



Sovereign Debt and Financing for Recovery AFTER THE COVID-19 SHOCK

NEXT STEPS TO BUILD A BETTER ARCHITECTURE

Disclaimer

This report is the product of the Group of Thirty's Steering Committee and Working Group on Sovereign Debt and COVID-19 and reflects broad agreement among its participants. This does not imply agreement with every specific observation or nuance. Members participated in their personal capacity, and their participation does not imply the support or agreement of their respective public or private institutions. The report does not represent the views of the membership of the Group of Thirty as a whole.

ISBN 1-56708-182-7

Copies of this paper are available for US\$25 from:

The Group of Thirty
1701 K Street, N.W., Suite 950
Washington, D.C. 20006

Telephone: (202) 331-2472
E-mail: info@group30.org
Website: www.group30.org
Twitter: [@GroupofThirty](https://twitter.com/GroupofThirty)

Sovereign Debt and Financing for Recovery

AFTER THE COVID-19 SHOCK

NEXT STEPS TO BUILD A BETTER ARCHITECTURE

Published by
Group of Thirty
Washington, D.C.
May 2021



Working Group on Sovereign Debt and COVID-19

STEERING COMMITTEE

Guillermo Ortiz, Co-Chair

*Partner, BTG Pactual
Former Governor, Banco de México
Former Secretary of Finance and Public Credit, Mexico*

Lawrence H. Summers, Co-Chair

*Charles W. Eliot University Professor, Harvard University
Former Secretary of the Treasury, United States*

William R. Rhodes

*President and CEO, William R. Rhodes Global Advisors
Former Chairman and CEO, Citibank*

Tidjane Thiam

*Special Envoy for COVID-19, African Union
Former CEO, Credit Suisse*

Jean-Claude Trichet

*Former President, European Central Bank
Honorary Governor, Banque de France*

PROJECT DIRECTOR

Anna Gelpern

*Professor of Law and Anne Fleming Research Professor,
Georgetown Law
Nonresident Senior Fellow, Peterson Institute for
International Economics*

WORKING GROUP MEMBERS

Arminio Fraga

*Founding Partner, Gávea Investimentos
Former Governor, Banco Central do Brasil*

Gail Kelly

*Senior Global Advisor, UBS Group AG
Former CEO & Managing Director, Westpac Banking
Corporation*

Mervyn King

*Member of the House of Lords, United Kingdom
Former Governor, Bank of England*

Maria Ramos

*Co-Chair of the Secretary General's Task Force on
Digital Financing of Sustainable Development
Goals, United Nations
Former Chief Executive Officer, Absa Group*

Hélène Rey

*Lord Bagri Professor of Economics,
London Business School*

Tharman Shanmugaratnam

*Senior Minister, Singapore
Chairman, Monetary Authority of Singapore*

Mark Walker

*Senior Managing Director and Head of Sovereign
Advisory, Guggenheim Securities
Former Managing Partner, Cleary Gottlieb
Steen & Hamilton*

Zhou Xiaochuan

*President, China Society for Finance and Banking
Former Governor, People's Bank of China*

PROJECT ADVISOR**Joseph E. Gagnon**

*Senior Fellow, Peterson Institute for
International Economics*

RESEARCH ASSISTANT**Alexander Nye**

Table of Contents

Foreword	vi
Acknowledgments	vii
Abbreviations	viii
Introduction and Executive Summary	1
I. Economic and Policy Developments	6
II. Multilateral Financing Must Be Bold and Creative to Support an Equitable Recovery and Prepare for Future Shocks	17
III. Implementing the Common Framework: Comparability of Treatment and Beyond	20
References	28
Group of Thirty Members 2021	30
Group of Thirty Publications since 2010	34

Foreword

This report by the Group of Thirty (G30), *Sovereign Debt and Financing for Recovery after the COVID-19 Shock: Next Steps to Build a Better Architecture*, lays out the continuing challenges in seeking to ensure economic stability and prosperity as countries emerge from the pandemic.

It builds on a preliminary study that was released in October 2020. The recommendations from that study added meaningfully to calls for increased resources and greater urgency of action to deter a lasting economic and debt crisis in many developing countries.

There is no scope for policy complacency. The G30 report lays out a series of concrete recommendations aimed

at strengthening the multilateral Common Framework for debt treatment. It makes clear that now is the time to build a more inclusive, comprehensive, comparable, transparent, and better understood architecture.

On behalf of the G30, we extend our thanks to Guillermo Ortiz and Lawrence Summers for their astute leadership of the Working Group behind the report, to the extremely capable Project Director, Anna Gelper, and to Project Advisor, Joseph Gagnon, for their carefully considered construction of the report. We also thank those who participated in the study as Steering Committee and Working Group Members.



Jacob A. Frenkel
Chairman, Board of Trustees
Group of Thirty



Tharman Shanmugaratnam
Chairman
Group of Thirty

Acknowledgments

On behalf of the Group of Thirty, we would like to express our appreciation to those whose time, talent, and energy have driven this project to a successful completion. We would like to thank the members of the Steering Committee and Working Group on Sovereign Debt and COVID-19, who guided our collective work at every stage.^{*} The intellect and experience of this diverse and deeply knowledgeable team were essential as we sought to craft the report's findings and recommendations to support an equitable global recovery and strengthen sovereign debt architecture.



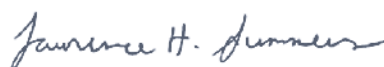
Guillermo Ortiz

Co-Chair

Working Group on Sovereign Debt and COVID-19

We also extend our thanks to Project Director, Anna Gelpern, and to Project Advisor, Joseph Gagnon, for their support and careful drafting of the report, and to Alexander Nye for his research assistance and efforts on this report.

The coordination of this project and many aspects of project management, Working Group logistics, and report production were centered at the G30 offices in Washington, D.C. This project could not have been completed without the efforts of our editor, Diane Stamm, and the work of the Executive Director, Stuart Mackintosh, and his team, including Desiree Maruca and Emma Prall. We are grateful to them all.



Lawrence H. Summers

Co-Chair

Working Group on Sovereign Debt and COVID-19

* Other members of the G30, most notably Axel Weber, contributed valuable insights. We are deeply grateful to them.

Abbreviations

ACT	Access to COVID-19 Tools Initiative
ADB	Asian Development Bank
CACs	Collective Action Clauses
COVAX	COVID-19 Vaccines Global Access
DSSI	Debt Service Suspension Initiative
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
ICMA	International Capital Market Association
IDA	International Development Association
IFC	International Finance Corporation
IFIs	International Financial Institutions
IIF	Institute of International Finance
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
MDB	Multilateral Development Bank
OECD	Organisation for Economic Co-operation and Development
SDR	Special Drawing Rights
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WHO	World Health Organization

Introduction and Executive Summary

COVID-19 did not trigger a wave of sovereign debt defaults in 2020. It killed millions, disrupted economic activity on an unprecedented scale, and undid decades of progress in poverty reduction. The extraordinary domestic policy response across mature markets incidentally benefited emerging and frontier market economies: the prospect of perpetually low interest rates sent investors scouring the world for risk assets. Dramatic capital outflows subsided within months, commodities markets recovered faster than expected, and some higher rated borrowers continued to tap foreign markets. **Spillovers from advanced economy stimulus partly made up for the halting international response to the pandemic.**

Relative to projections from last fall, economic growth has been revised up in 2020 and 2021 across all major regions. But cumulative output losses relative to pre-pandemic projections are very large in low- and middle-income countries (Figure 1) and the risks to future global growth are severe. **It would be wrong to conflate recent good economic news with an adequate policy framework at the global level, disregarding major risks ahead.**

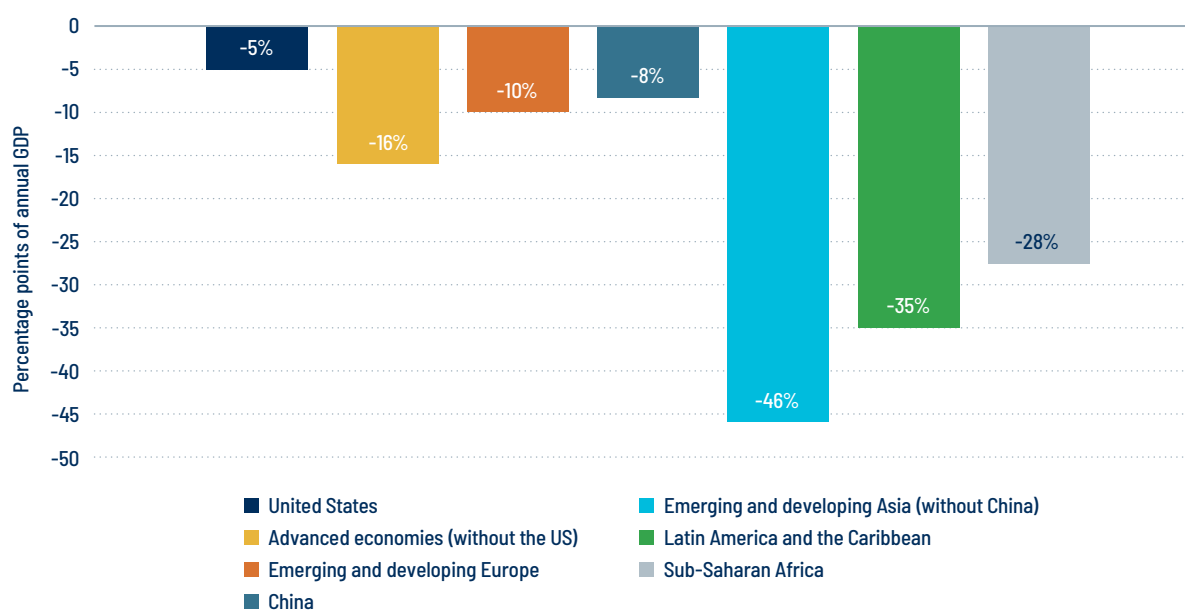
In the near term, low- and middle-income countries confront a COVID-19 resurgence with more contagious, more deadly, and possibly vaccine-resistant variants. Wealthy economies have secured the bulk of the world's vaccine supply. It may take two to three years to inoculate a majority of the population in most low- and middle-income countries. The latest wave of infections in India, South Africa, South America, and Southeast Asia is ravaging younger populations, overwhelming public health capacity, and suppressing economic activity. It appears increasingly likely

that vaccinations for COVID will become a recurring event with boosters for new variants, similar to and more urgent than seasonal influenza vaccinations. Countries with fewer resources will see worse health and economic outcomes, and have a harder time containing the virus within their borders.

Over the next several years, the emerging and frontier markets face a heightened risk of market disruptions in response to local resurgences of COVID-19 or to tightening financial conditions that might arise from higher inflation in advanced economies. Most borrowed significantly in 2020 to respond to the pandemic and now face somewhat higher interest rates and volatile market conditions. A spike in ten-year U.S. Treasury yields prompted new outflows from these economies in February of 2021, drawing comparisons with the 2013 Taper Tantrum. Disruptions in supply chains and other pandemic-related bottlenecks are driving price increases in some key countries, raising the danger that higher inflation and the monetary policy response it calls for would hamper economic recovery. A successful new round of U.S. fiscal stimulus and faster growth in advanced economies could benefit countries with commodity and manufactured exports to them, but further increases in U.S. interest rates could raise borrowing costs and disrupt market access for emerging and frontier economies. Countries that borrow mostly in local currencies are less vulnerable to these pressures but still may face a worsened tradeoff between monetary and fiscal support in the continuing pandemic and temporarily higher inflation.

Low- and middle-income countries risk a lost decade of growth; for some of them, fallout from the

FIGURE 1
Cumulative Projected Gross Domestic Product Losses for 2020-2024



Source: IMF

Note: Figure displays cumulative losses from 2020 through 2024 in projected real GDP between the October 2019 and April 2021 World Economic Outlook forecasts.

pandemic risks a lost generation. The convergence of low-income economies toward upper income levels has been set back several years and poverty rates have increased. The risk of more entrenched inequality among and within countries raises the potential for increased social strife and political turbulence. Other long-term risks include an increase in protectionism, rising international tensions, and a higher probability of financial crises in the years ahead as countries struggle with higher debt and other legacies of the pandemic.

If these risks materialize, the damage would spread beyond the most vulnerable countries, and threaten growth in many parts of the world. A powerful, creative, and coordinated international response is in order. More than a year into the pandemic, the response remains unfocused and underfunded. While we welcome expected agreement on a record US\$650 billion International Monetary Fund (IMF) Special Drawing Rights (SDR) allocation and on advancing the next International Development Association (IDA) replenishment by a year, these and other constructive steps fall far short of the minimum necessary.

Most pressing is the need to produce and distribute more vaccines for low- and middle-income countries. The global Access to COVID-19 Tools (ACT) Accelerator Initiative at the World Health Organization (WHO) has less than half of the resources it needs to develop and distribute COVID-19 tests, treatments, and vaccines just in 2021. Even from the narrow perspective of the advanced economies, the benefits to reaching herd immunity globally and thus preventing the emergence of dangerous new variants of SARS-CoV2 far exceed the cost.

The preliminary report of this Working Group in October 2020 called for new funding on an unprecedented scale, for transforming multilateral concessional surge capacity, and for a fundamental overhaul of sovereign debt crisis management architecture. The need is more acute now. By the IMF's latest estimates, low-income countries alone need US\$200 billion through 2025 for pandemic response and recovery, in addition to US\$250 billion for investment to accelerate convergence. The three largest credit rating agencies issued more than 50 sovereign downgrades and hardly any upgrades for low- and middle-income countries since the

start of 2020. Downgrades continue at a slower pace in 2021, but average ratings for African and Latin American sovereigns remain the lowest on record.¹ At the start of 2021, foreign investment had fallen to its lowest since 2007. With slower growth, more debt, and debt denominated in foreign currencies, countries in Latin America and Sub-Saharan Africa are especially exposed. Island and coastal economies that lost all tourism revenues to the pandemic are left to fight climate disasters with empty coffers. Upwards of two-thirds of the new SDR will sit idle in the IMF accounts of countries that do not need to use them, which will reduce the impact of the historic US\$650 billion allocation and send a troubling signal for multilateralism, unless these countries step forward to recycle their SDRs.

