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ABSTRACT

How do indebted governments restructure their debts with private creditors? What explains variation in indebted states' negotiating behavior? Existing explanations of debt restructuring have largely treated creditors as a profit-maximizing monolith; Yet creditors have different exposures, ties to borrowers, and roles in the international banking system. Intercreditor disputes are common. In this paper, I argue that because institutional norms dictate burden sharing, the makeup of the creditor group matters for indebted states' negotiating behavior. The requirement of near-consensus decision-making allows almost any creditor to hold up negotiations. It limits the outcome to what the most reluctant creditors will agree to. Debtor governments are aware of compositional issues and where coordination is most difficult ex ante, they can use more coercive behaviors to bring reluctant creditors into the fold. I focus on publicly issued declarations of default as one such tool. Using existing data on public moratoriums alongside original data on creditor composition, I find that governments are more likely to publicly announce default as the number of creditors involved in a restructuring increases. The findings imply that who the government is bargaining against matters to how they choose to bargain.

¿Cómo reestructuran los gobiernos endeudados sus deudas con los acreedores privados? ¿Qué explica la variación del comportamiento negociador de los Estados endeudados? Las explicaciones existentes sobre la reestructuración de la deuda han tratado en gran medida a los acreedores como un monolito cuyo objetivo es maximizar los beneficios; sin embargo, los acreedores tienen diferentes niveles de exposición, vínculos con los prestatarios y funciones en el sistema bancario internacional. Los conflictos entre acreedores son habituales. En este artículo, argumentamos que, dado que las normas institucionales dictan el reparto de la carga, la composición del grupo de acreedores es importante para el comportamiento negociador de los Estados endeudados. La exigencia de una toma de decisiones casi consensuada permite que casi cualquier acreedor pueda obstaculizar las negociaciones. De este modo, se limita el resultado a lo que acepten los acreedores más reticentes. Los gobiernos deudores son conscientes de los problemas de composición y,

KEYWORDS

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cuando la coordinación es más difícil ex ante, pueden utilizar comportamientos más coercitivos para atraer a los acreedores reticentes al redil. Nos centramos en las declaraciones públicas de impago como una de esas herramientas. Utilizando los datos existentes sobre moratorias públicas junto con los datos originales sobre la composición de los acreedores, observamos que es más probable que los gobiernos anuncien públicamente el impago a medida que aumenta el número de acreedores implicados en una reestructuración. Los resultados implican que la forma en que el gobierno negocia es importante para la forma en que decide negociar.

Comment les gouvernements endettés restructurent-ils leurs dettes auprès des créanciers privés ? Comment les différences de comportement de négociation des États endettés s'expliquent-elles ? Les explications existantes de la restructuration des dettes considèrent majoritairement les créanciers comme un monolithe de maximisation des profits. Pourtant, les créanciers n'ont pas tous la même exposition, les mêmes liens avec les emprunteurs ou le même rôle au sein du système bancaire international. Les litiges entre les différents créanciers ne sont pas rares. Dans le présent article, je soutiens que, les normes institutionnelles imposant une répartition du fardeau, la composition d'un groupe de créanciers a une incidence sur le comportement de négociation des États endettés. Le quasi-consensus nécessaire dans la prise de décision permet à presque n'importe quel créancier de retarder les négociations. Il limite le résultat que le plus réticent des créanciers peut accepter. Les gouvernements endettés sont conscients des problématiques de composition et, là où la coordination est a priori la plus difficile, ils peuvent adopter des comportements plus coercitifs pour faire plier les créanciers réticents. Je me concentre sur l'un de ces outils : les déclarations de défaut publiées. À l'aide de données existantes sur les moratoires publics et de données originales sur la composition des créanciers, j'observe que plus le nombre de créanciers impliqués dans une restructuration augmente, plus les gouvernements auront tendance à annoncer publiquement un défaut. Les résultats indiquent que l'identité de la personne avec laquelle le gouvernement négocie est importante quand il s'agit du choix de la technique de négociation.

Introduction

The first state to default on once-sacrosanct Brady bonds, Ecuador's 1999 default sparked renewed confrontation between sovereign borrowers and private creditors. On September 26th, 1999 President Jamil Mahoud announced in a televised speech to the nation that the country, "cannot and will not pay interest on its bonds with guarantees" ("Ecuador Says Will Pay Interest on PDI Bradys Only" 1999), with the hope that "from the point of view of strategic negotiations, [Ecuador will be] in a much stronger position" to demand creditor write-offs, or "haircuts" ("Ecuador Central Bank President: Default 'Strengthens' Position" 1999). During the

negotiations that followed, Ecuador halted payments, publicly reaffirmed its formal default, and refused to negotiate with its creditors. In August 2000, they reached an agreement with their creditors to write off 38% of their outstanding claims. Yet, in comparison, Ecuadorian debt restructurings in the 1980s were concluded much more quietly, collegially, and with smaller haircuts. Several other Brady-bond restructurings in Uruguay (2003) and the Dominican Republic (2005) were also concluded quietly, without a public statement or official declaration of default; however, neither Uruguay nor the Dominican Republic managed to achieve more than a 12% write-off. These within and across country comparisons suggest that there is significant variation in *how* governments restructure their debts vis-a-vis private creditors. What explains this variation in negotiation behavior?

Previous explanations of indebted government behavior in debt restructuring negotiations are scarce. Where they exist, they have focused on the characteristics of the debtor state (Enderlein, Trebesch, and von Daniels 2012) rather than the creditor group.¹ Yet, private creditors “have different exposures, different ties to each borrower, and vastly different roles in international banking” (Lipson 1985, 203). Disagreements between creditors are also commonplace and can significantly delay the restructuring process (Trebesch 2010). In this paper, I relax the assumption of a monolithic creditor and explore how the characteristics of the creditor group affect the behavior of indebted governments during debt restructuring negotiations.

