses** and statements in the IIF document:

- When agreeing debt service suspension in private sector arrangements, that is, not involving a public creditor, the template letter "is not required" – not applicable – and "waivers/ consents would need be sought separately".[221] The waiver letter is thus **not a template for forbearance when only private creditors are involved**.
- The template waiver is likely to be mostly applicable for loans rather than bonds, because "most eligible [DSSI] countries do not have outstanding international bond issues".
- The way that creditors have already protected (hedged) themselves against the risk of default by debtor countries "**through derivatives, sub-participations, insurance, repackagings or other means", which is "likely to be the norm rather than the exception**", means that a range of other players, namely the providers of hedge or insurance instruments, will need to be involved and could not be interested in providing debt relief.[222]
- In any cases where (potential) default in bond repayments might happen, "the underlying bond documentation is likely to contain prescriptive procedures, voting procedures and thresholds for the purposes of seeking consents, typically through a consent solicitation from bondholders. These procedures would extend to the interface with the Clearing Systems through which the bonds are traded and may be influenced by listing authority rules." In other words, the **bond contracts and bond trading rules**, which apply per contract and in the different jurisdictions where bonds are traded, will also need to be taken into account. The IIF explains how this complex and time consuming process could be eased, but not in a way that encourages debtor countries.
- The letter agreement should remain **confidential** if the existing debt arrangement has confidentiality provisions, except if the letter agreement provides otherwise and if notifications have to be made to authorities dealing with the debt. This means that the IIF template waiver letter does not promote extra transparency, although the IIF promotes debt transparency as one of its standards via the IIF Voluntary Principles for Debt Transparency.

Overall, the template waiver letter does not request credit rating agencies to avoid considering that participating in the DSSI, or an intention thereto, would lead to a temporary credit downgrade, for instance because the country suffers only from a temporary liquidity problem.[223]

2.2.4 A Voluntary Debt Service Suspension Framework Agreement for loans

On 3 December 2020, the IIF produced a separate document with a template to deal with debt from private sector loans, referred to as "Summary Terms for Voluntary Debt Service Suspension Framework Agreement for (non-bonded debt)"[224], which it extended on 28 April 2021. This document offers eight pages of legal provisions that would need to be included in a "Framework Agreement" between debtor countries and commercial lenders to suspend debt servicing. This is quite a different process from dealing with bonds and bond holders.
Some particular provisions are:

- The "debt service suspension waiver" provision should include an agreement that lenders will not impose punitive measures during the suspension period, which might happen according to the loan contracts.
- The debtor country has to agree to **conditionalities** that are imposed by the DSSI terms, specifically not to contract new non-concessional debt during the DSSI period except as allowed under DSSI conditions (such as within limits agreed under the IMF Debt Limit Policy), and to use the deferred amounts to tackle the Covid-19 crisis.
- The debt deferral arrangements in the Framework Agreement "shall be kept **confidential**" (except to the Paris Club and the IMF).[225]

- Clauses are included stating that **punitive action** can be taken be each of the lenders if the Framework Agreement is not adhered to by the borrowing country.
- The Framework Agreement offers the option that banks provide **new loans** so that debtor countries can make debt payments on the contractual due date, with interest rates and repayment terms of the new loan similar as those of the deferred amounts.
- The deferred interest payments shall be paid in the future according to payment schedules attached to the Framework Agreement.

2.3 Comments and conclusions

- The longstanding contacts, debt restructuring expertise, unique debt data and seemingly behind-closed-door cooperation of the IIF with the G20 have resulted in the IIF being designated by the G20 as the coordinator of private sector participation in the DSSI. However, many private creditors to DSSI countries are not members of the IIF.[226] The IIF has used its working groups and wider network in the financial sector to reach out to non-members. The G20 has not assessed how far the IIF has its own interests to promote, or its mission to advocate only market based, voluntary solutions. Moreover, the IIF and the private sector as a whole have conflicting interests, which even the IIF has admitted would be difficult to reconcile.

- During Saudi Arabia's one-year rotating Presidency of the G20 (until end-November 2020), the IIF worked very closely with the G20 International Financial Architecture Working Group (IFA WG), which is supposed to be for G20 officials only. The IIF's staff and members' close interrelationship with financial authorities around the world contributed to this close cooperation. In contrast, it was very difficult for civil society (C20) to address the IFA WG, let alone to have its views heard and taken into account.[227]

- When analysing the IIF letters to the G20 and IFIs, it appears that the G20's DSSI, launched mid-April 2020, was largely designed according to what the IIF suggested in its letters, especially with regard to addressing the poorest countries only, the case-by-case approach, voluntary participation of the private sector only after a request made by a debtor country, and using IIF standards (the Principles). The limitation of not engaging in new commercial non-concessional debt was the only DSSI condition that contradicted the market access arguments of the IIF.

- Notwithstanding the public appeals by the G20 finance track to provide debt payment suspension, and condemnation by the G20 in their communiqué of 14 October 2020, IIF members and other private creditors did not provide debt relief to the poorest under the DSSI in 2020. The IIF managed to successfully convince the G20 that private sector participation should be voluntary and that governments should "avoid imposing anything on the private investors".[228] When there was more pressure on the private sector to participate on comparable terms, the IIF was willing to openly threaten the G20 not to impose "any coercive or top-down approach" on private creditors, arguing again that this would harm market functioning, market access, and capital flows for DSSI-eligible and many other countries.[229]

- IIF press releases and reports reporting "frank" and "robust" discussions between the public sector and private sector, and the public appeal in the *Financial Times* in May 2020 by the G20 finance track chair (the Saudi Arabian Finance Minister) to the private sector to provide debt payment suspension in the DSSI, expose that private creditors were reluctant to provide debt servicing suspension. The many mentions by the IIF of legal constraints, challenges, and conflicting interests were used as arguments not to provide debt relief. They might also suggest that discussions within the private sector and the IIF made it difficult to come to a consensus for effective tools that would support DSSI-eligible countries.

- The IIF used many arguments to successfully dissuade debtor countries to request private creditors' participation in DSSI. The IIF's Terms of Reference for Voluntary Participation in the DSSI explain in detail the complex and costly processes that DSSI countries should undergo, with little to no obligations on the private sector to be forthcoming and forbearing, or to provide assistance to help countries overcome the complexities and extra costs. Although the three global credit rating agencies and their users are members of the IIF, the IIF Template Waiver Letter Agreement does not deal with the rating downgrade problem. The IIF continuously emphasised the need to maintain market access by debtor countries, and avoid risks of downgrades by credit rating agencies. It did not raise the counter-argument that defaulting and restructuring debt provides financial relief to debtor countries, which supports economic development and in turn leads to higher credit ratings. Close relationships with DSSI countries, especially African finance ministries and UNECA, convinced these countries to prioritise access to private credit over debt service suspension.

- The IIF documents on DSSI participation disclose the complexity of the non-transparent bond markets in order to protect creditors' interests against non-payment through legal clauses. They also reveal that many creditors normally hedge their debt exposure to protect themselves against payment default – "through derivatives, sub-participations, insurance, repackagings or other means".[230] In addition, loans to and bonds issued by the poorest countries have very high interest rates to compensate for the risk of default. By refusing to provide debt servicing suspension, private creditors did not assume the risks they took but left the burden with the poorest countries.
- The way the financial sector has not be forthcoming in debt payment suspension, let alone cancellation, has serious negative consequences for the poorest countries and for the provision of basic services for their populations. For instance, the US$ 5bn debt relief provided by the public sector, and official support and concessionary loans provided by the IMF, may easily have been indirectly used for servicing the debt due to private creditors.[231]
- Only US$ 18bn was due to private creditors from DSSI-eligible countries according to the G20 finance track chair in May 2020. What the IIF has not been mentioning is that its members and other private creditors have plenty of leeway to provide debt relief that could prevent future debt market turmoil and damage to their bond-based business if the pandemic were to last longer.[232] For instance, BlackRock has been identified as managing at least US$ 15.6bn in lower middle income and middle income developing country bonds, representing 0.2% of its assets under management.[233] BlackRock returned US$ 3.8bn to its shareholders after making a record profit in 2020.[234] JP Morgan manages at least US$ 5.4bn of such developing country bonds (about 0.25% of its assets under management) and will return an estimated US$ 38bn to its shareholders in dividends and share buy-backs based on its 2020 profits.[235]

CHAPTER 3.

IIF LOBBYING AND ARGUMENTS ON NEW G20 DEBT RELIEF INITIATIVES

From mid-2020 onwards, it became clear that the Covid-19 pandemic was far from over and that the debt burden and repayment problem had become very severe for more of the poorest countries. At their virtual meeting of 14 October 2020, G20 Finance Ministers and Central Bank Governors extended the Debt Service Suspension Initiative (DSSI) to mid-2021, with a possible further extension to the end of 2021. They recognised that the DSSI would not be sufficient to support the poorest countries and proposed a **Common Framework for Debt Treatments beyond the DSSI**, again only for the poorest countries. At their extraordinary finance meeting of 13 November 2020, all G20 members officially endorsed what is generally referred to as the "Common Framework", which was also endorsed by the Paris Club of public creditors.

The principles by which the Common Framework would operate, were stated only in very general terms:[236]

- Eligibility and conditions for debt treatment and restructuring.
- Coordination among official bilateral creditors.
- Comparability of treatment among all bilateral public and private creditors.

The IIF again lobbied very actively before the G20 finance meetings to make its views clear on how it would like to see improved debt handling and how the G20 Common Framework should be shaped and operationalised. This chapter analyses the arguments used by the IIF regarding its proposed involvement in the Common Framework and how it considers rising debt and debt repayments should be handled.

The IIF was able to work closely with G20 finance track officials under the one-year Saudi Arabia G20 Presidency. Once Italy started to hold the rotating Presidency on 1 December 2020, the role of the IIF became less visible. There was less publication of IIF letters and statements, while the IIF was not referred to in the press releases or communiqués of the G20 Finance Ministers and Central Bank Governors, except a reference to the IIF's Voluntary Principles for Debt Transparency and related initiatives (see below).

3.1 How the IIF lobbied the G20 to promote its members' interests

The IIF continued to discuss its approach towards the G20 finance track (including the DSSI and the Common Framework) and the handling of debt "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".[237] These discussions were reflected in the IIF's letters to the G20 on 12 November 2020, just before the G20 extraordinary finance meeting on the Common Framework, as well as on 9 April 2021,[238] **just after** – which was unusual – the G20 finance meeting of 7 April 2021.

The IIF summarised its arguments regarding the various elements of handling the debt situation in its letter of 9 April 2021 to the G20 Presiding Finance Minister, the IMF, the World Bank and the Paris Club as follows.[239]

- "**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."

To put it briefly, as the IIF did in June 2021, the IIF wants efforts to strengthen existing mechanisms to "center on improving debt transparency, regular and meaningful private-public sector dialogue, and integrating ESG/SDG considerations – all will help borrowers' market access".[240]

These arguments are discussed in more detail below.