Collective aversion to crisis planning—ostensibly for fear of triggering a self-fulfilling prophecy of debt default—is irresponsible when much of the world is one unforeseen shock away from a lost decade. It is well established that sovereign debt crises are associated with financial instability and protracted periods of lost growth in the emerging markets. A financial shock on the heels of a public health crisis would exacerbate and entrench long-term damage from COVID-19. Knowing the consequences of failure, fear of planning to fail cannot excuse repeated failure to plan.

COVID-19 exposed big gaps in the sovereign debt restructuring architecture. The Debt Service Suspension Initiative (DSSI), extended through the end of 2021, has suffered from design flaws, muddled messaging, and anemic participation. When participation hinges on debtor initiative, sovereigns' fear of stigma—fueled by ratings and market commentary, and lumped with lack of demand—makes inaction the default option. Some debtors and creditors explicitly distanced themselves from DSSI. The initiative has freed up US\$5.7 billion so far, or less than half of the projected total, mostly because eligible countries applied later and in smaller numbers than expected, and received less cash flow relief than expected. With the flagship debt initiative limited to payment postponement, deeper sovereign debt restructuring happened outside DSSI in 2020. More than a third of vulnerable countries are ineligible for DSSI and, by extension, for the Common Framework for Debt Treatments beyond DSSI (Common

Framework), according to United Nations Development Programme (UNDP) staff estimates.²

The G-20 Common Framework remains a work in progress. Chad, Ethiopia, and Zambia have applied; Chad has started negotiations with an official bilateral creditor committee comprising members and non-members of the Paris Club. Engaging non-Paris Club creditors in a more structured coordination process is an essential step for debt architecture reform, but the terms of engagement are too vague to shape a new regime or ground market expectations.

New creditors and new kinds of debt compound already-vexing coordination problems in sovereign debt restructuring. Inter-creditor competition has already delayed debt restructuring, disrupted payments, and threatened recovery in a handful of countries. Official bilateral and multilateral creditors, commercial banks and asset managers, hybrid financial institutions, and non-financial firms from China, Europe, the Middle East, and North America must agree on loss distribution with limited information about one another's claims, few shared norms, and no central authority to bind them. Substantive burden-sharing negotiations devolve into arcane arguments over nomenclature. IMF and Paris Club involvement do not guarantee sustainable outcomes or fair burden sharing, despite public professions of commitment to both. Lack of visible private sector involvement in DSSI and the Common Framework so far adds to pressure for legislative solutions, most recently in New York State, and motivates calls for the United Nations (UN) Security Council to shield governments' assets from their creditors.

Existing contracts can interfere with debt restructuring. Blanket promises of confidentiality, lender-controlled revenue accounts, and clauses that link debt contracts to a web of bilateral interests, appear often in sovereign debt contracts with Chinese lenders, but are not limited to them. Revenue-backed sovereign borrowing is on the rise, sometimes unconnected with revenue-generating investment projects. Promises of preferential treatment made behind closed doors undermine debt legitimacy in the eyes of the public, sow distrust among creditors and donors, and undercut recovery programs supported by the International Financial Institutions (IFIs).

Messier and more damaging sovereign debt crises lie ahead unless the international community acts promptly

1 Goel & Papagiorgiou 2021

2 Jensen 2021

to bring debt architecture into the 21st century. We emphasize, as we have in our preliminary report, that there is no silver bullet for sovereign debt problems. Nonetheless, it is essential to reform the institutional framework in which increasingly diverse debtors and creditors make decisions to borrow, lend, and restructure. Mindful of countries' different circumstances, we recommend:

1. *Boosting concessional surge capacity at Multilateral Development Banks (MDBs) must be a priority for the international community. While we welcome the decision to advance the next IDA replenishment by a year, we recognize that such one-off exceptional measures are not a sustainable way to meet multi-year recovery needs and respond to future shocks without pushing countries into debt distress. The World Bank Group and Regional Development Banks (RDBs) should use more fast-disbursing loans and grants and more flexible and contingent instruments to support sound policies against exogenous shocks. Maintaining current levels of support for IDA grant and loan recipients alone through 2024 would require increasing the next donor replenishment by a third. More than doubling IDA's market borrowing to US\$35 billion in today's low interest rate environment would free resources for a substantial increase in grants, as recommended in the preliminary report of this Working Group, with no damage to its creditworthiness.³*
2. *The IMF should establish an augmented pandemic support window for longer-term financing to manage prolonged structural disruptions from COVID-19 and future public health shocks. A new window would help mobilize some of the IMF's under-utilized non-concessional lending capacity, which now exceeds a trillion U.S. dollars, to fund well-designed public health crisis response measures at the current low interest rates. We also reiterate the view expressed in our preliminary report, that transparent and replicable procedures for recycling IMF SDR voluntarily among IMF members would amplify the impact of the US\$650 billion SDR allocation and bolster the global safety net for the public health, climate, and financial crises to come. It would not eliminate the need for emergency balance*
3. *of payments financing, donor funds to support concessional lending, or debt relief.*
3. *The G-20 should make all countries with pressing debt vulnerabilities, regardless of national income, eligible for the Common Framework, and should take further steps to reduce uncertainty and stigma associated with seeking necessary debt relief. Even in this initial phase, there is no policy reason to limit Common Framework participation to low-income DSSI countries, many of which have scarcely any eligible debt, and most of which badly need net new financing.*
4. *Common Framework creditors should continue to reaffirm and elaborate the comparability of treatment principle, adopted from the Paris Club, to cover all material categories of creditors and instruments. The IMF should use its policies to complement a more robust approach to comparability, so that distressed countries would not be held hostage to inter-creditor conflicts.*
5. *The G-20 should establish a standing consultative mechanism in conjunction with the Common Framework, with a mandate to promote consistency, equity, and transparency in the framework's case-by-case approach. Such a mechanism should help gather and distribute information, advise the parties on methodological and process questions in real time, and promote the development of contractual and other tools to streamline negotiations and implement debt restructuring agreements. It should include representation from all major stakeholders, have the authority to entertain questions regarding substantially all material external claims against the sovereign, have access to information concerning such claims, and speak publicly on matters within its remit.*
6. *National law in major financial markets should shield payment systems and payment intermediaries from disruptive sovereign debt collection, including, if necessary, legislation modeled on Belgium's law shielding Euroclear. Because national governments' assets abroad are normally immune from seizure, direct sovereign debt enforcement is a perennial challenge. Recent cases*

3 S&P Global Ratings 2021

of enforcement targeting payments to other creditors have been fraught with externalities. Commandeering payment systems for sovereign debt enforcement is not in the public interest.

- 7. The G-20 should publicly disavow the use of contract terms that impair debtors' or creditors' participation in international debt negotiations, and should commit not to enforce them in their existing bilateral debt contracts, as well as those of their agencies and state-owned lenders. Such terms stand in tension with the Common Framework and with international norms, and should be understood as contrary to public policy in each participating country. As the largest bilateral creditor, China should lead the way by removing prior constraints on its lenders' participation in international debt restructuring initiatives.*
- 8. Private sector, official, and multilateral lenders should encourage sovereign borrowers to adopt robust domestic debt disclosure requirements as part of clear domestic debt authorization frameworks. Hidden debt does economic and political damage to the borrowing country, fuels mistrust among creditors, and deprives public institutions, including the IFIs, of vital information they need to devise reform and recovery programs. The G-20, the IFIs, and the Institute of International Finance (IIF), working with the Organisation for Economic Co-operation and Development (OECD), have all launched new work streams to promote meaningful debt transparency, but have very limited tools to enforce it. A strong shared norm that hidden debt is not merely undesirable, but presumptively unauthorized and should not be enforced, would fortify existing barriers to enforcement in major financial jurisdictions and bolster incentives to disclose.*

I. Economic and Policy Developments

COVID-19 has killed over three million people worldwide, and threatens to push 100 million people into extreme poverty. At the start of the pandemic, many governments—including those of the United States, the United Kingdom, Brazil, and Chile—based their strategies on the most optimistic and politically expedient of the early pandemic models. April 2020 predictions of U.S. deaths peaking below 70,000 missed by a factor of eight. The pandemic and the associated lockdowns have had a far more devastating humanitarian impact than most officials were willing to admit in public a year ago. On the other hand, economic growth has continued to surprise on the upside in advanced, emerging, and developing economies. Large-scale sovereign debt defaults forecast in IMF, World Bank, and United Nations Conference on Trade and Development (UNCTAD) reports last year failed to materialize. Emerging and frontier market countries benefited from foreign investors' search for yield and willingness to hold risk assets in response to extraordinary policy measures in the advanced economies.

Governments in low- and middle-income countries face three broad categories of risk:

- (i) the risk of greater pandemic resurgence, which would affect these countries disproportionately,
- (ii) the risk of reduced capital inflows because of the perceived economic effects of pandemic resurgence in these countries or because of stronger performance and thus higher interest rates in mature market economies, and
- (iii) the risk of lasting economic damage from the pandemic, exacerbating poverty and inequality among and within countries.

All of these risks pose difficult choices for domestic policy in low- and middle-income countries. Some have moved quickly to raise policy interest rates faced with price increases from pandemic-related supply chain disruptions. The COVID-19 resurgence, more business closures and reduced capital inflows may force policymakers to accept a combination of temporarily higher inflation and higher fiscal deficits to keep economies operating at their (possibly temporarily lower) level of potential while protecting those households most severely affected. Countries with significant debt in foreign currencies are especially vulnerable to higher interest rates and rising exchange rates in advanced economies. Each scenario presents a substantial risk to regional and global growth.

The international economic response to COVID-19 continues to be modest in scope and uneven in its execution. It has exposed flaws and gaps in the international financial architecture for crisis management and debt restructuring. The international community has moved through a succession of stopgap measures that fall short of an ambitious vision and the decisive steps needed to reform the system.

ECONOMIC DEVELOPMENTS

The impact of the public health shock on output has varied widely: the world economy contracted by 3.3 percent in 2020, while Latin America and the Caribbean, the region most severely affected, fell by 7.0 percent, more than double the global decline. Long-term economic damage from the pandemic is projected to be much greater in low- and middle-income countries (excluding China) than in advanced economies. Relative to pre-pandemic projections, the latest IMF projections for real gross domestic product (GDP) in the year 2024 are down less than 1 percent for advanced

economies, but nearly 8 percent for developing economies in Asia (excluding China), more than 6 percent in Latin America, and more than 5 percent in Sub-Saharan Africa.

The start of the pandemic froze trade, investment, and remittances, and prompted dramatic capital outflows from developing countries (Figure 2). However, large-scale asset purchases and other extraordinary domestic measures in the advanced economies prompted investors to search for higher returns in the emerging markets. Spillovers from mature market stimulus helped avoid more severe sovereign debt market disruptions in emerging and frontier markets. Portfolio capital flows began to recover over the summer, as governments borrowed on an unprecedented scale. General government debt rose by 16 percent of GDP in mature market economies, and 10 and 5 percent of GDP, respectively, in middle- and low-income countries.

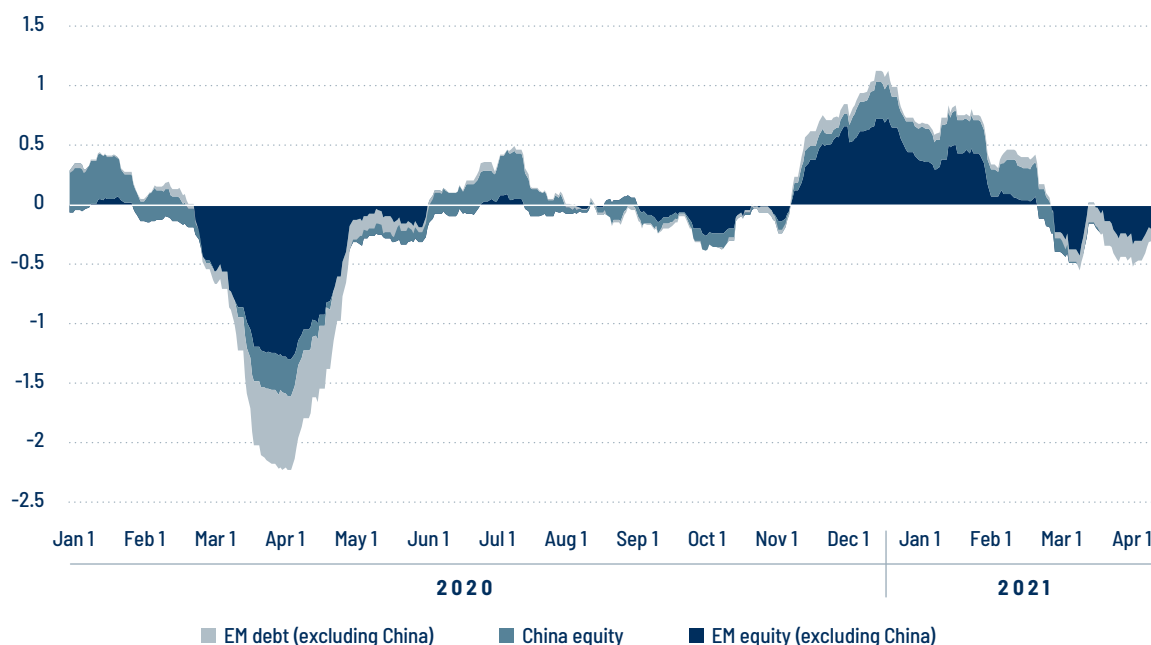
The IFIs had sounded the alarm about emerging market debt on the eve of the pandemic, against the background of historically low interest rates expected to last for a long time. The start of mass vaccination and a new round of fiscal stimulus in the United States bolstered recovery hopes and shifted interest rate expectations in early 2021. A sharp increase in U.S. Treasury yields in February prompted

capital outflows from the emerging markets. Outflows have since subsided, but countries remain vulnerable to rapid changes in market sentiment. They face higher interest rates with larger debt stocks and new financing needs, against the background of higher expected global growth. The prospect of positive spillovers from higher global growth could help mitigate the fragility, but the situation for many emerging and frontier economies remains precarious on balance.

