Ep. 70: #PublicDebtIsPublic

Intro music: Insol international, in conjunction with the Early Researcher Academics Committee, presents: Insol talks.

Charles Mak (CM) (00:23): Hello everyone, and welcome back to the new episode of INSOL talks. I'm Doctor Charles Mak. I'm a member of the INSOL Early Researcher Academics Committee and a lecturer in law at the University of Bristol Law School.

It's a true honour to have with us today a leading voice in sovereign debt restructuring, Professor Anna Gelpern. Anna Galpin is a Scott K. Ginsburg Professor of law and international finance at Georgetown Law and non-resident senior fellow at the Peterson Institute for International Economics. She has published research on financial crisis, government debt contracts and financial regulations, and has contributed to international initiatives in these areas. She co-directs the solvent debt forums dedicated to cutting edge research and capacity building in solvent debt management, including the flagship DebtCon Conference and the #PublicDebtIsPublic Initiative. Professor Gelpern previously served in legal and policy positions at the US Treasury Department and practiced with Cleary, Gottlieb, Steen and Hamilton in New York and London.

She teaches first year contract and upper-level courses on debt and financial regulation. She earned an A.B. from Princeton University, a J.D. from Harvard Law School, and MSC from the London School of Economics and Political Science. Her work has been instrumental in shaping my own research, and I know it has a similar impact on countless others. Thank you so much for joining us, Anna.

Anna Gelpern (AG): It's my honour, Charles, thank you so much.

CM: Thank you so much, Anna. So let's start with your initiative: #PublicDebtIsPublic. It's a powerful and crucial concept. Could you introduce the #PublicDebtIsPublic initiative and explain what it aims to achieve?

AG (02:06): Thank you for asking. And this is really something that is very different from anything I've done, or most of my colleagues and collaborators have done in this space. We write a lot about government debt, government debt restructuring, government debt terms, and we forage for the material basically. Right. So when let's say Argentina is having a crisis, there's a litigation over contracts, and we read the contracts in the court pleadings, for example. Or when there's a public filing. But it's sort of it had never really occurred to me in the past that a listed company in the United States has to post full text contract documentation when it takes out a material loan, right?

When it borrows money. You have four days to disclose all the terms to the world. There's nothing like that for sovereign borrowers. Not under US securities regulations, not in Europe, not anywhere. So it is much easier, ironically, to find out what General Motors has borrowed than what the government of Ruritania has borrowed for its citizens, for its creditors, for anybody. And in recent years, there have been some very high-profile problems in this space. You know, countries have, and really across the national income spectrum have found that, you know, new government typically comes in and suddenly we discover another twenty percent of GDP in debt.

And a lot of this stems from the fact that legal frameworks are inconsistent and documentation is not readily available. So it's not available. When you find it., it's indecipherable. It's unintelligible. And as a result, I think you have a real accountability gap, both on the creditor and on the borrower side. So what we decided to do is to partner with our colleagues at Georgetown's Massive Data Institute to create a documentation hub. I mean, in very simple terms, we're basically vacuuming the internet or dumpster diving for sovereign debt contracts.

Anything we find in the public domain is fair game. And then we make it. We upload it, we make it searchable. Then we post it in a standardized fashion so that really anybody can access this. So the public sourcing and public availability is the crux of it, partly because there are lots of people who already collect documents, lots of academics, lots of our colleagues. Right? But that is a function of our interests, our funding, our circumstance. Right. So I'm interested in Argentina. I'm going to find Argentina documentation. But you know, what about Malawi? What about the Netherlands? So there isn't. There are lots of centralized statistical hubs. But you know, as lawyers, I don't believe the numbers until I see the words. So we are we're kind of persnickety about that and we're trying to change that. So that's basically the nub of it, right? Every government in the world borrows, but it's amazing the extent to which the terms of the borrowing are inaccessible and unintelligible to the stakeholders, creditors, debtors, the rest of the world. And we're trying to change that.

CM (05:56): Well, that's a fantastic overview. So it makes it clear why this is so important. So when we talk about debt transparency, what are the biggest challenges you have encountered? So why it is so crucial for governments and citizens to have access to public debt information. And what are the main obstacles to achieving this transparency.