3.2 Shared responsibility

In November 2020, the IIF recognised that many vulnerable DSSI countries were "at greater risk of debt distress and restructuring" and that there was a growing diversity of creditors.[241] The IIF stated that "sovereign debt crisis prevention and resolution is a shared responsibility between sovereign borrowers, public and private sector creditors, and the international financial institutions" given the diverse creditors.[242] The IIF disclosed that, 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 traders, and private equity firms.[243]

3.3 The IIF lobbies to co-decide on developing and executing the Common Framework

The IIF letter to the G20 and international financial institutions (IFIs) on 9 April 2021 argued in favour of allowing private creditors to have **full access to the decision-making process** of the Common Framework "early in the process" as follows:[244]

- Given that the G20 had called for negotiating with debtor countries under the Common Framework "in an open and transparent manner and before finalization of the key parameters", the IIF argued 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".
- The IIF stated: "Borrowing countries should be fully engaged and represented throughout the Common Framework process."[245]The IIF argued that private creditors should be involved **at the debtor country level** because "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." The IIF therefore desired "[g]reater **clarity as to the processes and governance of any official creditor committee** established on individual country cases under the Common Framework", as well as "greater clarity on how the IMF is updating lending policies including with respect to arrears and financing assurances". The reasons for these demands and for involvement of the private sector were, according to the IIF, that "consultations will facilitate collaborative debtor-creditor negotiations, improve transparency, inter-creditor dialogue and knowledge-sharing, and ultimately support market access and stable capital flows".[246]

Overall, the IIF proclaimed: "Dialogue with the private sector is essential as proposals for any reforms to the international sovereign debt architecture take shape."[247]

3.4 Not committed to the comparability of treatment principle

While the Common Framework requires comparability of treatment between public bilateral creditors and private creditors of a debtor country with regard to debt restructuring decisions, the IIF did not indicate such a commitment and instead used vague language as follows:

- The IIF stated that the private creditors remain "concerned about the application of the **comparability of treatment principles** under the Common Framework".[248]
- According to the IIF, the growing diversity of creditors has made it complex for "inter-creditor equity to be achieved".[249]
- Under the Common Framework, the IIF assessed that "[p]rivate creditors will be concerned about the comparability of treatment principles applied." Therefore, the IIF emphasised "the importance of a case-by-case approach, triggered by country requests for a full-fledged IMF program".[250]
- "Given the **significant implications of comparability of treatment** for private sector creditors, we strongly urge that development and application of the Common Framework be a consultative process including the private sector. Towards this end, the IIF would be pleased to help convene a public-private sector group of experts and provide a forum for regular consultation – in the context of the Common Framework and more broadly as incremental reforms to the sovereign debt architecture are considered."

Part of the reluctance of private creditors to provide comparability of treatment is known to come from the fact that little information is disclosed about Chinese creditors and their debt relief measures (disclosure is forbidden by Chinese debt contracts[251]). Also, multilateral creditors are not covered by the comparability of treatment principle because they have no obligation to provide debt relief in order to protect their top rating by credit rating agencies so that they can more cheaply access private capital to lend to low and middle income countries. However, if private creditors do not abide by comparable treatment of debt relief, initiatives under the Common Framework could be halted or private creditor debt relief could be waived.

3.5 IIF proposals on how the debt situation needs to be handled

The IIF has made various proposals on how the debt problem and debt restructuring should be handled and improved, including the following:[252]

- A continued emphasis on the importance of debt restructuring on **"a case-by-case approach** in the context of a full-fledged IMF program with appropriate and credible policy conditionality"; that is, "careful differentiation" between the circumstances of individual countries is needed.
- Urgent creation of **a "forum for creditor coordination"**.

- The use of financial resources freed up from **debt relief should increase social, health, or economic spending** in response to the Covid-19 crisis. The use of the financial resources and their impact should be disclosed in a timely and appropriate way, since it "will assist with the overall goal of stable capital flows".
- More public financial instruments should **de-risk private creditors** ("credit enhancement", blended finance), including as means for debt restructuring.[253]
- More public funders providing more credit and funding, including by the international financial development institutes and through the IMF's Special Drawing Rights (SDRs).
- The use of improved collective action clauses in bond contracts should be promoted.
- Only incremental reforms to the international architecture for resolving sovereign debt crises and involving private creditors is needed as outlined in the September 2020 IMF paper.[254]
- Short-term liquidity strains (that is, lack of money to pay expenses) could be resolved through the use of SDRs, instruments like the Liquidity and Stability Facility proposed by UNECA (see Chapter 2 and box 3), and enhanced development of domestic local currency bond markets and other short-term instruments.
- Debt restructuring that promotes long-term recovery of the country could include new bonds issued during a restructuring, the use of collateral or partial guarantees backed by an IFI, and due consideration of environmental, social, and governance (ESG) factors.
- Use of the IIF's Principles for Stable Capital Flows and Fair Debt Restructuring and their forthcoming updated version, which the IIF wants the G20 to endorse (see Chapter 4).
- Greater debt transparency (as explained in next section 3.6).

3.6 IIF arguments for promoting debt transparency

Full transparency and disclosure about how much and what kind of debt a country has towards which creditors, and due for repayment at what time, are currently lacking and bemoaned by public and private representatives alike.

Debt transparency is also a key demand voiced by the IIF for the following reasons:[255]

- the growing risks of over-indebtedness and undermining of the capacity to continue debt repayments ("debt sustainability");
- importance of good-faith borrower–creditor negotiations, with equal access to debt information;
- difficulties in providing comparability of treatment with unknown creditors;
- asymmetry of information between and within sectors, both official and private;
- the challenges of creditor coordination where not all creditors are known;
- creditors' need to be informed and assess early cases of debt treatment under the Common Framework;
- the need for reliable debt information so that policymakers in borrowing countries can make informed borrowing decisions;
- the needs of creditors, donors, analysts, and credit rating agencies to accurately assess sovereign risk and price debt instruments, based on fully disclosed information;
- debt transparency is associated with lower borrowing costs and higher sovereign credit ratings;[256]
- demands by civil society and the general public for timely and complete information in order to demand accountability from those engaged in creating the debt.

The IIF's **proposals for greater transparency** in sovereign debt markets include the following:[257]

- more debt transparency regarding all types of debt instruments and all types of creditors (Paris Club, non-Paris Club, private sector, multilateral development banks, export credit agencies, etc.);
- "tried and tested techniques" to handle concerns about disclosure of non-public information that could be considered to be illegal;
- rapid progress with and integration of the multiple efforts to improve sovereign debt

- transparency, since these are complementary, including the IIF's Voluntary Principles for Debt Transparency, the IMF and World Bank Group's Multipronged Approach to Address Debt Vulnerabilities, and proposals made by the IMF for an improved international sovereign debt architecture;
- integration of official sector data hubs, such as the OECD's Debt Transparency Initiative, based on the IIF Voluntary Principles for Debt Transparency (see Box 4).

Note, however, that, as explained in Chapter 1, by contrast the IIF's documents containing debt data are hardly accessible to the public. And as described in Chapter 2, some of the proposed documents to be used by DSSI countries actually advise confidentiality.[258]

Box 4

THE IIF VOLUNTARY PRINCIPLES FOR DEBT TRANSPARENCY AND THE OECD DEBT TRANSPARENCY INITIATIVE (DTI)

On 10 June 2019, the IIF officially launched the **IIF Voluntary Principles for Debt Transparency**. These Voluntary Principles were supported by a "relevant cohort of the IIF membership" and are not binding on IIF members. Endorsed by the G20 Finance Ministers and Central Bank Governors on 9 June 2019,[259] the Voluntary Principles were claimed by the IIF to complement existing official initiatives (by the World Bank, IMF, and G20), and tools to disclosure sovereign debt.[260]

The IIF's Voluntary Principles initially focus on:

- Private lending (including bank loans, guarantees, public–private partnerships, and asset-backed lending) but not bonds (which are supposed to have good transparency when traded on stock exchanges, or via commercial databases).
- Foreign currency lending.
- Only borrowing by the lowest income countries' sovereign and public entities.[261]

The Voluntary Principles advise disclosure:

- by private lenders of bilateral loans or by intermediary entities of syndicated loans, after consent is given by the borrower country entity;
- using a set of disclosure criteria such as interest rates, maturity of the loan, use of the borrowed money, dispute resolution mechanism, etc.;
- through an external data repository or hub that holds, processes, and discloses the data.

The IIF Debt Transparency Working Group proposed that the external data repository be hosted by an IFI. To delineate such a repository, an IFI–IIF working group on implementation of the Voluntary Principles discussed and made recommendations regarding the proposed repository's governance, expertise requirements, means of distribution and of promoting participation, and public funding.[262]

In October 2020, the Organisation for Economic Co-operation and Development (OECD) offered to host the repository with private lenders data. This was later supported by an offer of subsidies from the UK government.[263] The OECD started to operationalise the data repository and officially launched the **Debt Transparency Initiative** (DTI) on 29 March 2021. It worked on its design with the IIF and its membership, and engaged, behind closed doors, with a broad range of stakeholders through an **Advisory Board for Debt Transparency.**[264] The data to be disclosed by the repository would be the same as stipulated by the IIF's Voluntary Principles. The OECD has published a preliminary draft of the disclosure data matrix and organisation of the platform.[265] The G20 referred to this initiative in its finance meeting communiqué of April 2021.[266]

Civil society organisations (CSOs) that have been allowed some access to the development of the OECD DTI data hub have criticised the current initiative as "an inadequate mechanism to improve debt transparency."[267] The CSOs' three main concerns are:

1. lack of participation and consultation with governments of the Global South;
2. lack of participation and consultation with stakeholders in the Global South;
3. focus only on the implementation of the IIF's Voluntary Principles for Debt Transparency.

CSOs had made their own proposal for debt transparency in 2019.[268]

3.7 The argument for "continued market access"

Even after the G20 openly reprimanded the IIF and private creditors for not providing debt relief as called for by the G20 in the DSSI, the IIF has continued to make the need for continuous market access, that is, access to commercial loans and issuance of bonds, a key argument and central objective of its proposals. Market access is also proposed as a solution for debt problems, by accessing new loans or bonds, depending on the case.

The IIF has **added the argument** that continued market access is **necessary to finance sustainable development and Paris climate goals**, as follows:[269]

- "the use of net new debt is critical as these countries need the additional financing to meet their sustainable development goals";
- by "ensuring sustainable long-term capital flows to emerging and developing economies" the private sector can play an "integral role" in crisis recovery, climate resilience, and broader sustainable development objectives;
- continued access to financial markets will provide liquidity and access to sustainable finance and avoid "loss of [the] market access" that was so difficult to achieve.

3.8 Promoting more debt for financing sustainable development rather than debt relief

The IIF's ever stronger arguments in favour of market access to finance the transition to a more climate-friendly economy and achievement of the Sustainable Development Goals (SDGs) come at a time when the IIF is further developing its strategy towards the growing sustainable finance policy measures and the private sector's development of all kinds of profitable financial instruments related to climate change mitigation and the SDGs.[270]

The IIF has made the following various arguments:

- "[T]he massive financing gap for the 2030 UN Sustainable Development Goals – which for emerging markets alone is estimated at US$ 2.5tn annually. High and rising debt levels in emerging markets – exacerbated by the Covid-19 pandemic – are making these goals still harder to achieve."[271]
- "[I]nternational capital markets can play a much greater role in financing sustainable development goals."[272]
- "Private finance is essential to ensuring flows of investment capital to low-income and developing economies to support sustainable development goals."[273]
- To promote the SDGs, public–private sector partnerships are a solution, including blended finance for sustainable infrastructure, development of SDG-linked bond markets, including credit-enhanced green or SDG bonds, partial guarantees, and vehicles such as debt-for-nature and debt-for-climate swaps. These solutions can be involved in debt restructuring.[274]
- Handling debt problems and debt restructuring can be conducted with due consideration of the SDGs.[275]
- Greater integration of ESG factors in sovereign credit ratings – already in progress – could provide strong support for the development of climate and SDG bond markets.[276]
- Integration of ESG and SDG considerations can contribute to "borrowers' market access".[277]

The promotion of a new debt market for developing countries is an integral part of the IIF's strategy to promote and support a new 'sustainable financial market'. The IIF pointed to the following:[278]

- Investing in ESG related financial products "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". Although the "sustainable debt universe has grown exponentially over the past decade, from virtually nil to nearly $2 trillion" it is **still "very small relative to the $120 trillion global bond market"**.

- These trends create **remarkable opportunities** to develop new sources of capital for developing economies.
- Innovative public–private sector partnerships include **blended and credit-enhanced financing by the public sector** for sustainable infrastructure and other ESG-linked debt raising transactions.

The IIF is actively supporting the development of these new climate- and SDG-linked financial markets and market based solutions, which it argues to be also in the interest of middle and lower income countries, among others:[279]

- "Ahead of the G20 Venice Climate Summit in July 2021 and COP26 in November 2021, 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[280], 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."
- The ambitious private sector-led Taskforce on Scaling Voluntary Carbon Markets aims to create "a large-scale, transparent, high-integrity **carbon credit trading market**. It 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."
- During the 2021 updating of the Principles for Stable Capital Flows and Fair Debt Restructuring, the IIF intends to integrate ESG considerations in guidelines for restructuring negotiations, such as via the use of sustainability-linked bonds.[281]

In other words, the IIF is promoting a new profitable sustainable debt market and basically argues that the SDGs need to be financed by private creditors and new debt (or restructured debt, supported by public sector financing).