The risk of permanent damage is high, with greater and more entrenched inequality among and within countries, years of lost growth, more poverty and social strife. Lockdowns at home and abroad hit the hardest in countries with younger and more low-skilled workers, poor digital infrastructure, and those that rely on tourism. They saw the steepest declines in output, productivity, and labor force participation. Children in low-income countries missed nearly five times more school days—and those in emerging market countries missed three times more—than children in advanced economies. The potential damage to a new generation of workers raises the risks of political turbulence, trade protectionism and other international tensions, and future financial crises as countries struggle with higher debt burdens and other legacies of the pandemic. Mitigating the

FIGURE 2
Capital Flows to the Emerging Markets

Daily cross-border portfolio flows, six-week moving average, US\$ billion



Source: Institute of International Finance

damage and preventing structural changes from setting in will take substantial investment.

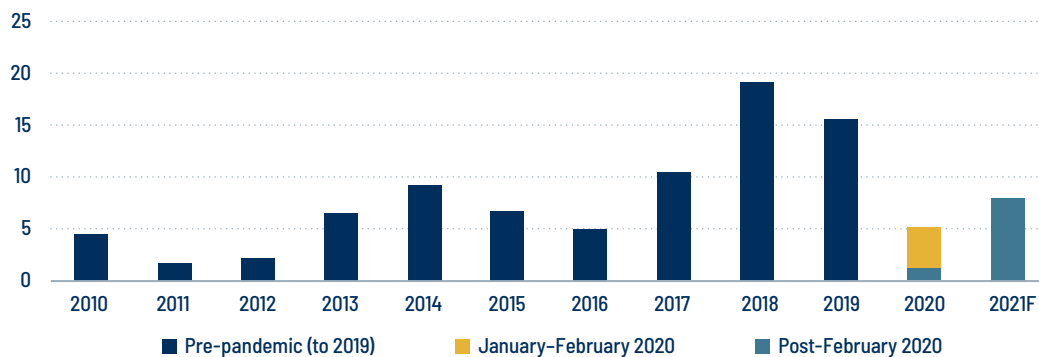
Market access and borrowing costs have varied widely among developing countries. Six countries have defaulted since the start of the pandemic,⁴ but only two defaults—Belize and Ecuador—were directly attributable to it. In November 2020, Zambia became the first and so far the only African sovereign to default on its Eurobonds. In February 2021, it joined Chad and Ethiopia in seeking debt relief under the Common Framework. After nine months of no market borrowing by a Sub-Saharan African sovereign, Côte d'Ivoire sold new Eurobonds in November 2020 in an oversubscribed offering. Benin followed in January 2021; however, borrowing in the region remains below pre-pandemic levels (Figure 3). In late March 2021, secondary market spreads for Côte d'Ivoire and Benin were just under 600 basis points, indicating market perceptions of continuing vulnerability. Credit ratings for emerging and frontier market economies tell a similar story: after a flood of downgrades in 2020, their pace has slowed in 2021, but the trend has not reversed. The first quarter of 2021 brought just two upgrades (Benin and Serbia) against fifteen downgrades, while average ratings for Africa and Latin America have sunken to historic lows. Public debt in Brazil and South Africa was on track to top 100 percent of GDP, even before Brazil had suffered the latest devastating wave of COVID-19. Six months after their high-profile debt restructurings, Argentina's and Ecuador's foreign bonds traded at spreads above 1500 and 1200, respectively,

indicating persistent distress and a high risk of default. Some officials in Argentina have advocated for rescheduling the country's payments to the IMF. Argentina was the largest user of IMF credit at the start of 2021, followed by Egypt, Pakistan, Ukraine, and Ecuador.

The ongoing resurgence of COVID-19, with more contagious, deadly, and vaccine-resistant new variants, disproportionately harms low- and middle-income countries, where most people are not expected to be vaccinated before 2022. The new variant that emerged in Brazil is now widespread in South America. It is infecting younger people, straining the public health infrastructure, and disrupting the region's economy anew. Infections and deaths have since surged in India, rapidly overwhelming the health system. The difference in pandemic intensity across regions is driving much of the difference in the outlook for growth, with Latin America initially suffering the most on both dimensions among the emerging markets, but more recently eclipsed by the surge in South and Southeast Asia. Countries with fewer resources will continue to suffer enormous damage and will have more trouble containing the disease. Vaccine distribution has been uneven within and among countries, fueling public health and political risks. Wealthy economies have secured most of the early vaccine supply; low- and middle-income countries are months behind in gaining access to vaccines and standing up vaccine administration systems. COVAX⁵ vaccine delivery and multilateral development bank (MDB) lending are

FIGURE 3
Sub-Saharan African Bond Issuance, as of April 2, 2021

US\$ billion



Sources: J.P Morgan, Bloomberg, IIF

4 Argentina, Belize, Ecuador, Lebanon, Suriname, and Zambia.

5 COVAX, the COVID-19 Vaccines Global Access, is a global initiative aimed at equitable access to COVID-19 vaccines led by UNICEF, Gavi, the Vaccine Alliance, the World Health Organization, the Coalition for Epidemic Preparedness Innovations, and others.

only beginning to have an impact (Figure 4). Worries about supply disruptions and potential export bans persist.

Vaccination delays and inequities harm everyone. They create conditions for new and dangerous virus variants to mutate and spread, triggering new lockdowns, more trade

and financial market shocks, and deeper, longer-lasting humanitarian and economic harm.

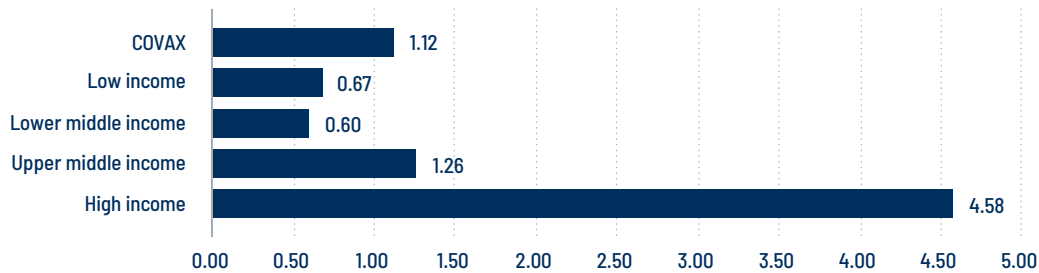
A widespread resurgence of the pandemic presents governments in low- and middle-income countries with unappealing policy choices. A temporary rise in inflation

FIGURE 4A
Projected Vaccine Rollout Times

	Richer countries with priority supply deals and/or small populations	Most other developed countries, Russia, Brazil	Most middle-income countries, including India and China	Some middle-income and most low-income countries (reliant primarily on COVAX)
Dec 2020	Regulatory approval	Regulatory approval		
Jan 2021	Priority groups		Regulatory approval	Regulatory approval
Feb 2021				
Mar 2021	Other vulnerable groups	Priority groups	Priority groups	Priority groups
Apr 2021				
May 2021				
Jun 2021				
Jul 2021		Other vulnerable groups		
Aug 2021	Rest of population		Other vulnerable groups	Other vulnerable groups
Sep 2021				
Oct 2021				
Nov 2021				
Dec 2021		Rest of population		
Jan 2022	Back to normal		Rest of population (and other vulnerable groups)	Other vulnerable groups
Feb 2022				
Mar 2022				
Apr 2022				
May 2022				
Jun 2022				
Jul 2022				
Aug 2022				
Sep 2022				
Oct 2022				
Nov 2022				
Dec 2022				
Jan 2023	Back to normal	Back to normal	Back to normal	Rest of population
Feb 2023				
Mar 2023				
Apr 2023				
May 2023				
Jun 2023				
Jul 2023				
Aug 2023				
Sep 2023				
Oct 2023				
Nov 2023				
Dec 2023				
Jan 2024				Back to normal

Source: Economist Intelligence Unit

FIGURE 4B

Vaccine Purchases by National Income Category*Confirmed number of vaccine doses purchased by countries in income group, as of March 4, 2021 (billions)*

Source: Duke Global Health Innovation Center

may be unavoidable if policymakers want to keep as many workers employed as possible while protecting those whose jobs are destroyed by pandemic business closures. Central banks have already raised policy rates in response to rising bond yields in advanced economies and to rising domestic inflation that is driven in part by supply chain disruptions and other pandemic-related bottlenecks. Limited fiscal space has to focus on addressing the public health shock and measures to protect workers and businesses. Pandemic-induced cuts in education, infrastructure, and climate resilience expenditures threaten to inflict lasting damage and exacerbate inequality. The strong global support we are proposing would also help to avoid excessive near-term austerity.

It is possible that successful vaccination programs in advanced economies will boost demand for exports from low- and middle-income countries without sparking significant inflation and higher interest rates that would reduce capital inflows. More likely is a combination of stronger growth in advanced economies along with somewhat higher interest rates. Countries with strong trade links to the United States should benefit from a strong U.S. recovery, but other countries may suffer from reduced access to capital, especially if they rely on foreign-currency financing.

Debt stocks have grown sharply for countries across the income spectrum, but especially for middle-income countries. Many face spikes in scheduled debt repayments in the next five years (Figure 5). Those that borrowed in local currency in their domestic markets to manage the impact of the pandemic tried to reduce borrowing costs by shrinking maturities and issuing floating-rate debt. Domestic banks in the emerging markets absorbed 60 percent of all new sovereign issuance in 2020, according to the IMF, raising concerns about inflation. Many emerging market sovereigns

also have foreign currency bonds coming due, issued before and during the pandemic. African governments alone must refinance or repay US\$100 billion over the next decade. In Brazil, shrinking maturities and rollover pressures potentially complicate the recovery: the government had to repay or refinance an unprecedented 3.7 percent of GDP in domestic government debt that was due in April alone. Fifteen countries have debt payments between 25% and 60% of their revenues due in 2021, according to Moody's.

For countries with limited market access, China had offered an alternative to multilateral development funding (largely via the Belt and Road Initiative). However, financing from China peaked in the middle of the last decade, and has fallen by more than three-quarters since. Loss of funding from China, without a replacement on the horizon, would be especially damaging for low-income countries, where it is already a large creditor (Figure 6).

DEBT POLICY DEVELOPMENTS

DSSI has delivered far less relief than projected, with major creditors and debtors refusing to participate, and a number of vulnerable countries ineligible. The initiative, now extended through the end of 2021, allowed 46 out of 73 eligible low-income countries to postpone US\$5.7 billion in official bilateral debt payments due in 2020 and 2021, compared to US\$12 billion projected at the outset. Most of the shortfall is attributable to fewer governments applying for relief, applying later than expected, and receiving less cash flow relief than expected. No private creditors have participated in DSSI, although some Chinese lenders have rescheduled their claims bilaterally. The current debtor participation level (Figure 7) is likely the ceiling for DSSI.

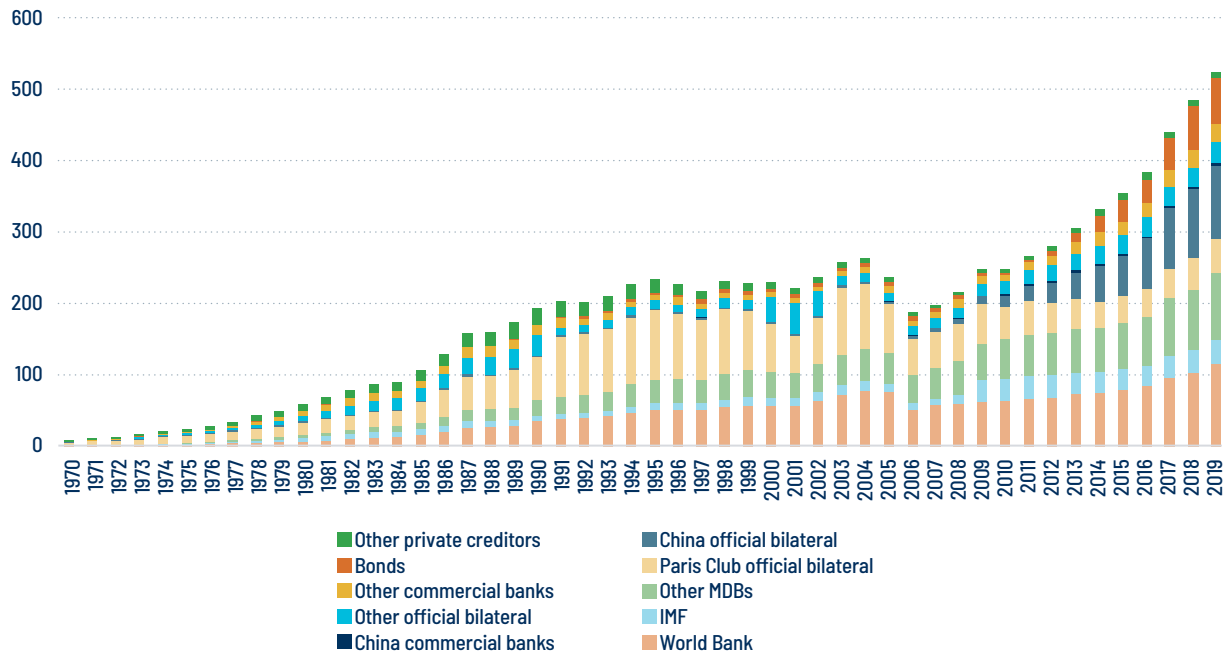
FIGURE 5
Debt Repayment Profiles for Selected Sovereigns



