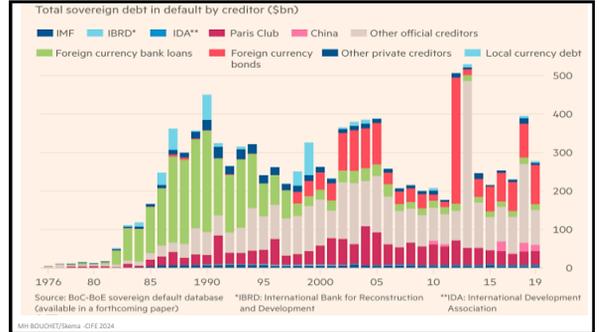


 Centre international de formation européenne  

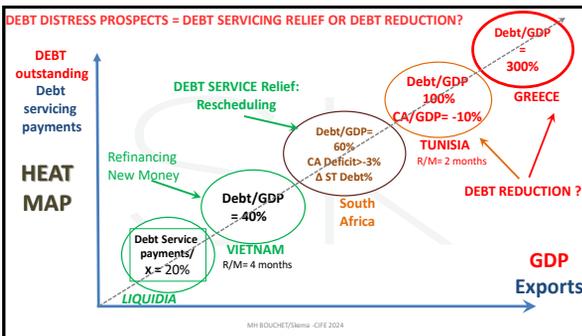

# FROM COUNTRY RISK, TO FINANCIAL CRISIS AND DEBT NEGOTIATIONS

CIFE SEMINAR ROMA-BERLIN-NICE 2024  
MICHEL-HENRY BOUCHET

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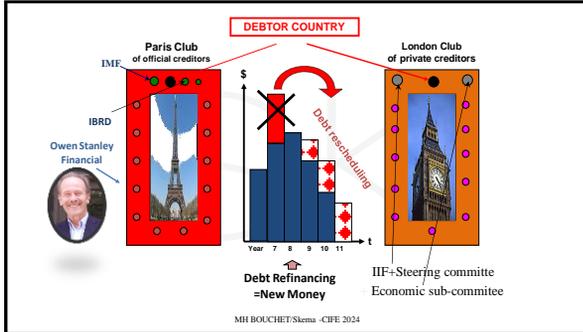
### WHO'S WHO?

Five main groups of private and official creditors:

1. The IFIs: IMF and World Bank + RDBs
2. The Paris Club of OECD governments
3. Private suppliers: trade debt
4. The London Club of international banks
5. Institutional investors (pension and investment funds, hedge funds): Eurobond holders

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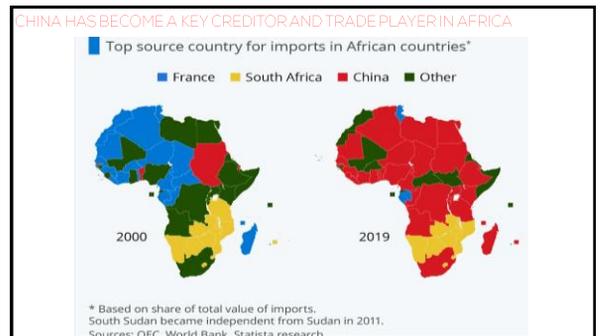
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### PARIS CLUB DEBT RESTRUCTURING

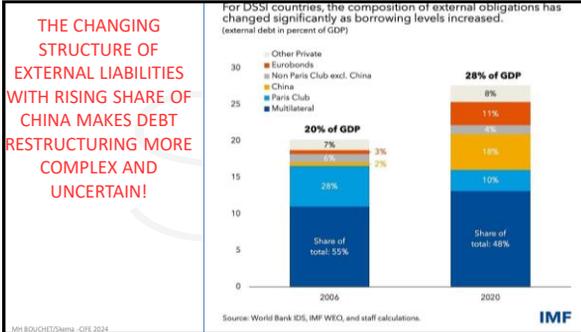
- **Official bilateral debt (government to government)** is renegotiated under the auspices of the Paris Club since 1956
- Since then, the 21 Paris Club creditors have reached 478 agreements concerning 102 debtor countries.
- Total amount of debt covered = **\$614 billion**
- Only official debt + officially-guaranteed credits (Coface, Hermes, ECGD, US Eximbank...)
- Total claims on EMCs: \$310 billion
- 10 times meetings/year, for negotiation sessions or to discuss the situation of the external debt of debtor countries or debt related methodological issues (sometimes with the IIF)
- Russia joined in 1997 and Brazil in end-2016, as sizeable lender in African countries such as Nigeria, Angola and Mozambique. China??

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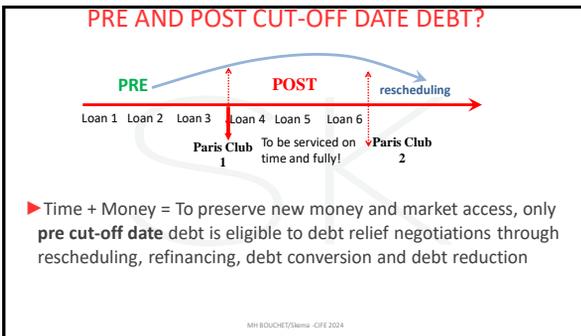
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- PARIS CLUB**
- 7 DEBT RESTRUCTURING GUIDELINES**
1. Consensus
  2. Comparability of treatment
  3. Solidarity among creditors with on-going information exchanges
  4. Case by case treatment of debt crisis
  5. Conditionality based on IMF adjustment program and monitoring
  6. No restructuring of « post-cut off date » debt so as to preserve access to new financing
  7. Secretariat provided by French Treasury
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**TOTAL DEBT OUTSTANDING OF ARGENTINA**

