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Making debt work for development

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## Debt transparency to the rescue? Possibilities and Limitations

by

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*The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.*





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# Debt Transparency to the Rescue? Possibilities and Limitations

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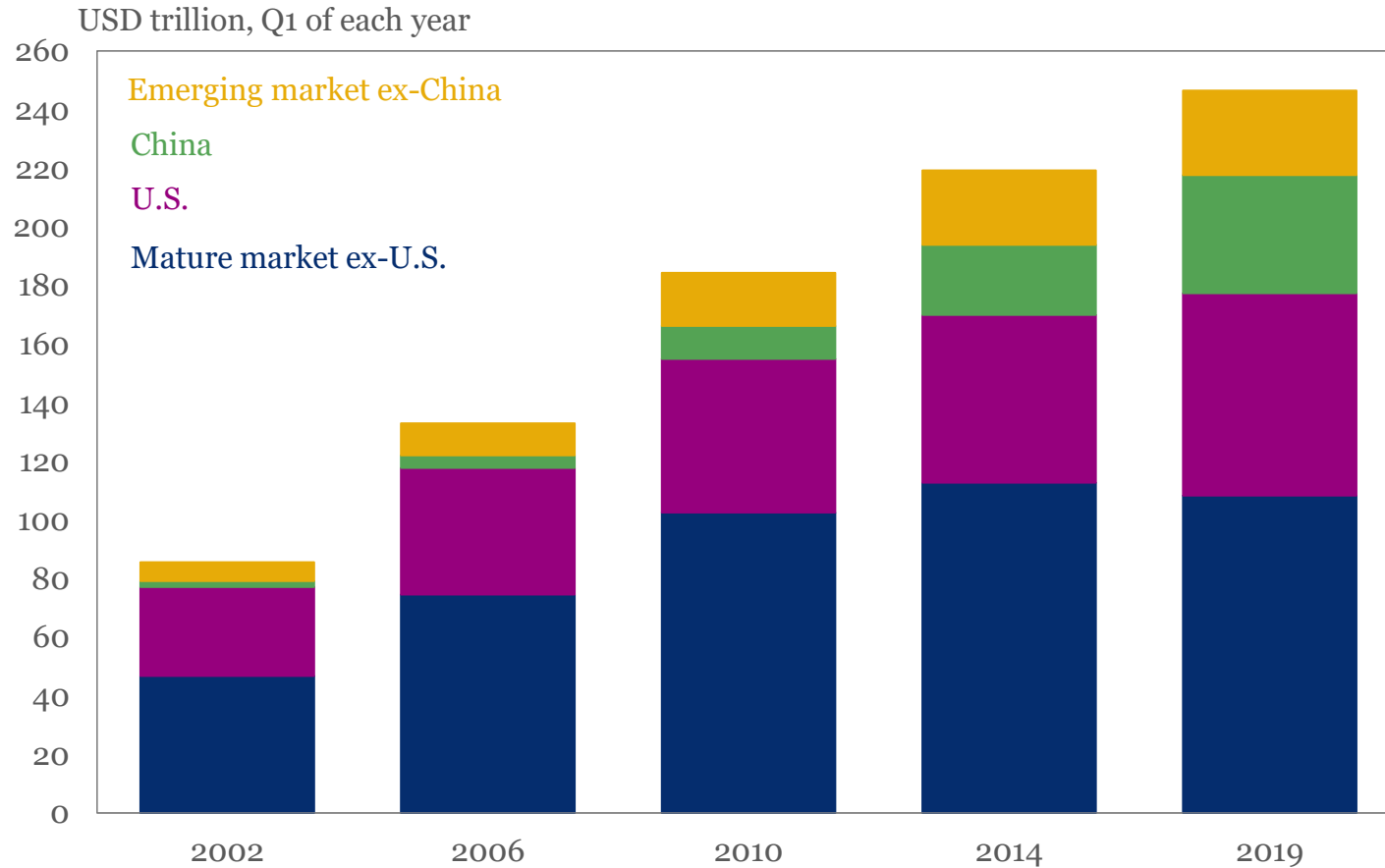
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# Consequences of the “decade of debt”