Source: Bloomberg

FIGURE 6
Public and Publicly Guaranteed Debt Stock for DSSI-eligible Countries

US\$ billion



Source: World Bank International Debt Statistics

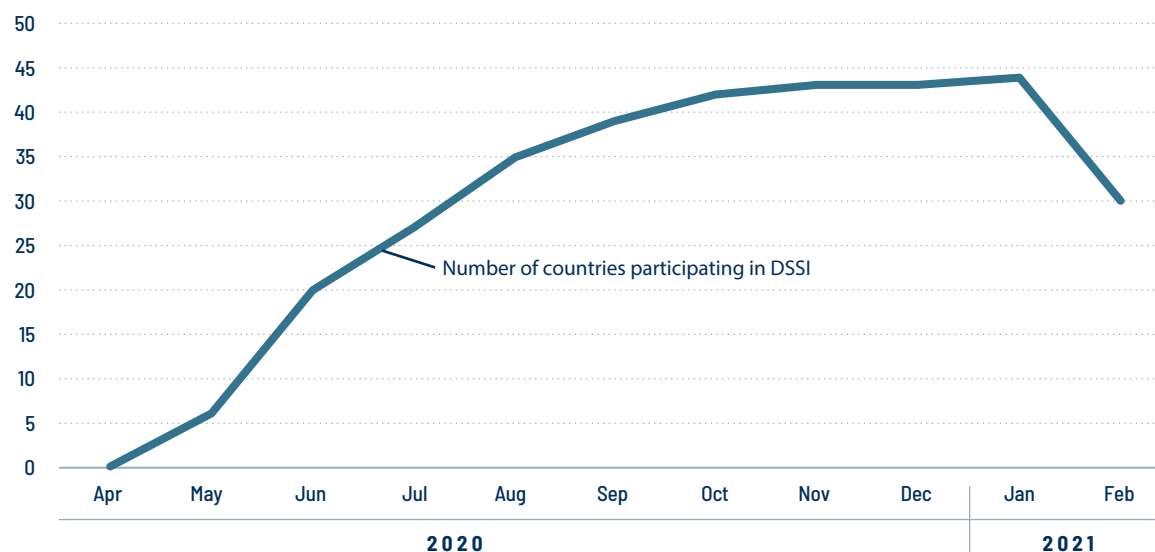
Several countries that participated in DSSI in 2020 have decided not to renew participation in 2021.

DSSI suffers from design flaws that may also hobble the G-20 Common Framework as it takes off the ground. DSSI does not have any mechanism for distressed sovereign debtors to seek comparable relief from non-participating creditors. Without a bankruptcy court, statutes, or treaties to compel it, all creditor participation in sovereign restructuring is generally voluntary. As DSSI is a G-20 commitment and formally covers all their official bilateral lending, it has no mechanism for coordinating non-G-20 creditors. The statement launching DSSI took the extra step of emphasizing the voluntary character of private sector involvement and committed not to inflict present value losses on participating creditors. This shaped the perception that private sector involvement in debt relief efforts was optional, reinforced in DSSI implementation.

DSSI design made it costly for sovereigns to approach private creditors, despite repeated communique pleas for private sector involvement. The marginal DSSI debtor is

likely to be a lower-middle-income frontier market government preoccupied with maintaining its newly won market access. The slightest prospect of a credit downgrade or reputational fallout is often enough to dissuade such a government from seeking the temporary relief on offer under DSSI if there is any way it could still make the next debt payment. An extra effort to pay in a global pandemic can be justified for a government with no liquidity or sustainability concerns, but DSSI design does not distinguish between such a government and a deeply troubled one unwilling to deal with its debt overhang. Both are eligible based on national income, neither is bound by an IMF debt sustainability analysis, and both are free to use the funds saved from official creditors participating in DSSI to pay non-participants. It is entirely up to them—their reputations are on the line. Nigeria and Senegal are among the large eligible borrowers to rule out debt suspension, publicly characterizing recourse to DSSI as a sign of weakness and a threat to market access. Some academic studies have suggested that DSSI could reduce borrowing costs for participating

FIGURE 7
DSSI Participation



Source: Paris Club, World Bank DSSI annual and biannual data

debtors⁶; however, it is hard to interpret the findings in light of limited debtor and creditor participation so far.

DSSI eligibility criteria have not expanded beyond the poorest IDA borrowers, and continue to exclude countries like Sri Lanka, which remains among the most vulnerable sovereign borrowers, but narrowly misses the income threshold. The Common Framework inherits DSSI eligibility criteria and March 2020 cut-off date. A study published by the UNDP estimates that these criteria exclude 23 vulnerable countries with US\$387 billion in sovereign debt payments through 2025—or nearly one-third of all vulnerable countries and two-thirds of the debt service due.⁷

The G-20 Common Framework, announced in November of 2020, goes beyond DSSI in several respects, and could become a platform for more durable institutional reform. It contemplates debt reduction for countries with unsustainable debt (describing it as a last resort), based on IMF and World Bank analysis, and expands the Paris Club process to include non-Paris Club creditors, with express commitment to extend the debtor's comparability of treatment undertaking to creditors beyond the Common Framework. The scope and extent of relief would be negotiated case-by-case between the debtor and an official

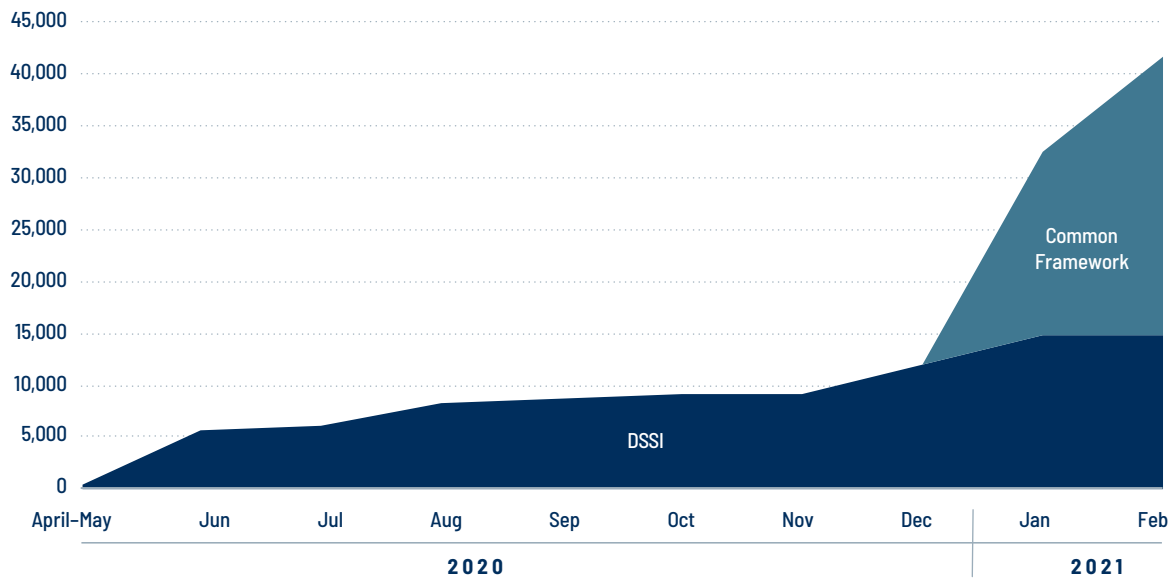
creditor committee, based on input from the IMF and the World Bank.

The principal near-term benefit of the framework is a coordination process among Paris Club and non-Paris Club creditors, notably China as the largest bilateral official creditor in many vulnerable countries. Countries that apply for debt treatment under the Common Framework must enter into a non-binding memorandum of understanding that would effectively extend Paris Club procedures to all their medium-term official bilateral debt contracted before the March 24, 2020, cut-off date (Figure 8). On April 15, 2021, Chad's Common Framework creditors officially met for the first time, revealing the outlines of a process taking shape. A creditor committee co-chaired by France and Saudi Arabia was formed to support the negotiation process, but has no authority to impose terms on any creditor or to make concessions on their behalf. The post-meeting statement includes commitments to participate by China and India, which hold some of the larger official claims on Chad. Libya and China are Chad's largest official creditors, followed by France and India. The Paris Club holds less than five percent of Chad's debt. Chad owes almost half of its external debt to one creditor, the commodities firm Glencore, which also

⁶ Lang, Presbitero, and Mihalji 2020

⁷ Jensen 2021

FIGURE 8
Debt eligible for the DSSI and Common Framework (US\$ million)



Source: World Bank DSSI annual and biannual data; debt eligibility cut-off date of March 24, 2020

accounts for nearly all of the government's external commercial debt. Some of the debt to Glencore is syndicated; some is backed by oil and would have a priority claim on part of the country's oil revenues. Chad had restructured Glencore debt once before, in 2018.

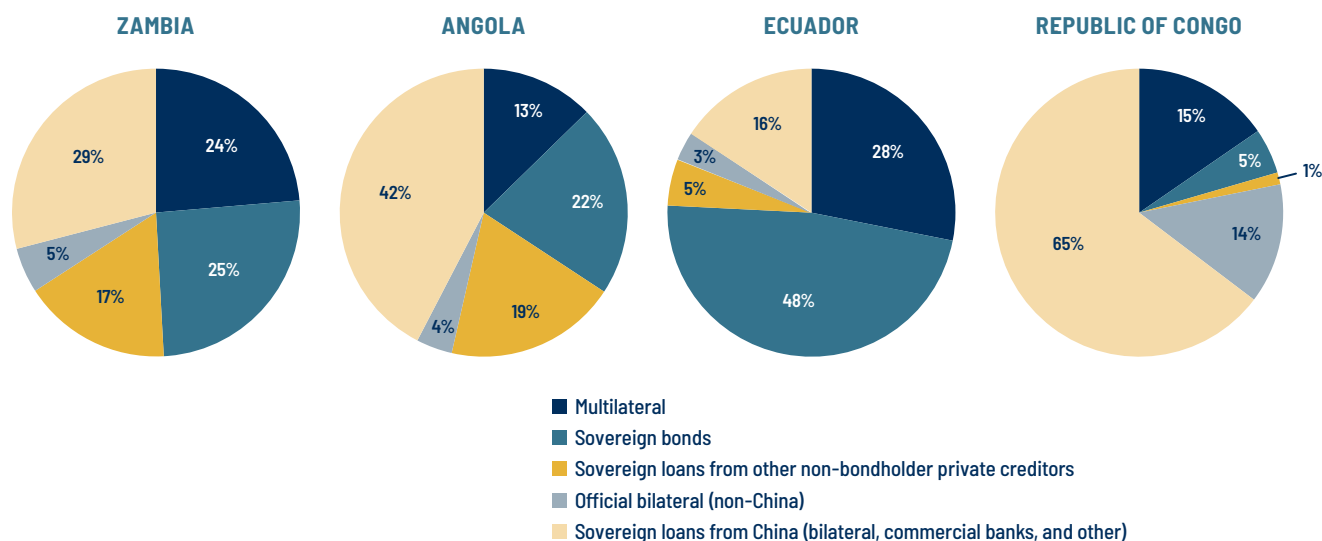
G-20 statements since the launch of the framework, reiterated after the first meeting of Chad's creditor committee, insist that Common Framework beneficiaries are expected "to seek from all... other bilateral creditors and private creditors a treatment at least as favorable as the one agreed" with its creditors. If properly implemented, such statements would extend the Paris Club comparability principle to the Common Framework, and minimize differences between official and private debt treatment. However, official pronouncements on comparability are replete with broadly drawn carve-outs and deference to the creditors' domestic legal constraints. Such tentative commitment may be justified by the novelty of the Common Framework; however, the record of official exhortations under DSSI also feeds growing skepticism about the Official Sector's ability to enforce comparability. The depth and breadth of each creditor's participation and the compliance pull of the creditor committee process will emerge in practice over time.

Inter-creditor conflicts have threatened to disrupt DSSI and Common Framework treatment in other vulnerable low-income countries. Zambia negotiated a six-month interest payment holiday with the China Export-Import Bank and China Development Bank in late 2020, deferring up to US\$800 million in payments, although agreement details have not been disclosed, and reports that Zambia had to clear arrears to the same lenders muddle relief estimates. Zambia then defaulted on a US\$43 million Eurobond payment in November after bondholders demanded to know more about its debt to China as a condition to deferring US\$120 million.⁸ Zambia's sovereign debt to Chinese lenders slightly exceeds its outstanding Eurobond stock (Figure 9). While Zambia's government negotiated its IMF program in January 2021, its state-owned mining company took over a 73 percent stake in Mopani Copper Mines from Glencore, to save mining jobs. It promised to pay Glencore US\$1.5 billion at LIBOR+3%, with Glencore retaining the right to buy the mine's copper output and receiving an escalating share of mine revenues until the loan is repaid.

Unlike Zambia, Angola has pledged to continue paying its bondholders while negotiating with the China Development Bank and the China Export-Import Bank,

⁸ If it had gone forward, the agreement would have been the first and only private sector debt restructuring under the DSSI.

FIGURE 9
External Sovereign Debt Stock Composition, Selected Commodities Exporters



Source: World Bank International Debt Statistics, data to 2019

estimated to hold US\$15 billion and US\$5 billion in claims on the government, respectively. Angola's Paris Club creditors agreed in January 2021 to suspend its debt payments under DSSI, with total potential savings of US\$3 billion through June 2021.

Ethiopia was among the first to seek debt relief under the Common Framework and stands to benefit disproportionately from the initiative's extension of bilateral official creditor coordination beyond the Paris Club: its top three creditors, China, India, and Turkey are all non-Paris Club bilateral lenders. It reached a staff-level agreement with the IMF in late February that contemplates debt reprofiling. Ethiopia's bond prices plunged on the announcement of its Common Framework application; Fitch⁹ and S&P¹⁰ downgraded its debt, citing expectations of comparability far ahead of external vulnerabilities and military conflict.