Why does the makeup of the creditor group matter? Because of free-riding opportunities amongst creditors (Olson 1965; Wright 2012; Pitchford and Wright 2012; Bunte 2018), procedural norms have developed in debt restructuring to ensure adequate burden sharing. Specifically, the London Club process for commercial debt restructuring requires near unanimity among all credit holders for a deal to go into effect. Such stringent decision-making rules both allow individual/small groups of creditors to hold up negotiations and restrict the outcome of debt restructuring to what the most reluctant creditors will agree to (Tsebelis 2002). Indebted governments are aware of this institutional configuration and know that to shift creditors toward higher debt relief, which minimizes austerity and helps restore growth, they must convince the entire group, including those with incentives to hold out. The larger the creditor group, the larger the coordination problem, and the more difficult shifting the haircut outcome becomes. Where this problem is particularly acute, I argue that governments can turn to public default declarations as a costly and coercive signal to bring reluctant creditors into the fold. Because publicly announcing default is costly, the governments’ choice of publicly should depend on

¹Exceptions include Trebesch (2010), Pitchford and Wright (2012), and Asonuma and Joo (2020).

how difficult creditors are to coordinate. Governments will only use costly strategies where they believe it is necessary to achieve their preferred outcome.

To test this theory, I introduce an original dataset on creditor characteristics in debt restructuring negotiations. I extract over 25,000 financial press articles from Factiva using a routinized search algorithm and rely on these documents to code relevant statistics including the number of creditors, the number of creditors on the Bank Advisory Committee (BAC), and the committee chair for each restructuring negotiation. Paired with existing data on public moratoriums for twenty-five defaulting countries on a yearly basis from 1980 to 2009, I find that governments are more likely to publicly announce their default as the number of creditors involved in a restructuring increases. As syndicated lending has fallen out of favor, this may suggest that coercive tactics will play an important role in future crises with a more diverse creditor base.

How countries bargain in international settings influences negotiated outcomes (Elms 2006). Vitaly important for indebted states, coercive negotiation strategies increase creditor concessions (Ferry 2022), but at the expense of heightened GDP contraction during default episodes (Trebesch and Zabel 2017). Thus, while negotiation behavior has an important impact on both pre- and post-crisis outcomes, systematic attempts to determine countries' choice of strategy in international negotiations are rare. This is particularly apparent in sovereign debt restructuring negotiations where the focus has been on either *why* governments default (Eaton and Gersovitz 1981; Bulow and Rogoff 1989) or the outcome of restructuring negotiations (Mamone 2020; Cruces and Trebesch 2013; DiGiuseppe and Shea 2019). There has been little attention paid to *how* negotiations unfold. Advancing the literature past a binary understanding of debt restructuring, this article is among the first to offer an explanation of the bargaining tools states use in debt restructuring negotiations. Default and restructuring are not synonymous. Defaults do not always look the same. Finally, this paper is also novel in its theoretical and empirical treatment of creditors as a diverse group with heterogeneous preferences. Creditors are not a monolith, yet are often treated as such. Of relevance to other domains of international negotiation, the findings imply that institutional decision-making rules have consequences (Koremenos, Lipson, and Snidal 2001). When decisions are made by consensus, who the government is bargaining against matters for how they choose to bargain.

Inter-Creditor Dynamics

When heavily indebted governments face fiscal distress, they turn to their creditors seeking debt restructuring and creditor concessions on their loan

repayment. Here, I define debt restructuring as “an exchange of outstanding sovereign debt instruments, such as loans or bonds, for new instruments or cash through a legal process” (Das, Papaioannou, and Trebesch 2012, 7).² This is different than default itself which is defined as “the failure to meet a principle or interest payment on the due date” (Reinhart and Rogoff 2009, 11). While the debt restructuring process varies significantly across creditor types, I focus specifically on sovereign external debt that is owed to private creditors, primarily banks and bondholders. This distinction is important because unlike in official or multilateral lending, I assume that the investors sitting across the negotiating table from the indebted state are profit maximizers (Mosley 2003). Rather than using loans as policy tools, “the daily business of commercial banks [and bondholders] is to make a profit by pricing and managing credit risk effectively” (Rieffel 2003, 105). Debt restructuring is a negotiation between private creditors and an indebted state over the size of creditor haircuts.

While haircuts, and the need to restructure, intuitively hurt creditors in the sense that they must forgo part of their original claim, creditors are still better off lending to and restructuring debt with emerging markets (Bulow and Rogoff 1989). Simply put, debt reduction increases incentives to undertake new, efficient investments in indebted states, leading to returned growth and new cash flows for future repayments. Additionally, the uncertainty in international markets from protracted negotiations can downgrade the value of creditors’ claims. Given this tradeoff, creditors may find haircuts a “win-win deal” that allow governments and creditors to “move forward without putting the value of [debt] at any further risk” as was touted in the Ukrainian restructuring deal of 2015 (Zinets and Prentice 2015). In the context of the Brady Plan, commercial banks have been shown to benefit from providing debt reductions to defaulted sovereigns (Kho, Lee, and Stulz 2000; Unal, Demirguc-Kunt, and Leung 1993).

However, creditors face an additional dilemma—a second level of bargaining—that occurs within the creditor group itself. Because debt is owed to many banks or bondholders, who can be difficult to identify, there exist significant opportunities for free-riding within the group of commercial creditors. While creditors collectively benefit from restructuring, individual creditors have an incentive to hold out at the expense of others (Olson 1965; Wright 2012; Pitchford and Wright 2012). In other words, if one group of creditors agrees to restructure debt at more favorable terms for the debtor, they unlock resources that can be used to repay the claims of the second group of creditors who do not restructure. When some creditors

²Restructuring can include the lengthening of maturities, interest rate reduction, debt buybacks, and face value reduction. A haircut occurs when the net present value of new instruments is less than the value of old instruments. Therefore, debt restructuring and debt reduction are not synonymous.

forgo their claims, the debtor is better able to service its remaining obligations (Bunte 2018).

To minimize free-riding concerns, restructuring sovereign debt to private creditors takes place under the London Club and is governed by the principle of burden sharing.³ To activate the London Club process, an indebted state in financial distress must first approach the International Monetary Fund (IMF). Because the Fund provides financial information and conditionality, private creditors will refuse to meet unless an indebted state has reached or made significant progress toward an IMF agreement.⁴ With the IMF's seal of approval, the London Club dictates a rough process of debt restructuring in which a Bank Advisory Committee, made up of five to fifteen creditors with the largest exposures, negotiate on behalf of all creditors with outstanding claims.⁵ In the recent era, the London Club has operated under norms of near consensus, such that 100% or 95% agreement is required for deals to be implemented. Even in cases where collective action clauses (CACs) are invoked, the largest creditors or group of creditors still maintain veto power.⁶ Additionally, if an indebted government attempted to negotiate outside of the London Club, major banks “work extensively with other banks, both large and small. They are heavily engaged in cross-depositing through the interbank market, and they provide a range of financial services to each other and smaller institutions” (Lipson 1985, 205). It would be exceedingly difficult for a government to negotiate with a single creditor without others being aware.⁷ As Rieffel (2003, 114–115) states, “there is no room for individual commercial banks to cut special restructuring deals with other countries.”