AG (06:17): So great questions both. Let's start with, uh, let's let's flip it upside down. Why should transparency not be the default? Why shouldn't it be the norm? After all, if it's the norm for listed companies, surely there's even more of a case to make it the default for governments.

On the other hand, it's really important to acknowledge that governments have lots of reasons to keep their credit relationships under wraps. The most obvious is, you know, national security. If you're borrowing to buy submarines, you might not want the world to know that, at least right away, and in those terms. There's a very good argument that your citizens should probably know that you're buying submarines. But, you know, there is the national security dimension to this. There is also diplomatic and to a lesser extent, I would argue, commercial confidentiality.

But really, what we're finding in a lot of these, um, kind of a lot of the high-profile scandals in this space, you know, Mozambique and Senegal being the most recent. But back in the day, Germany securitized its lending to Russia. So there's a lot of complicated reasons, right? Governments are time inconsistent. So, you know, you don't sometimes you want. Governments have understandably if not excusably, you know, want to borrow lots and lots of money on the eve of an election, or they're under probably excessively rigid legal limits on borrowing. In the United States, all but one state have, you know, basically balanced budget requirements. Right. And as a result, you know, there's a huge incentive to borrow. To, let's say, issue revenue back debt, right? So basically sort of to borrow on the side. So there are lots of accounting gimmicks that really come out of the basic accountability framework for fiscal policy and fiscal policy implementation.

And paradoxically, this can create perverse incentives for governments. And then there's just straight up corruption. So, you know, the Ruritania's president's cousin borrows money for a great project. It doesn't work out. The public is stuck with the debt. And you know, the vibranium mining project just never works out. Or look, there are lots and lots of examples. The trouble is, it's often a combination of lots of these things. And the fundamental problem is that the presumption is in the wrong place, or we've forgotten what the presumption should be, which is that public debt is public. Right.

If you and I are pledging our efforts into the future and our children's efforts to repay the debt, we should probably have some sense of what it is that we're promising. And if we're promising all of the vibranium mine revenues to Citibank. Again, it's one of those things that the public should probably have access to. And on the creditor side, you know, if you are the United States or Germany or China or, you know, any or India, any number of creditors. Right? There is a, you too are playing with public money and your citizens, as creditors should probably have a say or at least have a, you know, view into this.

Now, the biggest problems we have encountered in some ways they're not obvious. So when we started out, we expected to see lots of multilateral debt terms readily available and maybe some commercial bank, lots of securities offerings. And the biggest challenge we expected to see in the bilateral debt space in terms of finding and retrieving the contracts. Actually the biggest challenge we've had has been in with commercial bank debt. And you know, when you stop and think about it, it kind of stands to reason. Even though confidentiality provisions in say, you know, LMASDA contracts are not particularly restrictive. We know that there are lots and lots of side letters that, you know, are typically executed to keep the debts out of public sight.

On the other hand, we have also found that governments, both borrowers and creditors, do a fair amount of disclosure. But it's uneven, completely not uniform. So some, some governments post their debt documentation on the Justice Ministry website, others on the Foreign Ministry website. Very few post full texts. So when you talk about actually our friends the economists have a much more rosy view of the debt transparency universe because, you know, they see numbers. But in most cases you hardly ever see full texts. Sometimes you see full texts. So the Philippines did a great service to humanity. They posted two years worth of just full text bilateral agreements on the Finance Ministry website. Partly in the in a very sensible response to allegations that, you know, they were giving away the store, pledging collateral where they shouldn't have been, and they said, fine, you know, we'll just post full text contracts, go see for yourself. That's very unusual.

Italy posts a lot of their lending terms on their Foreign Ministry website. Interestingly, there's another category of transparency most multilateral banks, and Very few bilateral lenders post the general terms and conditions of their lending. So the Japanese International Cooperation Agency is really doing a great job with this.

If you're a borrower from a resource strapped country, general terms and conditions are immensely helpful because as you know as we know, it's eighty pages out of one hundred or eighty pages out of eighty five of the terms. So if you can, as a matter of capacity building, if you can process that, then by the time you go into a negotiation for a given transaction, you can actually afford to focus on the five pages that's the financial terms, right? But otherwise you're trying to figure out what is negative pledge, what is *Pari Passu*, and, you know, is this a normal covenant? That's it's a, it's an enormous burden on countries that are in particular those countries that are already resource strapped.