Table1 Joint BIS-IMF-OCED-World Bank Statistics on External Debt (mill. US\$)

	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3
A1. Loans and other credits (Excl. IMF)	19,961	18,919	18,917	17,442	16,878
A2. Loans to nonbanks	18,816	18,381	18,841	15,995	14,451
A3. Loans to financial institutions	1,145	538	76	1,447	2,427
A4. Loans to other entities	900	900	900	900	900
A5. Loans to other	43,938	44,437	43,737	44,964	44,921
A6. Multilateral loans, total	20,431	20,208	20,181	20,760	20,787
A7. IMF	17,448	16,897	16,897	16,897	16,898
A8. Other	6,132	4,284	4,284	3,990	3,990
A9. Other	2,794	2,793	2,797	2,779	2,843
A10. Other	14,748	14,159	13,892	8,619	8,304
A11. Other	1,923	1,490	1,197	1,188	1,121
A12. Other	800	800	800	800	800
A13. Other	112,182	112,848	111,808	112,280	108,427
A14. Other	110,286	110,777	110,207	110,613	106,934
A15. Other	8,200	8,062	7,702	14,811	10,216
A16. Other	4,885	4,344	7,293	14,389	10,224
A17. Other	209	209	209	209	209
A18. Other	1,983	1,983	1,983	1,983	1,983
A19. Other	22,276	27,205	21,244	19,983	18,879
A20. Other	23,969	23,154	20,370	16,788	16,894
A21. Other	45,761	48,193	48,024	39,407	37,430

PARIS CLUB

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# The London Club of debt restructuring



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## WHAT IS THE « LONDON CLUB »?

- ▶ Since the 1970s, countries facing default have used the London Club process to restructure sovereign debt owed to banks.
- ▶ The London Club has evolved as an ad hoc forum for restructuring negotiations.
- ▶ Each London Club is formed at the initiative of the **debtor country** and is dissolved when a restructuring agreement is signed.
- ▶ Ad hoc London Club "Advisory Committees" are chaired by a leading financial bank.
- ▶ The IIF plays a key role in London Club meetings: BOP and debt analysis!



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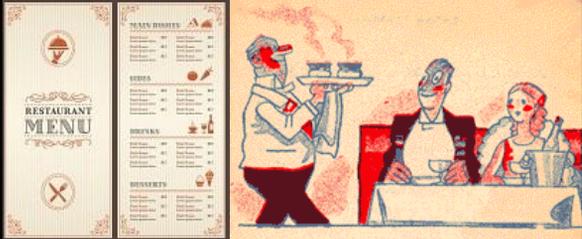
## WHAT IS THE IIF?

- ▶ The Institute of International Finance, Inc. (IIF), is the world's only global association of financial institutions.
- ▶ Created in 1983 in response to the international debt crisis, the IIF has evolved to meet the changing needs of the financial community.
- ▶ Members include most of the world's largest commercial banks and investment banks, as well as insurance companies and investment management firms. Among the Institute's Associate members are MNCs, trading companies, ECAs, and multilateral agencies.
- ▶ The Institute has **> 450 members** headquartered **> 70 countries**.

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## MENU-BASED DEBT RESTRUCTURING: THE BRADY PLAN AND BEYOND



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### IS THERE LIFE AFTER ARREARS AND DEBT DEFAULT?

Bank loans may be delinquent on their repayments or in default of the loan entirely = **Loss for the bank on expected income**

Arrears + Default = Accounting losses in banking portfolios

Loan-loss reserves (provisions against NPLs)

In the event of a default, no loss in cash flows= the bank will use the amount set aside to cover the loss. The provision is tax deductible and can be used in the bank's capital (Bâle III)

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### THE BRADY PLAN OF DEBT RESTRUCTURING

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### THE 1989-2021 PROCESS OF LONDON CLUB DEBT RESTRUCTURING

- ▶ London Club banks grant debt relief to debtor nations, in some proportion of secondary market discount through interest or debt stock reduction
- ▶ Accounting and regulatory incentives (loan-loss provisioning)
- ▶ Shift to specific purpose financing and voluntary lending
- ▶ Debtor countries adopt tough macroeconomic adjustment programs under the monitoring of the IMF/WB (SALS)
- ▶ Current account financing + Reserve build-up
- ▶ Objective: back to market-access for EMCs or to grants for low-income countries

Means and Tools

- ▶ Defaulted sovereign London Club debt to be exchanged for easily tradeable **Brady bonds** guaranteed by 30-year zero-coupon US Treasury bonds which the defaulting nation purchases with its reserves and official financing support (IFIs + Paris Club)
- ▶ Principal guarantee + x semi-annual interest payments, whose guarantee is rolled over
- ▶ **Bullet repayment** (e.g., 30 years)
- ▶ **Cross-default clause**
- ▶ **Debt conversion clauses**

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### THE BRADY PLAN IN ACTION