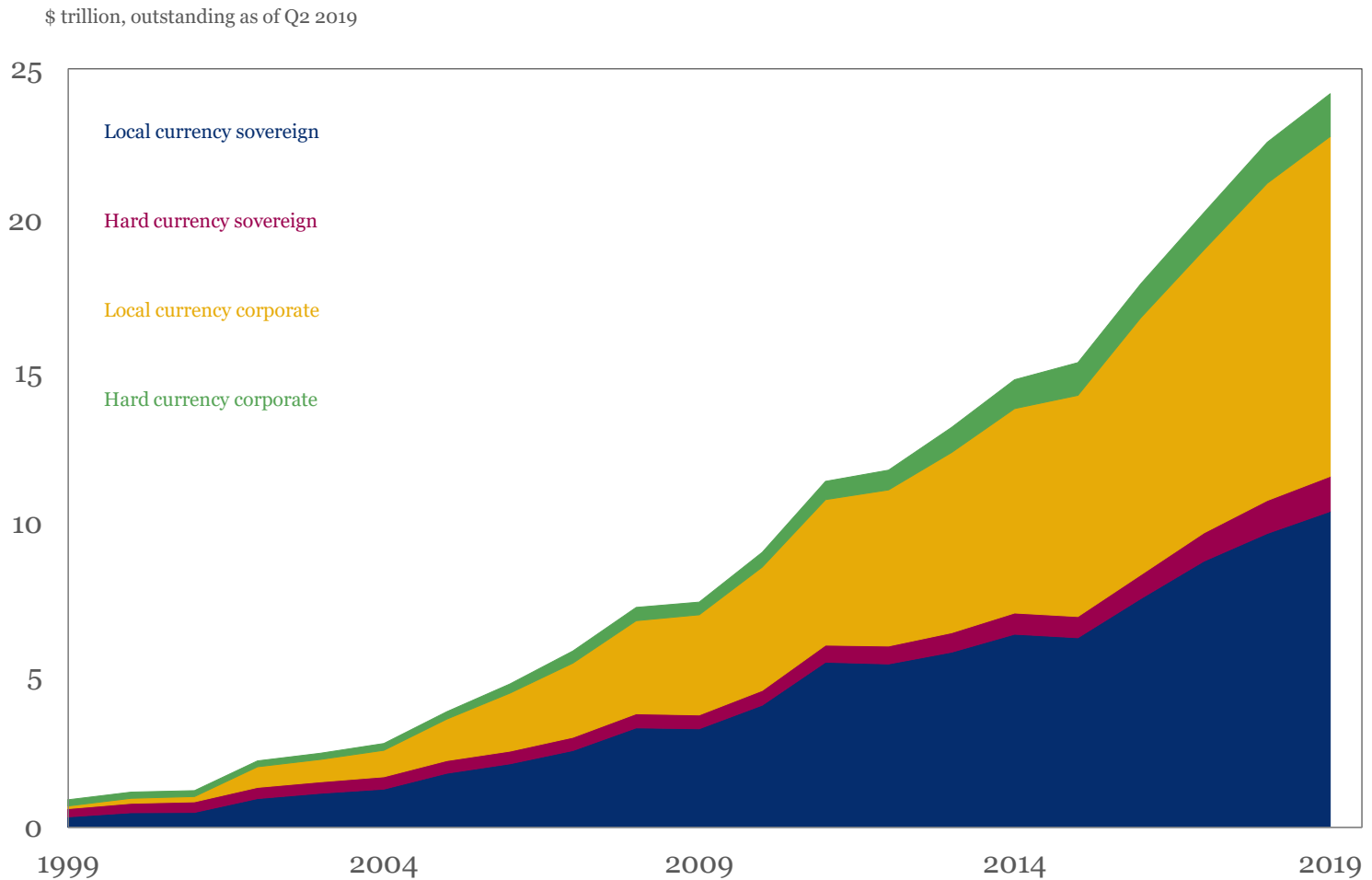
- Global debt across all sectors now tops **\$250 TRILLION**. Total EM debt at >\$71 trillion is at a record 220% of GDP.
- For low-income countries, government and total external debt have now reached their highest levels since 2005.
- Government debt in low-income countries has now edged over 50% of 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)