So, you know, just to sum up, there are lots of reasons why governments keep their contracts under wraps. The most fundamental reason to put them out in the open is stakeholder accountability, primarily to their citizens, but also to the markets also market function. Right. And certainly, in distress, when you have a debt restructuring, you're finding out again that you have twenty percent of GDP of hidden debt can really complicate crisis management.

CM (14:25): Indeed, public debt is public I think. Also, that's a powerful, powerful point about the disconnection between public policymakers and the public. So I think you are trying to bridge the gap. And I got another question. How does the initiative aim to change the way that public debt is preserved and discussed by both the policymakers and the public.

AG (14:48): So that's another very good question. And we could be here for another two weeks. It's sort of you to stop me, Charles, because I'm a little passionate about this. So debt transparency is very much flavour of the month. Everybody and their uncle has a debt transparency initiative. You know, the financing for development UN conference in Seville just came out with commitments for a global, you know, debt hub at the World Bank and the IMF, the BIS, the OECD. I mean, lots and lots of the G20, the London Coalition, private creditors, you know, sort of everybody's for debt transparency.

But of course, it means different things to different people. And one of the things that we are, you know, there are a couple of things that we're saying here, which is that we have a very simple definition of debt transparency for purposes of this project. Full text, Authoritative contracts. Publicly available. Publicly disclosed. Publicly sourced. And the reason this is valuable I think, is that it also cuts through a lot of the capacity challenges that borrowing governments face, as well as lending governments, particularly some of the new lenders. Right. When you think about the, you know, every time there's a statistical initiative. That means a certain number of, you know, man hours in an already strapped debt management office or government statistical office trying to, you know, synthesize information and report it according to a new set of standards to a new body. And then as a researcher or as a member of the public, you're trying to figure out what is the difference between, you know, IMF statistics and UN statistics. ET cetera, et cetera.

I mean, again, like they're doing a great job trying now to kind of make them coherent and reconcile them. But what we're asking you to do is just upload your contract. Right. So it doesn't take a ton of capacity. We can actually create a robot to help you do that. And so from there we say, look, we don't want to hear about debt transparency. We want the government agencies, in particular, you know, G20, G7 governments to talk about debt secrecy, what should be kept out of the public domain rather than in. The lawyers have, you know, some nifty gizmos, right, and like presumption is one of them. The presumption should be we have nothing to talk about. Your contract is uploaded. And if governments suddenly decided overnight to post all their contracts full text in a standardized, findable place. We are so happy to go on and go write our big papers. Right? Like this is not, this is actually kind of a headache. And it's also, as you know, it's really uncool to be for, you know, the flavour of the month. Like, I would so much rather write a really cool paper about how debt secrecy is really what it's all about.

But it's like I'm telling people to eat lettuce, you know, just post your friggin contracts and be done because I don't believe your numbers until I see your words

CM (18:17): Thank you so much Anna. So speaking of that secrecy, I think which leads us to your groundbreaking work on Chinese lending. Your paper: "*How China Collateralizes*" a critical dimension to the conversation, on sovereign debt. So could you explain the core findings of your paper, particularly the concept of quasi collateral and how it differs from traditional security interest.

AG (18:42): Thank you for asking this. And, um, this is actually one of the experiences that has made me feel so passionate about the broader debt transparency project. So my co-authors and I met at DebtCon three. So DebtCon is this conference, which is sort of it's like sovereign debt Coachella. It's a very it's a very carefully orchestrated carnival of all things sovereign debt. And in, I believe, 2018 or 2019, I met Brad Parks and then Scott Morris, who has since moved on to the Asian Development Bank. And they asked this question. They said, well, we found these bilateral agreements between various Chinese lenders and their borrowers, mostly in developing countries.And we wanted to know whether what we're seeing is normal. Is this what everybody else does, or is China an outlier as a lender? And this comes against the political background of sort of debt trap diplomacy. And, you know, the tensions between and competition between the United States and China and, you know, lending to resource strapped countries.

And when I heard their question, I just laughed hysterically because we don't know what the norm is because nobody's disclosing it! Right. So yeah, we know what the commercial bank norm is kind of, because we have these, mind you, copyrighted, you know, LMA, LSDA forms, loan market association, um, and other trade groups. But for governments, we have statistics, but we don't have the words and so we don't know.