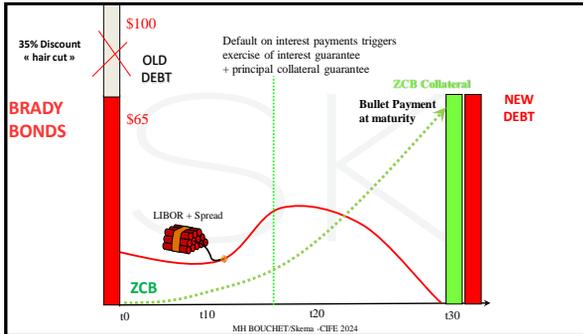
New senior debt with long-term maturity, principal collateralization, rolling interest

Guarantee + cross-default clause

Debt cancellation backed up by commercial banks' reserves for loan-losses with regulatory incentives

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### Types of Brady Bonds

- ▶ **Buybacks at discount**
- ▶ **Par Bonds** *Maturity:* Registered 30 year bullet issued at par *Coupon:* Fixed rate semi-annual below market coupon *Guarantee:* Rolling interest guarantees from 12 to 18 months. Principal collateralized by U.S. Treasury zero-coupon bonds
- ▶ **Discount Bonds (DB)** *Maturity:* Registered 30 year bullet amortization issued at discount *Coupon:* Floating rate semi-annual LIBOR *Guarantee:* Rolling interest guarantees from 12 to 18 months.
- ▶ **Front Loaded Interest Reduction Bonds (FLIRB)** *Maturity:* Bearer 15 to 20 year semi-annual bond. Bond has amortization feature in which a set proportion of bonds are redeemed semi-annually. *Coupon:* LIBOR market rate until maturity. *Guarantee:* Rolling interest guarantees generally of 12 months available only the first 5 or 6 years.

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### TYPES OF BRADY BONDS

- ▶ **Debt Conversion Bonds (DCB)** *Maturity:* Bearer bonds maturing between 15-20 years. Bonds issued at par. *Coupon:* Amortizing semi-annual LIBOR market rate. *Guarantee:* No collateral is provided
- ▶ **New Money Bonds (NMB)** *Maturity:* Bearer bonds maturing 15-20 years. *Coupon:* Amortizing semi-annual LIBOR. No collateral
- ▶ **Past Due Interest (PDI)** *Maturity:* Bearer bonds maturing 10-20 years. *Coupon:* Amortizing semi-annual LIBOR. No collateral
- ▶ **Capitalization Bonds (C-Bonds)** Issued in 1994 by Brazil's Brady plan. *Maturity:* Registered 20 year amortizing bonds initially offered at par. *Coupon:* Fixed below market coupon rate stepping up to 8% during the first 6 years and holding until maturity. Both capitalized interest and principal payments are made after a 10 year grace period.

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### VIETNAM = LONDON CLUB DEBT RESTRUCTURING

Brady debt restructuring (12/97)=

- ▶  $(P= 335 \text{ million}) + (PDI= 515) \text{ interest arrears}$
- = \$850 million**
- ▶ 30-year bonds with 50% discount + par bonds + buyback at 44%

**Paris Club Debt Restructuring 12/1993:**  
LONDON Terms = 54% debt reduction

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**LEGAL CLAUSES AND CONVENANTS  
IN DEBT RESTRUCTURING NEGOTIATIONS**

- ▶ Waiver on negative pledge clause: it prevents a borrower from pledging any assets if doing so would jeopardize the lender's security : risk of subordination with regard to a senior status lender!
- ▶ It ensures **financial equality** and democracy in a community of creditors
- ▶ In Brady deals, the Paris Club, the IMF and the World Bank **waived the clauses**

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**SNAPSHOT AT VIETNAM'S GOVERNMENT SECURITIES**

Issuer	Coupon	Maturity	Series	Rtg	Freq	Mtg	Type	Contry	Cur	Ask	Px
1) VIETNAM (REP OF)	6.875	01/15/16	REGS	B+	S/A		BULLE	VN	USD	106.2500	
2) VIETNAM (REP OF)	6.875	01/15/16	144A	B+	S/A		BULLE	VN	USD	106.2500	
3) VIETNAM-PDI	VAR	03/12/16	US	NR	S/A		STK&BLE	VN	USD	N.A.	
4) VIETNAM-PDI	VAR	03/12/16	18VR	NR	S/A		STK&BLE	VN	USD	88.0000	
5) VIETNAM (REP OF)	6.750	01/29/20	REGS	B+	S/A		BULLE	VN	USD	101.5000	
6) VIETNAM (REP OF)	6.750	01/29/20	144A	B+	S/A		BULLE	VN	USD	102.2500	
7) VIETNAM-PAR	3.750	03/12/28	US	NR	S/A		CALL/SINK	VN	USD	N.A.	
8) VIETNAM-PAR	4.000	03/12/28	30VR	B+	S/A		CALL/SINK	VN	USD	75.0000	
9) VIETNAM-DISC	FLOAT	03/13/28	30VR	B+	S/A		BULLE	VN	USD	84.0000	
10) VIETNAM-DISC	FLOAT	03/13/28	US	NR	S/A		BULLE	VN	USD	N.A.	
11) VIETNAM-0A LOAN	0.000	12/29/49	0A	NR	S/A		CALL/SINK	VN	DEM	N.A.	
12) VIETNAM-US\$ LOAN	0.000	12/29/49	US\$	NR	S/A		CALL/SINK	VN	USD	N.A.	

