



White Paper on Sustainable Solutions to the Emerging Markets Debt Crisis July 17, 2020

Objective

The Emerging Markets Investors Alliance seeks to advance long term, sustainable solutions to the debt crisis in emerging markets by fostering a consensus among policy makers, government officials and investors.

Background

Before the Covid-19 pandemic, low- and middle-income countries' ("emerging markets") debt reached a record high. The pandemic then triggered a global health crisis that is "leading to the deepest global recession since the second world war."¹ As a result, emerging markets have been forced to spend and borrow even more to combat the pandemic and economic contraction. At the same time, there is less demand for emerging market government bonds, leaving many countries without market access.

As a first step to alleviating liquidity pressures, the G20 moved rapidly to provide relief to 77 low income countries under the Debt Service Suspension Initiative. Consequently, the Paris Club has granted some short-term breathing space through the end of 2020. At the same time, the G20 called upon commercial creditors to voluntarily provide comparable forbearance. Few if any commercial creditors have volunteered to participate in the temporary debt standstill.

Meanwhile, by July 14, 2020, the International Monetary Fund (IMF) had approved \$244 million in debt relief to 27 of the poorest countries and \$83 billion in emergency financing to 77 countries. The IMF's current lending capacity amounts to \$1 trillion. However, the IMF estimates that emerging markets' financial needs will be \$2.5 trillion in financial assistance throughout the crisis. Given uncertainty over the scale of the pandemic and how deep or long the global economic contraction will be, the IMF acknowledges that this estimate is at the low end. This leaves at least a \$1.5 trillion funding gap. Should this funding not materialize, many emerging markets are likely to find themselves in debt distress. Indeed, before the pandemic, a dozen of

¹ World Bank *Global Economic Prospects*, June 2020.

these, including Argentina, Lebanon, Venezuela and Zambia, were already in default or on the path to default. Others are now seeking debt restructuring.

Three Point Agenda

The Emerging Markets Investors Alliance views the crisis as an opportunity to engage policy makers, government officials, and investors to steer the debate beyond the provision of official sector liquidity and beyond debt restructuring - with or without private sector involvement - and towards long term sustainable solutions. (The Alliance supports debt relief for low income countries, but does not take a position on the financial terms of debt relief proposals.)

Beyond the need for further debt relief and funds to help emerging market countries meet public health challenges, we advocate a 3 point agenda:

- 1) Encourage policies to improve debt oversight to ensure that debt relief or borrowing is used for the intended purposes
- 2) Enhance fiscal transparency to strengthen government finances and accountability to stakeholders
- 3) Accelerate efforts toward environmental sustainability to strengthen resilience, promote long-term growth and secure the planet's future

We believe these measures will support credit fundamentals, help restore market confidence, and lay the groundwork for private-public initiatives involving powerful new stakeholders. We consider these to be best practices that should help to prevent the unsustainable cycle of lend-and-forgive of the past.

ANNEX: Institutions Endorsed by the Emerging Markets Investors Alliance

We propose that emerging market governments and international financial institutions adopt the following actions, grouped into three categories, by enforcing transparency and accountability in public sector balance sheets and through multilateral financial support. These actions represent best practices espoused, in most cases, by globally leading public policy institutes. The Alliance endorses these best practices.

Debt Oversight

In the area of debt oversight, the Alliance recommends enhanced monitoring to ensure that all debt relief and new borrowing will be used as specified, either toward public health and emergency economic measures in the case of the G20 debt service suspension initiative, or as otherwise directed by the terms of the transaction in the case of new borrowing.

As such, the Alliance proposes expanding and strengthening the ability of international financial institutions (IFIs) to monitor all use of funds, including debt forgiveness, grants and loans. This includes resources freed up in the G20 debt service suspension initiative, to verify that the entirety of the savings benefits the crisis-related programs and victims of this pandemic. It also includes all new borrowing to safeguard scarce resources in an increasingly difficult environment. Full transparency should be the norm in both IFI creditor oversight bodies, especially the IMF; and all debtor Finance Ministries.

Fiscal and Debt Transparency

The Alliance collaborates with leading institutions to advance fiscal transparency across public sector balance sheets, and calls upon emerging market governments to follow the best practices as advocated by 8 institutions that set international standards for public sector transparency and accountability.