Now what happened then is it turned out that Cameroon, of all places, for a limited period of time, had posted all of their borrowing in a publicly accessible place. They have since taken it down or moved it. And so we had an opportunity to compare one hundred Chinese bilateral contracts with various lenders, mostly China EximBank, some CDB, some government. And we found that a lot of the lending by Chinese lenders uses, in particular the escrow account structure. Right. So which is very common in project finance, but unusual for sovereign lending. And interestingly, in the economic literature and sovereign debt, the assumption in some of the groundbreaking kind of the foundational works is that creditors don't take collateral, that there is no collateralized lending, or that it's *de minimis* because, after all, sovereign assets tend to be immune. You know, you're not going to seize an embassy, you're not going to seize a ship. You know, again, Argentina had a very picturesque ship seizing incident earlier in the century.

But that's very unusual, right? It's and, you know, really the point is not for the creditor to get the ship. The point is for the creditor to hassle the debtor to settle. So there has been a lot. And there's also been this assumption that governments, particularly low and middle income governments don't pledge collateral because they mostly borrow from multilaterals and multilaterals all have negative pledge clauses, right? So they promise they're multilateral and bilateral creditors, but really they're multilateral creditors that they will not pledge collateral, or else they'll secure the multilaterals right away. So that's very, very common in both commercial and sovereign lending.

Now, what my colleagues at Aid Data have dug up, and what we have analyzed with colleagues from Kiel, is that actually collateralized or quasi collateralized debt is very common in for Chinese overseas lending, close to fifty percent, you know, upper forties of the transactions that they analyzed had some sort of asset backing, right. But what's even more interesting is what that backing was. And it's in some ways entirely commercially sensible. It's not ports or airports or ships, Its revenue streams. And if you're a creditor, that's exactly what you want. If you want to, if you actually want to get paid back, you want to get your hands on assets that are as liquid as possible and access them with minimal friction. And moreover, you know, having access to certain revenue streams also gives you valuable information about how the borrower is doing right.

So what we've seen is, for example, an infrastructure project, let's say, to build roads. But unlike a limited recourse project financing, the security is not going to be, let's say, toll road revenues, but rather revenues from the sale of the country's principal commodity. So Ruritania exports vibranium, mixing up my Ruritania and my Wakanda. But, you know, bear with me. Um, and that's foreign currency revenues that originate abroad that you can, you know, covenant to direct to an account, let's say a creditor's bank account. So they never actually hit Ruritania. They just flow through the creditors bank, let's say, where they're set off rights. Rights. Excuse me. And, you know, minimum balance requirements, etcetera, etcetera.

So quasi collateral is actually not our term. Um, the IMF and the World Bank put out two papers in 2020 and 2022, highlighting the rise in what they saw as collateralized lending by low income commodity exporters in particular. And they described this very mechanism of or they pointed to this very mechanism of revenue backed lending where you don't necessarily have a pledge of the revenue, but rather you have a contractual commitment to direct the revenues. But in a world where the buyer of the commodity is owned, controlled or regulated by the same authority that owns, controls or regulates the bank; the contractual commitment to direct the revenues into the bank is actually pretty solid. And you might prefer that to any sort of a, you know, receivables pledge.

Now, before we go further, I do want to highlight the fact that this is the first paper was comparative. This is a China paper, which means that we don't know what everybody else is doing. Right. So for all we know and we know something about commodity traders in particular, right. There's lots more of this going on. So Glencore and you know, folks like that certainly, you know, have well known collateralised exposure to commodity exporters, you know, being Chad or Zambia or, you know, you name it. Right. And a lot of the lending that kind of the structures that we're seeing in the latest paper in the China Collateralisation paper are very similar to Pre-export finance or Limited Recourse project finance. But again, the interesting and different move here is the collateral is unrelated to the project that is being financed. There's we're seeing lots and lots of cross-collateralization. So multiple projects being financed with the same collateral pool rate which can create unique problems for governments, particularly where this is your only, you know, external inflows, right. Or this is your only or your best and biggest fiscal revenue.

