Emerging Markets Investors Alliance
Actionable Intelligence for Responsible Investing

Please see the attached letter sent from the Alliance to IMF Managing Director Kristalina Georgieva. A similar letter was sent to the leaders of the G20 and other relevant international organizations mentioned in the last paragraph of the letter. The letter describes the many ways that private sector bond investors can, do, and will continue to participate in relieving countries' debt service burdens. Our purpose in sending it was to counter the prevailing narrative that private sector investors are not doing enough to help EM countries, and to constructively engage the official sector in more productive discussions about our common objectives. Please let us know if you would like to participate in our future discussion with representatives from the official sector and, as always, please feel free to send us your comments or feedback on this initiative.

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October 8, 2020

Dr. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Dr. Georgieva:

In recent weeks, official creditors have expressed disappointment in the lack of private sector involvement in the G20's call to redirect sovereign debt service payments by participating in the DSSI. In fact, private sector lenders have been deeply engaged in the DSSI conversation, and they broadly agree on the humanitarian and ethical imperative to prioritize health care related spending due to the COVID-19 crisis. However, there has been a lack of honest discussion about investors' ability to facilitate such a reprofiling of interest.

As the largest grassroots organization of asset managers involved in emerging markets, the Emerging Markets Investors Alliance believes we have an obligation to clarify the private sector perspective, and to forge a new template for action in cooperation with you and other global policymakers.

Several countries that have joined the DSSI or engaged lenders for an interest payment holiday directly have seen their ratings downgraded, their borrowing costs rise, or their market access curtailed. It is unclear how long this impairment will last. For this reason, several of the very countries that need the DSSI the most have been unwilling to opt in.

For our part, private sector investors have a fiduciary responsibility on behalf of clients. In many cases these are public pension funds and the savings vehicles of working people who have been severely affected by the dual shocks of Covid-19 and the economic recession. Their aim is simply to maximize their investment returns. Investment managers are legally bound to honor their contracts and cannot simply choose to donate their clients' money on their behalf, no matter how pressing the cause.

It is important to recognize the mainstream emerging market investor view on this matter. This is, namely, that the options that investors face with regard to the DSSI cannot be simplified to participate or not participate in debt service suspension. There are in fact many ways that the private sector can, does, and will continue to participate in relieving countries' debt service burdens: by working on new financing structures; by marking to market and lending new money in capital markets; by writing down debt on a case-by-case basis; and occasionally by taking principal haircuts. In our opinion, the aforementioned disappointment is therefore misplaced.

Indeed, 2020 is on track to be a strong year for emerging markets sovereign bond issuance, thanks to investors' ongoing willingness to lend during the pandemic. The practice of writing down the value of bonds in real time is both an acknowledgement of the deteriorating credit fundamentals of the borrower, and a mechanism that facilitates a more gradual dissemination of risks.

Bond investors have also demonstrated that they will participate whenever solvency issues arise through their willingness to take haircuts on principal and interest when countries restructure their debts. This is not a foregone conclusion: such agreements must continue to come as-needed, based on precedent after thorough debt sustainability and recovery growth analysis, and in collaboration with the IMF, World Bank, and Paris Club. Recent examples of debt restructurings are evidence of this willingness, and of the benefits of a case-by-case approach. In some cases, bondholders have agreed to capitalize deferred interest payments in an effort to prevent outright default as a precursor to orderly reprofiling. In other cases, not only did good faith restructuring dialogue between creditors and debtors result in debt forgiveness, but they did so without the traditional landmines of collective action dysfunction and holdout problems. Additionally, bond investors have demonstrated that they can do more to address the economic fallout from the Covid-19 crisis by working on innovative capital markets solutions and new financing options. These can reshape the asset class to be more resilient and appeal to new pools of capital.

Over the last few months, the private sector has articulated a range of ideas to address the financing needs of low- and middle-income countries over the medium-term. Some include IFI guarantees, some do not. These market-led solutions offer a unique opportunity to build back better by improving bond structures to be more flexible and by including covenants that align the borrower's incentives with sustainable outcomes, such as those measured by the SDGs. Investors have expressed an interest in identifying common objectives with the official sector and in collaborative approaches that put sustainability at the center of any coordinated debt initiative. Increasingly, investors see a longer term sustainability problem that has been too often ignored in previous debt restructurings. They wish to see the SDGs at the center of any solution.

The last point we wish to emphasize is that attracting new pools of capital, including ethical and socially responsible driven investments, will be essential to make progress towards SDGs over the next decade. A market-led solution such as refinancing existing bonds into sustainable, SDG-linked debt will likely draw in new investors. This will appeal particularly to asset owners who have adopted stringent responsible investing principles while maintaining capital market access for governments. Such an approach avoids forcing governments to pay high legal fees; it secures low interest financing; and it addresses greenwashing concerns. Surely this would be in the best interests of all stakeholders.

We are at your disposal to engage on this topic alongside our many and diverse constituents. Please know that we are also sending a similar letter to Mohammed bin Abdullah Al-Jadaan, Minister of Finance, Economy & Planning, Kingdom of Saudi Arabia; David Malpass, President of the World Bank; Angel Gurría, Secretary General of the OECD; Odile Renaud-Basso, Director General of the Treasury and Chairperson of the Paris Club; the Paris Club Secretariat; and the G20 IFA WG Co-Chairs.

Most respectfully,

Ashok Parameswaran
Founder and President
Emerging Markets Investors Alliance

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