Box 5

THE IIF'S SUSTAINABLE FINANCE WORKING GROUP (SFWG)[282]

The IIF Sustainable Finance Working Group (SFWG) is **an international forum for public–private sector dialogue and collaboration**. It comprises more than 200 IIF members representing banks, investors, insurers, professional service firms, and multilateral financial institutions.

The aim of the SFWG is to **build consensus and advance the perspectives of the financial industry** in order to:

- promote capital market solutions and financial product innovation;
- support the design and implementation of policy and regulatory frameworks for the private financial sector related to sustainability and climate;
- propose positions on issues such as disclosure, taxonomies, prudential supervision, and financial stability assessment;
- scale up sustainable finance and deal with barriers to catalyse and mobilise private finance;
- reduce fragmentation of markets through national rules as opposed to international rules.

The SFWG's outreach and lobbying on positions **occurs through**:

- regulatory and policy engagement;
- strategic projects;
- analytical research;
- development of tools and resources;
- engagement with national and international authorities.

International organisations that the SFWG regularly engages with include:

- Global standard setting bodies like the Basel Committee on Banking Supervision (BCBS).
- The International Organization of Securities Commissions (IOSCO).
- The International Association of Insurance Supervisors (IAIS).
- The G20 in cooperation with the B20.
- The Network for Greening the Financial System (NGFS).
- The IMF, World Bank and IFC, and other multilaterals.
- The OECD.
- The United Nations Environment Programme (UNEP).

The **governance** of the SFWG is no longer described on the IIF website but the following information was published there at least until March 2021:

SFWG Chair: Daniel Klier, Chief of Staff Global Banking & Markets and Global Head of Sustainable Finance, HSBC.[283]
SFWG Vice-Chair: Judson Berkey, Managing Director and Group Head of Sustainability Regulatory Strategy, UBS.

SFWG Steering Committee members:

- Matt Christensen, Global Head of Responsible Investment, AXA IM.[284]
- Ed Wells, Head of Group Policy, Sustainable Finance and Investment, HSBC.
- Val[erie] Smith, Chief Sustainability Officer, Citi.

The IIF secretariat is led by Sonja Gibbs, IIF Managing Director and Head of Sustainable Finance, Global Policy Initiatives, in coordination with Andres Portilla, IIF Managing Director, Regulatory Affairs.

3.9 Comments and conclusions

- The IIF has openly and relentlessly required the G20 to let private creditors, in practice the IIF itself, **sit at the table** to discuss and be part of the decision-making about the modalities of the new G20 debt restructuring initiative for the poorest countries (the Common Framework). The IIF also seeks to be part of reforms of the international framework that governs debt markets, debt restructurings, and debt cancellation. It wants those reforms to be incremental, which contrasts with discussions about, and proposals for, more fundamental reforms involving the UN[285], the IMF[286], the G30[287], and NGOs[288]. Such reforms are needed to resolve recurring problems of over-indebtedness.
- The IIF's **proposals for integration in the Common Framework** include the case-by-case approach, which allows private creditors to assess whether and how much debt relief they should give. Moreover, the IIF suggests that public money should be spent on de-risking the private creditors during debt restructuring, in other words on subsidising private creditors with no conditions attached. The IIF has also proposed procedures in line with the Principles for Stable Capital Flows and Fair Debt Restructuring, an IIF sponsored standard. It has continued to insist on debt transparency without any commitment or obligations for IIF members to provide more transparency, let alone for all private creditors. Rather, the IIF has asked an intergovernmental body, the OECD, with UK government subsidies, to create a data hub for private lenders' information, to implement the IIF Voluntary Principles for Debt Transparency.
- The IIF has indicated that the private sector is not committed to the comparability of treatment principle, and thus not willing to give debt relief in the same way as other public bilateral or private creditors. This means that it wants to get the best terms for private creditors during debt relief negotiations and preferably to avoid giving debt relief. Under the terms of the Common Framework, by which creditors need to provide debt relief on comparable terms, the problem is that private creditors can bring the debt restructuring process to a halt by refusing to adhere

to this principle. It seems that the private sector is reluctant due to Chinese private creditors not being transparent about their debt holdings and relief. As a result, the concern arises that in the end the comparability principle will be waived for private creditors, who will thus escape financial losses from debt relief obligations.

- The IIF has continued to make its key argument that continued market access to private credit by even the poorest countries should be maintained. From November 2020 onwards, the IIF has added a new argument, namely that access to private credit is indispensable to finance measures to mitigate climate change and achieve the UN SDGs. In other words, these desirable common public goals have to be achieved through creating more debt while not providing relief from current debt except through subsidised debt-for-nature swaps. This is fully in line with the IIF's very active promotion of a new profitable "sustainable finance" model and ESG related financial products for the private sector, which can be referred to as an "ESG profit bonanza". In other words, the IIF ensures that the financial industry can develop and sell its ESG products rather than restructure the debt that would also free up public budgets for climate and sustainability purposes. Moreover, the IIF wants this climate-, ESG-, and sustainability-linked debt to be subsidised through public–private partnerships.
- The IIF promotes private credit as a way to escape conditionality imposed by IFIs and public bilateral donors. In practice, debt held by private creditors also results in direct and indirect conditionalities such as providing timely information about debt and financial or macroeconomic policies, the use of the freed-up money, and of course timely debt payments with little possibility for debt relief. There is an imbalance in obligations, since the IIF and its members have no transparency or behaviour obligations, and all IIF standards are voluntary, including those endorsed by the G20 and the OECD Debt Transparency Initiative. The question remains why these industry-led voluntary standards should be endorsed by the G20 (see also Chapter 4).

CHAPTER 4.

THE PRINCIPLES ON STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING: A PUBLIC–PRIVATE PARTNERSHIP PROMOTED BY THE IIF

This chapter provides a technical explanation of a key instrument that the IIF is promoting in all its debt related documents and lobbying efforts: the Principles for Stable Capital Flows and Fair Debt Restructuring (referred to as the Principles). This instrument seeks to impose standards and obligations as the basis for the relationship between private creditors and middle and lower income countries.

4.1 Development and purpose of the Principles for Stable Capital Flows and Fair Debt Restructuring

The IIF began to develop the Principles for Stable Capital Flows and Fair Debt Restructuring in response to the Latin American debt crisis of the 1980s.[289] Development of the Principles progressed from the mid-1990s onwards and after the Asian debt crises of 1997-98. The focus was on so-called "emerging market" (EM) countries and how they should have continuous relations with their private creditors to reduce creditors' risk when lending or buying sovereign EM bonds.[290] In addition, the Principles and the related IIF best practice guidelines set some private international standards for negotiations before or during debt restructuring.

The Principles are reportedly based on extensive discussions among private creditors and emerging market countries that issue debt financed by private creditors, mainly in the form of loans and bonds.[291] The IIF Committee on Sovereign Risk Management (CSRM, see Chapter 1) and members of the Principles Consultative Group (see below) played an important part in their development. The Principles were formally launched in 2004, supported by cooperation between emerging market country officials and private creditor representatives. The Principles received endorsement from the G20 at the meeting of Finance Ministers and Central Bank Governors in Berlin in 2004.[292]

To improve the Principles based on experience during the debt crisis and resolution in the Euro area in 2010-12, a Joint Public–Private Committee on Strengthening the Framework for Sovereign Debt Crisis Prevention and Resolution was set up. This committee's recommendations were endorsed by the Group of Trustees of the Principles in October 2012 and incorporated in the Addendum to the Principles as practical guidance to implement the Principles.[293] The IIF announced that the Principles would be reviewed in 2021 on seven points (see below), and then submitted to the G20 with a request to endorse the review.[294]

Application of the Principles is voluntary; no obligation is placed on IIF members to apply them, and no party is legally bound by any of the Principles' provisions, so that all maintain their legal rights. Users are advised to apply the Principles flexibly on a case-by-case basis in response to the given circumstances, and use the IIF Best Practices for Formation and Operation of Creditor Committees. The IIF has put pressure on borrowing countries regarding how to apply the Principles. It developed the IIF Best Practices for Investor Relations based on the Principles and published annually an assessment of how these IIF Best Practices, and especially the regular adequate information exchange, are being applied by 38 borrowing countries. The IIF has developed standard criteria on how to annually evaluate their application (see Annex I).

As explained in more detail below, the Principles introduce policies and procedures that debtor countries, in particular, have to apply. The Principles promote the implementation of sound economic and financial policies by the borrowing countries, the rule of law and sanctity of contracts, transparency, and sharing of economic and financial data through investor relations programmes (IRPs) organised by debtor countries, to allow creditors to provide feedback (for a brief overview, see Box 1 in Chapter 1; for a full analysis, see below). The main requirement for private creditors is to base their decisions on good risk assessments of the borrowing or bond- issuing country, to accept full responsibility for their decisions, and not to expect official sector bailouts.[295]

The overall aim of the Principles is to promote and maintain market stability and "market access" to commercial credit (loans, bonds, etc.) for official borrowers, and "stable private capital flows in the context of growth and stability" and even in times of turmoil.[296] Applying the requirements of the Principles should prevent debt crises, avoid restructuring, and minimise market contagion through crisis containment before problems become unmanageable. In case a debtor country can no longer service or repay its debt, the Principles describe a process according to which negotiation can take place to restructure the debt on market-based principles and to restore market access as soon as possible.[297]

The Principles promote the central objective of restoring market access as a means to achieve debt sustainability and to reduce reliance on official creditors and donors (and the conditionality of these public creditors and donors – not mentioned by the Principles).[298] It can, however, also be concluded that the Principles themselves are a form of conditionality. The focus on a market and lenders' interests approach ignores the public interests that borrowing countries have to fulfil.

4.2 Governance of the Principles

The Principles are not presented as being from the IIF but have a three-tier governance structure in which IIF and non-IIF members participate as well as senior and former officials from central banks and ministries of finance. It this way, and given the endorsement by the G20, the Principles' structure can be called a public–private partnership. For instance, two of the three co-chairs of the Trustees of the Principles attend meetings of the G20 Finance Ministers and Central Bank Governors.

4.2.1 The Group of Trustees

The overall governance of the Principles is the responsibility of the Group of Trustees. The Group consists of 47 members with long experience and "credibility" in the public and private global financial world, including current and former central bank governors and chairpersons of global banks. Only some of the private sector participants are members of the IIF. The three co-chairs of the Group of Trustees are (or were up till October in 2020): Axel Weber, Chairman of the Board of UBS Group, Chair of the IIF, and former President of the Bundesbank; François Villeroy de Galhau, Governor of the Banque de France and former Director of BNP Paribas in France; and Yi Gang, Governor of the People's Bank of China.[299]

The Group of Trustees meets yearly, around the time of the World Bank and IMF annual meetings, to discuss the overall debt situation and particular country cases, based on input from the Principles Consultative Group (see below).

In 2020, the Group of Trustees noted the complexity of increasing debt problems. They especially discussed the importance of the IIF's Voluntary Principles for Debt Transparency, supported by the G20 in 2019, and the IIF Debt Transparency Working Group (DTWG). They suggested that the new Voluntary Principles for Debt Transparency should be governed by the Principles and be overseen by the Group of Trustees of the Principles (while practical governance still had to be elaborated). The Trustees also provided guidance on how to create a debt data repository outside the IIF, based on the Voluntary Principles, and how to get it financed.[300]

4.2.2 The Principles Consultative Group (PCG)

In practice, governance of the Principles is undertaken by the Principles Consultative Group (PCG). The PCG's 37 members include high-level private financial sector representatives as well as finance ministry and central bank representatives from various geographical regions.[301] Many of the members have been involved in the development of the Principles.[302] Not all private sector members are IIF members.

The PCG's task is to monitor and promote the practical application of the Principles through quarterly meetings or calls.