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**VIETNAM'S 30-YEAR BRADY BOND 1998-2028**

VIETNAM	Float	03/13/28	\$187,500	+000	86,500 / 88,500	45,499 / 33,519
VIETNAM Float 03/13/28 Com Settings Page 1/11 Security Descriptions Bond						
113 Bond Description 118 Issuer Description 119 Buy 120 Sell						
Papers						
Global Info	Issuer Information			Identifiers		
Global Info	Name	SOCIALIST REP OF VIETNAM	ID Number	TT139958E		
Global Info	Industry	Sovereigns	IDN	90885134534		
Global Info	Security Information		FIGI	BBG000031018		
Global Info	Alt Issuer	Euro-Dollar	Brady			
Global Info	Country	VN	Currency	USD		
Global Info	Rank	Secured	Series	30YR		
Global Info	Alt Rank	2,250000	Type	Floating		
Global Info	Formula	S/A US LIBOR +81.2500				
Global Info	Coupon	3/250000				
Global Info	Day Ctr	ACT/250	Iss Price			
Global Info	Maturity	03/13/2028				
Global Info	Global Priority	BULLE				
Global Info	Issue Price	USD	Aggregated Amount	Issued/Out		
Global Info	Calc Type	(575)BRADY-FLT RIG YLD	USD	24,552.00 (0) /		
Global Info	Price Date	03/12/1998		24,552.00 (0)		
Global Info	Interest Accrual Date	03/12/1998		3,000.00		
Global Info	1st Settle Date	03/12/1998		Par Amount		
Global Info	1st Coupon Date	09/24/1998		Book Runner		
Global Info	CPI	RATE-6MO US\$ LIBOR +81.25BP		Exchange		
Global Info	PRIN	SEC'D BY U.S. 30YR ZERD'S 6MO ROLLING INT				
Global Info	INT	QTY				

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Floating-rate US\$ Brady bond, with principal repayment secured by 30-year zero-coupon US\$ bond collateral + rolling interest payment guarantee

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**THE GREEK 2011-13 MENU-BASED « BRADY DEBT RESTRUCTURING » = 65% « HAIR CUT »**

1. Par Bond Exchange into a 30 year instrument (4% coupon)
2. Par Bond with refinancing of rolling-over maturing Greek government bonds over 30 years
3. Discount Bond Exchange into a 30 year instrument with 20% discount and 5% coupon
4. Discount Bond Exchange into a 15 year instrument with 5,9% coupon
5. Buyback at 35% price (65% discount) of London Club debt (11/2012)

- ▶ For instruments, 1, 2 and 3 the principal is fully collateralized by 30 year zero coupon AAA Bonds.
- ▶ For instrument 4, the principal is partially collateralized through funds held in an escrow account.

Calculation: IIF & <http://www.voxeo.org/index.php?qnode/6818>

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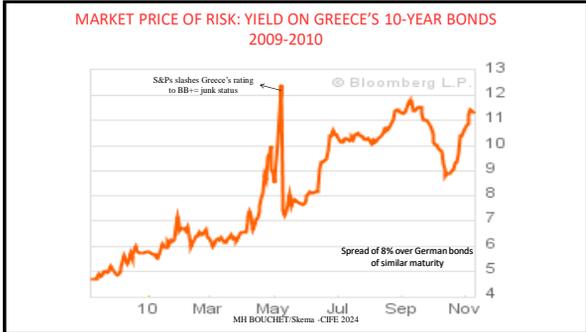
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**CHALLENGES OF THE GREEK DEBT RESTRUCTURING WORKOUT 2011-20**

- ▶ 1. *Pari passu*: Private investors insist that government bail-out lenders would be treated the same way as the private sector, to lessen the risk of another cut in their payouts down the line
- ▶ 2. New bonds issued to private investors as part of the hair cut to be governed by London rather than Greek law
- ▶ 3. Threat of free riders and legal actions: VEGA Hedge Fund

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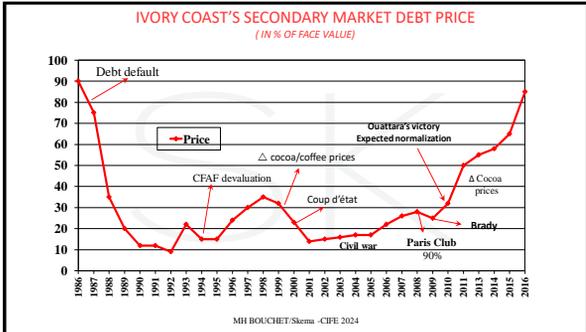
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**IVORY COAST'S BANK DEBT RESTRUCTURING SAGA**

- ▶ 03/1998 - Ivory Coast issued six bonds totalling \$2.4 billion under the Brady scheme in a restructuring of outstanding external commercial debt.
- ▶ 09/2000 - Default on the bonds, following a coup in 1999.
- ▶ 03/2009 - The IMF and the World Bank declared Ivory Coast eligible for debt relief under the HIPC (highly indebted poor countries) initiative.
- ▶ 03/2009 - Paris Club agreement leading to immediate cancellation of \$845 million in debt (80% debt relief)
- ▶ 04/2010 - Debt exchange of the defaulted Brady bonds, replacing the old bonds with a \$2.3 billion bond due 2032, with semi-annual coupon payments and 6-year grace period (2016): discount of 20 percent on the exchangeable debt.
- ▶ 11/2010 - Presidential run-off ballot : Gbagbo is declared winner = civil war
- ▶ 12/2010 - World Bank freezes funding
- ▶ 12/2010 - Ivory Coast does not make \$29 million coupon payment on \$2.3 billion bond. Failure to pay = "event of default"