The formal and informal norms of burden sharing have important implications for inter-creditor dynamics. If, as has been implicitly assumed in previous work, creditors were a monolith with perfectly overlapping preferences, this would not pose an additional burden in negotiations. However,

³The London Club is more of an informal process than a formal institution. For an overview of the restructuring process see Das, Papaioannou, and Trebesch (2012).

⁴The IMF Mission chief is usually a participant in early BAC meetings. They describe the IMF's projections and forthcoming support (Rieffel 2003).

⁵The IMF also plays an informal coordinating role. It has developed partnerships (ex. concerted lending or enhanced surveillance) and relationships with private creditors (Gould 2003; Boughton, Brooks, and Lombardi 2014). The Managing Director has also been known to contact the BAC chairman, stressing specific terms (Rieffel 2003). While this may help manage free-riding, the Fund's involvement is ubiquitous in commercial restructuring. The type or degree of IMF involvement, and its influence on free-riding, is a fruitful avenue for future research.

⁶CACs allow a supermajority of bondholders to accept a restructuring deal on behalf of all creditors. The threshold for what constitutes a supermajority varies from case to case, typically 70–85%.

⁷Even contemporary bond restructurings have been executed as a multilateral group with participation thresholds. There is little evidence of governments seeking out individual bondholders, most likely because there is still informal coordination. For instance, the Greek bond restructuring (2012) was executed by a traditional creditor committee.

if there is disparity within the creditor group, the stringency of near consensus decision-making allows almost any creditor to hold up negotiations, thereby restricting the bargaining range. This makes inter-creditor dynamics a key dimension of the debt restructuring process.

Both case study evidence and my data collection efforts, described below, suggest that there is significant diversity in creditor preferences that must be taken into account. While all creditors are profit-motivated, there is variation in individual creditors' reservation points for the amount of repayment they will accept (Lienau 2014). Some creditors are willing to write off a higher percentage of their original claim than others. Divergent interests could stem from the nature of the debt (maturities, collateral, etc.), national banking regulations, the health of individual creditors' portfolios (Asonuma and Joo 2020), etc. Here, I briefly expound on two potential mechanisms through which creditor preferences can diverge (institutionalization and exposure), with the belief that it is more important to establish that heterogeneity in creditor preferences exists than it is to pinpoint the precise origin of disagreement in each case. I then provide examples of several creditor disagreements as reported in the financial press.

For example, some creditors are embedded in international borrowing networks, making them more institutionalized, while others, like vulture funds, are less concerned with their international reputation. Creditor types that develop long-term relationships with each other and their debtors face a significantly different cost structure than investors who invest in a "one-off" nature. Having long-term relationships with other creditors and important debtors implies that (1) creditors are dependent on the services that other banks provide and (2) that creditors are invested in lending to their existing borrowers and would be adversely affected if they had to go in search of new markets. As Lipson (1985, 209) describes, it is the large financial institutions that are the "permanent fixtures of international banking." They sink costs into developing long term relationships with debtor states and face significant transaction costs to finding new debtors, gathering statistics, and performing risk assessments. Because of these relationships, large or highly institutionalized institutions will find it exceedingly difficult to hold out and have a reservation point closer to the indebted state. On the other hand, less embedded creditors that seek to make a profit and leave the market will have a reservation point that demands higher rates of repayment.

Another theoretical reason for variation in creditor preferences stems from the fact that while hundreds of banks and thousands of bondholders may have claims to a state's external debt, exposure is not evenly distributed. Holding a high level of exposure means that some actors risk losing a

potentially fatal amount of their assets if a negotiated settlement is not reached and their claims are not repaid. In the earliest iteration of the too big to fail analogy, John Maynard Keynes stated that “Owe your banker £1000 and you are at his mercy; owe him £1 million and the position is reversed” (Keynes 1979, 258). As such, the cost of negotiation failure means that heavily exposed creditors should have a reservation point that differs from creditors with smaller claims. Creditors with smaller claims are better poised to hold out for their preferred outcome.

Regardless of the mechanism, the financial press has reported a host of creditor disagreements. For example, creditor disagreements have been reported over the makeup of the creditor committee, as in Algeria (1994) when Japanese banks held the bulk of exposure, wanted a tough stance, but also wanted French banks to take the lead. Or disagreements can stem from being excluded from the committee, as in Nigeria (1987) when Japanese banks believed that their preferences were inadequately represented. Creditors are also differentially concerned about precedent and exposure. In Poland (1994), American and British banks argued that Poland should not receive larger concessions than Brazil’s Brady deal. French and German banks pushed for much larger write-offs, leading to controversy. In Russia, whose case is detailed in [Supplementary Appendix A](#), creditors with long-term investments in Russia were amenable to concessions, while creditors with fewer long-term interests favored a tougher stance. Finally, divergent interests can even be over specific terms. In the Philippines (1987) several banks refused to sign if loans to a specific Philippine enterprise (Planters Products) were included. In Nigeria (1991), French banking regulations and an alternative instrument of collateral meant that French banks faced greater provisions for bad debt and tax disadvantages compared to other banks. French banks subsequently opposed the deal. I thus assume that preference heterogeneity exists and can stem from a plethora of conditions.

Consensus (or near consensus) decision-making means that the approval of almost all creditors, who have heterogeneous preferences, is required to shift the status quo. Akin to Tsebelis (2002), this means that individuals or small groups of creditors can act as veto players by withholding their consent for a restructuring. In an extreme case, Mexico’s 1985 deal became technically ineffective because one small British bank, out of more than 500, refused to sign the agreement (Gardner 1985).

Furthermore, if a proposal requires the agreement of all (or most) creditors, only outcomes that fall within the indifference curves of every creditor will be in the potential win-set (Tsebelis 2002). Without making specific assumptions about the distribution of creditor preferences, only that some degree of preference heterogeneity exists, this implies that an

increase in the number of creditors leads to the same or increased contract stability.⁸ At best, the number of creditors increases the transaction and monitoring costs required for the BAC to get all creditors on board (Oye 1985). At worst, an increase in the number of creditors is likely to increase the amount of preference heterogeneity over a decision (Kahler 1995). A larger group thus makes it harder to reach any agreement that shifts the status quo. It shrinks the bargaining range of inter-creditor and inter-debtor negotiations to what the most repayment-driven creditors will agree to. As [Supplementary Appendix B](#) demonstrates, high haircuts become rare as the number of creditors increases.