And going back to transparency, unless you see the contracts or unless there's really robust disclosure, you don't know that the revenues are flowing through an account abroad, be it for Glencore or for, you know, China EximBank. And I think that's a huge problem because now that we know this is happening, everybody else is going to want collateral. You know, the JP Morgan's total return swap to Angola, right? Is, you know, a great example of just this escalating collateral race.

CM (28:28): Yeah, I think the idea of quasi collateral is fascinating, and it raised some serious questions about how debt is managed. I'm particularly interested in your finding that revenues are often routed directly to lenders-controlled account. So your research note that the revenue often bypass the borrowing country and are routed to accounts controlled by the lender. So what are the key implications of this practice for debt sustainability and fiscal management in developing countries.

AG (28:48): So again, a great question and also a great point of additional research, because what we have is and this is another difference from the one hundred Chinese contracts that we did in a couple of years ago. We have some of the contracts, including some account agreements, but we don't have everything. We really just, you know, compared to the we have other primary documentation. But, I'll give you an example. Let's say there is a minimum balance requirement in an account at the creditors bank and it can be huge. It can be like twenty percent of annual external debt service, particularly for very risky countries.

Sometimes we see those balance, we see balances in those accounts because the banks report balances and you can actually see them much higher than the minima. Sometimes we see them lower. Sometimes the contract requires, particularly after construction, this is normal, the minimum to be held in the account only for, you know, thirty days, twenty days for the payment due date. But how this is implemented is a pretty murky question. And so from fiscal management perspective and fiscal autonomy perspective, like I don't know if I'm and let's say I'm, I'm designing a program where I'm the finance ministry. I mean, I just don't know what my available revenues are to, you know, whatever to pay for vaccines. Right.

And separately, the incentive structure can be very problematic. So Ghana at one point borrowed or established a very large credit line backed by refined bauxite revenues. Now, Ghana had no capacity to refine bauxite at anywhere near that scale, and the proceeds of the credit line are supposed to go to build roads. Now, if you are building the roads but the repayment comes from bauxite revenues, you don't really have the best of incentives to build efficient roads quickly. If you are developing bauxite refining capacity, but your revenues are going to go to another government department to build roads again, what's the incentive?

So what happens is the bauxite revenues never materialize and the government is stuck with a bunch of debt that hits right in the middle of a debt crisis and a debt restructure. So just incentives for the use of proceeds are really problematic. And you don't have good information and revenue autonomy when it comes to domestic policy making. Now, the other thing that we've noticed is that this collateralized borrowing is very sticky, right? So one of the interesting things that actually is not in the paper is that Angola is, you know, a very prominent example of the kinds of structures that we're seeing, right, where you have infrastructure programs that are financed with future oil revenues. Unlike refined bauxite in Ghana, Angola certainly has a proven record of exporting oil. If, and before Chinese lenders came in and before actually other bilateral lenders came in, they used the same, Angola used the same structure with commercial lenders, and it was even more expensive. And then, you know, Chinese lenders took it to scale, particularly China Development Bank.

And what we find, by the way, is that there is quite a difference among Chinese lenders. So China, EximBank collateralize a lot. China Development Bank, not so much, but the amounts are much bigger. And you know, what we're seeing is Angola going from one model of collateralized lending to another to another, to another. They're trying to break away from, just get out of this pattern of oil backed lending. But who is going to lend to you without collateral, if they know that a bunch of your oil revenues are pledged for years, for these, you know, this infrastructure building program in a country that has massive infrastructure needs, right?

So it's sort of, the collateral is never actually freed up, because if you have a credit line backed by the pool of oil revenues and you want to build some roads or bridges, would you rather just draw on that credit line and keep that collateral encumbered for a little longer, or have a whole new borrowing program with new documentation and new creditors, etc., etc., just for a resource strapped government? There's a lot less friction if you have a credit line and continuing to draw on it. So as a result, you see the stickiness in collateralized borrowing. And now I think you're seeing more and more creditors wanting to get either collateral or some form of seniority, that's again de facto because it doesn't have to be disclosed. Right. At least in the US. Actually in the UK there's a lot the filing requirements are broader. The public notice requirements. But still if it's just a bank account, perfection by possession.

CM (35:00): Absolutely. So those are significant challenges. And it is clear that transparency is a recurring theme. So it connects to specifics of China's lending practice back to the broader goals of your initiative #PublicDebtIsPublic. So how does the lack of transparency in China lending connect to the broader goals of your #PublicDebtIsPublic initiative.