Reports that formally and informally collateralized sovereign debt has grown, particularly among low-income countries, raise policy concerns. A joint IMF-World Bank report for the G-20, issued on the eve of the pandemic, highlighted the risks associated with collateral pledges outside the context of revenue-generating projects, and the

challenge posed by undisclosed collateralized lending for policy formulation and credit assessment. Arrangements such as Zambia's "equity-for-debt swap" and Chad's and Zambia's export revenue commitments to Glencore, described above, are more common than previously recognized. A recent study of contracts between Chinese lenders and governments in developing countries found more loans effectively secured by revenue accounts, some unrelated to the underlying project, than in comparable contracts with other official or commercial lenders. A large portion of the loan sample also included expansive promises of confidentiality, except where disclosure is required by law.¹¹

U.S. court orders in New York and Washington, D.C. blocked Guatemala's US\$16 million bond coupon payment in November to enforce an International Centre for Settlement of Investment Disputes (ICSID) arbitration award. Investors had initiated arbitration over electrical rates in 2009 and secured the US\$37 million award in 2020. In November, U.S. courts agreed to bar Guatemala's fiscal agent bank in New York from transferring the government's funds to its bondholders. The enforcement strategy follows the path of earlier successful lawsuits against Argentina in

9 Fitch Ratings 2021

10 Reuters 2021

11 Gelpert et al. 2021

New York and London, and against Peru and Nicaragua in Brussels, all of which froze bond payment flows. To avoid bond default in the middle of a pandemic, Guatemala paid the arbitration award in full. Beyond the successful enforcement strategy, the incident highlights the importance of investment claims in some sovereign debt stocks. Investors in Venezuela began to enforce the arbitration awards against the government long before there could be a bond restructuring. Holders of arbitration awards compete for the same assets, and are likely to use the same enforcement tactics as sovereign debt investors and judgment holders. Regardless of the merits of the underlying claim, commandeering payment intermediaries to enforce sovereign debt is disruptive for the payment system, and damaging for the country.

In February 2021, New York State legislators announced plans to introduce a bill¹² that would replicate certain

features of statutory sovereign bankruptcy to compel private sector involvement in sovereign debt restructuring. The bill would allow sovereign debtors to modify debt contracts governed by New York law by a supermajority vote. It would also grant priority to new borrowing, require a debt audit before restructuring, limit speculative investors' litigation recovery, and empower financial regulators in New York State to oversee aspects of debt renegotiation. Civil society groups have separately proposed measures to limit creditor recovery and insulate sovereign debtors from enforcement, modeled after similar legislation in the U.K. Regardless of the bill's prospects, the impetus to legislate is likely to persist and evolve; lack of visible private sector participation in DSSI and the Common Framework fuels this and similar initiatives.

12 Gladstone 2021

II. Multilateral Financing Must Be Bold and Creative to Support an Equitable Recovery and Prepare for Future Shocks

1. *Boosting concessional surge capacity at Multilateral Development Banks (MDBs) must be a priority for the international community. While we welcome the decision to advance the next IDA replenishment by a year, we recognize that such one-off exceptional measures are not a sustainable way to meet multi-year recovery needs and respond to future shocks without pushing countries into debt distress. The World Bank Group and Regional Development Banks (RDBs) should use more fast-disbursing loans and grants and more flexible and contingent instruments to support sound policies against exogenous shocks.*

Despite advancing the IDA replenishment, front-loading commitments and disbursements, and market borrowing, multilateral financing falls short of projected needs. The IMF identified pandemic recovery and development financing needs upwards of US\$450 billion through 2025 for low-income countries alone. Slower global growth would expand the gap by another US\$100 billion to give these countries a fighting chance at convergence. These projections do not cover funding needs to mitigate large-scale damage to middle-income economies. In some regions, an entire generation could be trapped in a future of stalled growth, rising poverty, and scant development opportunities. Recovery and convergence in low-income countries are essential for global public health, security, and growth everywhere, but multilateral financing has not kept pace—notwithstanding recent

positive developments. Lower-middle-income countries saw output contraction of nearly ten percent on average, but got less than one tenth of one percent of GDP in new disbursements from the World Bank. IDA and the International Bank for Reconstruction and Development (IBRD) combined are on track to disburse 60 percent of the total the World Bank had set as its fiscal year target for 2020.¹³ Especially in a more volatile market environment, it is unreasonable and undesirable to expect vulnerable countries to fill most of the pandemic and post-pandemic financing gap with borrowing on market terms. It follows that tens of billions of dollars in welcome new resources for vulnerable countries, from advancing the next IDA replenishment to augmenting existing trust funds, still amount to a fraction of the minimum needed to fill multiple urgent gaps as part of a focused strategy.

Coordination and monitoring in vaccine supply and administration are not robust enough to meet the challenge of COVID resurgence in low- and middle-income countries. As the virus continues to mutate, new waves of the pandemic strike younger people and overwhelm public health capacity in parts of the developing world. The multilateral ACT Accelerator initiative at the WHO is still short more than half of its immediate funding need for testing, treatment, and vaccines. The IBRD, the International Finance Corporation (IFC), the IDB, and the Asian Development Bank (ADB) have committed US\$12, US\$4, US\$1, and US\$9 billion, respectively, for various vaccine and related healthcare infrastructure spending—not

¹³ Morris, Sandefur, and Yang 2021

always coordinated among themselves or with COVAX, the vaccine pillar of ACT Accelerator. The Asian Infrastructure Investment Bank has pledged additional vaccine financing in 2021. Lebanon was among the first to receive vaccines with support from the World Bank, with loan conditions tied to equitable vaccine distribution and third-party compliance monitoring. Elsewhere, media reports of pharmaceutical firms demanding collateral from governments to secure vaccine supplies highlight the need for public financing and multilateral coordination, and point to possible pandemic-related shifts in sovereign debt composition.

For the G-20 governments, the next IDA replenishment is an important opportunity to signal continuing commitment to multilateral development finance on a global scale to address global threats. IDA donors have agreed to advance its IDA-20 replenishment by one year, to December of 2021, which would make it possible to continue front-loading support for low-income countries. Even with IDA's conservative approach to market borrowing, it was able to generate US\$82 billion with US\$23 billion in donor resources from IDA-19. Advancing IDA-20 allows IDA to spend these funds in two years, instead of three. Front-loading disbursements for low-income countries at this time would help prevent deeper economic scarring from the pandemic, saving money over time; it should not reduce IDA's own creditworthiness.¹⁴ Maintaining current levels of support for IDA grant and loan recipients through 2024 would require increasing IDA-20 by a third from IDA-19.

More than doubling IDA's market borrowing from to US\$35 billion in today's low interest rate environment would free resources for a substantial increase in grants, as recommended in the preliminary report of this Working Group. After doubling its debt stock, IDA would still have by far the most conservative balance sheet among the AAA-rated multilateral lenders. Credit rating agency reports highlight IDA's strong capital position: it has more than three times the risk-adjusted capital ratio of the World Bank, the African Development Bank, and the Inter-American Development Bank, and approximately double the ratio of the Asian Development Bank.¹⁵ It has ample capacity to borrow without jeopardizing its standing in the financial markets.

2. *The IMF should establish an augmented pandemic support window for longer-term financing to manage prolonged structural disruptions from COVID-19 and future public health shocks. A new window would help mobilize some of the IMF's under-utilized non-concessional lending capacity, which now exceeds a trillion U.S. dollars, to fund well-designed public health crisis response measures at the current low interest rates. We welcome IMF shareholders' support for a historic SDR allocation, and reiterate the view expressed in our preliminary report, that transparent and replicable procedures for recycling IMF SDR voluntarily among IMF members would amplify the impact of the allocation for recovery from COVID-19 and bolster the global safety net for the public health, climate, and financial crises to come. It would not eliminate the need for emergency balance of payments financing, donor funds to support concessional lending, or debt relief.*

An augmented pandemic support window at the IMF would help mobilize its under-utilized non-concessional resources for a well-designed public health response, economic stabilization and recovery.¹⁶ Through the current public health crisis, concessional and fast-disbursing financing with minimal conditionality were in high demand, justified by the global character of the exogenous shock. On the other hand, the IMF disbursed less than a quarter of its non-concessional lending capacity using more traditional program instruments, and has more than a trillion U.S. dollars in lending capacity remaining. Eighty out of the 85 IMF members that sought its financial support since the start of the pandemic took advantage of fast-disbursing facilities with minimal conditionality. However, even at current low interest rates, many governments would need more time to implement essential pandemic response and structural public health reform measures, and still more time to generate revenues to repay. Yet others associate conventional IMF programs with market stigma, and may be reluctant to seek help for fear of signaling economic weakness.

A lending window for pandemic and pandemic-related response could be based on the Extended Fund Facility (EFF), supporting programs of up to four years, with repayment extended for up to ten.

¹⁴ Landers 2021

¹⁵ S&P Global Ratings 2021

¹⁶ Ahmed, Hicklin and Brown 2021; Hicklin and Brown 2021; Fisher and Mazerci 2020

A relatively narrow subject focus would support more streamlined conditionality and more prompt disbursement. It may also help diffuse concerns about stigma where the country's policies did not cause the public health crisis, but structural adaptation is required. Lastly, IMF financing and surveillance can also serve a coordinating role: unlike other lenders to distressed countries, the IMF operates in the context of a macroeconomic stabilization program and takes a comprehensive view of the member's finances. Co-financing with other official, multilateral, regional, and even private donors may play a more formal and prominent role in future pandemic crises.

Many middle-income economies dependent on tourism are vulnerable to increasingly damaging climate events are not well-served by the multilateral financing architecture organized by sticky national income groups and split into long-term lending and emergency balance of payments support. They are disproportionately exposed to shocks, but often ineligible for concessional emergency financing owing to their national income status before the country was reduced to rubble. Countries in this group have been at the forefront of experiments with state-contingent debt, such as hurricane bonds, but design has been a challenge and market acceptance lags. The Working Group's preliminary report in October of 2020 highlighted the problem of ill-fitting qualification criteria for countries such as this. New IMF lending windows in response to large-scale exogenous shocks—including but not limited to pandemics—would make a meaningful contribution to resilience in this group of countries. They are also the prime candidates for (and have some experience with) state-contingent debt instruments issued by official creditors or with official enhancement.

We welcome the historic US\$650 billion IMF SDR allocation, which could deliver up to a US\$150 billion liquidity boost to low- and middle-income countries. IMF shareholders gave the green light for the Managing Director formally to pursue an SDR allocation of US\$650 billion, to boost global liquidity and help finance recovery from COVID-19. IMF executive board approval is expected in June, leading to SDR allocation in August. At more than

twice the size of the last record-breaking allocation in 2009, this agreement on SDR is an important and welcome step, with potential to deliver more than US\$150 billion to vulnerable countries. The preliminary report of this Working Group recommended two successive allocations of this size and outlined a possible reallocation (recycling) mechanism. An SDR allocation of US\$650 billion or less does not require approval from the U.S. Congress; however, recycling allocated SDR does. Both are politically controversial in the United States because countries subject to U.S. and international sanctions could benefit; other large IMF shareholders also balked at lending their newly allocated SDR. Nonetheless, the last G-20 statement called on the IMF to propose designs for a reallocation mechanism.

Agreement on a mechanism to pool and recycle SDR to direct liquidity where it is needed the most, as recommended in the Working Group's preliminary report, would demonstrate the effectiveness of SDR recycling as a tool for future shocks of pandemic scale and intensity. More than two-thirds of all allocated SDR would sit idle in the accounts of countries that do not plan to use them. Reallocation or recycling these SDR could deliver a significant funding boost to the neediest. An agreement on SDR recycling would have to address two threshold matters. The first is whether the funds should be administered as part of the IMF's general resource account, a trust fund (most likely, the Poverty Reduction and Growth Trust Fund, which makes interest-free loans to low-income countries), or another international institution with specialized expertise that may also hold SDR. Second and related, the agreement would have to settle on the terms and conditions of the lending, including policy conditionality. Conditionality is minimal under the rapid disbursement facilities used heavily throughout the pandemic; however, longer-term lending may require a different approach.

In sum, redeploying idle SDR through an IMF trust fund or, in some cases, through another international organization with an appropriate mandate and expertise, would enable the international community to act effectively and efficiently in an emergency. However, it would not obviate the need for more concessional resources or debt relief.

III. Implementing the Common Framework: Comparability of Treatment and Beyond

The G-20 and the broader international community should invest in making the Common Framework a success. The Common Framework is part of the international response to COVID-19, as well as an institutional experiment in coordinating new and diverse creditors, a central challenge for sovereign debt restructuring today. The existing restructuring regime suffers from fragmentation, information barriers, and severe creditor coordination problems. Some of these problems are a function of different institutional practices, yet others reflect statutory and contractual constraints on debtors and creditors. Earlier reform proposals, including Collective Action Clauses (CACs) and treaty-based sovereign bankruptcy, addressed discrete parts of the sovereign debt stock and relied on customary sequencing and cross-conditionality to achieve a comprehensive, collective solution to a country's debt problems. Such customs become increasingly difficult to sustain as debtors and creditors become more diverse. Several pragmatic steps can help the G-20 manage emerging coordination challenges and begin framing a new debt restructuring architecture.

3. *The G-20 should expand eligibility for the Common Framework to include low- and middle-income countries with pressing debt vulnerabilities.*

DSSI has suffered from slow take-up by the debtors, and from limited creditor participation. No private creditors took part in DSSI. With fewer debtors applying, the initiative delivered under half of the projected relief.

The outcome so far reflects a mix of design and communication problems. Although it included all G-20 governments, DSSI design initially hinged on a short-term payment suspension to Paris Club creditors to attract low- and lower-middle-income borrowers and catalyze meaningful concessions from other public and private creditors. Because for many countries, the Paris Club is a relatively small and shrinking part of the creditor pool,¹⁷ postponing payments to Paris Club creditors is not enough by itself to meet their crisis liquidity needs. Other participating G-20 governments, most notably China, rescheduled payments bilaterally in parallel with the Paris Club, on terms that were not always made public or shared with other creditors.

