

13 July 2020

OPEN LETTER TO G20 FINANCE MINISTERS

Global business, workers and civil society call for comprehensive emergency debt relief to enable developing countries to combat the COVID-19 pandemic

Dear Finance Ministers,

We are writing further to our joint letter sent on 10 April 2020, which called on G20 Governments to take international debt out of the equation in the fight against COVID-19 ahead of the Spring Meetings of the World Bank Group (**WBG**) and International Monetary Fund (**IMF**).

On behalf of business, workers and civil society throughout the world, we would like to take this opportunity to thank you for your leadership in establishing the Debt Service Suspension Initiative (**DSSI**)—and, moreover, applaud the commitment made by several governments to replenish the IMF Catastrophe Containment and Relief Trust (**CCRT**) and Poverty Reduction and Growth Trust. For the real economy and society at large, this package of measures was a welcome signal of the G20's overarching commitment to eliminate any risk of disorderly sovereign debt crises compounding the human and economic toll of COVID-19.

It is increasingly clear, however, that your leadership is urgently required to decisively deliver on this imperative.

With the global economy facing an even deeper downturn than projected in April, decisive and comprehensive action is now needed to ensure that debt service does not prevent developing economy governments from protecting the lives and livelihoods of their citizens in the face of the pandemic. We are especially concerned by the growing number of countries already facing or at risk of debt distress—including many countries that are not currently within the scope of the DSSI, whose economies have been highly exposed to the external shocks precipitated by COVID-19.

In this context, we are writing ahead of this week's G20 Finance Ministers and Central Bank Governors Meeting to urge you to forge a new package of debt relief measures commensurate in scale and scope to the gravity of the COVID-19 crisis. Any such plan should be bold enough to address the barriers that sovereign debt burdens present toward pandemic containment—while enabling a global recovery that prioritises health resiliency, decent work and growth of the real economy.

To this end, we urge you to build on the establishment of the DSSI by:

- > **Extending the suspension of debt payments to 30 April 2022, commensurate with the anticipated economic uncertainty and scarring caused by the pandemic;**
- > **Broadening the scope of the DSSI to encompass lower-middle and middle-income countries, based on their health and debt vulnerabilities;**

- > **Replenishing the IMF CCRT, to cover all Poverty Reduction and Growth Trust loan repayments through April 2022;**
- > **Creating and funding mechanisms at the Multilateral Development Banks modelled on the IMF CCRT, covering—at a minimum—repayments owed by IDA and IDA-blend countries through April 2022;**
- > **Establishing new institutional mechanisms to enable full participation from private and bilateral creditors in the provision of debt forbearance in accordance with any expansion to the DSSI;**
- > **Clarifying the expectation that private creditors will participate collectively on comparable terms with official creditors; and**
- > **Addressing any potential barriers to the full participation of private creditors in DSSI by providing coordinated clarification on the implementation of applicable regulatory frameworks.**

Please find attached a short annex containing more detailed proposals corresponding to a number of these headline recommendations, which have been developed through extensive consultations with a wide range of market participants and sovereign debt experts.

We believe that a package of this kind—if effectively implemented with appropriate transparency mechanisms—would be ultimately beneficial to official creditors, bondholders and sovereign debtors. To surmount this massive crisis, such measures would also need to be complemented by appropriate monetary and financial measures to support countries in need, including the issuance of IMF Special Drawing Rights.

Looking to the mid-term, we also call on G20 Governments to chart a path to ensure that debt overhangs do not inhibit the prospect of robust growth returning to the global economy in the aftermath of the pandemic. Extending the window of emergency suspension and relief until April 2022 should provide sufficient time to create an appropriate process to enable fair, comprehensive and binding settlements in cases of debt distress—and design debt relief for countries in need that is aligned with the Sustainable Development Goals.

Removing the spectre of sovereign debt from pandemic containment and the economic crisis is an absolute imperative to business, workers and citizens throughout the world. The required investment from the world’s leading economies is minute compared to the social and economic costs of inaction.

We await your urgent action.

Yours faithfully,



John W.H. Denton AO
Secretary General
ICC



Sharan Burrow
General Secretary
ITUC



Michael Sheldrick
Chief Policy and Government
Affairs Officer
Global Citizen

cc:

G20 International Financial Architecture Working Group

International Monetary Fund, Managing Director, Kristalina Georgieva

Organisations for Economic Cooperation and Development, Secretary General, Ángel Gurría

Paris Club, Chairperson, Odile Renaud-Basso

United Nations, Deputy Secretary-General, Amina J Mohammed

World Bank Group, President, David Malpass

ANNEX: Institutional and Public Policy Interventions to Enable Effective Debt Relief Under an Expanded DSSI.

I. All bilateral and private creditors—institutional innovations to enable equal participation

Despite a 30 April joint press release of the Institute of International Finance (IIF) and the Paris Club announcing an intention to work collaboratively to support the DSSI,¹ we understand that slow progress has been made to date in securing private sector involvement in the DSSI.

