



July 14, 2020

Progress Update on Private Sector Engagement in the G20 Debt Service Suspension Initiative (DSSI)

INTRODUCTION

Following up on the discussion during the Paris Forum/G20 event on July 8, we are pleased to provide the following progress update on private sector engagement with respect to the G20 Debt Service Suspension Initiative (DSSI). We would also like to take this opportunity to highlight other important efforts underway to support the ability of vulnerable sovereign borrowers to service their debt amid the challenges posed by COVID-19.

We very much welcome the G20 initiative to marshal support to alleviate the economic and humanitarian impact of the pandemic. An integral part of these efforts will be promoting alignment in approach across the public and private sectors, to ensure our collective response—as noted in the G20 communiqué—is as effective as possible.

Towards this end, we believe that good communication is essential, and have therefore been providing regular briefings on private sector perspectives. These briefings have been informed by discussions of the IIF Committee on Sovereign Risk Management (CSRМ), which now numbers over 200 members from more than 100 financial services firms worldwide. These firms span the spectrum of the financial services industry, from banks to pension funds, insurers, asset managers, pension funds, sovereign wealth funds and service firms including credit rating agencies, sovereign advisory and law firms. Collectively these firms represent some \$45 trillion in assets under management.

Our work with these private sector creditors—which is producing a growing toolkit of ways to facilitate private sector participation in the DSSI—has benefited greatly from regular engagement with the IMF, World Bank and Paris Club, providing us with expert advice and guidance. We have also facilitated a series of discussions with representatives of borrowing countries, allowing us to incorporate their views as we continue to develop this toolkit.

TOOLS TO SUPPORT THE DSSI: TERMS OF REFERENCE, TEMPLATE WAIVER LETTER AGREEMENT

- **Importance of Principles:** In the IIF's [April 9](#) letter to the heads of the IMF, World Bank, OECD and Paris Club, we noted that the pre-existing problem of [high global debt levels](#) has greatly exacerbated the dilemma for many of the countries hit hardest by the economic impact of COVID-19. This letter distinguished the need for near-term crisis-fighting (making full use of multilateral concessional finance to alleviate liquidity problems and augmenting MDB resources where needed) from the need for an effective approach to solvency concerns and crisis resolution in the medium to longer term. For the latter, we referenced the [Principles for Stable Capital Flows and Fair Debt Restructuring](#), highlighting the importance of best practices, data and policy transparency, close debtor-creditor dialogue, good faith negotiations and fair and comparable treatment of all creditors. The April 9 letter also underscored the importance of transparency, highlighting our work on the [Voluntary Principles for Debt Transparency](#).
- **No “one-size-fits-all” approach and other challenges:** In a [May 1 letter](#) addressed to the heads of the IMF, World Bank and Paris Club with copy to the G20, the IIF summarized preliminary work in building private sector support and outlining a potential approach to private sector participation in the DSSI. This letter also set out the complex landscape and wide range of creditors and borrowers, noting that a “one-size-fits-all” approach to the DSSI for private creditors would be challenging and proposing a private sector Terms of Reference as an alternative. We highlighted the challenges for private creditors to participating in the DSSI, which center on the difficulty of predefining net present value neutrality, the need for a case-by-case approach, fiduciary responsibilities and the credit ratings implications of private creditor participation in the DSSI—which could hamper future market access for sovereign borrowers asking for debt service suspension.
- **Terms of Reference, importance of market access:** Our [May 28 letter](#) to the G20 and the heads of the IMF, World Bank and Paris Club introduced the newly developed [Terms of Reference for Voluntary Private Sector Participation in the G20/Paris Club Debt Service Suspension Initiative](#). These Terms of Reference, which set broad parameters applicable for all creditors, underscore the need to ensure liquidity for DSSI-eligible countries to ward off a genuine solvency crisis. They benefited greatly from discussions with the IMF, World Bank and Paris Club, thus providing a useful blueprint for future engagement. In this letter, we noted that the debt service obligations to private creditors (both bondholders and lenders) tend to be concentrated in a subset of DSSI-eligible countries with market access. For private creditors to help maintain liquidity and avoid future solvency problems, market access at an acceptable cost must be preserved. Our 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. The letter also highlighted early signs of market re-opening, with some improvement in borrowing conditions and lower borrowing costs.
- **Template Waiver Letter Agreement to support DSSI-eligible borrowers:** In June, the United Nations Commission for Africa requested that the IIF help develop a waiver from private lenders stating that a request from sovereign borrowers for forbearance from official creditors would not constitute an event of default (which could otherwise be triggered by provisions in loan documentation). Accordingly, we developed and published the new [Template Waiver Letter Agreement](#) on July 10. This template was the result of intensive discussion with our working group members, with borrowing countries, and guidance and support from the IMF and World Bank legal teams. While the legal documentation underlying the relevant debt arrangements made a “blanket” waiver unachievable, our CSRM members are supportive of the concept of a waiver. Borrowers will still need to make the requests for a waiver on a case by case basis as needed, but the Template Waiver Letter Agreement will streamline and simplify the process.