In traditional Paris Club negotiations, the sovereign debtor must seek comparable treatment from its other creditors or risk losing relief. With DSSI, the G-20 specifically refrained from requiring comparability, but did not supply an alternative creditor coordination mechanism. Potential beneficiaries bear the reputational risk of applying for relief, with no assurance that non-G-20 creditors would join. To make matters worse, the official sector had not communicated its expectations and plans for enforcing them with sufficient clarity; early on, the IMF and the World Bank observed substantial differences in interpretation and implementation of DSSI among G-20 creditors. Rating agencies put a handful of countries on downgrade watch with explicit reference to the risk of comparability (see Box 1). By design, DSSI was limited to discrete payment postponement. Deeper sovereign debt restructurings in 2020, and all those involving the private

¹⁷ For the three DSSI-eligible countries in Fig. 9—Zambia, Angola, and the Republic of Congo—high estimates of Paris Club debt stock range from one-tenth to one-fifth of their debt to Chinese lenders. Comparisons to bonded debt in the same countries yield similar results.

sector, happened outside DSSI. For DSSI-eligible countries with little G-20 debt—and for those with a small stock of performing debt to private creditors—the uncertainty associated with asking for small-scale, short-term debt service relief made comparability too costly to try.

The Common Framework is an opportunity to address DSSI’s design defects and to build a foundation for more durable sovereign debt architecture reforms. Participating official creditors include non-Paris Club governments, most importantly, China. Debt treatment options include debt reduction where the debt is unsustainable, albeit as a last resort. The Common Framework also goes beyond the DSSI to require the debtor to seek comparable treatment of all creditors outside the framework. It is as yet uncertain whether it will succeed in attracting a broad range of sovereign borrowers coordinating their diverse creditors

to produce sustainable debt outcomes. Only three countries have applied in the first four months of the initiative, with only one (Chad) beginning negotiations.

Limiting Common Framework eligibility to DSSI-eligible countries severely limits its potential benefit to distressed countries, as well as its utility as a scalable framework in reforming the international financial architecture. Most middle-income countries and small island states, countries with significant stocks of bonded debt, and those with the most debt owed to non-Paris Club creditors are ineligible for DSSI regardless of debt vulnerabilities. The Working Group’s preliminary report stressed that countries in need of new public health funds are not the same as countries with big debt payments due in the near- and medium-term. Limiting participation in the Common Framework to DSSI-eligible countries therefore

BOX 1

Credit Ratings and Restructuring Incentives

Rating agencies purport to assess borrowers’ medium-term prospects and overall debt sustainability. Properly interpreted, ratings should create incentives for governments to deal with debt overhang, improving sustainability. However, when participation in coordinated debt restructuring substantially increases the probability of nonpayment—for instance, with strict comparability of treatment—the initial rating response is negative. An upgrade would follow only when the restructuring has achieved a sustainable debt profile, all else being equal. In some cases, upgrades have followed within weeks, but rarely to pre-restructuring levels.

Downgrade reports do not normally mention the likelihood of an upgrade: they do not know how negotiations will end, and have no incentive to go out on a limb. They do emphasize factors such as comparability of treatment, implying that comparability—not the underlying debt problem—prompted the ratings action, and further implying that the rating can be avoided by avoiding comparability, or freeriding on official sector debt relief. Frontier-market government officials report being told that downgrades linger for years and should

be avoided at all cost, implying a reward for not dealing promptly with a debt overhang.

As a result, when a country decides whether to seek restructuring in the Paris Club or as part of the Common Framework, it faces a certain and immediate downgrade and an uncertain upgrade at an unspecified time that may or may not return it to pre-default rating. Combined with the IMF and Paris Club policy of treating sustainability and comparability on an aggregate basis—creditors as a group must contribute enough, even if all the losses fall on a subset of creditors—this structure creates powerful disincentives to solving sovereign debt problems.

A coordinated outreach strategy and technical assistance for countries new to the capital markets can help address some, but not all, of these distortions. A practice of publishing historical data on post-restructuring upgrades, and a shift in communications to highlight medium-term sustainability factors, rather than one-off comparability undertakings, would help move the process in a constructive direction. Ratings should not be a barrier to dealing with debt overhang. Regulation should be on the table if necessary to achieve this outcome.

risks repeating its mistakes and delivering too little relief to a skewed sample of countries. Low-income countries' heterogeneity and often non-traditional creditor composition could undermine the Common Framework's utility as a durable creditor coordination platform. The framework is already flexible enough to cover a broad range of restructuring terms, potentially attractive to larger middle-income country borrowers like Ecuador, with a substantial stock of debt to China. Ecuador restructured its bonds and rescheduled its debt to China in the fall of 2020, but it remains vulnerable to debt distress. A broader range of participating borrowers and recurring participation by major creditors could help destigmatize the process and make it more effective.

4. *Common Framework creditors should reaffirm and elaborate the comparability of treatment principle to ensure that all material categories of claims participate on comparable terms. The IMF should use its policies to provide financing for members engaged in debt restructuring as part of the Common Framework and to ensure that they are not held hostage to inter-creditor conflicts.*

Inter-creditor conflicts are more pronounced and more complex now than they were as recently as a decade ago. Debtors, creditors, and the debt instruments that bind them are more diverse, and change hands more often, than in the past. Creditor coordination challenges have flared up in Chad, Ethiopia, and Zambia, the three countries participating in the Common Framework. With almost half of its debt owed to Glencore, the success of Chad's Common Framework treatment rests on Glencore's willingness to restructure its claim on Chad for the second time in three years. Today's frontier market restructuring may implicate multilateral and bilateral official and hybrid creditors, suppliers and direct investors, banks holding loan and bond claims, asset managers, domestic and foreign residents—all at the same time.

While the Common Framework is more prescriptive than DSSI, the established approach to enforcing comparability is largely hands-off. The Paris Club has never withdrawn a debt treatment on comparability grounds. No material creditor group is exempt from comparability under Paris Club principles, but the Paris Club would not force a debtor to inflict losses on a particular non-Paris Club creditor or instrument if the overall outcome is comparable to Paris Club terms. The IIF Principles for Stable Capital

Flows and Fair Debt Restructuring stress the importance of debt transparency and timely debtor-creditor engagement to maximize participation in voluntary debt restructuring. The Working Group's preliminary report highlighted "the tension between commitments to voluntary debt restructuring and to inter-creditor equity, or comparability of treatment," and stressed that "[f]ailure to secure the participation of all creditors, including private, commercial, hybrid, and state-owned policy lenders, would undermine political support... and diminish the appetite for official co-financing in the future." The tension rises, along with incentives to freeride, in a diverse creditor group with no institutional coordination mechanism among them.

In the Paris Club's established approach, the debtor is responsible for creditor coordination. In theory, the sovereign stands to lose Paris Club terms if it fails to secure comparable treatment from its other creditors. If official creditors evaluate the contribution of all non-Paris Club or non-Common Framework creditors as a whole, they create powerful incentives for any given creditor to hold out and freeride. Distressed frontier market economies may not have the resources to manage today's formidable coordination task on their own at the risk of losing vital debt relief.

In light of the acute coordination challenge, Common Framework creditors should jointly revisit the content and application of comparability to minimize incentives to hold out. All material creditor groups—official, private, and hybrid—must share in the burden of debt restructuring, recognizing that different kinds of creditors may contribute in different ways. Common Framework creditors, working with the IFIs, can shift some of the burden of monitoring and securing comparable treatment, along with some reputational cost, off the distressed sovereign debtor. Shifting responsibility in this way would also mitigate the incentive to free ride for other creditors.

Ensuring that the sovereign has access to financing while it negotiates comparable terms is an essential and simple step to facilitate creditor coordination. The IMF's policies relevant to sovereign debt, including lending into arrears, should promote robust engagement between sovereigns and all their creditors. Debt transparency, discussed in detail below, and clear communication of expectations, are similarly critical to maximize the likelihood of a sustainable outcome, fair burden sharing, and broad-based political support for the sovereign debt crisis management strategy.

5. *The G-20 should establish a standing consultative mechanism in conjunction with the Common Framework, with a mandate to promote consistency, equity, and transparency in the framework's case-by-case approach. Such a mechanism should include representation from all major stakeholders, have the authority to entertain questions regarding substantially all material external claims against the sovereign, have access to information concerning all such claims, and have the capacity to speak publicly on matters within its remit. It should help gather and distribute information, advise the parties on methodological and process questions in real time, and, drawing on outside expertise, promote the development of contractual and other tools to streamline negotiations and implement debt restructuring agreements.*

A standing consultative mechanism can help build trust and promote consistency across Common Framework debt treatments. Diverse creditors and claims pose a central challenge for contemporary sovereign debt restructuring. Creditor coordination problems and outright conflicts are already commonplace, and are likely to grow. Fragmented information and muddled communication compound the problem. The Common Framework's case-by-case, nonbinding, MOU-based approach raises the additional risk of inconsistency.

A forum¹⁸ with representation from key stakeholders and access to relevant information concerning all material external claims against the sovereign debtor can promote coordination without compelling the parties to make concessions. It would advise the parties on methodological and procedural questions, and speak publicly on matters within its remit. Such a mechanism would contribute to the development of clear expectations in areas such as comparability of treatment and private sector involvement as Common Framework cases accumulate. It would support coordination among creditors with different legal and accounting constraints, and help develop a shared understanding of liquidity, solvency, and sustainability. A standing mechanism would be in a position to clarify the relationship of crisis initiatives to existing institutional policies, and to promote contractual

and other tools to streamline negotiations and implement debt restructuring agreements.

CACs in bonded debt are a valuable and widely accepted inter-creditor coordination tool that requires periodic evaluation and revision to stay effective. CACs typically establish majority rule among creditors that hold roughly identical, easily verifiable claims, like tradable bonds. They mimic elements of voting in bankruptcy, but are a blunt tool for grouping creditors in voting pools and for detecting and managing opportunism—both challenges posed by Argentina's and Ecuador's restructurings discussed in the Working Group's preliminary report. Voluntary and incomplete contract standardization makes for unpredictable and sometimes divergent outcomes among different markets or even similarly situated sovereigns. After Argentina and Ecuador became the first to use the 2015 International Capital Market Association (ICMA) Standard New York law CACs, they adopted new bespoke language in their exit instruments. The ICMA considered and, for now, rejected, the idea of revising the model terms. However, more revisions are certain to come in the future. These should not and need not be *ad hoc*. Given CACs' policy significance, the ICMA and the IMF should institute a biennial review of the adoption and uses of CACs, and a consultation process for potential changes. Both institutions do this informally already; having a predictable governance process would improve CACs' efficacy and market understanding of what they do.

Contract reform can help introduce more resilient state-contingent features in sovereign debt and make private sector involvement more automatic. IMF staff issued a discussion note on state contingent instruments in sovereign debt restructuring¹⁹ in November 2020, adapting and building on its 2017 work to account for natural disasters and exogenous shocks like COVID-19. The note again highlighted the challenge of selecting appropriate triggers to avoid opportunism, along with continued market resistance to state-contingent sovereign debt. The Working Group's preliminary report sought an alternative to the disaster clause model that would operate in a wide variety of shocks, would not require expert judgment, and would hew more closely to debt market practices. Consultations with market participants and white papers issued since the

18 The standing consultative mechanism we recommend for the Common Framework shares attributes with an earlier proposal for a Sovereign Debt Forum (Gitlin and House 2014), which focused on early debtor-creditor engagement. The focus in this report is on stakeholder representation, case consistency, and coordination among diverse creditor groups as part of an *ad hoc* Common Framework process.

19 Cohen et al. 2020

Working Group's preliminary report suggest there may be demand for simpler, more generic debt instruments that give debtors more discretion, such as bonds with automatic two-year extension options or step-up interest rates. Although they appear counterintuitive in light of well-rehearsed concerns about debtor opportunism, such designs are common in high-yield corporate and bank debt. They do not require bondholders to make actuarial judgments or engage in complex interpretation. Evaluating a bond with an automatic extension option requires a view of the debtor's ability and willingness to pay. To reduce the stigma associated with using built-in contractual flexibility, it is important to ensure that index design, credit rating methodology and credit derivatives documentation properly reflect the extension option. The experience with crisis resolution, including DSSI, suggests that eliminating the problem of stigma would be extremely difficult without mandating the participation of multiple sovereigns to reduce the signaling value of any given extension. Simplifying the design consistent with debt market practices stands a better chance of market acceptance.

Contingent contracts also may be designed to promote creditor coordination and a more streamlined restructuring process. For example, maturity extension or interest suspension could be tied to minimum participation among eligible creditors. This design would fit well with time-bound crisis initiatives such as the DSSI, and would help achieve inter-creditor equity and minimum relief for the debtor automatically, using a device (minimum participation condition) familiar from sovereign debt restructuring.

Well-designed state-contingent instruments are good candidates for official co-financing and other incentives for market adoption. In addition to adopting contingency features in its own debt contracts, the official sector could help reduce the novelty premium by offsetting some of the debt postponement costs or exempting contingent debt that delivers a minimum level of relief from ex post private sector involvement conditions.

6. *National law should shield payment intermediaries from creditors blocking payments to other creditors. Payment utilities should not be commandeered for sovereign debt enforcement.*

Successful sovereign debt enforcement has come to rely disproportionately on disrupting payment flows to other creditors. Most sovereign debtors' assets outside

their borders are protected by sovereign immunity and outside the reach of their creditors. This makes sovereign debt hard to enforce directly, leaving creditors to rely on a mix of embarrassment (seizing ships and presidential airplanes) and indirect enforcement. Indirect enforcement usually entails seizing funds in transit to or from the debtor. The immediate result may be to pressure the debtor into settlement to avoid a cascade of defaults. Over time, the result resembles a secondary boycott: commercial firms are wary of dealing with the sovereign for fear of having their funds seized. As detailed earlier, Guatemala's experience with having its November 2020 bond payment frozen in a New York bank is the latest in a string of examples that include Peru, Nicaragua, Congo, and most prominently, Argentina. Even when the underlying claim is meritorious, holding payments to other creditors hostage in the hands of payment intermediaries is rife with externalities: it disrupts payment flows, and in the case of market utilities such as Euroclear (implicated in past enforcement lawsuits against Latin American sovereigns), could have financial stability implications. The Working Group's preliminary report recommended UN and legislative intervention as a last resort to shield the debtor and help enforce comparability of treatment. Shielding intermediaries, and payment and clearing infrastructure (as Belgium did for Euroclear) would be valuable on its own merits, to protect the financial system from disruptive individual enforcement, in addition to promoting inter-creditor equity.