In 2020, PCG members discussed in detail through frequent conference calls the growing list of countries facing debt problems (Argentina, Belize, Congo-Brazzaville, Ecuador, Gambia, Lebanon, South Africa, Venezuela, and Zambia), as summarised in the Principles' annual report.[303] The PCG also discussed "official and private sector efforts to help countries facing liquidity challenges".[304]

PCG members have closely followed implementation of the G20 DSSI, development of the IIF Terms of Reference for Voluntary Private Sector Participation in the DSSI, operationalisation of the IIF Voluntary Principles for Debt Transparency, and efforts to establish a debt data repository. Special attention was paid to the use of collective action clauses (CACs) in bond contracts during recent debt restructurings, and to the need to review their contractual framework,[305] as well as to issues concerning the international architecture for sovereign debt restructuring.[306]

4.2.3 The IIF serves as the secretariat

The IIF provides practical support to both the PCG and the Group of Trustees by serving as their secretariat. The IIF secretariat "consults with members of the PCG as well as other market participants as to which country cases or regions to include in PCG discussions".[307]

The IIF provides information to the Trustees and the PCG about some instruments promoted by the Principles, especially countries' application of investor relations programmes and information sharing by debtor countries to private creditors (see below and Annex I for details). Since 2005, the IIF has annually reviewed how 38 emerging market and developing countries from different geographical regions, including sub-Saharan Africa, have applied the Principles and the IIF Best Practices for Investor Relations, especially regarding information sharing. The IIF also seeks feedback from its member committees, especially its Council on Asset and Investment Management (CAIM) and Committee on Sovereign Risk Management (CSRM), as well as from the private sector members of the PCG, on how the Principles are informing investors' decisions.[308] The IIF uses its well-developed criteria to assess data dissemination and dialogues undertaken by debtor countries with creditors (see Annex I for the IIF's evaluation criteria). The 2020 evaluation by the IIF was included in the annual *Report on Implementation by the Principles Consultative Group*, published in October 2020 on the IIF website on behalf of the Principles for Stable Capital Flows and Fair Debt Restructuring.[309]

4.3 The Principles and IIF best practice guidelines on relations between sovereign issuers (debtors) and private creditors

4.3.1 Summary of the standards promoted by the Principles

The Principles for Stable Capital Flows and Fair Debt Restructuring have been expanded over time with more detailed prescriptions.[310] The Addendum published in 2012 incorporates experience during the Greek debt and Euro-crisis.[311] In addition, the IIF added best practice guidelines with details regarding what in practice the Principles entail: the IIF Best Practices for Investor Relations and the IIF Best Practices for Formation and Operation of Creditor Committees.

The Principles' basic standards and the additional guidelines can be summarised as follows.

For countries that borrow and issue bonds, the Principles and best practices are the following:

- Promoting and sustaining market access.
- Implementing sound financial policies, including monetary, exchange rate, and debt management policies (such as incorporating CACs in bond contracts).
- Sanctity of contracts.
- Transparency and timely, regular provision of economic and financial data and policy information.
- Comparable fair treatment of all creditors to avoid discrimination when distributing information and during restructuring negotiations.

The main requirements of the Principles **for private creditors** are:[312]

- Good risk management "including thorough analysis of a borrowing country's implementation of sound economic and financial policies, as well as adherence to key standards and codes".
- Accepting full responsibility for their investment and lending decisions.
- Not expecting an official sector bailout.[313]
- Allocation of sufficient time and (human) resources during restructuring processes through creditor committees.

For both debtor countries and creditors, the Principles promote:

- Voluntary application of the Principles.
- A case-by-case, country-by-country approach and application of the Principles.
- Contributing to investor relations programmes and investor relations offices.
- Confidentiality of non-public information.
- Good-faith negotiations in case of repayment problems and restructuring.
- Preventing a sovereign debt crisis as a shared responsibility.[314]

The above elements of the Principles originate from the **first four short Principles**:

1. Transparency and timely flow of information.
2. Close debtor–creditor dialogue and cooperation to avoid restructuring.
3. Good-faith actions.
4. Fair treatment.

4.3.2 Contextualisation

These guidelines should be seen in the context of increasing complexity, sophistication, global integration and interaction of capital markets in which sovereign debt problems can influence capital markets (as was the case of Greek debt resulting in the Euro-crisis) and vice versa (as was the case of cheap capital due to quantitative easing (QE) leading to more bond issuing by developing countries).[315] Changes in regulation, bank and asset managers' business models, and other factors also influence the swift reactions of capital market players who are free to move capital around the globe in search of the highest profits. The **Principles try to protect** creditors from declining values and profits resulting from unexpected changes and behaviour in capital markets and on the part of debtor countries.

Private creditors holding low to middle income country developing debt are likely to be banks, fund managers, asset managers, insurance companies, pension funds, hedge funds, and retail investors. They may be based in different regions and therefore subject to "differential tax treatments and regulatory differences".[316] Of course, various creditors are likely to have "divergent interests because they may have purchased credit default swaps or other protections, or because they may have acquired instruments on the secondary market and thus are not original holders".[317] The Principles also cater for information to be provided to analysts, rating agencies, and other "market participants" who monitor debtor countries and capital markets.

The sovereign debtors or issuers of bonds to be covered were originally emerging market countries, but in 2010 the Trustees of the Principles agreed that the Principles could be applied by **all sovereign debtors**.[318]

4.3.3 Debtor countries' transparency and regular information exchange

A key issue in the Principles is transparency on the part of debtor countries (although not on the part of private creditors or relating to restructuring negotiations). Borrowing and bond-issuing countries are expected to provide private creditors in a timely matter with information that allows the latter to make risk assessments and market movements.[319]

The **economic and financial information and statistics** provided should include all information that creditors might need to continuously monitor the risks of potential non-payment:

- Fiscal developments and data, and central government operations.
- Actual economic performance and macroeconomic data, using IMF statistical standards (SDDS), including the IMF's 15 core financial sector soundness indicators, with notes about the methodology and any changes in technical definitions.
- Debt situation: central government debt (debt service schedules per currency; guarantees) and external debt (non-resident holdings of private and public debt issued domestically; resident holdings of external debt issued internationally; availability of assets and liabilities held by non-residents), including the balance of payments outlook.
- Current and future policies and plans, with special efforts made to provide forward looking information (such as budget projections, monetary policy targets, and regulatory changes); execution of the policies and plans.

The data have to be accurate, comprehensive, market relevant, and comparable over time by using "established accepted standards and norms" and being verified by "authorized domestic and regional agencies".[320] The information should be specific and provide "tailored interpretations", especially in times of turmoil, beyond IMF data standards, which creditors find of "crucial importance".[321] The regular presentation and dissemination of data should be quarterly "at a minimum",[322] preceded by advance information, and announced by a release calendar to "help dispel market rumors that may emerge from lack of information".[323]

Debtor countries have to provide the information preferably through an investor relations office (IRO) that should be the central point for exchange of information between the authorities of the debtor country and private creditors (see also below). IRO staff should coordinate the data gathering from different government and central bank departments and organise the answering of questions asked by creditors. The IRO or others responsible for investor relations should distribute the information through a website or via email to an investor contact list.

The main regularly updated information should be available on a **"state-of-the-art website**",[324] which means:

- in a user-friendly format so that it is easy to navigate, and that the data can be handled and manipulated (Excel format), with overviews of at least two years and archives of other years, using parameters specified by investors (the "highest level of market-friendliness");[325]
- inclusion of past presentations in PowerPoint, investor teleconferences, or videoconferences;
- links to websites of various official agencies;
- inclusion of frequently asked questions (FAQs);
- contact information for the IRO and staff, and registration possibilities for investors who would like to be included in investor relation activities;
- options for feedback and questions from market participants;
- information and data should be archived with an index.

The regular exchange of information should be part of a regular dialogue in normal times (to avoid debt problems) and specific information exchange or consultations in times of actual or potential debt repayment problems and restructuring.

4.3.4 Best practices for debtor countries' relations with private creditors

To enable best practices in regular communication with creditors, the Principles stipulate that each debtor country should set up an investor relations programme, and more effectively, to create an investor relations office (IRO).[326] An investor relations programme is claimed to be a "proven vehicle" that maintains market access even in times of market turmoil.

In 2005, the **IIF Best Practices for Investor Relations** was developed based on some basics established by the Principles.[327] The IRO is proposed as the main single contact channel between the debtor country authorities and the private financial sector. It should facilitate detailed information provision to creditors, obtain feedback from creditors on policy and concerns – which should be shared with the authorities. In addition, or alternatively, the IRO should provide creditors with direct access to the authorities. The purpose is to develop trust between the country and the private financial sector to reduce shifts in market perception.[328] The detailed information available should allow creditors and other market participants to undertake their own due diligence and to be responsible for undertaking appropriate risks assessments and market-based pricing of debt products (bonds, etc.).[329]

The IRO should be staffed with a **core communication** officer and staff familiar with market jargon, and be responsible for gathering and distributing the information as well as maintaining a specific website as mentioned above. IRO staff should:

- Maintain a website (see above) with detailed market relevant information, and gather such information from different authorities.
- Establish and coordinate formal two-way communication channels between policymakers or authorities and market players through bilateral meetings, investor video conferences, etc., to be improved over time by feedback from investors.
- Maintain a list of contacts (including email addresses) of policymakers, etc., and have a network of civil servants available to provide relevant and particular information for creditors and other market participants, to respond to questions, to receive feedback and for dialogue at a senior level.
- Maintain an updated list of investors and other market participants; the contact list should help to identify who a country's creditors are and assess how they will behave in times of turmoil of uncertainty.[330]
- Have commitment from senior policymakers at the highest level to provide contacts and to be available for dialogue (including bilaterally face-to-face) with creditors, especially when market confidence is waning.
- "Brief senior policymakers about market feedback and concerns, overall market sentiment with respect to asset class and general global environment, and anticipated market reactions to policy changes under consideration."[331]
-

- Coordinate the country's arguments on economic and policy changes but "not serve as an advertisement campaign for the government", and acknowledge when the economy and policies are in a difficult situation.[332]

An important element of the Principles, best practices of IROs and investor relations programmes is direct and timely communication of information and comments from market participants to senior decision-makers (such as deputy central bank governors). This could happen through ad hoc or regular bilateral meetings or phone calls, teleconferences, emails, and "roadshows" (by which senior officials travel to countries and financial centres where investors are based).[333]

Investors and creditors are "encouraged to participate in investor relations programmes and to give feedback on the information and communication instruments".[334]

4.3.5 Best practice requirements for debtor countries' policies and bond contracts

The Principles and best practices guidelines also stipulate requirements that borrowing and bond issuing countries should comply with to prevent negative reactions from market players and debt repayment problems.[335] In addition to the detailed information and communication demands, the requirements include:

- Implementation of **sound economic, financial, and fiscal policies** that ensure growth, macroeconomic and financial stability, and debt sustainability, including through structural measures, thereby bolstering market confidence.[336] "It is vital that political support for these measures be developed."[337] Countries should closely monitor and improve the effectiveness of these policies based on **feedback from creditors**.
- Incorporation in all new bond issues of **collective action clauses** with appropriate aggregation clauses, with comprehensive coverage of their terms and conditions in the bond documentation and easy access to this information for all investors.[338] **Aggregation clauses** allow holders of **all outstanding bonds** "to collectively decide on whether to accept potential offers from issuers to modify existing bond terms and conditions" and to avoid a small minority blocking restructuring or requiring preferential treatment, including full repayment (as "vulture funds" do through litigation).[339]

The IIF and the Principles' Trustees and Consultative Group are considering changes in the CAC clauses (see Annex II).

4.3.6 The creditor committee at time of debt restructuring

The Principles and the Addendum promote the creation of a "creditor committee" that is broadly representative, "as early as possible in the debt restructuring process, certainly before debt default, which should be avoided if possible".[340] In practice, the committee will also be created after a default takes place.

This creditor committee should be the main interlocutor with which the debtor country consults regarding debt restructuring and the financial and economic situation. It should thus fulfil the so-called good-faith efforts required under the IMF "Policy on Lending into Arrears to Private Creditors"[341] to reach understanding with their creditors. The purpose is to get a majority of investors to come to an agreement, especially in the case of aggregated CACs, which is market conform and restores growth and market access. It is understood that the process will also be assisted by the official creditors, who may set particular conditionalities.