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### UKRAINE'S DEBT RESTRUCTURING 09/2015

- ▶ 20% write off on \$18 billion of bonds, condition for the IMF to press ahead with 4-year \$40 billion package
- ▶ Main creditors: PTG Pactual, T Rowe Price, TCW, Franklin Templeton...
- ▶ Inclusion of GDP-linked instrument
- ▶ Between 2021-40 investors will receive up to 40% of the value of economic growth > 4%



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### BRADY BONDS PRICES AFTER RESTRUCTURING NEGOTIATIONS

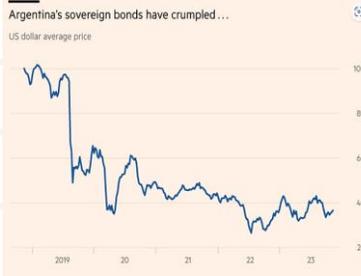
▶ Arg Par	48.000	50.000
▶ Arg FRB	41.000	42.000
▶ Arg '27	31.000	33.000
▶ Brz C	75.250	75.437
▶ Brz '27	72.750	73.000
▶ Bul IAB	85.000	85.500
▶ Mex Par	93.000	93.250
▶ Pol Par	75.250	76.250
▶ Rus '28	107.750	108.000
▶ Ven DCB	78.250	78.750
▶ Vie Par	44.000	45.000

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### THE SECONDARY MARKET OF LOANS AND BONDS PRICES

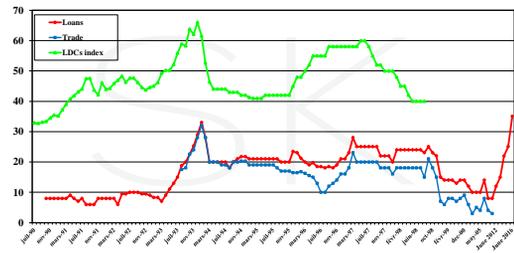
When BOP tensions rise, with falling reserves, looming debt crisis and default, bondholders and creditor banks prefer selling their claims at a discount in the secondary market while buyers anticipate better future. The market discount translates into accounting losses in balance sheets, though tax-incentives driven bank reserves offset the loss. The price of the claim is the inverse of the discount and closely reflects « country risk »



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### SECONDARY MARKET PRICES OF CUBA'S LONDON CLUB DEBT (1990-2017 in percent of face value)



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### HYPER-EXOTIC DEBT PRICES

- ▶ Myanmar 20%
- ▶ Cambodia 20%
- ▶ Mongolia 22%
- ▶ North Korea 10%

- ▶ Irak Bonds 90%
- ▶ Libya 25-35%
- ▶ Syria 6-11%
- ▶ Yemen 30%

- ▶ Argentina (2033 bonds)= 62% following ruling by NY court in 11/2012)
- ▶ Cuba Loans 10-35%
- ▶ Cuba Trade 15%
- ▶ Albania 36%
- ▶ Bosnia 36%
- ▶ Serbia 44%

- ▶ Angola 60%
- ▶ Ethiopia 60%
- ▶ Senegal 35%
- ▶ Sudan 11-14%
- ▶ Uganda 14-16%
- ▶ Zimbabwe 1-4%

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### EMCS SECONDARY MARKET DEBT PRICES

COUNTRY / ISSUE	Low Price	High Price	COUNTRY / ISSUE	Low Price	High Price
<b>Africa Hyper-Exotica</b>					
Anglia / Trade	50.000%	55.000%	Azerbaijan / Trade	18.000%	23.000%
Anglia / Loans	55.000%	59.000%	Bosnia / Trade	36.000%	41.000%
Cameroon / Trade (non-HPC)	14.000%	20.000%	Georgia / Trade	11.000%	15.000%
Congo / Trade (non-HPC)	22.000%	24.000%	Serbia / Trade	44.000%	54.000%
DR Congo / Loans, Trade (non-HPC)	16.000%	20.000%	Turkmenistan / Trade	23.000%	33.000%
Ghana / Trade (non-HPC)	78.000%	81.000%	Ukraine / Trade	18.000%	25.000%
Kenya / Trade	39.000%	49.000%	Uzbekistan / Trade	20.000%	24.000%
Mozambique / Trade (non-HPC)	28.000%	28.000%	<b>Mid East Hyper-Exotica</b>		
Senegal / Loans, Trade (non-HPC)	12.000%	14.000%	Egypt Trade	45.000%	75.000%
Sudan / Loans (non-HPC)	11.000%	14.000%	Iraq / Paris Club	84.000%	89.000%
Tanzania / Loans, Trade (non-HPC)	10.000%	13.000%	Iraq / Bonds	91.000%	92.000%
Uganda / Trade (non-HPC)	14.000%	16.000%	Libya / Trade	25.000%	35.000%
Zambia / Loans, Trade (non-HPC)	13.000%	20.000%	Syria / Trade	6.000%	11.000%
Zimbabwe / Trade	1.000%	4.000%	<b>Asia Hyper-Exotica</b>		
<b>Latin America &amp; Caribbean Hyper-Exotica</b>					
Cuba / Trade	2.000%	4.000%	North Korea / Trade	22.000%	30.000%
Cuba / Loans	5.000%	10.000%	North Korea / Loans, Certificates	9.000%	12.000%
Suriname / Loans, Trade	14.000%	18.000%			