7. *The G-20 should disavow the use of contract terms that impair debtors' or creditors' participation in international debt negotiations, and should commit not to enforce them in their existing bilateral debt contracts, and those of their agencies and state-owned enterprises. Because it is essential for China to be a full-fledged participant in coordinated international sovereign debt restructuring, as the largest bilateral creditor, it should lead the way by removing prior constraints on its participation.*

New multilateral and academic studies—as well as country experience in the DSSI and the Common Framework to date—raise concerns about contracting practices that would make it harder for debtors and creditors to implement the Common Framework. These practices include confidentiality clauses, undisclosed repayment and collateral arrangements that divert scarce

revenue flows, and promises not to seek Paris Club comparability or similar coordinated relief. In addition, some ostensibly commercial loan contracts include cross-default clauses that weave together various bilateral creditor interests in the borrowing country, giving the creditor enormous bargaining power and undermining the commercial character of the loan.²⁰

Confidentiality clauses that prohibit sovereign borrowers from disclosing the existence of debt contracts run counter to Common Framework terms and to long-established IFI, Paris Club, and market norms. They make it impossible to design credible recovery programs and amplify inter-creditor conflicts. Zambia's commercial debt exchange under the DSSI stalled when bondholders used inadequate information about Chinese lenders' claims and restructuring terms as grounds to walk away from negotiations. Commodities traders and non-financial firms with large claims against low-income countries do not normally share information with other creditors, participate in collective debt negotiations, or abide by their terms.

Sovereign debt contracts increasingly include credit enhancement, collateral, and special repayment arrangements through revenue accounts. These devices have long been common in limited-recourse project financing, and have been part of emergency financial support arrangements in past crises. They pose a distinct challenge when routinely included in full-recourse sovereign lending—particularly in cases where revenues are not directly connected to the underlying project, or where the arrangement is undisclosed—because they divert government revenues to secure debt to a subset of creditors, effectively subordinating all other claims and public expenditures. In some cases, such arrangements may violate existing negative pledge undertakings in commercial and official contracts. Promises of confidentiality effectively undermine debt sustainability analyses. Moreover, they make otherwise unenforceable terms—like promises not to restructure—enforceable when they give the creditor the ability to seize funds in the bank account.

Sovereign borrowers, their official and commercial creditors, and the IFIs should review their debt contracts and, in the case of sovereign debtors with

capacity constraints, seek technical assistance, to identify, evaluate and revise terms that may impede their participation in multilateral debt relief initiatives. In light of the growing incidence of collateralized debt and functionally similar arrangements in full-recourse sovereign debt, contract terms that prohibit or regulate secured sovereign borrowing merit particular attention. Negative pledge undertakings, which traditionally restrict secured sovereign borrowing, differ between official and commercial lenders, and even among MDBs. They do not appear to have served as a barrier to recent secured debt accumulation.²¹

Contracts that commit governments not to restructure their debts in a collective forum such as the Paris Club, or not to comply with comparability undertakings, are contrary to debtor and creditor commitments under the Common Framework. Contracts that make it harder for a distressed debtor to engage in comprehensive coordinated debt restructuring encourage a race to the bottom among creditors and undermine economic recovery program design.

In most cases, such contract terms are not unique to Chinese lenders, new creditors, or hybrid institutions. However, they appear to be substantially more common in their contracts with low- and middle-income countries. It would be especially compelling for China to lead the way in removing such obstacles to coordinated debt treatments.

To maximize the potential of the Common Framework to shape transparent, effective, and equitable debt restructuring architecture going forward, the G-20 should state clearly that such terms contravene international norms. Governments should pledge not to invoke such terms in the Common Framework and beyond, and endeavor to remove them promptly from their respective bilateral official debt contracts. They should use governance tools at their disposal to remove such terms and not to invoke them in debt contracts of other public sector and hybrid lenders. As a first step, the G-20 and other government creditors should pledge to disclose their bilateral official debt contracts, preferably to the public. Disclosure to the IFIs and to other creditors within the Common Framework may be appropriate as intermediate steps to public disclosure.

20 Gelpern et al. 2021

21 IMF and World Bank 2020

8. *Private sector, official, and multilateral lenders should encourage sovereign borrowers to adopt robust domestic debt disclosure requirements as part of their debt authorization frameworks. Hidden debt does economic and political damage to the borrowing country, fuels mistrust among creditors, and deprives public institutions, including the IFIs, of vital information they need to devise reform and recovery programs.*

The Working Group’s preliminary report recommended including debt disclosure requirements in domestic debt authorization as a barrier to enforcement of hidden debt. The G-20 International Financial Architecture working group, the World Bank, and the IMF have since begun to consider ways to integrate authorization and disclosure, complementing existing debt transparency initiatives.

Experience with Zambia and other DSSI countries since the publication of the Working Group’s preliminary report reaffirms the critical importance of robust sovereign debt disclosure. Restructuring negotiations have broken down over demands for information among new and diverse creditors that may not trust one another. Low-income and vulnerable country citizens are double victims: they do not have the information they need to hold their government accountable and disproportionately bear the cost of restructuring delays.

The need for robust disclosure of sovereign debt is well-established. The Principles for Stable Capital Flows and Fair Debt Restructuring highlight the importance of transparency and the timely flow of information. Citizens, creditors, and donors are all stakeholders in the push for greater transparency.

Information about public debt is presumptively public. It should be accessible, intelligible to its stakeholders, and sufficiently standardized to enable meaningful cross-country comparisons. Although there is little international disagreement on the point, implementation has been a challenge.

There is a very narrow set of good reasons that could justifiably prevent debtors and creditors from disclosing debt information. Some contracts implicate proprietary commercial information, national security, or sensitive diplomatic or financial stability matters. Most sovereign debt contracts do not. Arguments against transparency more often trace back to governance problems, debtor and creditor fears of revealing liquidity or solvency problems,

or political rivalries at home or abroad. At best, this second category of arguments may affect when and how information is disclosed—not whether it remains hidden.

Existing disclosure systems are limited and fragmented, although there has been steady improvement. In 2017, the G-20 issued operational guidelines for sustainable financing, featuring wide-ranging official creditor commitments to debt transparency. The IMF and the World Bank developed a diagnostic tool in 2019 that countries have used for self-assessment, as a measure of accountability. The IIF issued Voluntary Principles for Debt Transparency in 2019, which cover foreign currency lending to low-income countries eligible to borrow from the IMF’s Poverty Reduction and Growth Trust. It has since collaborated with the OECD on a disclosure platform due to be launched in 2021. The two recent creditor transparency initiatives join a debt disclosure regime comprising debtor-supplied data published by the World Bank and the IMF, creditor data from the Bank for International Settlements and the OECD, and disclosure required of issuers by securities regulators in major financial markets, among others. Scandals that uncovered hidden debt on the order of 10 percent of GDP in low- and middle-income countries have accelerated multilateral efforts to improve data quality and accessibility and better integrate information on various international platforms. Nonetheless, disclosure remains partial and inconsistent, and contract terms—including large-scale commodity and revenue pledges—remain largely hidden.

Unauthorized debt already faces additional enforcement hurdles in major financial jurisdictions, particularly if creditors were on notice of the authorization requirements. There is no immediate need to change the law in any of these jurisdictions—although it could be helpful to clarify the standard in the long run. If domestic law in an emerging or frontier market country required disclosure as part of authorization—and notified creditors of the requirement—then a court may refuse to enforce undisclosed debt incurred after the law’s enactment.

The authorization standard is extraordinarily high, and itself requires robust disclosure. Recent decisions involving Liberia and Venezuela in New York, and Ukraine in London, highlight that the courts make it exceedingly difficult for governments to walk away from their debts claiming lack of authority. In most cases, creditors claim ignorance of domestic authorization requirements and rely on the appearance of authority in borrowing country

officials. Courts may consider denying enforcement only if creditors are clearly on notice at the time the debt contract is made that they are buying unauthorized debt. In practice, implementing the Working Group's preliminary report recommendation would produce a result closer to subordination—hidden debt would be harder to enforce, and potentially more expensive and less liquid than transparent debt, but still very hard to repudiate. As public debt disclosure norms harden around the world, the barriers to enforcement would become more formidable.

Even the most expansive confidentiality clauses usually exclude disclosure required by law. Commercial bank loan contracts impose broader and stricter confidentiality obligations on the lender because they are more likely to obtain proprietary information about the debtor's business in the due diligence investigation. In contrast, some bilateral official loan contracts (notably including all publicly available China Export-Import Bank contracts since 2014) include a clause that prohibits disclosure of any information related to the debt contract without the lender's consent *or* as required by law. Therefore, if domestic or foreign law required disclosure, this and similar contractual confidentiality clauses would not apply. Over time, such clauses may become unenforceable on public policy grounds to the extent disclosure becomes a settled international norm. The fact that G-20 operational guidelines in 2017 included a commitment not to include secrecy clauses in debt contracts is evidence of public policy against enforcement.

Beyond the technical advantages, embedding disclosure requirements in domestic law should help

invest citizens of the borrowing country in debt transparency and monitoring. International financial institutions are ideally positioned to deliver technical assistance to improve debt reporting and authorization practices, and to help defray information technology costs for the poorest countries.

Linking authorization and disclosure may not prevent enforcement of all hidden debt, but it would make it relatively illiquid, expensive, and unattractive. Even lenders that do not normally rely on the courts to enforce their claims, such as official bilateral lenders, would suffer reputational consequences for hiding debt.

Securities regulations in major financial jurisdictions sometimes treat information release as marketing of securities, and may need to be modified slightly to support robust disclosure of sovereign debt. The International Organization of Securities Commissions (IOSCO) and the Financial Stability Board are well placed to coordinate such changes, to the extent necessary.

Technical complexity and lack of analytical capacity among the general public are not reasons to withhold debt contracts. Researchers and civil society groups are well-placed and incentivized to perform the analysis. They are not well-suited to the detective work of finding documentation that should be public. As debt composition changes, disclosure systems should continue to adapt to ensure comprehensive reach and inter-creditor and debtor-creditor coordination in collecting and presenting information.

References

- Ahmed, M., J. Hicklin and H. Brown. 2021. "A New IMF Pandemic Window Could Provide \$30 Billion to Finance Vaccines for Developing Countries." Center for Global Development, April 5. <https://www.cgdev.org/blog/new-imf-pandemic-window-could-provide-30-billion-finance-vaccines-developing-countries>
- Cohen, C., S. M. A. Abbas, M. Anthony, T. Best, P. Breuer, H. Miao, A. Myrvoda, E. Togo. 2020. "The Role of State-Contingent Debt Instruments in Sovereign Debt Restructurings." International Monetary Fund Staff Discussion Note, November 19. <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2020/11/13/The-Role-of-State-Contingent-Debt-Instruments-in-Sovereign-Debt-Restructurings-49732>
- Fisher, M. and A. Mazarei. 2020. "A possible IMF Pandemic Support Facility for emerging-market countries." Peterson Institute for International Economics Policy Brief 20-11, July. <https://www.piie.com/sites/default/files/documents/pb20-11.pdf>
- Fitch Ratings. 2021. "Fitch Downgrades Ethiopia to 'CCC.'" February 9. <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-ethiopia-to-ccc-09-02-2021>
- Gelpern, A., S. Horn, S. Morris, B. Parks, and C. Trebesch. 2021. "How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments." Center for Global Development, March. <https://www.cgdev.org/sites/default/files/how-china-lends-rare-look-100-debt-contracts-foreign-governments.pdf>
- Gitlin, R. and B. House. 2014. "A Blueprint for a Sovereign Debt Forum." Centre for International Governance Innovation, Paper No. 27, March 12. <https://www.cigionline.org/publications/blueprint-sovereign-debt-forum>
- Gladstone, A. 2021. "New York Lawmakers Float Crackdown on Hedge Funds' Sovereign-Debt Tactics." The Wall Street Journal, February 8. <https://www.wsj.com/articles/new-york-lawmakers-float-crackdown-on-hedge-funds-sovereign-debt-tactics-11612780201>
- Goel, R., and E. Papageorgiou. 2021. "Update on EM Credit Ratings." Monetary and Capital Markets Department, International Monetary Fund, April 13.
- Hicklin, J. and H. Brown. 2021. "Vaccine Financing: How a Redesigned IMF Instrument Can Provide a Shot in the Arm for the Global Pandemic Response" Center for Global Development, April. <https://www.cgdev.org/sites/default/files/vaccine-financing-how-re-designed-imf-instrument-can-provide-shot-arm-global-pandemic.pdf>
- IMF and World Bank. 2020. "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers." IMF Policy Paper No. 20/010, February 19. <https://www.imf.org/en/Publications/Policy-Papers/Issues/2020/02/19/Collateralized-Transactions-Key-Considerations-for-Public-Lenders-and-Borrowers-49063>
- Jensen, L. 2021. "Sovereign Debt Vulnerabilities in Developing Economies." United Nations Development Programme Working Paper, March.