- International Budget Partnership - Governments should commit to increase the frequency and comprehensiveness of budget execution information, including procurement transactions and reporting on extra-budgetary funds. This information should explain budget adjustments, including increases and reductions in planned spending, sources of financing, details on total debt obligations, and new contingent liabilities. Governments should publish the guidelines and policies that will direct spending, such as beneficiary criteria for relief packages, adjusted rules for government spending, and procurement.
- International Monetary Fund Fiscal Transparency Evaluations (FTE) - If governments have agreed to an FTE, they should commit to make progress towards implementing at least one of the recommended changes in the latest FTE. The Alliance encourages governments that have not agreed to an FTE to request one. The Alliance also

encourages those governments that have agreed to an FTE but have not published it, to publish it or request a revision.

- International Public Sector Accounting Standards (IPSAS) - Governments should commit to make progress toward implementing full accrual accounting based on IPSAS.
- Institute of International Finance - Voluntary Principles for Debt Transparency. These Principles are designed to enhance transparency in private sector lending, particularly to the most vulnerable low-income countries. The Principles are focused initially on private sector foreign-currency lending to sovereigns, sub-sovereigns and public sector entities (or borrowers with public guarantees) in PRGT-eligible countries.
- Extractives Industry Transparency Initiative (EITI) - Governments with extractives industries should commit to signing the EITI to ensure resource transparency; for existing signatories labeled “inadequate progress/suspended”, governments should commit to “meaningful progress”; existing governments labeled “meaningful progress” should commit to “satisfactory progress”.
- Natural Resource Governance Institute (NRGI) - Governments with significant extractives industries should commit to implementing best practices as outlined in the Resource Governance Index (RGI) and the Natural Resource Charter.
- Open Contracting Partnership (OCP) - Governments should publish timely and open public procurement information and data across each project life cycle, with the goal of adopting the Open Contracting Data Standard (OCDS). In coordination with current OCP recommendations, governments should source all contracting processes and budget lines with “COVID-19” to ensure high-quality, open, and complete data; all expenses related to the disease must be marked as being related to the disease, so that all relief efforts can be tracked to the cost of fighting the disease.
- Open Government Partnership (OGP) - Governments should commit to OGP. Governments that meet OGP's eligibility criteria should send a letter of commitment, deliver a country action plan developed with public consultation, and commit to independent reporting on their progress. Governments that are not yet eligible should publicly commit to taking steps to meet OGP's eligibility criteria in the next 12-18 months.

Environment

The Alliance endorses best practices as advocated by institutions that set international environmental standards and urges emerging markets governments to incorporate them into their economic planning. The following are best practices as advocated by 5 institutions that set international environmental standards.

- Environmental Performance Index (EPI) - The Alliance supports the work of the Yale Center for Environmental Law and Policy, which emphasizes an empirical approach to environmental protection. Countries should use the EPI to gauge progress and help frame policy goals. Governments should publicly commit to improvement in their overall score, with specific targets to be agreed upon through further consultation.
- Intended Nationally Determined Contributions (INDCs) - The Alliance supports full adherence to each country's pledge to reduce carbon emissions in the Paris Agreement as part of the UN Framework Convention on Climate Change (UNFCCC). Efforts should continue unabated on finalizing these national commitments for 5 year periodic review. Countries should provide an impact assessment of how the pandemic has affected progress ahead of the currently delayed UN Climate Change Conference with a revised plan to follow.
- Notre Dame Global Adaptation Initiative (ND-GAIN) - Governments should assess their climate vulnerabilities and prioritize investments to improve resilience as outlined in the country index of ND-GAIN. The Alliance believes capital projects intended towards stimulus be assessed for their ability to improve climate readiness.
- UN Environment Program (UNEP) - In coordination with the UNEP to align the financial system with the SDG goals and catalyze private investment, the Alliance endorses the following initiatives:

Green Financing - Innovative structures that help governments move toward green activity. These include:

- a. Green/Blue Bonds - Bonds whose proceeds are earmarked to environmental investment or spending. Green bonds can be used to finance climate spending, while private finance can be mobilized for green investment.
- b. SDG Bonds - Bonds that promote measures that move countries toward meeting the UN SDGs.

Sustainable Finance Roadmaps - Governments should prepare medium to long-term strategies to construct resilient and ESG principled financial architecture. These should include greater engagement with multilaterals, which can provide guidance and technical capacity.

- World Resources Institute (WRI) - The Alliance encourages governments to link broader SDG goals with carbon emission targets, such as transparency and social equality. The WRI through initiatives such as the Open Climate Network (OCN), Open Book, and ClimateWatch provide data driven assessments and recommendations relating to country commitments.