While the World Bank has commonly identified inter-creditor dynamics as a problem in restructurings, this background suggests that a theory of how governments behave in sovereign debt restructuring negotiations would be overly simplistic if it ignored the consequences of consensus decision-making and preference heterogeneity in the creditor group. From the perspective of indebted governments, the norm of burden sharing leads to the World Bank's intuition that "... the greater the number of creditors, the more difficult it is to reach a contractual agreement to restructure the debtor's finances" (Garrido 2012). When creditors are many and have different preferences for repayment, governments hoping to achieve a high haircut have their work cut out for them.

Implications for Borrowers' Behavior

How does the composition of the creditor group affect the negotiation behavior of indebted states? To incorporate private creditor dynamics into the government's decision-making calculus, I theorize about the interaction between the government and its commercial creditors as they negotiate over the size of creditor haircuts.⁹ While I assume that creditors are profit-motivated, I also assume that politicians are office-motivated and seek to resolve a financial crisis while maintaining domestic power and control. One way for governments to meet this goal is to win large concessions, high haircuts, from their creditors. Debt relief allows the government to divert fewer resources out of the fiscal budget and to invest more in strengthening the domestic economy. In other words, large concessions

⁸If the win-set of a veto player is located entirely inside the win-set of other actors, they are "absorbed." When an actor is absorbed, it no longer constrains the outcome (Tsebelis 2002). Therefore, more creditors can have no impact or a positive impact on contract stability.

⁹Admittedly, this abstracts away from potential ways that commercial debt restructuring can reverberate through the international system. The free-riding problem also exists between commercial, official and multilateral creditors and any negotiation tool an indebted state chooses is likely to be interpreted by multiple audiences. Nevertheless, establishing how the composition of a single creditor group (private creditors) impacts the government's negotiating behavior is a necessary first step toward understanding the interactions between creditor forums.

free up funds previously dedicated to debt servicing that can be reallocated into other domestic policy objectives, like minimizing austerity, which helps secure the government's position in office. This is consistent with economic findings. Marchesi (2015) finds that high haircuts soften GDP contraction after debt restructuring negotiations are complete and Reinhart and Trebesch (2016) find that the economic position of indebted states improves more significantly after a restructuring when deals involve debt write-offs.

I assume that governments are aware of who their creditors are and that their preferred haircut must be approved by consensus (or near consensus). This includes the most repayment-prone creditors who would prefer to free-ride. In addition to the requirement of creditor consensus, the interaction is complicated by the fact that the government possesses private information about their willingness to repay. While, ability to pay refers to whether a government has the resources to meet their external commitments, willingness to pay is based on whether or not a government is willing to adjust those resources away from other areas of the domestic budget and toward debt servicing (Eaton and Gersovitz 1981). While creditors can observe imperfect indicators of ability and willingness, I follow Panizza, Sturzenegger, and Zettelmeyer (2009) and argue that willingness is the primary concern as even the largest debt obligations can be repaid if the adjustment is large enough to compensate.¹⁰ Because claims of poverty do not perfectly correlate with pennilessness, governments lack credibility, and creditors, particularly the reluctant ones, are likely to see insolvency as a bluff. As investors believed in Venezuela (1989), “the only claim for debt reduction is political” (Fuerbringer 1989). Unless the government can convince all of its creditors that its need for debt relief is sincere, a deal that is acceptable to both sides cannot be reached.

When the problem is particularly acute, I argue that governments can turn to costly or coercive behaviors to demonstrate a credible need for concessions. One form of negotiation behavior at governments' disposal is a public announcement of default.¹¹ In other words, rather than implying default by missing a principal or interest payment, as is most common, political officials can explicitly announce the decision to suspend payments in front of a domestic and international audience, usually via a televised speech. For example, President Perez of Venezuela was technical. He stated in a televised speech that he asked his finance minister “... to officially notify creditor banks that ... we will suspend amortization payments on all the foreign bank debt outstanding” (Figdor 1989). In Argentina, Interim

¹⁰See Bunte, Giray, and Shea (2021) for how governments choose between repayment options.

¹¹There are likely to be alternative strategies as well. The tradeoff between different negotiation tactics is an important area for future research.

President Adolfo Rodríguez Saa announced in a national address that “we are going to take the bull by the horns... I announce that the Argentine state will suspend payments on its foreign debts” (Love 2001). President José Sarney of Brazil was more apologetic when he announced in a television and radio speech that “the country is suspending payments on its foreign debt. I must confess it isn’t easy to take a decision of this magnitude” (Hayward 1987). While the context, timing, and executive personalities vary significantly, when such action is taken publicly and unilaterally, it risks a strong reaction. It becomes a costly signal to creditors.¹²

There is debate about the economic costs of default (Gill 2021), which publicity could exacerbate. While defaulting governments should suffer reputational costs that prohibit them from reentering foreign capital markets, empirical evidence is mixed (Eaton and Gersovitz 1981; Bulow and Rogoff 1989; Tomz 2007). Governments who default do pay higher interest rates and are delayed in re-entering capital markets, but the effects are short-lived (Bunte 2018; Cruces and Trebesch 2013). Instead of a one-size-fits-all punishment, recent scholarship suggests that punishment varies based on how governments default.

Importantly, public announcements are confrontational and can be seen as “analogous to war” (Enderlein, Trebesch, and von Daniels 2012). They imply that default is a conscious decision on behalf of a sovereign government rather than an accidental byproduct of unfavorable economic circumstances. Underlying national sovereignty, it is not that borrowers can’t pay, it’s that they have unilaterally decided that they won’t. Public declarations are thus met with a swift loss in investor confidence, which has consequences in international financial markets. Exchange rates, stock market valuations, and credit ratings fall. Bond spreads and interest rates rise. For example, in Peru, one banker responded to a public default by saying “if they get confrontational, we’ll cut off all that... they won’t be able to import food or spare parts” (Kristof 1985). Creditors weren’t bluffing and within a month Peru was having to ration imports because its trade credits had been revoked. In Greece, Prime Minister Papandreou’s decision to call for a national referendum on the government’s 2012 restructuring deal was widely interpreted as a public declaration of default as more than 60% of Greek citizens were opposed to the deal (Thompson 2011). Risk analysts downgraded the probability of repayment and overnight, the Athens Stock Exchange fell 7.7% and Greek bond yields increased by 16% (Kyriakidou and Papadimas 2011). For Brazil, the drop in international capital flows

¹²The literature has suggested many relevant classifications of negotiation behavior including cooperative vs. non-cooperative (McKibben 2013) and hard vs. soft (Dür and Mateo 2010; Trebesch and Zabel 2017). The argument here is akin to hard vs. soft bargaining tactics, with the additional assumption that public default announcements are “harder” and more coercive, while private (unpublicized missed payments) are “softer” and less coercive.

following its 1987 public moratorium was so drastic that it went out of its way in 1989 to assure creditors that delays in repayment were not a public announcement of default.