- Landers, C. 2021. "IDA-20: Donors Must Go Big, and IDA Must Too." Center for Global Development, April. <https://www.cgdev.org/sites/default/files/ida-20-donors-must-go-big-and-ida-must-too.pdf>
- Lang, V., D. Mihalyi, and A. Presbitero. 2021. "Borrowing Costs after Sovereign Debt Relief." CEPR Discussion Paper No. DP15832, February. Available at SSRN: <https://ssrn.com/abstract=3795215>
- Morris, S., J. Sandefur, and G. Yang. 2021. "Tracking the Scale and Speed of the World Bank's COVID Response: April 2021 Update." Center for Global Development, April. <https://www.cgdev.org/sites/default/files/tracking-scale-and-speed-world-banks-covid-response-april-2021-update.pdf>
- Reuters. 2021. "S&P joins Fitch in downgrade of Ethiopia on potential debt restructuring." February 13. <https://www.reuters.com/world/middle-east-africa/sp-joins-fitch-downgrade-ethiopia-potential-debt-restructuring-2021-02-13/>
- S&P Global Ratings. 2021. "International Development Association." Ratings Analysis, February 25. <https://pubdocs.worldbank.org/en/736351614954790931/Final-SP-IDA-full-report-FEB-25-2021.pdf>

Group of Thirty Members 2021*

Jacob A. Frenkel

*Chairman of the Board of Trustees, Group of Thirty
Former Chairman, JPMorgan Chase International
Former Governor, Bank of Israel
Former Professor of Economics, University of Chicago*

Tharman Shanmugaratnam

*Chairman, Group of Thirty
Senior Minister, Singapore
Chairman, Monetary Authority of Singapore
Former Chairman of International Monetary &
Financial Committee, IMF*

Guillermo Ortiz

*Treasurer, Group of Thirty
Partner, BTG Pactual
Former Governor, Banco de México
Former Chairman of the Board, Bank for
International Settlements*

Jean-Claude Trichet

*Honorary Chairman, Group of Thirty
Former President, European Central Bank
Honorary Governor, Banque de France*

Mark Carney

*Special Envoy for Climate Action and Finance,
United Nations
Former Governor, Bank of England
Former Chairman, Financial Stability Board
Former Governor, Bank of Canada*

Agustin Carstens

*General Manager, Bank for International Settlements
Former Governor, Banco de México
Former Deputy Managing Director, IMF
Former Secretary of Finance and Public Credit, Mexico*

Jaime Caruana

*Member of the Board of Directors, BBVA
Former General Manager, Bank for
International Settlements
Former Financial Counsellor, International
Monetary Fund
Former Governor, Banco de España*

William Dudley

*Senior Research Scholar, Princeton University
Former President, Federal Reserve Bank of New York
Former Partner and Managing Director,
Goldman Sachs and Company*

Roger W. Ferguson, Jr.

*Former President and CEO, TIAA-CREF
Former Chairman, Swiss Re America Holding
Corporation
Former Vice Chairman, Board of Governors
of the Federal Reserve System*

Arminio Fraga Neto

*Founding Partner, Gávea Investimentos
Former Chairman of the Board, BM&F-Bovespa
Former Governor, Banco Central do Brasil*

* As of May 1, 2021.

Jason Furman

*Professor of the Practice of Economic Policy,
Harvard University
Former Chairman, U.S. Council of Economic Advisers*

Timothy F. Geithner

*President, Warburg Pincus
Former US Secretary of the Treasury
Former President, Federal Reserve Bank of New York*

Gerd Häusler

*Member of the Supervisory Board, Munich Reinsurance
Former Chairman of the Supervisory Board,
Bayerische Landesbank
Former Chief Executive Officer, Bayerische Landesbank
Former Financial Counselor and Director,
International Monetary Fund*

Philipp Hildebrand

*Vice Chairman, BlackRock
Former Chairman of the Governing Board,
Swiss National Bank
Former Partner, Moore Capital Management*

Gail Kelly

*Senior Global Advisor, UBS Group AG
Member, McKinsey Advisory Council
Former CEO & Managing Director,
Westpac Banking Corporation*

Klaas Knot

*President, De Nederlandsche Bank
Vice Chair, Financial Stability Board*

Paul Krugman

*Distinguished Professor, Graduate Center, CUNY
Former Senior International Economist,
U.S. Council of Economic Advisers*

Christian Noyer

*Honorary Governor, Banque de France
Former Chairman of the Board, Bank for
International Settlements*

Raghuram G. Rajan

*Distinguished Service Professor of Finance, Chicago Booth
School of Business, University of Chicago
Former Governor, Reserve Bank of India
Former Chief Economist, International Monetary Fund
Former Chief Economic Advisor, Ministry
of Finance, India*

Maria Ramos

*Co-Chair, UN Secretary General's Task Force on Digital
Financing of Sustainable Development Goals
Former Chief Executive Officer, Absa Group
Former Director-General, National Treasury
of the Republic of South Africa*

Hélène Rey

*Lord Bagri Professor of Economics, London
Business School
Former Professor of Economics and International Affairs,
Princeton University*

Kenneth Rogoff

*Thomas D. Cabot Professor of Public Policy and
Economics, Harvard University
Former Chief Economist and Director of Research, IMF*

Lawrence H. Summers

*Charles W. Eliot University Professor, Harvard University
Former Director, National Economic Council for
President Barack Obama
Former President, Harvard University
Former US Secretary of the Treasury*

Tidjane Thiam

*Special Envoy for COVID-19, African Union
Former CEO, Credit Suisse
Former CEO, Prudential plc
Former CEO, National Bureau for Technical Studies
and Development, Côte d'Ivoire*

Lord Adair Turner

*Senior Fellow, Institute for New Economic Thinking
Former Chairman, Financial Services Authority
Member of the House of Lords, United Kingdom*

Kevin M. Warsh

*Distinguished Visiting Fellow, Hoover Institution,
Stanford University
Lecturer, Stanford University Graduate School of Business
Former Governor, Board of Governors of the Federal
Reserve System*

Axel A. Weber

*Chairman, UBS
Chairman, Institute of International Finance
Former Visiting Professor of Economics, Chicago Booth
School of Business
Former President, Deutsche Bundesbank*

John C. Williams

*President, Federal Reserve Bank of New York
Former President, Federal Reserve Bank of San Francisco*

Yi Gang

*Governor, People's Bank of China
Member of the Board of Directors, Bank for
International Settlements*

Ernesto Zedillo

*Director, Yale Center for the Study of Globalization,
Yale University
Former President of Mexico*

SENIOR MEMBERS**Leszek Balcerowicz**

*Professor, Warsaw School of Economics
Former President, National Bank of Poland
Former Deputy Prime Minister and Minister
of Finance, Poland*

Domingo Cavallo

*Chairman and CEO, DFC Associates, LLC
Former Minister of Economy, Argentina*

Mario Draghi

*Prime Minister, Italy
Former President, European Central Bank
Former Member of the Board of Directors,
Bank for International Settlements
Former Governor, Banca d'Italia
Former Vice Chairman and Managing Director,
Goldman Sachs International*

Lord Mervyn King

*Member, House of Lords
Former Governor, Bank of England
Former Professor of Economics, London
School of Economics*

Masaaki Shirakawa

*Distinguished Guest Professor of International
Politics, Economics, and Communication,
Aoyama Gakuin University
Former Governor, Bank of Japan
Former Vice-Chairman of the Board, Bank for
International Settlements
Former Professor, Kyoto University School of Government*

Janet L. Yellen

*US Secretary of the Treasury
Distinguished Fellow in Residence, Hutchins Center on
Fiscal and Monetary Policy, Brookings Institution
Former Chair, Board of Governors of the Federal
Reserve System
Former President and Chief Executive, Federal
Reserve Bank of San Francisco*

Zhou Xiaochuan

*President, China Society for Finance and Banking
Vice Chairman, Boao Forum for Asia
Former Governor, People's Bank of China
Former President, China Construction Bank*

EMERITUS MEMBERS**Abdlatif Al-Hamad**

*Former Chairman, Arab Fund for Economic
and Social Development
Former Minister of Finance and Minister
of Planning, Kuwait*

Geoffrey L. Bell

*Former President, Geoffrey Bell & Company, Inc.
Former Executive Secretary and Treasurer,
Group of Thirty*

E. Gerald Corrigan

*Former Managing Director, Goldman Sachs Group, Inc.
Former President, Federal Reserve Bank of New York*

Richard A. Debs

*Advisory Director, Morgan Stanley
Chair of the International Council,
Bretton Woods Committee
Former President, Morgan Stanley International
Former COO, Federal Reserve Bank of New York*

Guillermo de la Dehesa

*Chairman of the International Advisory Board,
IE Business School
Chairman, Institute of Santa Lucía Vida y Pensiones
Former Deputy Managing Director, Banco de España
Former Secretary of State, Ministry of Economy and
Finance, Spain*

Gerhard Fels

Former Director, Institut der deutschen Wirtschaft

Stanley Fischer

*Senior Adviser, BlackRock
Former Vice Chairman, Board of Governors of the
Federal Reserve System
Former Governor, Bank of Israel*

Toyoo Gyohten

*Former President, Institute for International
Monetary Affairs
Former Chairman, Bank of Tokyo*

John G. Heimann

*Founding Chairman, Financial Stability Institute
Former US Comptroller of the Currency*

Haruhiko Kuroda

*Governor, Bank of Japan
Former President, Asian Development Bank*

Jacques de Larosière

*Former President, Eurofi
Former President, European Bank for
Reconstruction and Development
Former Managing Director, International
Monetary Fund
Former Governor, Banque de France*

William R. Rhodes

*President & CEO, William R. Rhodes
Global Advisors LLC
Former Chairman and CEO, Citibank*

David Walker

*Former Chairman, Winton
Former Chairman, Barclays PLC
Former Chairman, Morgan Stanley International, Inc.
Former Chairman, Securities and
Investments Board, U.K.*

Marina v N. Whitman

*Professor Emerita of Business Administration &
Public Policy, University of Michigan
Former Member, U.S. Council of Economic Advisers*

Yutaka Yamaguchi

*Former Deputy Governor, Bank of Japan
Former Chairman, Euro Currency Standing Commission*

Group of Thirty Publications since 2010

SPECIAL REPORTS

Reviving and Restructuring the Corporate Sector Post-COVID: Designing Public Policy Interventions
Corporate Sector Revitalization Working Group. 2020

Sovereign Debt and Financing for Recovery after the COVID-19 Shock: Preliminary Report and Recommendations
Sovereign Debt and COVID-19 Working Group. 2020

Mainstreaming the Transition to a Net-Zero Economy
Climate Change and Finance Working Group. 2020

Digital Currencies and Stablecoins: Risks, Opportunities, and Challenges Ahead
Digital Currencies Working Group. 2020

Fixing the Pension Crisis: Ensuring Lifetime Financial Security
Pension Funds Working Group. 2019

Banking Conduct and Culture: A Permanent Mindset Change
Banking Conduct and Culture Working Group. 2018

Managing the Next Financial Crisis: An Assessment of Emergency Arrangements in the Major Economies
Emergency Authorities and Mechanisms Working Group. 2018

Shadow Banking and Capital Markets: Risks and Opportunities
Shadow Banking Working Group. 2016

Fundamentals of Central Banking: Lessons from the Crisis
Central Banking Working Group. 2015

Banking Conduct and Culture: A Call for Sustained and Comprehensive Reform
Banking Conduct and Culture Working Group. 2015

A New Paradigm: Financial Institution Boards and Supervisors
Banking Supervision Working Group. 2013

Long-term Finance and Economic Growth
Long-term Finance Working Group. 2013

Toward Effective Governance of Financial Institutions
Corporate Governance Working Group. 2012

Enhancing Financial Stability and Resilience: Macroprudential Policy, Tools, and Systems for the Future
Macroprudential Policy Working Group. 2010

THE WILLIAM TAYLOR MEMORIAL LECTURES

Three Years Later: Unfinished Business in Financial Reform
Paul A. Volcker. 2011

It's Not Over 'Til It's Over: Leadership and Financial Regulation
Thomas M. Hoenig. 2010

OCCASIONAL PAPERS

- 96. Pull, Push, Pipes: Sustainable Capital Flows for a New World Order**
Mark Carney. 2019
- 95. Is This the Beginning of the End of Central Bank Independence?**
Kenneth Rogoff. 2019
- 94. Oil in the Global Economy**
Abdlatif Al-Hamad and Philip Verleger Jr. 2016
- 93. Thoughts on Monetary Policy: A European Perspective**
Jacques de Larosière. 2016
- 92. Financial Stability Governance Today: A Job Half Done**
Sir Andrew Large. 2015
- 91. Growth, Stability, and Prosperity in Latin America**
Alexandre Tombini, Rodrigo Vergara, and Julio Velarde. 2015
- 90. Central Banks: Confronting the Hard Truths Discovered and the Tough Choices Ahead**
Philipp Hildebrand. 2015
- 89. The Digital Revolution in Banking**
Gail Kelly. 2014
- 88. How Poland's EU Membership Helped Transform its Economy**
Marek Belka. 2013
- 87. Debt, Money, and Mephistopheles: How Do We Get Out of This Mess?**
Adair Turner. 2013
- 86. A Self-Inflicted Crisis? Design and Management Failures Leading to the Eurozone Crisis**
Guillermo de la Debesa. 2012
- 85. Policies for Stabilization and Growth in Small Very Open Economies**
DeLisle Worrell. 2012
- 84. The Long-term Outlook for the European Project and the Single Currency**
Jacques de Larosière. 2012
- 83. Macroprudential Policy: Addressing the Things We Don't Know**
Alastair Clark and Andrew Large. 2011
- 82. The 2008 Financial Crisis and Its Aftermath: Addressing the Next Debt Challenge**
Thomas A. Russo and Aaron J. Katzel. 2011
- 81. Regulatory Reforms and Remaining Challenges**
Mark Carney, Paul Tucker, Philipp Hildebrand, Jacques de Larosière, William Dudley, Adair Turner, and Roger W. Ferguson, Jr. 2011
- 80. 12 Market and Government Failures Leading to the 2008–09 Financial Crisis**
Guillermo de la Debesa. 2010



GROUP OF THIRTY

**1701 K STREET, N.W., SUITE 950
WASHINGTON, D.C. 20006
ISBN 1-56708-182-7**