AG (35:22): So the biggest link, I think, is that we're trying to impress upon governments, debtors, creditors, as well as commercial creditors that you really don't know what's going on unless you see the contracts, right? You don't know that the revenues are encumbered, because there is no public filing. There in the loan contract, it doesn't tell you how the revenues travel. You can sometimes see references to escrow accounts, but you have no idea whether it's a trivial amount or whether twenty percent of your external debt service is basically spoken for, and x percent of your revenues are already encumbered.

So the thing that I want to highlight is that it would be a mistake to make this about China. It so happens that in fact, it's a problem because Aid Data has this Chinese overseas aid project that is a perfect example of, you know, terrific academic research. You know, we're just sort of the lawyers reading the contracts. They have a much broader program, but they don't have a dedicated program on, I don't know, Russian lending, Indian lending, German lending, Dutch lending, you name it. So we are there's this meta question of what kind of research is undertaken, what kind of research is funded.

There's this whole myth busting industry about, you know, debt trap diplomacy. But we're looking under a streetlamp. We're looking at sort of where everybody else is looking right now, because that's the politically salient place. And we don't have a very good sense of where the rest of the world is. And most certainly not where commodity traders and commercial lenders are.

Thank goodness for securities disclosure. You can see a lot of I mean, really the best source from my perspective for Angola's collateralized lending history is their bond prospectuses. So, you know, if they weren't borrowing in the capital markets, I think we would have a much foggier idea of what's going on. But most resource strapped countries, most politically riven countries are not issuing euro bonds listed on the Luxembourg Stock Exchange.

So the worst thing that could possibly happen here is that this just turns into a “China bad” exercise, right? Yes. Chinese institutions have rather strict borrower confidentiality clauses. Interestingly, thanks to the Philippines, we found that, you know, the French have a similar clause, although they also have some disclosure provisions there that cut in the other direction. So they're not identical. But commercial banks have side letters, right. So at least, you know, in, um, official bilateral lending, there is pressure from both citizens of the lender countries and the borrower countries. It's sort of there's double the impetus, if you will, for some accountability.

With commercial banks. There's far less pressure. And the fact that in the past, you know, roughly six months that we've been doing this, you know, we're launching the pilot database, pilot platform on October fourteenth at DebtCon, and it will have been roughly, you know, six to eight months that we've been collecting, dumpster diving, for contracts. We found hundreds and hundreds of contracts. The ones that we're going to present in this initial batch is one hundred contracts for a variety of countries and a variety of instruments. We've barely any commercial bank contracts. And that, I think, is a function of the fact that, you know, they don't have to they don't, they don't even have to put the full confidentiality clause in the contract, because you can have a side letter, so you'll never know what their confidentiality provisions are. And uh, governments that are, that have the biggest governance challenges, that have the biggest resource constraints, that are most unstable in, in countries with unstable security situations and political strife, those are the countries that do not normally issue lots of bonds internationally. Those are the ones that there's some political science research by, uh, colleagues who are actually helping organize DebtCon, you know, Lena Moseley at Princeton and NYU colleagues, that shows that these countries are the ones that go to banks rather for commercial loans, right. And would go to commodity traders rather than issue bonds in the capital markets.

So places where there, we need transparency the most, where the payoff would be the greatest, are the places where we see the least transparency. And similarly, it's very awkward to zero in on any given lender when we can say very little about the others based on the Cameroon sample that we had in the, you know, one hundred contract project. You know, we certainly see a lot more quasi collateralized lending and escrow accounts with Chinese institutions, but it's anybody's guess, right? I mean, it's statistically I'm comfortable with it, methodologically I'm comfortable with it. But as a policy matter, I'm reluctant to make pronouncements based on one hundred and forty four contracts between Cameroon and everybody else.

And otherwise, we have China. And I think it's just high time we had everybody. “China bad”, but so is everybody. I would like to see, you know, if any bilateral lender is, you know, not “China bad”. Out with it. Right. Post the contract, we'll sing your praises, we'll do a dance in your honour. There's really and you know, again, if somebody wants to do this instead of us, go for it.

