Debt transparency to the rescue? Possibilities and Limitations

by

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Debt Transparency to the Rescue? Possibilities and Limitations

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Consequences of the “decade of debt”

• Global debt across all sectors now tops $250 TRILLION. Total EM debt at >$71 trillion is at a record 220% of GDP.

• For low-income countries, government and total external debt have now reached their highest levels since 2005.

• Government debt in low-income countries has now edged over 50% of GDP—on a par with emerging markets.

• This rise in LIC debt follows years of substantial decline in external debt as countries benefited from several international debt relief programs.

• Over 70% of public and publicly guaranteed long-term debt is now denominated in USD—up from 50% in 2007.

• The share of private creditors in PPG long-term external debt is now over 20%—up from 8% in 2010.
Rising Debt, Rising Concerns

Total Global Debt (all sectors)
USD trillion, Q1 of each year

Emerging market ex-China
China
U.S.
Mature market ex-U.S.
Massive expansion of the EM bond universe

$ trillion, outstanding as of Q2 2019

- Local currency sovereign
- Hard currency sovereign
- Local currency corporate
- Hard currency corporate
Low-income countries borrow more in the markets, at commercial rates

External debt of low-income countries, by type

External debt of LICs held by private creditors
Voluntary Debt Transparency Principles

• Prompted by strong demand from official sector (G20, IMF, Paris Club…) IIF members, civil society
• Problem: significant disclosure gaps in both private sector and official bilateral lending to EM sovereigns
• Lack of transparency contributes to a range of problems including risks for debt sustainability
• Goal: develop voluntary Principles for Debt Transparency with broad buy-in, support from G20
• Working Group found consensus on scope, range of transactions, what to disclose and how
• Concerns: need for broad adherence and buy-in from EM borrowers; need for level playing field and impact assessment (avoid unintended consequences); antitrust
Benefits of Transparency

• Better public access to information about their government’s financial transactions
• Support for good governance, fiscal discipline
• **Support for debt sustainability**
• Facilitating the fight against corruption
• Potential reduction in risk premia for EM borrowers, supporting easier access to financing at lower cost
• Improved confidence of investors, international financial institutions, donors, general public
• Reducing the incidence of market shocks
• Well aligned with the *Principles for Stable Capital Flows and Fair Debt Restructuring*
IIF Debt Transparency Working Group

• Launched in April 2018; over 40 members to date representing IIF Board and other member firms across 15 countries

• Working Group includes global banks, asset managers, insurers; it is anticipated that the DTWG will expand during the operationalization phase

• Regular consultation with official sector, civil society, relevant industry associations

• Benefits from advice, support and feedback from IMF, World Bank, Paris Club, G20 IFA WG

• Ongoing outreach to broader IIF membership and throughout the financial services community
Goals of the *Principles*

- To promote consistent and timely disclosure of *private sector* financial transactions entered into or guaranteed by a subset of sovereigns, sub-sovereigns or other public sector entities
- Intended to relate to all countries, though initial priority is PRGT countries; initial scope is foreign currency transactions
- To apply to a specific set of applicable financial transactions; set out what should be disclosed and how
- To enhance existing practices—*not* add reporting burden where disclosure is already adequate or has well established existing standards e.g. international public bond markets
- To assist borrowers, creditors and the official sector in the ongoing assessment of debt dynamics and debt sustainability (which should include reference to DSA etc.)
- To operate under the governance of the Group of Trustees of the existing *Principles for Stable Capital Flows and Fair Debt Restructuring*
Range of Applicable Transactions (Inclusions)

• Any arrangements that have the economic effect of borrowing, including guarantees or other support

• Loans, unlisted bonds, private placements, repos, asset-backed lending, swaps, debt-related Islamic financing, public-private partnerships etc.

• Other forms of asset backed lending or commercially equivalent arrangements, whether secured by commodities revenues, in the form of margin loans, gold loans or gold swaps or otherwise

• Financial derivatives but excluding derivatives entered into solely for hedging purposes

• Explicit contingent liabilities

• External foreign currency debt and foreign law instruments, in the first instance
Exclusions

• Any transaction denominated solely in local currency
• Any transaction where transparency is neither the norm or appropriate, e.g.:
  ✓ Central bank transactions (re monetary policy)
  ✓ Trade finance transactions (import/export) with an original maturity of one year or less, including via issuance of documentary letters of credit
  ✓ Short term financings e.g. overdrafts, working capital
  ✓ Transactions undertaken by commercial banks to comply with local liquidity or regulatory requirements

• Transactions already benefiting from existing transparency and disclosure standards, e.g:
  ✓ To the extent cover is provided, transactions with an official export credit agency as a party
  ✓ Transactions with DFIs, multilaterals
  ✓ Internationally/domestically placed, listed, public bonds
What Should be Disclosed

For in-scope financial transactions the Principles will promote disclosures to include:

- identity of borrower/guarantor
- description of type of financing, repayment profile
- financing cost
- governing law, collateral, security etc.

Key outstanding questions on disclosure elements (subject to further consultation with U.S. and EU competition authorities and new IFI/IIF Working Group)

- How to disclose interest rates, fees (ranges?)
- Cooling-off period (how long before disclosure?)
- Mechanism for disclosure (repository)
Outstanding Concerns and Areas of Debate

• **Promoting adherence** by the widest possible cohort of private sector lenders/creditors

• **Ensuring buy-in from borrowers**—their consent is needed to disclose

• **Level playing field**—ensuring that transparency encompasses the broadest possible spectrum of lenders including bilateral sovereign creditors and EM domestic lenders. The Principles for Debt Transparency will cover a key set of lenders, but other initiatives including the G20 Operational Guidelines for Sustainable Financing needed

• **Unintended consequences**—the initiative could affect pricing and availability of lending to low-income borrowers; impact assessment needed

• **Anti-trust and confidentiality concerns**
The path ahead

- Need to find a repository—our new IFI/IIF WG will also consider how best to operationalize, amend loan templates etc.
- Once repository set, 12-18m transition period before implementation
- IIF Debt Transparency Working Group will continue to advise on implementation and how best to build adherence
- Governance expected to come under the Group of Trustees of the existing Principles for Stable Capital Flows and Fair Debt Restructuring.
- Briefings planned for CSOs, G20 IFA WG and Paris Club
- Ongoing:
  - Industry outreach
  - Socializing the Debt Transparency Principles with in-scope sovereigns (and beyond)
  - Regular monitoring and annual review of implementation