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International Monetary Fund

Sri Mulyani Indrawati
Minister of Finance
Indonesia

Christian Lindner
Minister of Finance
Germany

David Malpass
President
World Bank Group



Dear Managing Director Georgieva, Minister Indrawati, Minister Lindner and President Malpass:

As the 2022 Annual Meetings of the IMF and World Bank Group commence, the G20 and G7 are seeking international coordination to address urgent economic and financial stability risks, while vulnerable countries around the world face growing challenges to debt sustainability. The private financial sector firmly supports the goals of global governance bodies and the international financial institutions in the search for effective solutions to these challenges. Towards that end, we offer the following perspectives on behalf of our IIF membership.

Key messages:

1. Private sector creditors have a vested interest in the health of emerging economies
2. Sustained inflows of private capital are vital for growth and development goals
3. Resolution of debt stress requires transparency, and preservation of market access to the extent feasible
4. Securing global ESG/SDG capital at scale requires a hospitable investment environment

Private sector creditors have a vested interest in the health of emerging economies

Since the 2008-09 financial crisis, private sector creditors and investors have provided over \$8.7 trillion in net financial debt and equity flows to low- and middle-income countries—averaging around 3% of their annual GDP. Across direct investment, portfolio equity, bonds and bank loans, this is a very substantial stake in the long-term health and well-being of the recipient countries. Moreover, at both sovereign and corporate level, these financial flows are relationship-based: creditors and investors are closely involved with governments and companies to ensure the success of manufacturing and infrastructure projects, for example, or in the ongoing provision of trade finance. Bondholders are increasingly engaged with sovereign issuers, not only on the

conduct of fiscal and monetary policy and debt management, but also on environmental, social and governance considerations.

However, many vulnerable countries now face an unprecedented confluence of risks. Total [debt in emerging markets](#) has risen sharply since 2010, from 170% to almost 250% of GDP. Against this backdrop, the hit from the COVID-19 pandemic and sharp slowdown in global growth—coupled with higher borrowing costs, inflation, currency depreciation and the rising incidence of droughts and floods related to climate change—is exacerbating challenges for [debt sustainability and food security](#).

These vulnerabilities are particularly acute in low- and lower-middle income countries, which have seen a sharp buildup in external liabilities over the past decade, notably to official bilateral and multilateral creditors. Today, around 80% of external public debt of these countries is owed to these official creditors, almost entirely denominated in foreign currency. This leaves many of these countries exposed to large swings in foreign exchange markets. Some of these borrowers are already seeking IMF support, and more incidence of serious debt stress is expected in the coming years.

In response, private sector lenders and bondholders are working rapidly to develop and enhance market-based solutions. For example, to support food security, private sector-led initiatives include improving farmers' access to formal bank finance, crop insurance and agrotech finance, as part of broader efforts to build more resilient supply chains. In areas like trade finance and loans to support food imports, private sector banks are also supporting multilateral initiatives including the IFI Action Plan to Address Food Security. Bondholders are actively engaging with at-risk sovereign borrowers and have granted maturity extensions and debt service suspension—for example, to both the government of Ukraine and to a major Ukrainian food supplier. Bond investors are also participating in new issues designed to support regenerative agriculture practices and other ways to improve food security, including the recent \$5 million African Development Bank local currency green bond.

Sustained inflows of private capital are vital for long-term growth, development

Recent estimates suggest that global spending targets to provide adequate support for emerging and developing economies (EMDEs) in the areas of human capital, sustainable infrastructure, agriculture, food, land use and nature—alongside climate change adaptation and mitigation—will [amount](#) to nearly \$6 trillion by 2030—over 18% of their GDP. This will require sharply ramping up current spending levels of around \$2.4 trillion (11% of GDP), in addition to managing ongoing debt service payments to both public and private sector creditors. While much of this spending will come from traditional development finance at concessional rates (particularly for low and lower-middle income countries), private capital clearly needs to be scaled up substantially.

A wide range of efforts to mobilize this capital is underway, including via the Glasgow Financial Alliance for Net Zero (GFANZ), the Egyptian COP27 Presidency, and through ramping up blended finance initiatives, involving the multilateral development banks, the Central Banks and Supervisors Network for Greening the Financial System (NGFS), the OECD, and the UN-sponsored Global Investors for Sustainable Development among others. Enhancing co-financing schemes for climate action would also support industry efforts to strengthen important ongoing dialogue between private and official creditors, including in the context of sovereign debt restructuring.

However, even as the need for private finance escalates, investors are reassessing the risk profile of EMDE investments: risk premia continue to rise, particularly for the most vulnerable countries, where market pricing already implies a high probability of default. Indeed, following a pickup in 2021, [private sector financial flows](#) are set to decline sharply this year. Revitalizing and mobilizing private sector financial flows to EMDEs on the scale needed to alleviate current acute strains—and support future sustainable growth—will require unprecedented international coordination to provide a supportive policy backdrop; de-risking solutions, such as through blended finance; and—critically—a more hospitable EMDE investment environment.