The **IIF Best Practices for Formation and Operation of Creditor Committees**, annexd to the Principles, recommends rules and practices to be adopted by the creditor committee. [342] These IIF Best Practices were created based on experiences of, and discussions with, the IIF's Sovereign Risk Management Committee and the Principles Consultative Group.

The creation of creditor committees in the past has not always been easy. For instance, in some cases the debtor country did not want to recognise the committee for various reasons, or some investors feared they would get lesser options for the most profitable outcome, notably hold-out investors or vulture funds.

The IIF Best Practices for Formation and Operation of Creditor Committees provide detailed criteria that creditor committee policies, practices, and modus operandi should follow:[343]

- **Initial formation** of the creditor committee could result from a request of the debtor country, be agreed by both debtor and creditors, or be organised by the creditors themselves.[344] It needs to be done in a cooperative manner, as debtors might be sensitive towards particular creditors. In case several creditor committees are formed, a single steering committee as interlocutor is advisable if interests are not too diverse. The ICMA standard of aggregated CACs (2015) allows the holders of different series of bonds and other debt securities to be combined to form the necessary threshold for a committee.[345]
- **Diversity** within the creditor committee should not only represent creditors with diverse financial instruments and investment strategies, and diverse sizes of debt instruments owned, but also cover regional differences due to tax and regulatory differences.
- The **practices** of the committee should be based on adopted rules to facilitate speedy internal coordination, but committees are not expected to act in unanimity when taking decisions on such rules and codes. Committee members are expected to provide facilities and staff to arrange meetings and consultations. An important issue is to agree how debt restructuring will be given a positive signal and endorsed at the end of the negotiations.[346] "Effective Committee leadership will be key to ensuring an efficient Committee process."[347]
- Legal and financial **advisers**: each debtor and the creditor committee should appoint a legal adviser. Such a law firm should have debt restructuring experience and deal with any conflict of interest it might have with creditors.[348] At the same time, creditors have to commit enough time and be represented by the same person throughout the debt restructuring negotiations, preferably with sovereign debt restructuring skills.[349]
- The **costs of fees** for the legal and financial advice to a single private creditor committee are expected to be covered by the debtor country after criteria have been agreed, or costs can be agreed to be shared. This needs to be openly discussed.[350]

4.3.7 Requirements during restructuring negotiations

In case of debt repayment problems, the Principles and complementary documents promote voluntary debt restructuring agreements that are negotiated timely and in good faith. Constructive dialogue should aim to achieve a critical mass of private creditors in supporting a restructuring deal before final terms are announced, which could avoid litigation.[351]

Debtor countries should:

- apply sound policies that seek conditions for renewed market access based on sound macroeconomic growth and balance of payments;[352]
- not apply additional exchange controls on outflows, except for temporary periods in exceptional circumstances;[353]
- appoint and pay for legal and financial advisers;
- resume, to the extent feasible, partial debt service or payment of principal as a sign of good faith;
- not unduly influence voting on debt restructuring agreement proposals if they bought back and own some of the bonds.[354]

Information to be provided to creditors should include:

- Maturity and interest rate structures of all external financial sovereign obligations, including the proposed treatment of such obligations.
- Main aspects of the country's economic policies and programmes.
- Agreements reached with other creditors, the IMF, and the Paris Club.

Private creditors are expected to:

- "Consider" requests for voluntarily maintaining temporary trade and interbank advances, and the rollover of any short-term maturities on public and private sector obligations, "to the extent consistent with their business and legal obligations" and to "avoid a broad debt restructuring".[355]
- Organise themselves in a creditor committee with a broad basis as early as debt service problems arise.
- Abide by "established ethical standards", including keeping non-public information confidential and not using it for (insider) trading purposes.[356]
- Take into account the feasibility of their restructuring proposals.[357]

4.3.8 The debt restructuring negotiations

In negotiations to restructure debt, preferably through the creditor committee, debtors and creditors should abide by the following Principles and best practices.

- **Good-faith negotiations** are emphasised by the Principles and accompanying guidance, and should be an agreed principle between debtor country and creditor committee. This means, among other elements, "cooperative action" and a "constructive dialogue" between the debtor and creditors.[358] It also includes abiding by all the other investor relations recommendations such as delivery of due and timely information by the debtor country.
- **Trust** between the debtor country authorities and the creditors, and among the creditors, should be created to support orderly negotiations and enable an agreement endorsed by the majority of the creditors.
- **Sovereignty**: the sovereign nature of the debtor country and its economic health is recognised, but at the same time the asset values of the creditors are also to be protected.[359]
- **Voluntary:** engagement of creditors in the creditor committee is voluntary, as are amendments to contracts.
- **Sanctity of contracts**: during the restructuring negotiations and in case of voluntary amendments to the contracts, "contractual rights need to be fully enforceable".[360]
- **Confidentiality**: given that non-public information that is shared during debt restructuring should not be able to influence trading of the debt instruments (that is, to avoid insider trading), creditor committee members need to agree on a code of conduct that includes what information remains confidential (such as by appointing independent representatives to the committee) and how information can be shared publicly. The negotiations themselves should also remain confidential, be directly between the debtor and creditors, "without the participation of multilateral or bilateral organizations", unless requested and agreed, but these organisations' contribution or debt relief should be taken into account.[361] "Both debtor and creditors should avoid commenting on the negotiations", because this could affect trust and the financial value of the debt instruments.
- **Speedy processes**: the formation of the creditor committee, coordination among the creditors, agreement on the discussion and negotiation processes, and the actual negotiation processes should be undertaken so as not to delay the processes.
- **Fair treatment**: there should be no discrimination among affected creditors, including bilateral public creditors, while burden sharing should be fair.[362]
- **Beyond restructuring the private debt**: early agreement on multi-year macroeconomic growth, fiscal, and debt objectives is needed under debt restructuring; the process will rely on programmes and policies of the IMF (including the IMF Policy on Lending into Arrears to Private Creditors) and public creditors.[363]

During the restructuring process, the creditor committee should be the platform where the debtor's economic and financial data and programme are analysed, pre-default consultations take place, and debt restructuring proposals are discussed. The debt restructuring proposals can consist, among other elements, of the amendment of existing debt instruments or exchange for new ones. At the end of the negotiations of a potential debt restructuring, the voting rights of each of the creditors are respected in the adoption of proposals; that is, a critical mass of endorsement that provides a majority under CACs will be attempted, but no unanimity will be required.

4.4 Updating the Principles in 2021

In its letter to the G20 of 9 April 2021, the IIF announced that the Principles will be updated in 2021 on seven points.[364]

Several **reasons** were given for this update:

- Changes in sovereign debt markets over the past decade necessitate better sovereign debt crisis prevention. "High and rising sovereign debt levels have greatly increased the likelihood of further debt strains."[365]
- Lessons learned from recent debt restructurings (including Argentina, Congo-Brazzaville, Ecuador, Mozambique and Pakistan).
- Emergence of the G20 DSSI and follow-up Common Framework.
- The surge in investor interest in environmental, social and governance (ESG) considerations.

The IIF has disclosed that to "strengthen existing mechanisms" the update of the Principles should centre on improving debt transparency, regular and meaningful private-public sector dialogue, and integrating ESG/SDG considerations – all will help borrowers' market access".[366]

According to the IIF letter, the Principles **update will cover seven areas**: [367]

1. addressing scenarios that arise from **exogenous events** such as climate change and pandemics, including through the use of so-called **state-contingent debt instruments**;[368]
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 Policy on Lending into Arrears to Private Creditors,
   - 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** (see Annex II);
6. encouraging the formation of a **single creditor committee per country**, or a steering group in the event of multiple committees; and
7. **integrating ESG considerations in restructuring negotiations**, such as via the use of sustainability-linked bonds.[369]

Related to area (7) above, the IIF will **include an assessment of how countries publish ESG data** in its annual evaluation of the implementation of the Principles and the IIF Best Practices for Investor Relations (see Annex I). The data to be assessed will be based on private creditors' demands for information and recommendations made to the IIF, such as:

- "Presentation of policy frameworks with specific strategies for environment and social goals.
- Targets and commitments on UN SDG progress and how they plan to finance it.
- Alignment with the Paris Agreement.
- Historical/recent trends in carbon and greenhouse gas emissions.
- Disclosure of national climate vulnerabilities.
- National plans on food security & reducing food inflation/volatility (for frontier markets).
- Information around third party certification and third-party ESG ratings when available
- Information on past sovereign ESG issuances as well as the use of proceeds.
- Transparency around the process that determines the eligibility of projects for which [ESG] bond proceeds may be allocated as well as disbursement of funds in line with the offering documents.
- Commitments to regular (at minimum annual) reporting on projects to which ESG bond funds have been allocated.
- Information on what international institutions the country is working with on the ESG front."[370]

Once the update proposals are developed in 2021, they will be presented to the Principles' Group of Trustees for approval later in 2021, likely to be in October 2021 around or just after the World Bank and IMF annual meetings. Subsequently, the updated Principles will be submitted to the G20 "to seek renewed endorsement".[371]

4.5 Comments and conclusions on the Principles and the IIF guidance documents

- By servicing the Principles for Stable Capital Flows and Fair Debt Restructuring and establishing the related IIF Best Practices for Investor Relations, the IIF Best Practices for Formation and Operation of Creditor Committees, and the IIF Voluntary Principles for Debt Transparency, the IIF has strategically supported the creation and implementation of financial-industry-led standards in the debt market. The IIF's success in having the Principles for Stable Capital Flows and Fair Debt Restructuring and the IIF Voluntary Principles for Debt Transparency endorsed by the G20 has given these **private standards official endorsement,** even though IIF members and private creditors have no obligation to implement them. The IIF's letters to the G20 and international financial bodies have continued to promote the Principles as a standard to be implemented by financial policymakers while in practice protecting the interests of private creditors.
- The governance of the Principles appears to be independent through the Group of Trustees and the Principles Consultative Group, which include high-level non-IIF members from the private and the public sectors, as well as some IIF members. In practice, it is **more a public–private partnership** that exposes the close relationship on international financial issues between the highest levels of the private sector and most senior public decision-makers. The fact that the Central Bank Governors of France and China are co-chairs of the Group of Trustees and also participate in the G20 finance meetings where regulation and reform of the debt market should be decided from a public interest perspective can be considered a conflict of interest.
- The Principles' key argument for maintaining access to private credit is advocated by the IFF as enabling the public sector to "gradually reduce its exceptional financial assistance" to low to middle income countries and thus allow countries to avoid public creditors' **conditionality**. [372] In practice, however, the Principles and the associated IIF best practice standards result in some conditionality regarding what debtor countries should do to ensure the "market" does not turn against them if they want to continue to borrow from the private sector. For instance, the Principles require countries not to restrict capital flows except in exceptional circumstances. They instruct debtor countries to provide direct communication channels to enable "feedback" from private investors to countries' decision-makers with the expectation that the latter will take the feedback into account to improve their policies in a market friendly way. The Principles' highly detailed requirements for an investor relations office and a broad range of regularly updated good quality data and statistics are very demanding of poorer countries' limited resources but are important to get or maintain market access according to investors.[373] Although these detailed data requirements are suitable for the computerised risk assessment systems of private creditors, the latter's willingness to invest and to take often high risks in middle and lower income countries also depends very much on other factors that influence market sentiment.
- The Principles claim that preventing a sovereign debt crisis is a shared responsibility but in practice clearly put the burden of implementing the information, policy, and financial requirements on the debtor countries.[374] The principles **create an unbalanced relationship** between debtor countries and private creditors. In contrast with the detailed information requirements placed on countries, the Principles do not require private creditors to disclose which countries they invest in or lend to. The principle of good-faith negotiations for debt restructuring does not even include a best endeavour requirement on private creditors to avoid costly litigation.[375]

- The Principles in practice also create an imbalance in the relations between debtor country authorities and their parliamentarians and citizens, who do not get the privileged access to senior decision-makers that private creditors have. Moreover, the Principles and IIF best practice guidelines promote non-transparency, which prevents accountability on the part of debtor country decision-makers. For instance, the Principles recommend that debt restructuring negotiations be confidential between the debtor country and creditors, without the participation of multilateral or bilateral organisations, and without any commentary provided to the outside world.
- The Principles promote the seeking of public support for market friendly requirements and practices proposed by the private financial sector but do not include concerns about the public interest, sustainable development, or human rights being at risk. The new attention now given to climate change, the SDGs, and ESG considerations is resulting in the incorporation of new sustainability information requirements in the Principles, as already announced by the IIF. On the one hand, such information provides transparency regarding whether the country has policies to advance the SDGs and Paris climate goals. It is also useful in assisting the financial industry in creating new and profitable sustainability-related financial debt-creating products. On the other hand, some of the data will also be used to inform the risk management of the financiers, such as data about national climate vulnerabilities. The question is whether such information will make investors wary of investing in countries where the need to mitigate or adapt to climate change is particularly urgent. This and other questions should make the G20 very reluctant to endorse the new version of the Principles, which the IIF plans to ask them to do.
- Overall, the Principles' central argument about maintaining and renewing market access results in continued indebtedness to private creditors, while the same argument can be used by private creditors not to provide debt relief – and with their refusal endorsed by the debtor countries. For decades, the Principles have helped to open and shape the debt markets for middle income and even lower income countries. Given the emphasis of the Principles on bilateral and case-by-case information exchange and restructuring negotiations, the IIF continues to oppose debt problems being settled through an official internationally agreed debt management system – a new international debt architecture –, with a set rules on rights and obligations that includes creditors.