More broadly Trebesch and Zabel (2017) find that government behavior conditions the cost of default. When governments default “softly” or cooperatively, real GDP per capita drops marginally and recovers quickly. However, for “hard” or coercive cases, output drops drastically—7% in the first crisis year—and recovery is sluggish. [Supplementary Appendix C](#) replicates the authors’ analysis of public declarations, as a specific type of coercive behavior, finding a sharp decline in per capita GDP for countries that defaulted publicly. While public declarations can incur costs through multiple mechanisms (i.e. stocks markets, trade credits, etc.), the aggregate effect is negative and significant.¹³

Only governments who are truly unwilling to repay their foreign commitments should endure the financial markets’ punishment. Thus, public declarations are rare (Enderlein, Trebesch, and von Daniels 2012). And were costly enough, they communicate credible information about the need for a high haircut (Fearon 1995). Indeed, debtor coerciveness and creditor losses are highly correlated (Trebesch and Zabel 2017). More specifically, public declarations of default are rewarded with higher haircuts (Ferry 2022). On average, negotiation episodes that don’t use a public declaration elicit a 23% haircut. The average haircut following a public default is 41%.

This implies that indebted governments face a tradeoff and as strategic actors will weigh the benefits of a higher haircut against the financial costs of a public signal. This paper focuses on the latter, arguing that creditor composition matters because it affects the likelihood that the government’s preferred outcome will be vetoed in the larger creditor group. Because publicly announcing default is costly, the governments’ choice of private versus public default should depend on necessity, specifically how difficult creditors are to coordinate. Governments will only use costly tactics where they believe it is necessary to achieve their preferred outcome. Therefore, as the size of the creditor group increases and uniting all potential veto players around a high haircut becomes more difficult, governments are more likely to issue public declarations as a means of demonstrating true insolvency. Allowing creditors to have heterogeneous preferences leads to the empirical implication that *governments will be more likely to issue public declarations of default as the number of creditors increases.*

¹³While it is outside the scope of this paper to theorize about how official creditors (bilateral and multilateral) might interpret a public declaration, reactions are likely to be negative. Because negotiations across creditor forums are linked, it’s likely to imply a lack of willingness to repay all creditors, regardless of type, and underestimate potential costs.

My theoretical argument is about how the difficulty of creditor coordination impacts debtors' behavior during debt restructuring negotiations. While the testable implication is about the number of creditors, the theory also has implications for the distribution of creditor preferences as both make inter-creditor bargaining more difficult. Unfortunately, mapping the distribution of preferences is empirically infeasible, which is why I focus on the number. First, variation in creditor preferences is multidimensional (based on institutionalization, exposure, national banking regulations, etc.). Second, exploring any dimension of heterogeneity would require the almost impossible task of identifying the complete list of credit holders in each restructuring. Even identifying the presence, or absence, of creditor "types," like vulture funds, requires assembling a list of creditors. Data on the specific claims of individual banks and bondholders is not currently available. Instead, I probe the implications of creditor type in the [Supplementary Appendix](#).

It's possible to glean initial evidence about the implications of heterogeneity from the Federal Financial Institutions Examination Council in the United States (FFIEC). The FFIEC provides information on US banks' claims to foreigners and separates the claims of large financial institutions (LFIs), who specialize in wholesale and international banking, from other lenders. LFIs are precisely the type of banks that sit on creditor committees and cooperate with each other routinely. Therefore their repayment preferences should be different than other, smaller, banks. In [Supplementary Appendix D](#), I rely on this data from the FFIEC to calculate the percentage of total US bank claims that are held by major financial institutions. Higher claims in the hands of LFIs should help solve the coordination problems without in-group disputes. Indeed, restructuring episodes that avoid creditor-driven delays have a higher concentration of claims with LFIs. Similar data isn't available for other creditor countries, so the evidence is purely anecdotal and suggestive of potential avenues for future work. Below, I focus on the empirical connection between the number of creditors and borrowers' negotiation behavior.

Empirical Approach and Data

Recent work on debt restructurings, such as DiGiuseppe and Shea (2019) and Mamone (2020), suggest that the factors which lead to a financial crisis may also influence the way debt restructuring unfolds. In other words, governments that enter into restructuring look different than governments that don't enter into restructuring. A common approach to address selection has been to model restructuring as a two-stage process, typically a double-hurdle model, where the first stage calculates the probability of entering a

restructuring and the second stage estimates the outcome of interest. Conducting a similar analysis here would require creditor composition data at both stages. However, as noted above, there is no database of sovereign claims at the level of individual creditors. And while the financial press reports some creditor information during crisis periods, it does not report similar information during non-restructuring periods. This means that data for the main explanatory variable is not available during the selection stage. Data cannot be collected for non-crisis observations.

Instead of making a claim for causal identification, I conduct a quantitative analysis using a novel data set of creditor composition alongside existing data on public default declarations. To identify and minimize potential biases in this empirical strategy, I probe the determinants of entering into restructuring in the [Supplementary Appendix](#). Alleviating some concerns, I find that the predictors of default and restructuring behavior are distinct. As described below and in [Supplementary Appendix I](#), the predictors of entering restructuring are largely economic and I pay heightened attention to controlling for these selection stage variables. I emphasize that my focus on both negotiation behavior and creditor composition is novel and while unavailable in non-crisis periods, my dataset is the only systematic effort to date.

Thus, the data covers 25 defaulting countries, both developing and emerging markets, from 1980 to 2009. The sample is defined by Enderlein, Trebesch, and von Daniels (2012), who identify debt crises based on the annual default list published by Standard and Poors.¹⁴ They then exclude countries that had only limited access to private creditor markets, as negotiations with the poorest countries are dominated by official creditors and the IMF. Specifically, they remove all countries under the Highly Indebted Poor Countries Initiative (HIPC) and with populations under one million. They also drop countries whose debt restructuring took place under exceptional circumstances (Iraq's post-war exchange and the Yugoslavian successor states). The data extends on a country-year (panel) basis for years in which a country is involved in active negotiations to restructure debt with commercial creditors. For example, observations for Uruguay are included from 1983 to 1991 and to 2003.