While the heterogeneous nature of creditors makes the provision of sovereign debt relief by non-G20 bilateral creditors and private creditors a complex undertaking, we believe there is significant scope for institutional innovation to ensure full participation from all creditors in an expanded DSSI.

To this end, we respectfully suggest G20 Finance Ministers consider a system to rapidly enable broader participation in any expanded DSSI. Specifically, by:

> **Creating Central Credit Facilities (CCF) for countries that request them**

The essential characteristics of a CCF² are as follows:

- A voluntary facility created by the World Bank or relevant MDB at the request of a debtor country. Debtor countries would make informed decisions on the desirability of taking part in the facility.
- The World Bank or relevant MDB would specify eligible crisis amelioration uses for drawings under the facility, as well as the arrangements for monitoring the use of proceeds.
- All interest and—where falling due during the scope of the CCF—principal payments to all creditors would be paid into the facility by the requesting country.
- Each lender would receive a formal request from the debtor country seeking acknowledgment that the reinvestment of the interest payment into the CCF (and the crediting to the lender's account of a corresponding interest in the CCF) will constitute a full discharge and release of the borrower's obligation in respect of the relevant interest payment.
- The CCF would constitute de facto a senior debt instrument, in light of its origin and purpose.
- There would be equal treatment of all creditors, in the form of proportional interests in the CCF.

It is our view that this proposal offers the most efficient, rapidly implementable and scalable, low-cost method of ensuring debt relief on comparable terms across official and private creditors. In its uniform design, the CCF system avoids the proliferation of incongruent conditions and the prohibitive legal costs of bespoke agreements. In its institutional setting, the facility guarantees the effective deployment of reinvested funds to combat the health and economic dimensions of the virus.

Further, to the extent that market access is a concern, historical precedent indicates that such a facility will have little effect on the long-term willingness of investors to purchase new debt.³

¹ Paris Club; Institute of International Finance, [Paris Club and the IIF: Official and Private Creditors Work Collaboratively to Support the Debt Service Suspension Initiative](#) (30 April 2020).

² The concept is further elaborated in Patrick Bolton et al, '[Born Out of Necessity: A Debt Standstill for COVID-19](#)', Centre for Economic Policy Research, Policy Insight No 103 (April 2020).

³ See, eg, Edwards, Longstaff and Marin, '[The U.S. Debt Restructuring of 1933: Consequences and Lessons](#)', NBER Working Paper No. 21694.

II. Private creditors—G20 interventions to enable equal participation with official creditors

While expressing principled support for countries in need to be provided forbearance on external debt payments, we understand that private creditors have noted a number of operational barriers to their engagement in the DSSI.⁴ As a result of these uncertainties, private creditors have suggested that “lengthy contract by contract” negotiations will be required with debtor governments.⁵ As the IMF has recently noted,⁶ a protracted process of this nature may ultimately undermine the effectiveness of the DSSI to enable developing countries to protect lives and livelihoods in the face of the immediate coronavirus pandemic.

Given the complexities of the sovereign bond market, we believe G20 Governments have a responsibility to address any potential barriers to private creditor participation in debt relief efforts linked to the COVID-19 crisis. To highlight three particular issues:

Cross-defaults / acceleration of debt

We understand that many sovereign debt instruments have clauses (for example, Events of Default, cross-default clauses and acceleration remedies) that could technically be triggered by debtor country participation in one or more aspects of the DSSI. To provide clarity for both debtor countries and creditors, we would encourage the G20 to provide a clear statement that it would be inconsistent with the spirit and purpose of the DSSI for such clauses to be utilized by creditors to disrupt the provision of relief to DSSI-eligible countries.

Breach of fiduciary duty

We understand that private creditors have cautioned that participation in the DSSI must be conditioned by fiduciary duty. While this concern is understandable, current macro-economic conditions suggest that engagement in the DSSI will prove to be in the best interests of bondholders—particularly if participation results in the avoidance of full-scale debt defaults in the coming months. In many market contexts, fiduciary duty may therefore require participation in the DSSI. A statement to this effect by the G20 Governments might help to reassure asset managers and other private sector institutions that participation in the DSSI is entirely consistent with their responsibilities to their investors and shareholders.

Regulatory forbearance

We note that concerns have been raised about the possibility that the provision of debt relief may be classified as a default on sovereign bonds. In this connection, we urge G20 governments to take coordinated measures to ensure that participation in the DSSI by commercial lenders does not result in adverse regulatory treatment of the affected credits. This may be achieved by way of the application of CCF mechanisms, as outlined above; or by way of temporary adjustments to the application of macroprudential frameworks to ensure that the provision of sovereign debt forbearance does not constitute a default event or render loans ‘non-performing’. We understand similar flexibilities have been applied by a number of national regulators for retail exposures—such as by amending the material thresholds at which financial institutions must recognise credit defaults.

⁴ See, eg, Timothy Adams, [Letter to Managing Director Georgieva, President Malpass and Chairperson Renaud-Basso](#), Institute of International Finance (1 May 2020).

⁵ Ibid 2.

⁶ Andrea Shalal, ‘UPDATE 1-Private sector participation in G20 debt relief ‘essential’ - IMF’, Reuters (29 June 2020).