FINAL CONCLUSIONS

The Institute of International Finance (IIF) was designated by the G20 to be its official interlocutor to facilitate debt relief by private creditors for the poorest countries hit by the pandemic. This privileged role did not result in any meaningful suspension of debt service (only 0.2%), let alone debt cancellation, for these countries as to date. The IIF is an influential well-resourced lobby group that has used its long standing privileged informal access to the G20 and other international financial fora to secure the common interest of its more than 450 members, many of which are operating in the global debt markets. The IIF has managed, through its various letters and documents that ostensibly would facilitate private creditors' participation in the G20's Debt Service Suspension Initiative (DSSI), and through its lobbying strategies towards the poorest countries, to successfully assert that it would be against these countries' interest to suspend payment of their private creditor debt.

During its privileged dialogue with the G20, the IIF has consistently used the approach enshrined in its by-laws in favour of voluntary case-by-case market based solutions, private standards, and constant "dialogue" with public financial decision-makers. To support this approach, the IIF has also promoted market friendly private standards for direct relations between debtor countries and their private creditors. This lobbying strategy casts doubt on how the private sector will participate in debt restructuring under the G20 Common Framework for Debt Treatments beyond the DSSI or any other debt relief initiative. The IIF's lobbying letters to the G20 have indicated that private creditors are not committed to providing debt restructuring comparable to that offered by bilateral creditors, as required by the Common Framework, and that they resist being compelled to do so. Private creditors that are holding out can now block debt restructuring or make it a long protracted process under the Common Framework and other debt relief negotiations. The IIF has emphasised that poorer countries need market access – that is, private credit – to finance the Sustainable Development Goals and climate mitigation. However, this will increase the indebtedness of low to middle income countries while allowing the private sector to further develop a profitable sustainability-linked business model that the IIF is actively promoting.

The G20 has shown no intention of introducing more compelling instruments and regulations for private creditors, many of whom are based in G20 members' jurisdictions, to provide debt relief, especially in times of pandemics and the fight against climate change. So far, the G20 has instead formally endorsed the IIF's market friendly standards, which remain voluntary for IIF members, and the IIF's proposals for a publicly subsidised initiative for private lender transparency, the OECD Debt Transparency Initiative. This G20 approach has allowed private lenders and bond holders to transfer their profits to shareholders, investors, or clients rather than being used for debt relief.[376]

Key concerns: unbalanced relationships and negative impacts

The IIF's lobbying position and strategies have resulted in seriously **unbalanced relationships** that prevent rapid progress in effective avoidance of borrower countries' over-indebtedness and in fair debt restructuring or debt cancellation.

- The IIF's easy and privileged direct access to G20 finance officials, finance ministers, and central bank governors to voice IIF members' interests contrasts with the very limited access to the G20 of debtor countries, their citizens, civil society (C20), and other stakeholders to defend public interests.
- The IIF's budget of US$ 33.6m (2019), which finances its three-pronged lobbying strategy, supported by an experienced secretariat, active Board and worldwide membership, contrasts with the limited resources available to debtor countries, affected citizens, and local business, as well as the rotating G20 finance track presidency and secretariat.

- The IIF's self-promoted standards, based on the public-private Principles for Stable Capital Flows and Fair Debt Restructuring (the Principles), require from debtor countries detailed information, direct access to the authorities, and even adaptation of policies for the benefit of private creditors. In contrast, the latter have hardly any commitments to make, even not about disclosing their debt holdings.
- The case-by-case approach advocated by the IIF to resolve poorer countries' debt repayment problems confronts the authorities of a single country with collectively organised IIF members and non-members, through IIF committees, the Principles' discussion platforms, and creditor committees. In contrast, debtor countries do not collectively negotiate with their private creditors who apply different and unequitable rules in each case.
- The IIF's unique debt data sets and knowledge about debt holdings by IIF members, which are not publicly disclosed, contrast with poorer countries' lack of knowledge of all their debt holders unless they employ paid advisers to identify their debt holders.
- Private creditors have protected themselves against debt payment defaults through complex legal clauses and processes and by using financial hedging. This makes it very costly for debtor countries to require and proceed with debt restructuring from private creditors in order to protect their budgets to serve the needs of their citizens.
- The IIF's longstanding lobbying for maintaining lower to middle income countries' market access – in practice, maintaining their indebtedness to private creditors – results in these countries being at the mercy of the market friendly requirements of private creditors, as well as of the volatility of lightly regulated and often speculative financial markets. Potential turmoil in financial markets is even used by the IIF as an argument not to impose debt relief but to keep relief initiatives voluntary for private creditors. This results in an undesirable form of interdependence between the financial authorities as represented by the G20 and private market players.
- The question remains how far conflicting interests among IIF members result in unbalanced relationships within the IIF and as a consequence the IIF's lobbying for the harmful status quo or for only incremental improvements in international sovereign debt management. This contrasts with proposals for more structural and fundamental reforms made by public international financial and other institutions such as the IMF and UNCTAD, and by civil society.

The IIF's lobbying strategies, combined with the G20's willingness to allow the IIF to dominate external input in the policy debate on sovereign debt problems of poorer countries, has **serious negative impacts.**

- There has been 0.2% payment suspension of private creditor debt for the poorest countries (who repaid to private creditors US$14.9 bn by June 2021) to relieve their budgets for protecting citizens from the Covid-19 pandemic and climate change.
- Public creditors' debt relief, up to US$ 10.3 bn, may have been ultimately spent on repaying private creditors' debt rather than enhancing the budgets for fighting Covid-19, climate change, unsustainable development, and human rights abuses.
- Lack of G20 promotion of structural reforms of the international debt markets and of sovereign debt crises management results in low to middle income countries suffering all kinds of severe social and environmental consequences. It may also result in more financial instability – if not a full-blown crisis – in the highly interconnected global financial markets.

RECOMMENDATIONS

The report exposes many dysfunctions of the sovereign debt markets and how the IIF lobbies to shape these markets in the interest of private creditors. Some recommendations for short- and long-term solutions to prevent and solve over-indebtedness are as follows.

Compulsory debt relief and debt cancellation by private creditors

- Most of the private creditors are headquartered in G20 countries. G20 financial policymakers and authorities have the power to regulate these financiers and to initiate legislation to compel private creditors to reduce debt burdens and cancel debt of countries for which debt relief initiatives are undertaken. Based on the G20 Common Framework of Debt Treatments beyond the DSSI, G20 countries could agree to regulate so that all DSSI country lenders and bond holders that are headquartered or operate transactions in their jurisdictions are compelled to provide debt relief comparable to bilateral creditors (similar to the UK's Debt Relief (Developing Countries) Act, 2010).[377]
- Given the refusal so far of private creditors to provide debt relief, and the fact that the increasing debt burden for many low to middle income countries can lead to chaotic defaults and serious turmoil in financial markets, supervisory authorities could require private lenders and bond holders to write off part or all of these debts, or to meet higher capital requirements through retention of profits.
- The G20 should develop positions and financial regulations that counter the argument that "market access" for lower to middle income countries will be undermined by suspending debt repayments to private creditors. Proposals to consider include:
    - state contingent clauses to be incorporated in all loan and bond contracts so that debt cancellation is automatically granted in the case of climate, health, and other emergencies or exogenous shocks;
    - changes in laws that improve aggregated collective action clauses in bond and loan contracts;
    - changes in laws in the UK and the US, which govern most bond contracts, to prohibit hold-out private creditors ("vulture funds") from suing debtor countries at times of official debt relief initiatives;[378]
    - promotion of bond contracts that stipulate that, the lower the rating of a bond at issuance, the higher the debt payment cut or cancellation during debt restructuring processes;
    - regulations that make private creditors less dependent on credit ratings in times of catastrophe, pandemics, or international relief initiatives.
- The G20 and other official international financial bodies (such as the IMF and Paris Club) should strictly require the principle of comparability of debt relief to be adhered to by private creditors as a condition of allowing the latter to be closely involved in future debt restructuring negotiations, especially under the Common Framework.[379] If not, the restructuring process could impose the implementation of comparable treatment. This could be done irrespective of whether Chinese creditors disclose and restructure all their debt holdings, because private creditors have already taken the risk of investing – and have obtained high interest rates – in countries where non-transparent Chinese lending could be assumed to occur.
- Since the high risks concerning the debts of low to middle income countries are well known, often through low bond ratings and very high interest rates to start with, no subsidies to private creditors should be granted through blended finance during restructuring efforts, such as those involving the Paris Club. This would be in line with the IIF promoted Principles that stipulates in the Preface that private creditors should not expect any bailouts.

Prevent and reverse further debt creation

- The G20 finance track should internally coordinate so that the G20 newly established Sustainable Finance Working Group does not promote debt-creating financial instruments with high interest rates under the banner of financing climate change mitigation and achieving the SDGs. The G20 should set a standard that all data about financing "net zero" initiatives, climate change mitigation, and the SDGs should be on a "net flow" basis – that is, the net amount that is lent after the costs of interest, repayments, administrative expenses, and other factors have been deducted. Net inflows could be compared to net outflows due to debt repayments.

- The G20 should encourage discussions at international financial fora and the UN, and with full inclusion of debtor countries, about an equitable and transparent system to govern the debt markets and debt crisis resolution. Such an "international debt architecture" should prioritise sustainable development that benefits people and planet over private creditor interest. It should pay due attention to the causes of the increasing debt burden, which remain too little discussed, such as:
    - active encouragement by investment banks and asset managers to borrowing countries to issue bonds, in order reap profitable fees;
    - lack of rules and political will by low to middle income countries to apply capital flow management (capital controls) that prevents volatile capital from unduly flowing in and out of countries, which affects foreign exchange values and countries' capacity to repay debt in foreign currencies; the G20 should endorse the review of the IMFs rules ("institutional view") that would allow more flexibility in the application of capital controls; the IIF Best Practices for Formation and Operation of Creditor Committees should eliminate its requirement for debtor countries not to apply additional exchange controls on outflows;
    - missing or inadequate regulation of speculative debt market players, including hedge funds and vulture funds;
    - insufficient attention paid by central bank decision-makers in high income countries to prevent the negative effects of their monetary policy on low to middle income countries.

- The G20 should in the short term promote solutions to sovereign debt problems that are not on a case-by-case basis. This would include supporting debtor countries to share information and experience among themselves, and if possible to collectively discuss solutions with particular private debt holders. In parallel, the IIF should discuss modifying its position on a case-by-case and voluntary market based approach to prevent free riders among private creditors and unpredictable financial market instability.