UPDATE ON PRIVATE SECTOR SUPPORT FOR THE DSSI AND OTHER DEBT RELIEF EFFORTS

In response to your request for an assessment of private sector support for the G20 DSSI, we have held over 30 group and bilateral discussions with the members of the CSRM. We also recently asked our CSRM members to complete a short survey. We were pleased to receive 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. Below we provide you with our assessment of these discussions and an overview of key survey findings. We also offer some representative individual responses. Please note that the survey responses were provided on a confidential basis and all findings and summaries have been anonymized.

- **Toolkit now in place to facilitate private sector debt service suspension:** Referencing the G20 DSSI and the associated Terms of Reference developed by the IIF, most respondents believe that these Terms of Reference provide an adequate toolkit for voluntary participation in debt service suspension, though many commented that there was still a “lack of an NPV-neutral mechanism” for achieving debt service suspension. Some however noted the need for additional tools to facilitate execution, for both banks and bondholders, including guidance on consent solicitations. Nearly all respondents indicated that they would use or consider using the Terms of Reference if approached by a borrowing country for forbearance; some noted that case-by-case discussions would still be needed given specificities of loan contracts and individual country credit profiles.
- **Private creditors surveyed have not received any formal requests for debt service suspension under the DSSI:** Both survey responses and group/bilateral discussions suggest that private creditors have not received any *formal* requests for forbearance to date from countries eligible for the DSSI. Some respondents note that they have received a limited number of requests from borrowers under arrangements covered by export credit agencies, but that these claims are being treated as official claims (and are thus out of scope for the private sector Terms of Reference). A few firms have reported that borrowers (both DSSI- and non-DSSI eligible) have made *informal* requests to explore the process around asking for deferral of interest from bondholders. A number of lenders have noted that they too are informally discussing potential deferral of debt service payments due from borrowers. Most respondents indicated that if asked, they would actively consider such requests and seek to help, using the private sector Terms of Reference developed by the IIF. However, a few expressed reticence to participate, citing concern about how the DSSI is being implemented, including with respect to “lack of data transparency especially on debt and debt service projections.”
- **Need for a waiver with respect to requests for forbearance from official creditors:** The lenders we surveyed reported that no borrowers have formally asked for a “waiver” that would allow them to ask official creditors for forbearance without triggering an event of default/cross-default that could arise pursuant to the underlying loan documentation with such borrowers. However, some do report that they have had preliminary conversations with borrowers who are considering this action. As this survey was conducted prior to the publication of the [Template Waiver Letter Agreement](#), the availability of the template is expected to result in waiver requests going forward.
- **Private sector firms actively discussing ways to assist with debt service:** Most private sector creditors we spoke with or surveyed report being actively engaged in discussions on a variety of ways to provide assistance with debt service to DSSI-eligible countries—and/or to other vulnerable countries that have been hit hard by the COVID-19 pandemic. Many lenders are continuing to engage with

sovereigns on their financing needs by continuing to disburse under existing loans for ongoing projects or by participating in new bond issues for a number of emerging markets, including some DSSI-eligible borrowers like Honduras. Others noted that they were "...actively involved in discussions with UNECA and the multilaterals on coming up with alternative and cheaper financing structures to help address what we believe is a liquidity rather than a solvency issue for the great majority of IDA countries." Some respondents underscored the importance of distinguishing between countries that are in a "pre-default to default stage (like Ecuador) from countries that have only a temporary loss of market access...for the latter group, (we) maintain the view that a temporary debt suspension carries more negative consequences than positive ones."