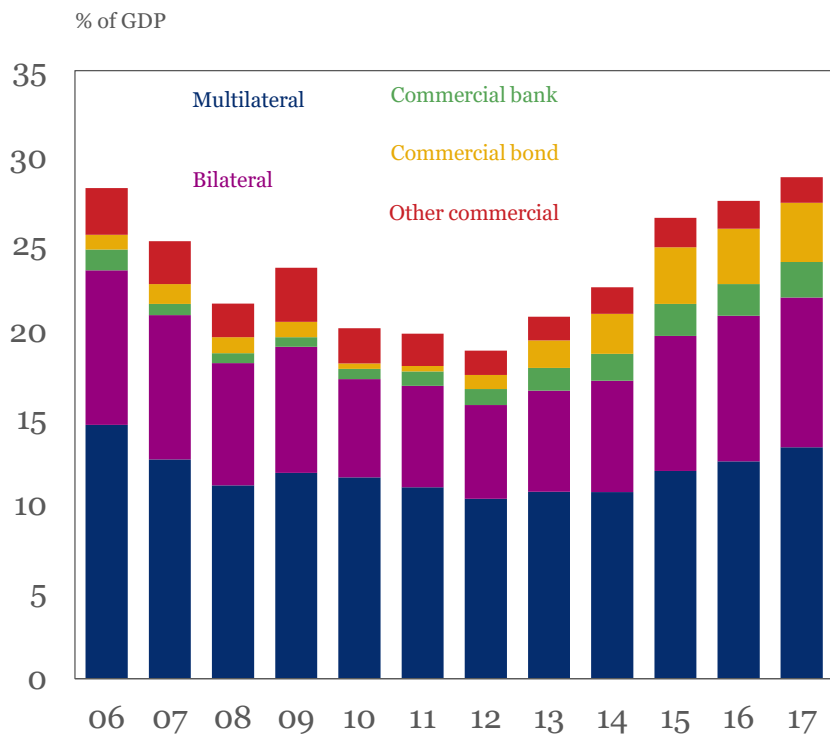


# Massive expansion of the EM bond universe

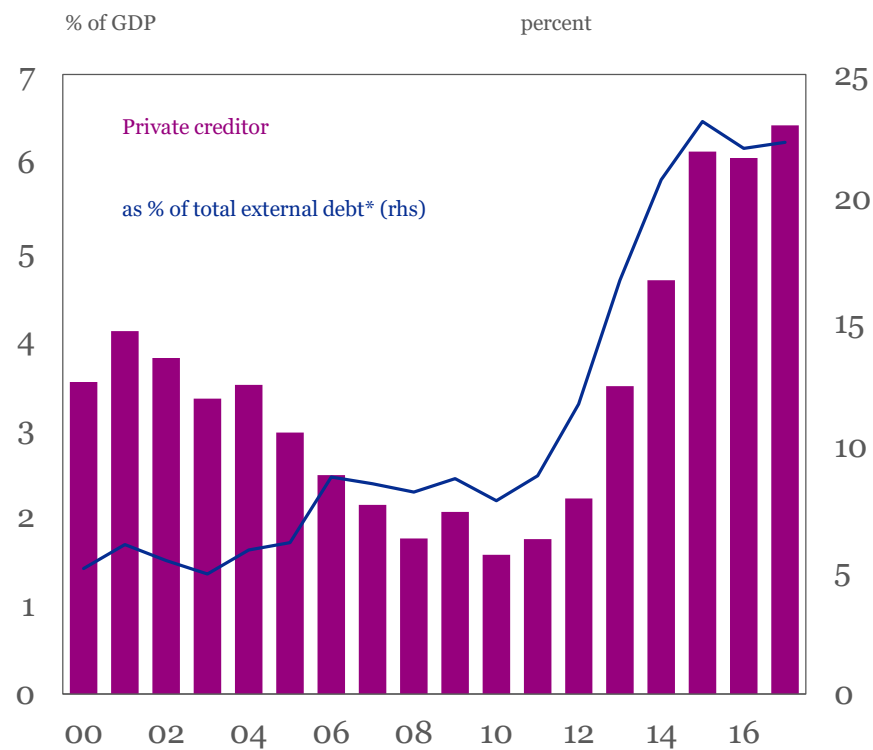


# Low-income countries borrow more in the markets, at commercial rates

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 with official sector, civil society, relevant industry associations
- Benefits from 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