The data include observations from both bank and bond restructurings. On one hand, bank creditors are more institutionalized with longer time horizons and interpersonal relationships. According to Tomz (2007), there should be fewer conflicts of interest among banks, which from the perspective of borrowers means fewer challenges to coordination and less need for

¹⁴In some cases they extend the list to include years when governments openly begin debt restructuring efforts without missing a payment. A list of cases is available in [Supplementary Appendix E](#). For more information on the sample see Enderlein, Trebesch, and von Daniels (2012).

a public declaration. Bondholders, on the other hand, are more disparate, which implies greater coordination difficulties. Yet, as Bi, Chamon, and Zettelmeyer (2016) note, bondholders have created numerous legal guidelines to dampen the likelihood of negotiation failure. In fact, modern bond restructurings are concluded more quickly than bank restructurings (Das, Papaioannou, and Trebesch 2012).

I have two additional reasons for treating bank and bond restructurings analogously in the main analyses. First, the logical extension of the argument that bank creditors are more easily coordinated implies that bank creditors are also better positioned to band together and punish defaulters by denying credit access. Thus, governments should default on their bond debts before their bank debts. But this is not the case (Tomz 2007). Bond debt is actually senior to bank debt (Schlegl, Trebesch, and Wright 2019). Second, bond debt is not synonymous with a lack of institutionalization. [Supplementary Appendix A](#) describes Russia's 2000 bond restructuring where the majority of creditors were banks. Greece's 2012 bond restructuring was also executed by a traditional creditor committee because most Greek bonds were held by large Western banks (Zettelmeyer, Trebesch, and Gulati 2013). As Das, Papaioannou, and Trebesch (2012) note, there is significant variation in the creditor structure of bond negotiations. In several restructurings including the Dominican Republic (2005), Ecuador (2000), Grenada (2005), and Belize (2007), bond debt was fairly concentrated and/or held by institutional investors. I thus include both types of restructurings in the main analysis and show in [Supplementary Appendix K](#) that bond restructurings alone are not a predictor of public declarations.¹⁵ In what follows, I describe the remainder of the data.

Dependent Variable

Public default declarations, as coded by Enderlein, Trebesch, and von Daniels (2012), represent the main dependent variable. The authors develop the first index of government coerciveness and code the negotiation and procedural behaviors of indebted states during negotiations from qualitative sources, primarily the financial press. I rely on their indicator of an "explicit moratorium or default declaration," which takes on a value of 1 if a government official formally proclaims the government's unilateral decision to default in front of a public audience.¹⁶ The variable *Declaration* remains coded as 1 in subsequent years until the action is explicitly revoked or withdrawn by the government. It is important to note, however,

¹⁵In [Supplementary Appendix L](#), I also account for the temporal rise of bond debt and the advent of CACs.

¹⁶A government official is defined as a president, prime minister, minister of finance or economy, or president of the central bank.

that on average, governments default discreetly. In the vast majority of cases, (~80%) governments miss a payment, thereby violating the debt contract, without announcing that information in front of a public audience. Public tactics in debt restructuring negotiations remain rare.

This measure has several distinct advantages over traditional, dichotomous measures of debt restructuring. First, the measure is available on a yearly basis, allowing for fluctuation in government behavior within and across crises. For example, it accounts for the fact that Brazil issued a public moratorium in 1987 but remained adamant in its ability to pay in 1989.¹⁷ Second, the measure is coded as specific to private creditors. It is only concerned with borrowers' behavior toward private international creditors and therefore excludes actions taken toward official, multilateral, or domestic creditors. It is also coded in a general way to apply to both banks and bondholders, allowing for better comparisons across periods of lending. Finally, the novelty of the data is such that previous studies have only attempted to study negotiation behavior as an aggregate measure of government coerciveness (Enderlein, Trebesch, and von Daniels 2012). Previous studies have neglected the different mechanisms that may underly the government's choice of specific strategies given that office-motivated politicians choose from a menu of options and may be incentivized toward different types of coercive behavior, rather than coerciveness as a general concept. A list of cases with public declarations of default is available in [Supplementary Appendix F](#).

Independent Variable

While scholars have attempted to collect creditor data in previous work (Trebesch 2010; Das, Papaioannou, and Trebesch 2012; Lomax 1986), no single, publicly available, source provides systematic information on the makeup of creditor committees. Figures exist for the largest cases only and often assume that characteristics remain constant across default episodes. To create the dataset on creditor composition, I follow the procedure outlined in Enderlein, Trebesch, and von Daniels (2012), where the authors rely on articles from the financial press. Using the database Factiva, and a routinized search algorithm I extracted over 25,000 pages of articles.¹⁸ I used these articles to code several relevant statistics at the restructuring episode level, including the main independent variable, the number of creditors. Each observation was confirmed from two independent news sources and where possible, I verified the coding against reference texts on

¹⁷Results are robust to using the restructuring episode rather than yearly observations.

¹⁸I used the search algorithm "country name w/10 debt" then saved the resulting articles as searchable pdf documents. For an example of coding results see [Supplementary Appendix G](#).

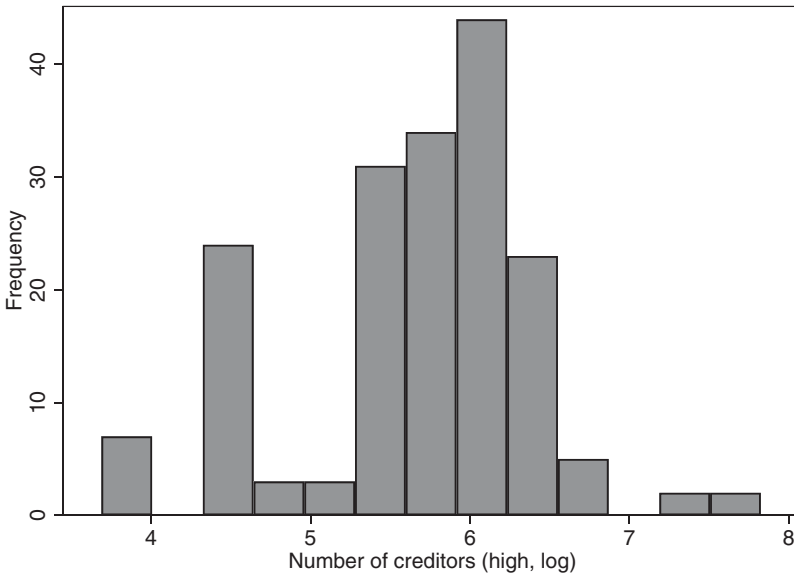


Figure 1. Number of creditors by crisis year (high, log).