- **Continued support for infrastructure projects and COVID-related budget spending has been a priority:** Some lenders have continued to provide funding for key infrastructure projects that have been endorsed by multilateral agencies. For example, one lender reports that they are seeking to support DSSI-eligible countries fund their budget gap with a specific focus on the healthcare sector, working alongside multilaterals such as MIGA. Another lender has set up a sizable COVID-19 response fund that donates to relief efforts.
- **Bondholders looking for ways to support sovereign borrowers, including via restructuring where needed:** Many of the asset managers we spoke with are participating in bondholder groups looking for ways to provide cash flow relief and in some cases working on comprehensive restructuring for countries that are experiencing solvency crisis. In this context, Ecuador—while not eligible for the DSSI—is a good example of market-negotiated solutions achieved through good faith negotiations. The debt restructuring will provide large cash flow relief over the next few years, and follows a debt standstill that was agreed to in April, which gave time to the government to take fiscal measures, work out a comprehensive restructuring, and get back on track with the IMF. Among DSSI-eligible countries, a number of bondholders referenced Zambia, where a creditor group has been formed ahead of what is expected to be a complex debt restructuring.
- **Market access improving, albeit gradually:** Most of our survey respondents felt that market access was improving for most DSSI-eligible countries, but that there was more improvement for non DSSI-eligible (but still vulnerable) countries. A number noted that the cost of borrowing was still relatively high. Many noted differentiations, e.g. "...improving for a handful of IDA countries, as some (Honduras, Mongolia, Senegal and Ivory Coast) have regained market access...at acceptable cost, while other countries (Kenya, Nigeria, Ghana) could potentially issue albeit at the high end of acceptable prices." For non DSSI-eligible countries, many survey participants noted that major central bank liquidity provision, particularly from the Fed, has been making market access less problematic.

FINDING NEW SOLUTIONS FOR DEBT-RELATED LIQUIDITY AND SOLVENCY CHALLENGES

It is evident from the commitment and enthusiasm of our CSRM members, from groups including bondholder committees and from the individual efforts of a wide range of financial firms that there is tremendous appetite to help vulnerable borrowers with debt service problems. As noted above, private creditors are actively engaged with their borrowers—both formally and informally—to alleviate liquidity and solvency problems. The Terms of Reference offer a valuable blueprint for private creditor engagement, while the newly published Template Waiver Letter Agreement addresses the problem of unintended defaults or cross defaults with respect to requests for forbearance from official creditors.

Looking ahead, we would highlight two forthcoming additions to the toolkit that will further facilitate private creditor participation in debt service suspension and help with execution. For banks and other lenders, a Framework Agreement will provide waivers or consents regarding certain provisions in relevant debt arrangements that could otherwise be breached by the deferral of debt service payments. For bondholders, we are developing a Technical Guidance Note on consent solicitations (which amend existing bond terms to allow execution of debt service suspension). Feedback from our CSRM members suggests that these new tools will prove very helpful in moving ahead with debt service suspension, as and when it is requested.

Finally, with the proposed DSSI extension and broader future debt sustainability challenges in mind, the IIF is 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. Such solutions may include contractual remedies, instruments with credit enhancements, and innovations in debt restructuring (for example, building in ESG considerations). As we take forward the search for solutions, we will be working not only with the private sector CSRM, but also with the [Group of Trustees](#) of the Principles for Stable Capital Flows and Fair Debt Restructuring and the affiliated [Principles Consultative Group](#) (PCG). Both the Trustees and the PCG have public and private sector members; the Group of Trustees is co-Chaired by Governor François Villeroy de Galhau of the Banque de France; Dr. Axel Weber, Chairman of UBS AG and former President of the Bundesbank; and Governor Yi Gang of the People's Bank of China.

As you note in your April Communiqué, overcoming the COVID-19 pandemic and its intertwined health, social and economic impacts is an urgent collective priority. The IIF, which represents some 450 global financial services firms in over 70 countries, stands firmly with the G20, the international financial institutions and the official sector more broadly in support of sound sovereign debt policy, stable capital flows to emerging markets and sustainable global growth.