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Weak Liquidity:

Angola, Nicaragua, Cameroon, Albania, Congo, Tanzania, Zaire (Rep. Democr.), Zambia, Iraq, North Korea

Limited Liquidity:

Cuba, Egypt, Jordan, Madagascar, Panama, Jamaica, Ivory Coast, Senegal

Moderate Liquidity:

Nigeria, Morocco, Costa Rica, Bulgaria, Peru, Russia, Vietnam

Good Liquidity

Brady Bonds + Eurobonds= Argentina, Brazil, Ecuador, Mexico, Philippines, Poland, Venezuela. South Africa, Turkey

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### Debt trading and EMTA

EMTA

401 Lexington Avenue  
Suite 5302  
New York, NY 10174  
646 676 4293

Contact: Jonathan Murno  
EMTA  
[jmurno@emta.org](mailto:jmurno@emta.org)

For Immediate Release

**EMTA SURVEY:  
QUARTERLY EMERGING MARKETS DEBT TRADING  
AT US\$1.132 TRILLION**

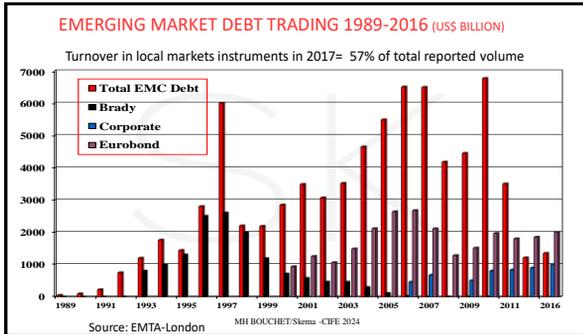
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Volumes Decline 17% on Year-on-Year Basis

NEW YORK, September 19, 2017.—Emerging Markets debt trading volumes stood at US\$1.132 trillion in the second quarter of 2017, according to a report released today by EMTA, the trade association for the Emerging Markets debt trading and investment industry. This compares with US\$1.357 trillion reported for the second quarter of 2016, a 17% decrease, and down 14% from US\$1.323 trillion reported in the first quarter.

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**WHO'S WHO IN HIGHLY DISCOUNTED AND EXOTIC DEBT TRADING?**

- Trading:** FH International (Eric Herman), Omni Bridgeway (Amsterdam, Geneva, Singapore, London, Guernesey), MarketAxess, Société Générale, BNP, Lazard Brothers
- Holdout creditors** and « *vulture funds* »: hedge funds that seek to enforce contractual claims against distressed sovereign debtors through litigation: they buy defaulted government debts on the cheap and refuse to join in a restructuring, "holding out" for a better deal and sue for the full amount (*pari passu clauses* promise equal treatment of creditors preventing EMCs from paying its restructured bondholders but not hedge funds: i.e., borrower's promise to ensure that the obligations will always rank equally in right of payment)
- Key players:** NML Capital (Argentina), Paul E. Singer's Elliott Capital Management (Argentina), Aurelius Capital Management (Argentina's 2001 \$132 billion default, Peru), Franklin Templeton, BlueMountain Capital, Stone Lion Capital, Monarch Alternative Capital, Canyon Capital, First Tree Partners, Marathon Asset Management (Puerto Rico, Greece), Dart (Brazil), Greyllock Capital (Venezuela).

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**DEBT COLLECTION, ASSET TRACING AND DEBT TRADING**

**Omni Bridgeway**

**Debt Recovery**

Debt recovery/collection:

- "Softball" Consensual Debt Collection: through amicable means
- "Hardball" - non consensual debt collection: through legal means
- "Passing the ball" to investor: sale of the debt

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**Recovery case: National Bank of Ukraine**

1. Summons to pay to National Bank of Ukraine. No full payment followed
2. Concerted attachments were effectuated in France, Germany, Luxembourg and The Netherlands.
3. Assets attached > amount owed
4. Main legal proceedings initiated.
5. National Bank of Ukraine forced to the negotiating table to reach an amicable settlement.
6. A settlement agreement was signed between the creditor and the National Bank of Ukraine for the amount of USD 13 million (i.e. full principal amount *plus* overdue interest).

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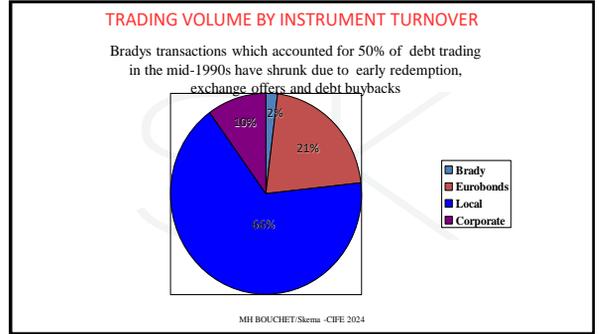
**Recovery Case: Zimbabwe**

Country : Zimbabwe  
 Lender : West European Bank  
 Borrower : Ministry of Health and Ministry of Finance  
 Principal : EUR 25 million, maturity 1993-2000  
 Award : No

Solution: Asset tracing and subsequent attachments in various western jurisdictions  
 Negotiation started soon after attachments were made.  
 Recovery within one year :  
 • approx. EUR 10 million +  
 • for the remainder: restructuring agreement with improved conditions