sovereign debt restructuring (Trebesch 2010; Das, Papaioannou, and Trebesch 2012; Lomax 1986; Aggarwal 1996; Rieffel 2003; Sturzenegger and Zettelmeyer 2006). I was able to identify the number of creditors for 73 of the covered restructuring deals or 195 out of 219 country-crisis-years.¹⁹

Furthermore, as the number of banks tended to be reported in approximate terms, I record separate values for the highest number of reported creditors and the lowest number of reported creditors in each restructuring episode. I use the upper estimate as the primary measure but demonstrate that the results are robust to using the lower bound. I take the natural log of the *Number of creditors* to minimize the influence of potential outliers. Figure 1 depicts the logged distribution of creditors on a country-crisis-year basis. Using the upper bound of approximated creditors, the data range from 40 (Nigeria 1983) to 700,000 creditors (Argentinian global exchange in 2005). Removing Argentina, the average restructuring involves roughly 350 creditors.

Empirical Specification

The central hypothesis derived from this theory of creditor coordination requires a probabilistic estimation technique. Because the dependent variable, public declaration, can take on the values of 0 or 1 in a given year, I use a probit model with clustered standard errors to estimate the relationship. To account for temporal variation I include a year time trend. The

¹⁹Supplementary Appendix I addresses potential biases in data collection.

results are robust to using decade-fixed effects. As the cross-country effects are theoretically relevant and the sample small, I exclude country-level fixed effects and choose to use regional dummies to proxy for differences in lending across the region.²⁰

Given the limited number of restructuring negotiations in the sample, including too many explanatory variables in a probabilistic regression risk overfitting the model. If there are too many variables for the number of observations, the regression coefficients pick up noise (error) rather than the proposed relationship. This requires that the declaration models be empirically precise, including covariates that preserve the sample size. However, concern for overfitting the model must be balanced against the risk of omitted variable bias. This concern is particularly important as a selection stage can't be modeled directly. The resulting empirical strategy is based on eliminating alternative explanations that might bias the relationship between creditor composition and debtor state behavior. I thus include two sets of control variables, a limited set of variables that are known to correlate with the probability of entering restructuring, and an expanded set of variables to rule out alternative explanations. I prioritize variables that are available across the cross-sectional and temporal sample.²¹

First, I include economic variables that are robust predictors of entering into restructuring. To capture economic conditions I include the log of a country's external *Debt* (% *GDP*), from Abbas et al. (2010). Existing work also suggests that financial and trade openness impact restructuring negotiations as open countries can more easily raise foreign exchange. To account for this, I include a country's *Trade* (exports plus imports) as a share of *GDP*. Data are from the World Development Indicators.

Additionally, I include a dichotomous measure for participation in IMF programs. Data is from Dreher (2006). Formally, I expect that IMF programs make countries more likely to enter restructuring as the IMF's seal of approval is required before private creditors take action. Informally, once negotiations are underway, the IMF also has important partnerships and relationships with private creditors that could alleviate free-rider problems (Gould 2003; Oatley and Yackee 2004). I do however note that the IMF's ability to coordinate biases against inter-creditor dynamics becoming an issue. Finally, I include the number of years a state has been in default (*Years in Default*) to private creditors, using data from the Bank of Canada's Database of Sovereign Default (CRAG).

Second, additional economic and political variables help to rule out alternative explanations. I represent a country's baseline level of development

²⁰I follow Correlates of War classifications and include dummies for Africa, the Americas, and Europe. Due to the rarity of cases in other regions, cases in Asia and the Middle East act as the omitted category.

²¹Supplementary Appendix L controls for additional confounds. Results are robust to the choice of controls.

by including *GDP per capita (log)*. Data is from Graham and Tucker (2019). Domestic political institutions in the debtor state should condition the cost and ability of the government to publicly proclaim default (Enderlein, Trebesch, and von Daniels 2012). To control for this, I introduce a measure of *Checks* on the government from the Database of Political Institutions (DPI), assuming that more domestic veto players should increase constraints on governments who default publicly. I also control for the level of *Democracy* using the Polity IV scale from -10 to 10 .

Finally, I account for the characteristics of the restructuring negotiations themselves. I include a dummy variable, *Previous Restructuring*, to proxy for the conclusion of a previous restructuring in the last 5 years. To proxy for differences in banking regulations across creditor countries I include a measure of BAC chairmanship, as coded from the financial press. As American creditors chair the most committees, I dichotomize this information into a dummy variable for restructurings with a *US Chair*. The pattern of BAC chairmanship by nationality is presented in [Supplementary Appendix H](#).

Results

[Table 1](#) presents the main results. The theory suggests that governments will be more likely to default publicly when a large number of creditors impedes coordination. Model 1 tests the bivariate relationship while Model 2 controls for predictors of entering restructuring. Model 3 is the main specification and includes the full set of controls.

The results match expectations. The positive and significant coefficient on *Number of creditors (high, log)* indicates that indebted governments are more likely to issue public declarations as the number of creditors involved in a restructuring increases. Based on the estimation of Model 3, moving from the mean number of creditors, excluding Argentina (approximately Chile 1985–1986, 350 creditors), to one standard deviation above the mean (approximately Brazil 1985–1986, 750 creditors), increases the probability of issuing a public declaration by 14%, which is sizable given the low baseline probability of publicity. For ease of interpretation, the predicted probability of a public declaration is graphed in [Figure 2](#) at varying levels of creditor size.²²