Resolution of debt strains requires transparency, preservation of market access

Amid growing concern about a wave of potential sovereign debt defaults, the international community has rallied to find ways to support troubled borrowers and improve the sovereign debt architecture. The private sector has been engaged via a variety of efforts, notably discussions around the Common Framework, and more recently the UK G7 Private Sector Debt Working Group to consider majority voting provisions in sovereign loans as well as the deployment of climate-resilient debt instruments. The IIF [Voluntary Principles for Debt Transparency](#) and the [OECD data repository](#) provide an important framework for enhancing transparency on the part of private sector lenders. However, successful implementation will require the full support of debtor countries and international financial institutions, notably the IMF and World Bank. Public disclosure of relevant transaction-level information should be encouraged to improve debt sustainability analysis and enhance debtors' credibility with creditors.¹

As we have outlined in our letters during 2020-21, private sector creditors stand ready to help. Informed by the discussions of our IIF Committee for Sovereign Risk Management and other IIF working groups, representing more than \$45 trillion in assets under management, we developed a [toolkit](#) to facilitate private sector participation in the G20 Debt Service Suspension Initiative (DSSI) if requested and outlined ways in which the private sector could best support the Common Framework.² Drawing from this experience, we offer three key observations:

- 1. The design of top-down initiatives is not conducive to private sector participation, particularly where the private sector and borrowing countries are excluded from the design of the initiatives.** While efforts to speed resolution of liquidity and debt sustainability problems are welcome, sanctity of contracts and the need to find consensus on any amendments mean that case-by-case approaches are generally necessary. It is important to note that with strong borrower engagement, full transparency and creditor coordination, case-by-case resolution of debt strains can and does happen quickly.
- 2. Lack of transparency is a fundamental barrier to rapid and successful resolution of debt strains.** The benefits of debt transparency are widely acknowledged and efforts to improve it—for creditors of all stripes—should be intensified. The role of borrowing countries in supporting debt transparency is crucial; private sector engagement can complement ongoing efforts to educate and build capacity across finance ministries and debt management offices. Along with greater engagement at an earlier stage, greater

¹ The relevant transaction-level information could initially include the items listed in the [Information Matrix Template](#) that was developed by the IIF and OECD for the Implementation of the [IIF's Voluntary Principles for Debt Transparency](#).

² As previously noted by the [Principles Consultative Group](#), private creditors provided substantial liquidity to the DSSI countries during the period of that initiative. The overall amount of new financing by private creditors was substantially larger than the temporary relief provided by the DSSI.

transparency would facilitate private sector participation in Common Framework negotiations. For example, early and simultaneous engagement by debtor countries with all investors, as opposed to sequential information-sharing is crucial and should be encouraged in all sovereign debt restructuring including under the Common Framework.

3. **Preservation of market access should be a key consideration** in developing any debt relief initiative or enhancement to the sovereign debt architecture, particularly given the scale of private sector financing that will be required to support sustainable growth and development in EMDEs. Towards this end, regular and close consultation with private sector creditors and investors would provide a fuller understanding of credit rating and market dynamics, helping inform debt sustainability analysis and underlying assumptions about market access. Views of borrowing countries should also be sought.

Scaling global ESG/SDG capital will require a hospitable investment environment

It is well established that international capital goes where it is well treated; countries with good governance, strong legal and regulatory frameworks and effective [investor relations programs](#) tend to see more stability in capital inflows. Global investors are increasingly building in environmental, social and governance considerations across asset classes and investment platforms. However, many emerging and developing economies—typically heavily reliant on fossil fuel energy—tend to score poorly on ESG metrics (which also tend to be [highly correlated with levels of wealth](#)).

This dilemma is a clear source of concern for the quest to mobilize private capital for sustainable growth and development in EMDEs, particularly as [regulators explore ways to manage climate risk and steer capital away from high-emissions sectors](#). Lack of a minimum baseline global taxonomy and disclosure standards presents another set of challenges. Going forward, it is therefore vital to improve ESG integration in emerging markets—including via greater transparency and availability of ESG data, as articulated in our [2022 update](#) of the *Principles for Stable Capital Flows and Fair Debt Restructuring*.

We believe that collaborative, market-friendly solutions—bringing together policymakers, development finance experts, philanthropy, civil society, and the private sector financial community—will offer the best chance of successful long-term outcomes to the challenging debt sustainability problems ahead. Through the IIF’s established fora, such the Group of Trustees of the *Principles for Stable Capital Flows and Fair Debt Restructuring*, the Principles Consultative Group and the Committee on Sovereign Risk Management, we look forward to continued productive engagement to inform workable solutions.

Sincerely,