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**THE EVOLVING STRUCTURE IN THE SECONDARY DEBT MARKET**

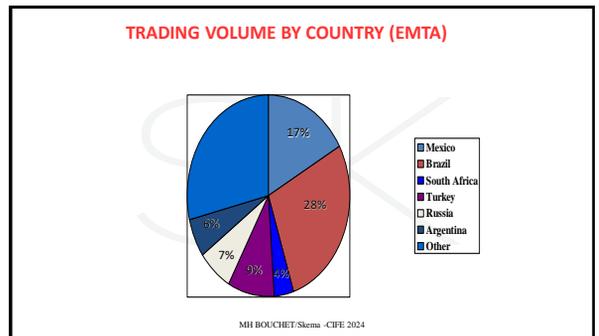
MARKET SHARE COMPARISON

	2005	1997
Eurobonds	48%	23%
Local Instruments	47%	25%
Options and Warrants	2%	6%
Brady Bonds	2%	41%
Loans	>1%	5%

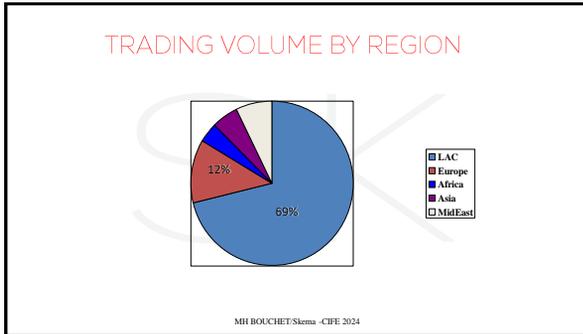
Source: EMTA

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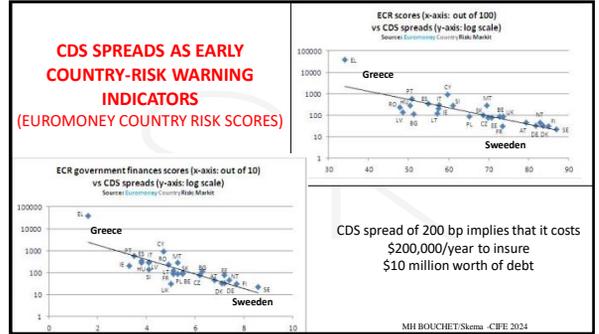
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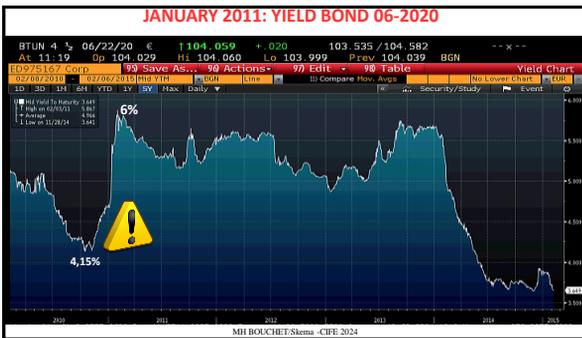
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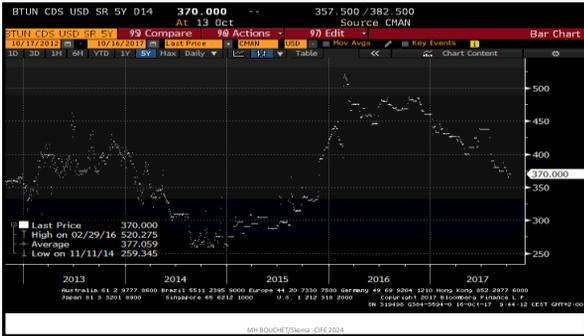
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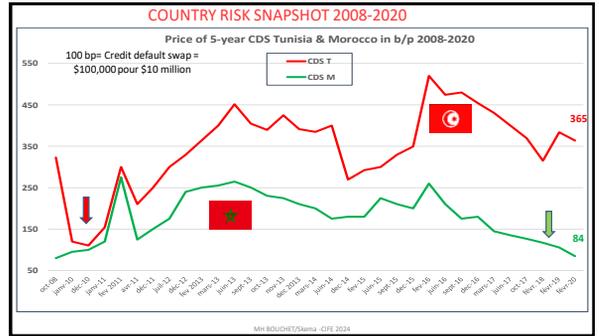
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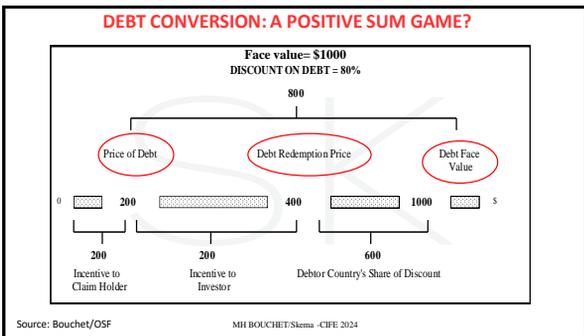
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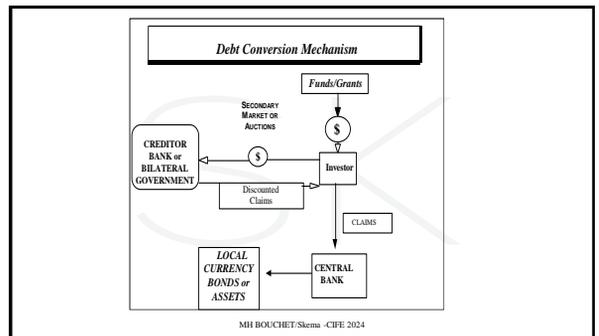
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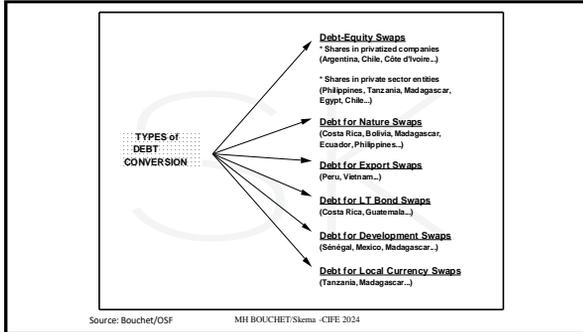
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**CORPORATE DEBT SWAP TRANSACTIONS**