Equitable treatment

- The G20 finance track and the rotating G20 presidency should not provide privileged access to the IIF to discuss problems and solutions to sovereign debt restructuring and debt market management. The IIF should be recognised as not being a neutral interlocutor but a business organisation that has been lobbying against compulsory policy measures and for the interests of its members as its mandate. The G20 financial officials and decision-makers should work on the principle of obtaining balanced input from debtor countries, other stakeholders, and debt experts, giving special attention to those who are affected by debt but have few resources to make their voices heard. Organisations such as Afrodad, Latindadd, Freedom from Debt Coalition, Eurodad, and their members, work with or represent such affected citizens. [380]

- G20 officials, finance ministers and central bank governors should identify and prioritise in their decision-making the short- and long-term public interest and ensure that private financial interests are not favoured. The IIF should be held accountable for lobbying positions that are against the public interest.

- As part of sustainable finance rules and ESG obligations discussed by the G20 finance track's Sustainable Finance Working Group, G20 should introduce the sustainability standard that financial firms (banks, underwriters, asset managers, etc.) have the responsibility not to create debt, or have the obligation not to hold debt instruments that are having the (potential) risks of over-indebtedness and too high debt repayment burden. Debt holding's should be assessed towards a country's GDP and budget percentage that allows for fighting climate change, and implementing human rights and sustainable development obligations.

More transparency

- The G20 finance track officials, finance ministers and central bank governors should disclose their contacts, letters exchanged, discussions, and cooperation with all non-public stakeholders, and the topics discussed. The permanent G20 website could host a webpage where such disclosures are reported.
- Debtor countries should establish a transparency register to disclose which private creditors have had conversations with which senior financial officials and decision-makers. This could be done in the context of existing investor relations practices, programmes and offices. The EU transparency register might be one of the templates to explore.[381] In addition, countries should ensure that information they make available to private creditors is also easily accessible for their parliamentarians and citizens.
- The IIF should publish its regularly updated debt reports, debt statistics and more details about private sector holdings of lower to middle income countries' debt.
- The IIF should improve disclosure of its lobbying activities, documents, and arguments, with more transparency about behind-closed-door contacts and cooperation with senior public officials and intergovernmental bodies such as the G20.
- The G20 should impose through regulatory standards – legislated in G20 countries – an obligation on the private sector to publish information on all the sovereign debt (loans and bonds) that it holds. This information is already partly or fully available within the private sector itself, through access to expensive databases and in secretive private creditor committees. The way some Dutch pension funds disclose their bond holdings, specifying the countries and the bonds, could be a model.[382] The voluntary debt data hub for private lenders as being introduced by the OECD based on the IIF Voluntary Principles for Debt Transparency has too many shortcomings to become successful.

ANNEX I:
IIF EVALUATION CRITERIA FOR INVESTOR RELATIONS PROGRAMMES AND DATA DISSEMINATION[383]

The IIF annually assesses how countries, especially so-called emerging markets, are implementing the IIF's Best Practices for Investor Relations, which are based on its Principles for Stable Capital Flows and Fair Debt Restructuring. The IIF has developed 20 evaluation criteria to assess how countries (38 countries in 2020) are applying the IIF Best Practices and data dissemination requirements. Since 2020, the IIF's assessments of data provision are less granular than in previous years but still have additional evaluation criteria regarding debt. Each country assessed is given a weighted score card that the IIF publishes annually.

The result of the 2020 evaluation shows that a few countries have fulfilled all the IIF criteria for good investor relations and information sharing, namely: Indonesia, Mexico, the Russian Federation and Turkey. Twenty-one of the 38 countries have achieved a high score or have improved. Some countries are judged to have barely implemented any of the standards, including China, Ecuador, Kenya and Zambia.[384]

The IIF evaluation criteria are as follows, according to different categories.

Investor relations office and staff

1. Formal and institutionalised investor relations (IR) activities (IR office (IRO), IR officers and IR website).
2. IR staff identifiable, searchable and reachable through website(s).

Investor relations website

3. Websites available in English (IRO website, preferably also both the central bank and ministry of finance or treasury websites).
4. Reciprocal links to IRO, central bank, and ministry of finance websites.
5. Investors able to register and subscribe on websites to receive information.

Dissemination of macroeconomic data and policy information

6. Country subscribes to IMF's SDDS[385], including the four dimensions of data dissemination: (1) data coverage, periodicity, and timeliness; (2) access by the public; (3) integrity of the disseminated data; and (4) quality of the disseminated data.
7. Effective transparency of key data related to debt and government operations.
8. Macroeconomic data and policy information presented in user-friendly format in English.
9. Historic policy information available.
10. Forward-looking policy and comprehensive economic, monetary, and fiscal information available.
11. Information on structural factors (legal, regulatory, governance frameworks, etc.) is available.

Investor relations contact list

12. Active and updated investor contact list maintained by government agencies.

Feedback and communication channels

13. Web-based communication with investors by various agencies and responses within 36 hours.
14. Authorities have regular bilateral meetings with investors.
15. At least once a year travel to financial centres ("roadshows") in normal times (no deal making).
16. Quarterly public investor conference calls on key economic data and policies. Investors should be invited via email and/or an announcement on a government agency website.
17. Archives of authorities' presentations to investors and/or conference call materials available on websites.
18. Investor feedback taken into account in policy decisions.
19. Senior policymakers and central bank officials' participation in investor relations (IR) meetings and information presentations.

Regular self-assessment
20. Regular self-assessment of IR activities.

Data dissemination practices: additional criteria
Up to 2020, the IIF assessed countries on the basis of 23 elements of data dissemination: the IMF's SDDS standards, six categories in the area of central government operations, eight in the area of central government debt, and eight in the external debt area, but not financial sector information. From 2020 onwards, the IIF decided to limit detailed annual assessments of data dissemination to key criteria and announced that it would monitor for "periodicity" (monthly data on central government operations and quarterly data for central government debt and total external debt) and for timeliness (one month or quarter after the end of the reference period):[386]

1. Central government operations.
2. Central government debt: countries are encouraged to implement IMF and IIF standards for quarterly reporting of interest and amortisation on medium- and long-term debt for the next four quarters and then annually thereafter. In addition, reporting of data on short-term debt falling due on a quarterly basis is encouraged.
3. External debt: countries are to use the IMF's SDDS template that has three levels of disaggregation: (a) by institutional sector, (b) by short-term and long-term maturities on an original maturity basis, and (c) by instrument.

The IIF also evaluates the availability of debt amortisation schedules, the relevant breakdowns by institutional sector, and the timely availability of those schedules.[387] In addition, the IIF evaluates the inclusion of data and the identification of resident holdings of public debt issued internationally, non-resident holdings of public debt issued domestically, and non-resident holdings of private debt issued domestically.

Additional information from IIF members' feedback[388]
In addition to the IIF's secretariat's evaluation, the IIF consults and reviews regularly with its private investor members about the relative importance of countries' investor relations and data transparency practices in their investment decisions. The IIF seeks feedback from members of its Council on Asset and Investment Management (CAIM) working group, its Committee on Sovereign Risk Management (CSRM), and the private sector members of the PCG. The review in 2020 resulted in "a record number of responses from 13 institutional investors".[389] They emphasised the importance of data accessibility and availability through websites, conference calls, and investor briefings. The quality of the data has received good scores in investors' risk assessments and thus has encouraged willingness to invest in the countries concerned.

New criteria to add information on ESG risks
More than half of the investors who responded to the IIF survey in 2020 indicated that they are seeking or requesting information related to environmental, social and governance (ESG) factors to assess ESG risks. This would imply a decline in debt product values due to negative ESG impacts, and that investors would implement an ESG analysis as a regular part of their investment strategy. Credit rating agencies have been incorporating ESG factors in their credit assessments. Some governments now provide information on, for example, progress on climate or SDG commitments, but this information is not always centralised.

Following its member investors' high interest in, and demand for, more ESG data, ESG assets to invest in, and creation of ESG financial products, the IIF has announced that it will also assess countries' communications on ESG factors from 2021 onwards as part of its annual evaluation of investor relations.[390]

The provision of ESG data that the IIF is likely to assess will be based on what investors would like to have regarding the countries in which they invest and have recommended to the IIF, such as:

- "Presentation of policy frameworks with specific strategies for environment and social goals.
- Targets and commitments on UN SDG progress and how they plan to finance it.
- Alignment with the Paris Agreement.

- Historical/recent trends in carbon and greenhouse gas emissions.
- Disclosure of national climate vulnerabilities.
- National plans on food security & reducing food inflation/volatility (for frontier markets).
- Information around third party certification and third-party ESG ratings when available (e.g. MSCI ESG rating).
- Information on past sovereign ESG issuances as well as the use of proceeds.
- Transparency around the process that determines the eligibility of projects for which [ESG] bond proceeds may be allocated as well as disbursement of funds in line with the offering documents.
- Commitments to regular (at minimum annual) reporting on projects to which ESG bond funds have been allocated.
- Information on what international institutions (e.g. UN, CBI, etc.) the country is working with on the ESG front."[391]

ANNEX II:
REVIEWING THE CONTRACTUAL FRAMEWORK FOR DEBT RESTRUCTURING (CACS) AS SUMMARISED BY THE ANNUAL REPORT ON THE PRINCIPLES (2020)

The IIF has summarised the discussion about the review of the CACs as follows (fully quoted).[392]

"Over the last decade significant progress has been made in strengthening the market-based contractual framework for sovereign debt restructuring. In **August 2014**, following a period of public consultation, ICMA published a package of sovereign debt contract reforms, including new and **updated CACs, a revised pari passu clause and a model creditor engagement clause**. Together these three reforms marked one of the most significant advancements in the contractual framework for sovereign debt restructuring since the Principles were published in 2004. The updated CACs – which include a menu of voting procedures including two different options for aggregation of votes across series to secure creditor agreement for modification of payment terms – were widely welcomed as a means of facilitating collective action and avoiding disruption to sovereign debt restructurings that can arise from holdout litigation. Of the 2014 ICMA contract reforms, the updated CACs have proven to be the most influential. In 2020, the updated CACs have seen a first major test during debt restructurings in Argentina and Ecuador. Following is a brief review of the progress made on implementation of these contract reforms and an overview of outstanding issues, as well as recent proposals to further refine the CAC framework following the Argentina and Ecuador restructurings."

Brief review of the progress made on implementation of these contract reforms

"In 2015, the IIF – also a collaborator in the drafting process – endorsed the full package of the ICMA contract reforms and helped promote broad understanding of the reforms in the market, highlighting the benefits of full implementation. Issuers embraced the new contractual clauses relatively quickly, starting with a Kazakhstan Eurobond issued under English law in October 2014 ($2.5 billion) with the full package of ICMA contract reforms, including the creditor engagement clause. In November, Mexico followed with an issue under New York law, which included updated CACs and pari passu but left out the creditor engagement clause. On the official sector side, **the G20 and the IMF Executive Board endorsed the updated CACs and pari passu only**. In the 2015 Leaders' Communique, the G20 called on the IMF to actively promote their acceptance and to 'explore market-based ways to speed up their incorporation in the outstanding stock'.

Some six years later, evidence suggests that the updated model CACs and, to a certain extent, the revised pari passu clause have become the market standard for international sovereign bonds. According to the IMF, over 90% of newly issued bonds (in terms of nominal principal) include the updated CACs. Furthermore, uptake under New York and English law has been roughly the same, a significant improvement over the results reported in the first year of implementation, **when 92% of New York law issues included the updated CACs and only 75% under English law did**. Most issuances with updated CACs have also included the modified pari passu clause, with a few exceptions.

