Timothy Adams
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Dear Managing Director Georgieva, President Malpass, Secretary General Gurria and Chairperson Renaud-Basso,

On behalf of the IIF membership—over 450 global firms across the financial services industry—we are writing to express our grave concern about the threat to debt sustainability posed by the COVID-19 pandemic.

With global debt levels at record highs, sovereign borrowers are increasingly vulnerable to market disruptions. The sharp increase in credit spreads in recent weeks has pushed borrowing costs to their highest levels since the 2008-09 financial crisis—a serious barrier to market access for many emerging market economies. As global commodity prices hit their lowest levels in almost 50 years and oil market turbulence continues, many low-income and developing countries (LIDCs) are seeing export revenues plummet, while the strength of the U.S. dollar poses additional refinancing challenges. Referencing countries eligible for assistance from the International Development Association (IDA), we estimate that some $140 billion in general government debt service obligations will come due through the end of 2020, $10 billion of that in foreign currency. For vulnerable countries now facing acute healthcare and humanitarian challenges, servicing and managing these debt obligations will be close to impossible. To address the inevitable buildup in arrears and requests for deferment, both public and private sector initiatives will be needed.

We are encouraged by the recent World Bank-IMF proposal calling on official creditors to suspend debt payments for IDA countries that request forbearance as the COVID-19 economic fallout materializes. We also welcome recent efforts of individual official creditors to address urgent debt problems of vulnerable borrowers bilaterally. In tandem with rapid disbursement of funding via new and existing short-term IFI credit facilities, such forbearance would provide urgently needed relief during this health and humanitarian crisis. In support of these efforts, we offer the following perspectives reflecting views of international creditor community—distinguishing between the crisis-fighting and crisis resolution phases, which require different levels of responsibility (and different tools) with respect to the official and private sectors.

In the near term as crisis-fighting continues:

1. **Make full use of multilateral concessional finance**: Multilaterals should continue to provide new funding and refinancing to the fullest extent possible, on concessional terms, ensuring that potential borrowers are aware of all the facilities available to them. Multilaterals that have instruments such as the IMF's Catastrophe Containment and Relief Trust can also use these facilities to defray payments due. Consideration could also be given to expanding the universe of eligible countries for the purposes of this specific crisis.
2. **Bolster multilateral balance sheets**: Shareholders should agree to augment the resources of the multilaterals to allow maximum use of concessional finance. IMF shareholders should accelerate approval of the doubling of the New Arrangements to Borrow (NAB) resources, and, where appropriate, bilateral loans to the IMF should be maintained.
3. **Request official bilateral creditor forbearance**: Official bilateral creditors should commit (upon specific request by the sovereign debtor) to forbear payment default for the poorest and most vulnerable countries significantly affected by COVID-19 and related economic turbulence for a specified time period (e.g. for 6 months or to the end of 2020), without waiving the payment obligation.
4. **Request broader international and private creditor forbearance**: Private creditors (and other international creditors including sovereign wealth funds) should commit, upon specific request by the sovereign debtor, to forbear payment default for the poorest and most vulnerable countries significantly affected by COVID-19 and related economic turbulence for a specified time period (e.g. for 6 months or to the end of 2020), without waiving the payment obligation.

As an effective approach to crisis resolution, with reference to unfolding circumstances.

Once the economic crisis triggered by the COVID-19 pandemic has reasonably abated, stakeholders can begin to implement crisis resolution tools, including to address the debt problems and financial dislocation that will have emerged. In the interim, we can refine existing crisis resolution tools and principles that will be needed in the near future.

- **Need for international coordination**: A coordinated approach to debt relief, such as those taken by the HIPC and MDRI initiatives, has the benefit of bringing a wide range of creditors to the table and facilitates a comprehensive approach to the problem. While acknowledging the need for rapid action, we urge international coordination wherever possible across the spectrum of multilateral, bilateral and commercial creditors. Towards this end, meetings (or conference calls) of the Paris Club with international creditors could be held more frequently. In addition, we are hopeful that the G20 can facilitate non-Paris Club bilateral lenders working together with the Paris Club members during this extraordinary time.

- **Recognition of a more diverse creditor base**: The creditor base for low-income developing countries has changed dramatically in recent years, shifting from mainly concessional debt from bilateral/multilateral lenders towards much greater reliance on non-Paris Club bilateral lenders (China, Saudi Arabia, Kuwait etc.), sovereign wealth funds and commercial creditors. The latter include institutional investors and non-financial corporations as well as banks; bondholders, in particular, may have diverse perspectives that can be difficult to reconcile. As a result, debt relief and restructuring negotiations may prove more challenging in the coming cycle, highlighting the need for clear communication and coordination as well as market-based resolution mechanisms like corporate actions and tender/exchange auctions.
- **Role of the *Principles for Stable Capital Flows and Fair Debt Restructuring***: Developed in the wake of the Latin American and Asian debt crises, the *Principles* were launched in 2004 via cooperative effort among emerging market officials and representatives of the private sector, receiving endorsement from the G20 Finance Ministers and Central Bank Governors at their 2004 Ministerial meeting in Berlin. The *Principles* are governed by the Group of Trustees, co-chaired by Governor Villeroy of the Banque de France, Governor Yi of the PBOC and Axel Weber, Chairman of UBS Group AG and Chairman of the IIF.
- **Applicability of the *Principles* in the current circumstances**: With a variety of approaches to debt relief being proposed, we would highlight five key recommendations:

    1. **Best practices**: The *Principles* emphasize sound policies and transparency on the part of debtors; voluntary, cooperative debtor-creditor dialogue; and good-faith debt restructuring negotiations. These are the cornerstone of crisis management and resolution and can facilitate early restoration of market access and debt sustainability.
    2. **Data and policy transparency**: Borrowers should ensure timely release of comprehensive data on fiscal and debt positions (including contingent liabilities), with maturity and interest rate structures of all external financial sovereign obligations, as well as proposed treatment of such obligations. This will allow private creditors to accurately assess credit risk, supporting a resumption of effective market pricing. The IIF work on Voluntary Principles for Debt Transparency complements borrower transparency.
    3. **Close debtor-creditor dialogue**: During the current crisis and anticipated debt restructuring negotiations, exceptional efforts to maintain dialogue will be required. The IIF would be pleased to support such dialogue, including exploration of market-based approaches to debt service problems prior to default.
        - **Recognition of representative creditor committees**: Sovereign issuers should interact and engage in negotiations with private creditors through the representative creditor committee;
        - **Use of collective action clauses** (CACs) where they exist, with appropriate aggregation clauses, can support voluntary debt restructuring.
    4. **Good-faith negotiations** are the most effective framework for reaching voluntary debt restructuring agreements among sovereign debtors and private creditors. Particularly in the current challenging circumstances, we urge borrowing countries to commit to good faith negotiations with private sector creditors, thus supporting crisis resolution and limiting spillover and contagion risk.

5. **Fair and comparable treatment of all creditors**: Sovereign issuers should avoid discrimination against any individual or groups of creditors. No creditor or creditor group should be excluded ex ante from participating in debt restructuring. Broad creditor participation in debt restructuring will support fair burden sharing.

At this difficult time, we would like to highlight the steadfast support of the private sector and the broader international creditor community for the many commendable initiatives in progress to support debt sustainability. Towards that end we would be pleased to discuss these matters further, at your convenience.

We look forward to working with you in navigating the challenging course ahead.

Sincerely,

Timothy D. Adams
President and CEO
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cc: G20 Finance Ministers

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