► 04/2001: South Korea's largest builder HEC (Hyundai Engineering & Constr.) makes a debt swap with its creditors to reduce debt ratios from **1240 % to 250%**, by issuing new shares and bonds to creditors as a part of the rescue package after Hyundai reported losses >US\$2.2 billion that wiped out its equity capital!

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**BELIZE'S DEBT FOR NATURE CANCELLATION  
SEPTEMBER 2021**

Belize is inching towards a deal with international bondholders after admitting it cannot afford to pay back its debt, and counting on an unusual asset to help: its coral reefs. Earlier this month the Caribbean nation, with its tourism-heavy economy ravaged by the pandemic, agreed to buy back its only international bond from investors at a huge discount, using cash lent by the Nature Conservancy, a US-based environmental group.

As part of the deal, Belize will pre-fund a \$23.4m endowment to support marine conservation projects on its coastline, home to the world's second-largest barrier reef. Some more investors still need to agree to the scale of the buyback discount before the deal is done.

But if Belize can achieve the approval it needs on this \$530m bond, the country could secure the first **green-tinged debt restructuring**, capitalizing on the hunger among big fund managers to demonstrate their commitment to environmental, social and governance-driven investing.

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**BELIZE'S DEBT FOR NATURE CANCELLATION  
SEPTEMBER 2021**

Investors and advisers say the agreement could serve as a template for future restructuring talks, in which cash-strapped nations use the promise of environmental conservation to drive a harder bargain — in effect creating a mechanism for investors in rich countries to pay poorer nations to protect the natural world. The buyback operation, which is offering investors **55 cents for every dollar of debt** they hold, needs the support of a further quarter of bondholders in order to go through.

A group of investors led by GMO, Abrdn and Greylock Capital, representing half of the bondholders, has already given the scheme its blessing. Carlos de Sousa, a portfolio manager at Vontobel Asset Management — a member of this group holding about 10 per cent of the bond — said the proposal chimes with his company's focus on ESG.

For Belize, whose debt stands at **133 per cent of GDP** despite restructuring its borrowing five times over the past 15 years, the deal offers the chance to mend its reputation as a serial defaulter. Ocean conservation is crucial to the country's economy, with 40 per cent of output coming directly or indirectly from tourism, and one in every 10 workers employed in the fishing sector.

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**NOVEMBER 2021  
GALAPAGOS ARCHIPLAGO  
ECUADOR'S DEBT FOR NATURE SWAP PROJECT**

November 2021: President of Ecuador Guillermo Lasso decided to extend by >50% the protected territory of the archipelago of Galapagos during the COP26 à Glasgow. «This decision will lead to debt for nature swap transactions in view of reducing our debt while increasing environment protection expenditures. » Such transactions entail forgiving part of a developing nation's debt in exchange for local investment in conservation programs. The overall territory of the biodiversity reserve established in 1998 is of 130.000 km<sup>2</sup> and it will grow by 60.000 km<sup>2</sup>.

The country's external debt reaches nearly \$46 billion, equivalent to 45% of GDP, of which 16% is owed to foreign governments and Paris Club creditors, including the UK, the US, and Spain.

(Actually, official data from the Paris Club dated end-2021 give total claims of ... only \$1,185 billion).

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**NOVEMBER 2021-MAY 2023  
GALAPAGOS ARCHIPLAGO  
ECUADOR'S DEBT FOR NATURE SWAP PROJECT**



Debt-for-nature swap: voluntary transaction in which an amount of debt owed by a developing country government is cancelled or reduced by a creditor, in exchange for the debtor making financial commitments to conservation.

In financially distressed countries, the earnings generated through swaps are often administered by local conservation or environmental trust funds.

May 2023: \$450 funding over 18 years by cancelling \$1,6 billion of bonds with help of AIDB & US DFCorp

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The creditor government cancels or reduces the debt owed by the debtor government

An agreed amount, for example US\$ 200,000, that would have otherwise serviced the debt, is earmarked for environmental projects

Note: Amounts in US\$ given as examples, and are not fixed rates in debt-for-nature swaps

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**POSITIVE SUM GAME!**

- ▶ Debtor: debt cancellation with local currency payments while stimulating foreign direct investment and enhancing the role of private sector activity in the local economy (privatization)
- ▶ Creditor: cleaning up of portfolio with upfront cash payment while accounting losses get absorbed by loan-loss reserves
- ▶ Investor: access to local currency at a discounted exchange rate that boils down to an investment subsidy, thereby mitigating the overall country risk and the specific project risk

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