However, as ubiquitous as the updated CACs have become in newly issued international government bonds governed by New York or English law, **bonds issued in other jurisdictions (some 3% of all international bonds) do not include them**. Most foreign-law bonds issued by **state-owned enterprises** (SOEs) and **subnational governments also do not carry CACs**. Given rapidly growing levels of sovereign and sub-sovereign debt worldwide (see the IIF *Global Debt Monitor*), this could lead to more protracted workouts in countries like Venezuela, where SOE debts comprise a significant portion of the debt stock being restructured. Additionally, the **outstanding stock of bonds with older version CACs is still sizable**, with much issued at long maturities. According to the IMF, some 50% of all international sovereign bonds do not include updated CACs, and over 30% of these have a remaining maturity of more than 10 years. Sovereigns have shown very little appetite for liability management operations (such as consent solicitations, bond buybacks, or debt exchanges) that could help accelerate turnover of these bonds, primarily due to high transaction costs.

Moreover, **inclusion of creditor engagement clauses has made less progress**. In the first year of implementation only 20% of emerging market sovereign Eurobond issues included creditor engagement clauses, and these were almost all issued under English law (see the 2015 PCG Report). This can be attributed in part to the lack of endorsement by the IMF, as well as Mexico's influential role among Latin American issuers. While available data is limited, uptake of the creditor engagement clauses appears to remain modest —though slowly expanding, with issuers like Belize, Grenada, Mozambique and adopting a variation of the clause as part of recent debt exchanges.

The 2012 Addendum to Principles recommends that private creditors 'should organize themselves in a broadly based representative creditor committee as early as possible in the debt restructuring process, certainly before default' and that 'early discussion is necessary between the representative private creditor committee and the sovereign debtor, in close consultation with the official sector'. Creditor engagement clauses provide clarity by setting out a sequence of actions to be followed by the sovereign debtor and its private creditors when the borrowing country is under stress, thus minimizing uncertainty and helping preserve the value of assets. However, some recent restructurings have **seen the formation of multiple creditor committees, which has highlighted issues of inter-creditor equity**. The ICMA creditor engagement clause—which was not present in the restructured bonds of either Argentina or Ecuador provides a potential solution for fragmentation of creditor committees, stating that if more than one committee is formed, a steering group should be created from the various committees."

Outstanding issues

"While the 2014 CACs have become a market standard for international bonds, the cases of Argentina and Ecuador have shown how they can be used in specific country cases. In both restructurings, the sovereigns chose **not to use the innovative 'single-limb' procedure** which requires that the proposed modification be 'uniformly applicable' to all affected series. In broad terms, the 'uniformly applicable' modification was designed to ensure that each series receives the same offer or the ability to select from the same menu of instruments. However, the design remains untested in a real-life restructuring.

Furthermore, recent restructurings have put a spotlight on a number of **issues around interpretation and the use of CACs by some sovereigns**, prompting revisions in language that could become the new standard. Drafters of the 2014 CACs have noted that while CACs were designed to make it easier for a supermajority to bring along a minority of non-tendering bondholders, the final formulation was intended to strike a fine balance between creditor and debtor rights. However, in some recent restructurings, **use of 'redesignation'** (by which the sovereign reserves the right to amend the composition of a pool of bonds designated for restructuring after the votes have been cast) – as well as the '**PacMan' strategy of re-pooling the restructured bonds with holdouts** – has raised concerns of **gerrymandering**. Furthermore, in both Argentina and Ecuador, sovereigns used CACs to give **materially less favorable financial terms to non-tendering bondholders** who were dragged along by the CACs. While both countries have put in contractual mitigants that will limit their use of similar tactics going forward, there are questions about how this could influence the use of 2014 CACs in the future by other countries. **Industry discussion** about the merits of additional reforms to the CAC framework – or alternatively issuance of formal guidance on best practices – are ongoing."

Proposals to further refine the CAC framework

"In sum, recent sovereign debt restructurings have shown that the existing contractual framework for market-based debt restructuring is broadly effective, aided by the market acceptance of the updated CACs. However, there are outstanding gaps, including the large outstanding stock of debt without 2014 CACs, as well as insufficient uptake of the creditor committee clause. However, the 2020 debt restructurings by Argentina and Ecuador have also revealed how **CACs could be used in a manner which could undermine the delicate balance between debtor and creditors** underpinning the CAC framework. In these cases, these issues were addressed, with the sovereign and the bondholders reaching agreements on necessary contractual modifications. Going forward, these modifications will be taken into account in a **review of the 2014 ICMA CACs, either through issuance of updated**

contractual language or by issuance of supplementary guidance. As noted in the Principles, successful and timely sovereign debt restructuring is best achieved through a collaborative, good-faith process between a sovereign debtor and its creditors. While CACs were designed to minimize the chances of holdout creditors, it has always been recognized that **safeguarding of minority creditor rights is important to preserving the integrity of the debt restructuring framework**. To this end, greater acceptance of the ICMA creditor committee clause could help private creditors organize more efficiently."

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331 Idem, p. 55.
332 Idem, p. 55.
333 Idem, p. 57.
334 Idem, p. 43.
335 What is not mentioned is for instance that the interest rates resulting from market structures, should be much lower to avoid excessive debt burdens and repayment problems.
336 Idem, p. 43, 46.
337 Idem, p. 43.
338 Idem, p. 47.
339 Idem, p. 47.
340 Idem, p. 44, 48, 49: according to Principle "3. Good-Faith Actions" and the Addendum regarding "Creditor Committee Policies and Practices"
341 IMF, IMF Policy on Lending into Arrears to Private Creditors, 14 June 1999, https://www.imf.org/external/pubs/ft/privcred/ (last viewed 30 September 2021).
342 Idem, p. 60-69.
343 Ibidem.
344 Idem, p. 49: the Addendum stipulates that the investors should themselves create a creditor committee.
345 Idem, p. 63.
346 Idem, p. 65: "To the extent the Committee agrees with the terms of a debt restructuring it should seek to signal support for the proposal, to the extent possible. There may be instances where unanimous support of the Committee cannot, despite good faith negotiations, be obtained. In such instances, it should be understood that the debtor should not feel precluded from bringing its restructuring proposal to the market nevertheless, especially if it believes there is significant support for it."
347 Idem, p. 66.
348 Idem, p. 67.
349 Idem, p. 66-67.
350 Idem, p. 65.
351 Idem, p. 45.
352 Idem, p. 44.
353 Idem, p. 45.
354 Ibidem: "Bonds, loans, and other financial instruments owned or controlled by the sovereign should not influence the outcome of a vote among creditors on a restructuring."
355 Idem, p. 44-45: "Trade lines are fully serviced and maintained".
356 Idem, p. 49.
357 Idem, p. 67.
358 Idem, p. 62.
359 Ibidem.
360 Ibidem: "to ensure the integrity of the negotiations and the restructuring process"; Idem, p. 44: "contractual rights must remain fully enforceable"; p. 48 "modifications of [bond or loan] contracts should be avoided wherever possible as a matter of principle".
361 Idem, p. 65-66.
362 Idem, p. 48.
363 In November 2020, an IMF official mentioned that these IMF policies were being reviewed and "will encompass a review of the perimeter of official and private claims with an objective to maximize incentives for constructive creditor-debtor engagement in pre-default restructurings and enhance the IMF's role in furthering creditor engagement—the famous debtor's 'good faith efforts'—in post-default cases." : IMF, Current Sovereign Debt Challenges and Priorities in the Period Ahead, 16 November 2020, https://www.imf.org/en/News/Articles/2020/11/16/vc111620-current-sovereign-debt-challenges-and-priorities-in-the-period-ahead (viewed 20 September 2021).
364 IIF, Letter to G20, 9 April 2021, p. 3.
365 IIF, Weekly Insight: Updating the Principles for Stable Capital Flows and Fair Debt Restructuring, 10 June 2021.
366 Ibidem.
367 IIF, Letter to G20, 9 April 2021, p. 3-4.
368 Reuters Staff, IMF says state-contingent debt instruments can aid sovereign debt restructurings, 19 November 2020, https://www.reuters.com/article/us-g20-imf-debt-idUSKBN27Z1SJ (viewed 23 September 2021): bonds with State-contingent

debt instruments (SCDs or SCDIs) are not popular with private sector because "fixed income investors have steeply discounted their value [i.e. the value of bonds with SCDs], largely due to non-standard designs, illiquidity, and unpredictable risk profiles"; SDCIs can be defined as: "SCDIs link a sovereign's debt service payments to its capacity to pay, where the latter is linked to real world variables or events. State-contingent debt instruments (SCDIs) can help better manage public debt in a world of macroeconomic uncertainty."

369 See: ICMA, Sustainability-Linked Bond Principles, https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/ (viewed 12 September 2021).

370 Principles For Stable Capital Flows And Fair Debt Restructuring - Report On Implementation, October 2020, p. 31.

371 IIF, Letter to G20, 9 April 2021, p. 4.

372 Principles For Stable Capital Flows And Fair Debt Restructuring - Report On Implementation, October 2020, p. 46.

373 See Annex I of Chapter 4 in this report: the good quality data are "getting good scores in investor risk management".

374 Principles For Stable Capital Flows And Fair Debt Restructuring - Report On Implementation, October 2020, p. 47.

375 Idem, p. 44.

376 See M. Vander Stichele, Will the G20 let private finance escape debt relief once again?, SOMO long read, 6 July 2021.

377 Jubilee Debt Campaign, G20 debt suspension request: 90% of bonds governed by English law, 4 May 2020, https://jubileedebt.org.uk/press-release/g20-debt-suspension-request-90-of-bonds-governed-by-english-law : the UK passed the Debt Relief (Developing Countries) Act (2010) to protect countries under the debt resolution initiative for the Heavily Indebted Poor Countries (HIPC) to be sued by private creditors for higher repayments.

378 See for instance: Jubilee Debt Campaign, idem: 90% of bonds the G20 DSSI countries are governed by English law. By updating the passed the Debt Relief (Developing Countries) Act (2010), UK legislation could protect any countries from being sued if they do implement the suspension requested by the G20.

379 In case of lack of willingness to comparable treatment in debt restructurings, the cuts in repayments to private creditors could be commensurate with the low rating levels of the bond at issuance: the lower the bond rate, the higher the cuts ("hair cuts") to the private creditors.

380 See the websites of these organisations: https://www.afrodad.org/index.php/en/ , https://www.latindadd.org , https://fdcphils.org , https://www.eurodad.org/debt_justice .

381 https://ec.europa.eu/transparencyregister/public/homePage.do (last viewed 30 September 2021).

382 See for instance: ABP, Overview government bonds ABP, 30 June 2021, https://www.abp.nl/images/overview-government-bonds.pdf (last viewed 30 September 2021).

383 Principles For Stable Capital Flows And Fair Debt Restructuring - Report On Implementation, October 2020, p. 34-39.

384 Idem, p. 30-35.

385 SDDS: IMF's Special Data Dissemination Standards.

386 Principles For Stable Capital Flows And Fair Debt Restructuring - Report On Implementation, October 2020, p. 38-39.

387 Idem, p. 39: The findings for 2020 included: "In the case of external debt amortization schedules, our assessment of dissemination practices shows that Central Banks usually prepare and release this information. However, provision of central government debt data varies considerably across countries; in some cases, analysts will search hard to locate the schedule. Also, countries rarely meet the IIF's encouraged element of providing quarterly data for at least the immediate 12-month period. Some data categories, which are neither prescribed nor encouraged by the IMF's SDDS, are nevertheless provided on an ad hoc basis. For example, ratings agencies often use external debt ratios as indicators of debt sustainability. We have identified cases in which countries disclose this information on an ad hoc basis outside of the SDDS framework."

388 Idem, p. 31.

389 Ibidem.

390 Idem, p. 32: "Several countries have already established green or sustainability bond/sukuk frameworks, including: Chile, Hungary, Indonesia, Mexico, Malaysia, Poland, and Thailand" In 2020, Mexico became the first country in the world to issue a sovereign SDG bond under its SDG Sovereign Bond framework. South Korea issued a dollar-denominated green Eurobond in New York in 2019. Egypt issued its first sovereign green bond in October 2020. Meanwhile, Colombia reports that it is creating a framework for green bonds in collaboration with the development banks. Additionally, Peru is investigating the possibility of issuing a green/sustainable bond in the next three years."

391 Idem, p. 31.

392 Principles For Stable Capital Flows And Fair Debt Restructuring - Report On Implementation, October 2020, p. 18-19: the bold and sub-titles are added for this report.


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