11 November 2020

OPEN LETTER TO G20 FINANCE MINISTERS

Global business, workers and civil society call for an effective common framework for sovereign debt treatments to avoid a lost decade.

Dear Finance Ministers,

We write in advance of your discussions this Friday to finalise a Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative (**DSSI**).

The meeting comes at a crossroads for the international community. While the recent Annual Meetings reflected muted optimism at the progress made by developed countries as a result of robust fiscal and monetary policy interventions, the IMF's *World Economic Outlook* downgraded the growth forecast for emerging and developing countries excluding China, indicating crushing business closures, job losses and a rise in the incidence of extreme poverty for the first time in over two decades.

As we raised last month, our data shows the sustained impact that COVID-19 has had on human development, livelihoods and productivity throughout the developing world—with significant downside risks in the months ahead.

The Common Framework must encourage the kind of deep, fair and comprehensive debt restructurings needed to counter this economic scarring and put countries on a trajectory towards long-term debt sustainability. Absent such an approach in the Common Framework, we see significant risk of a series of short and shallow restructurings.

The stakes could not be higher. Experience of the emerging market sovereign debt crises of the 1980s suggests that this will result in growth-crushing debt overhangs and the removal of hard-fought market access, amounting to a "lost decade" for sustainable development. Such an outcome could consign millions of citizens to extreme poverty, hampering inclusive economic growth and extinguishing hopes of achieving the 2030 Agenda.

To avoid this outcome, we call on the G20 and Paris Club to include the following elements in a Common Framework:

- **Debt stock treatments:** While a case-by-case approach is required, the Common Framework should not exclude or discourage the need for cancellations and write-offs in certain cases. Maturity extensions, interest rate adjustments and principal haircuts are all valuable tools in debt restructurings.

- **Private sector participation:** A debtor country that signs an agreement with Common Framework creditors should not accept from its non-Common Framework commercial and bilateral creditors terms of treatment of its debt less favourable to the debtor than those agreed with Common Framework creditors. Further, the Common Framework should explore contractual innovations that could serve to facilitate deep restructuring, incentivise private sector engagement and preserve market access.[1]
- **Transparency and sustainable development:** There is a need to increase transparency across the lifecycle of sovereign debt (including issuance, suspension, restructuring and relief). Comprehensive and lasting restructurings cannot take place without a full picture of debt. Commercially or politically sensitive data should not prevail over public interest—it is a democratic imperative for citizens to know the debt stock and flows of their own country. Equally as important, debtor countries should be transparent in their allocation of freed up fiscal space for SDG-aligned investments and support for vulnerable populations, public health, workers and small and medium-sized businesses.
- **Broad application:** The Common Framework should not be confined to debt treatments of DSSI-eligible countries. Rather it should apply to all debtor countries needing debt restructuring, particularly small island developing states.

Beyond the Common Framework, we note two important elements as regards debt suspension and official creditor action:

- **DSSI extension and expansion:** While the six-month extension of the DSSI—announced during the Annual Meetings—was a welcome development, it is clear that the pandemic will not be defeated by mid-2021, much less the economic scarring it has caused. Further, debtor countries are unable to adequately plan the necessary public health responses and fiscal interventions with such an uncertain fiscal position. We thus repeat our call in October to **extend the suspension of debt payments to 30 April 2022**, commensurate with the anticipated economic uncertainty and scarring caused by the pandemic, and to **broaden the scope of the DSSI to encompass lower-middle and middle-income countries**, based on their health and debt vulnerabilities. Absent such an extension to address liquidity problems of poor countries, the cases of those facing insolvency risks will increase.
- **Supporting greater multilateral action:** The above-mentioned measures are essential but won't be sufficient. What is needed is a global recovery package with a mix of measures enabling all the countries to recover better. Finance Ministers agreed last month to "do whatever it takes" to support the global economy. Such words must be supported by necessary commitments to facilitate multilateral action, including commitments to:
  - **replenish the IMF Catastrophe Containment and Relief Trust (CCRT)**, to cover all Poverty Reduction and Growth Trust loan repayments through April 2022;
  - **create and fund 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;
  - **reallocate existing IMF Special Drawing Rights (SDRs) to help poor countries; conduct a major issuance of additional SDRs**; and
  - **enable additional grants and concessional financing** to avoid a drop in multilateral aid beyond 2021.

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1 One such idea is the two-phased collective action clause thresholds (or "Covid Codicil") explored in Lee C. Buchheit & Mitu Gulati, Avoiding a Lost Decade – Sovereign Debt Workouts in the Post-Covid Era, Cap. Mkts L. J. (forthcoming 2020).

“Sometimes it falls upon a generation to be great. You can be that generation.” Nelson Mandela is often quoted with these words. They ring even more true in this inflection point in our commitment to the 2030 Agenda. As finance ministers of the most powerful economies in the world you have a responsibility for all of us. We count on your leadership and will back any efforts for a truly global recovery package that leaves no one behind.

We await your urgent action.

Yours faithfully,

John W.H. Denton AO
Secretary General
International Chamber of Commerce

Sharan Burrow
General Secretary
International Trade Union

Sabrina and Idris Elba
Advocates
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cc:

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