CM (42:11): So, so looking at the big picture, your work reviews some of the most pressing issues in a world of sovereign debt today, which is transparency based essentially. So based on your research and work, what do you see as the most pressing challenges in sovereign debt restructuring today, and what solutions should policymakers be considering?

AG (42:31): That's a big question. So look, is debt transparency, however defined the world's biggest challenge? Probably not. Like debt is a means to an end, right? I think we can never forget that. I think and also debt is and debt relief is just one financing mode and sometimes not a great one because, you know, if a country is already not paying, debt relief is not going to get them new cash flows to buy food for their babies.

So with that in the background, I do think that the biggest challenge continues to be fragmentation and geopolitics. And their institutional fragmentation is something that, in some ways even without the geopolitical tensions, this was coming because a lot of governments that, and a lot of countries that are the source of capital for low and middle income countries are new to the multilateral lending and restructuring scene. It doesn't mean that they'd never lent before some of them. You know, China's decades of relationships with some countries, but they're really a big global actor on the sovereign lending scene and a very influential one, particularly after the G7 moved from bilateral loans to grants with the Heavily Indebted Poor Countries initiative.

But, you know, they weren't there when the Paris club was established, right. The forum where official bilateral creditors coordinate. There is no sovereign bankruptcy. Something probably we should have started with.

CM: Maybe insolvency, not bankruptcy.

AG: Yeah, there is no sovereign. There is no institutional, single institutional forum where you can have a comprehensive collective restructuring. So as a result, what we've had is something called the Common Framework. And that's, believe it or not, short for something very long and unpronounceable. Common Framework for Debt Treatments Beyond the Debt Service Suspension initiative. And that was very promising. You know, it was announced during Saudi Arabia's G20 leadership cycle. And, you know, China and India and other countries are part of it. The Paris club is still basically the secretariat, and the Common Framework doesn't have its own website. It doesn't have its own sort of infrastructure. And it has been, you know, they've only restructured a very small handful of debt stocks.

And then there is this perennial question of if you restructure the bilateral debt, how do you make sure that, let's say, private creditors or, you know, other kinds of creditors don't free ride on the concessions of your taxpayers? In the olden days, when it was a smaller world of lenders, the same G-7 governments that met in the Paris club also were the regulators of the biggest commercial lenders, and they were also the same governments that met to discuss trade and security issues and whatnot. So the coordination challenge wasn't nearly as big.

Now we're all arguing about is China Development Bank official or commercial is China EximBank official or commercial? The answer is it's a dumbass question. Sorry. The answer is that it really shouldn't matter. And this is where sovereign debt restructuring can really learn from insolvency practice.

Figure out a way to have everybody contribute in a way that is seen as equitable. But because we have no agreement on definitions and because we don't know the words, and so we're constantly running into surprises. To put it charitably, you know, we argued for years whether that bauxite backed loan was actually a loan, which is ridiculous, because if we saw the documentation, that would be a five-minute exercise. We're arguing about basic building blocks, and the world is burning. Literally, right. The needs are escalating, and, uh, we don't have fifty years to build up a new Paris club, Beijing club, Riyadh club, moon club, whatever. Neptune club, I don't care.

It's good that we're trying. And props to the global Sovereign Debt Roundtable, which is kind of the analytical attempt to kind of norm generating parallel to the common framework, which is actually the restructuring apparatus. But we don't have time. I'm trying to be optimistic.

CM: Yeah, we're all trying to.

AG: Yeah, right. Yeah. The birds are chirping.

CM (47:52): So Anna, this has been an incredibly insightful conversation. So the work you and your colleague are doing for on the public debt is public initiative and shedding light on how China Collateralizes is not just academic. It's vital for Policymakers and citizens alike. So thank you so much for your time and for this enlightening discussion.

So to our listener, thank you for joining us today on the INSOL Talks podcast. I'm Charles Mak and we will see you next time. Thank you so much.

Outro Music (48:22): If you have enjoyed this podcast, make sure to subscribe on your favourite podcast provider so you don't miss an episode. Contact us on LinkedIn and Twitter at INSOL international using the hashtag #INSOLTalks. The information provided is intended for a general audience and reflects the personal views of the participants. This podcast is distributed under a Creative Commons Attribution non-commercial no derivatives 4.0 International License. Thank you for listening.