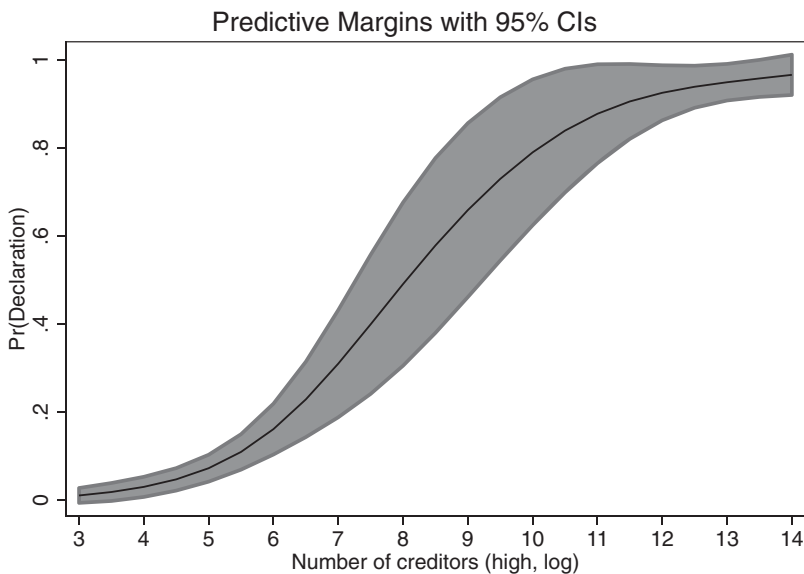
An additional implication of my argument is that bargaining tactics matter because they influence negotiation outcomes and public declarations of

²²Based on Model 3. The predicted probability of a public declaration is generated using the observed values approach (Hanmer and Kalkan 2013). All marginal effects and marginal effects plots are created using margins and margins plot, Stata v.16.

Table 1. Main results.

	(1)	(2)	(3)	(4)
DV: public declarations	Bivariate	Controls	Main	Crisis-level
Number of creditors (high, log)	0.273** (0.133)	0.444** (0.214)	0.898*** (0.210)	1.187** (0.501)
Debt (% GDP, log)		-0.147 (0.284)	-0.140 (0.442)	-2.168* (1.267)
Trade (% GDP)		-0.0354 (0.0549)	-0.0622 (0.0869)	-0.0441 (0.123)
IMF program		-0.603* (0.312)	-0.674*** (0.248)	-0.363 (1.499)
Years in default		0.0982* (0.0502)	0.109** (0.0477)	0.218* (0.124)
Previous restructuring			-0.406 (0.546)	1.636 (1.010)
GDP per capita (log)			-0.227 (0.168)	-0.242 (0.322)
Veto players			0.679*** (0.178)	0.315 (0.386)
Democracy			-0.0554 (0.0470)	0.0785 (0.0875)
US chair			-0.0108 (0.546)	-1.029 (0.985)
Year		0.0349 (0.0409)	-0.0319 (0.0532)	0.0673 (0.0965)
Region FE	N	Y	Y	Y
Observations	195	180	174	63
R ²	0.09	0.29	0.44	0.55
DV: creditor haircuts				(4)
Public declaration (predicted)				25.644*** (7.444)
Debt restructured (log)				-0.761 (2.217)
Observations				63
R ²				0.09

Standard errors in parentheses.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.**Figure 2.** Probability of a public declaration.

debt distress are associated with higher creditor haircuts (Ferry 2022). To ensure that my finding on selection into public declarations accords with previous findings, Model 4 estimates a final selection model using the predicted probability of issuing a public declaration as the main regressor for creditor *Haircuts*, which is calculated as the following in net present value terms. The discount factor used to calculate present value is denoted r_{it}

and relies on exit yields imputed from market and rating data. Data is from Cruces and Trebesch (2013).

$$\text{Haircut}_{it} = 1 - \frac{\text{Present value of new debt } (r_{it})}{\text{Present value of old debt } (r_{it})}$$

This multi-stage modeling accounts for the selection of public declarations by using the information on when public declarations are expected to be effective at coordinating creditors. Equally important, modeling the process with a series of structural equations better approximates the theoretical explanation, where the decision to use public declaration tactics is linked with the likelihood of receiving a high haircut.

However, using predicted probabilities introduces additional uncertainty to the model's estimation. Heightened uncertainty weakens the predictive power of estimations, but this biases against finding a significant effect in the second stage. Also, because public declarations are observed yearly throughout a crisis episode and haircuts are only observed once at the end of an episode, it requires using the predicted probabilities from an aggregated crisis-level analysis. The first stage thus models the probability of issuing a public declaration during *any* year of negotiations. I specify the second, creditor haircut, stage of the model using an ordinary least squares regression with bootstrapped standard errors. The variables from the first stage cannot be included in the second stage of estimation but are accounted for indirectly. I include an additional measure of *Debt Restructured (log)* in the second stage.

The results confirm that a higher number of creditors increases the likelihood of issuing a public declaration during any year of a restructuring negotiation (top panel Model 4), and accounting for this selection, public declarations increase creditor haircuts (bottom panel Model 4). This underlies the importance of behavioral choices in debt restructuring negotiations and reaffirms the importance of studying both how negotiation strategies are selected and how they influence debt restructuring outcomes.

Robustness

To ensure that the results are not dependent on model specification, I highlight several further robustness tests. I describe them briefly here, and the results are reported in the [Supplementary Appendix](#). [Supplementary Appendix I](#) addresses modeling concerns. The lack of creditor data in a non-default sample is a challenge to causal identification. While previous works on debt restructuring model selection directly (DiGiuseppe and Shea 2019; Mamone 2020), the same strategy isn't possible here. Instead, [Supplementary Appendix I.1](#) probes the determinants of entering

restructuring. Many predictors of default are insignificant predictors of negotiation behavior. Controlling for an expanded set of default predictors also does not change the main results.

The lack of creditor data in a non-default sample is also a challenge to ruling out endogeneity because creditor composition is not randomly assigned. It is dependent on both creditor supply and borrower demand (Bunte 2019; Ballard-Rosa, Mosley, and Wellhausen 2021). Governments have preferences over who they borrow from and not every country can access international credit markets. If the same factors that affect creditor composition—specifically the number of creditors—also affect the likelihood of default or default behavior, the results will be biased. While I emphasize that the data set compromises restructurings of long-term debt with maturities of 5–30 years, thus the economic and political contexts change between accrual and restructuring, [Supplementary Appendix I.2](#) addresses this more specifically.

I employ two, albeit indirect, strategies. First, while it isn't possible to model creditor composition in a non-default sample, identifying correlates of creditor composition in the default sample can still speak to potential biases. In the default sample, the number of creditors is driven partly by global liquidity and partly by the size of the borrower's economy.²³ Second, I leverage several cases that restructured their private debt multiple times within the study's timeframe. Descriptively, this allows me to depict if the number of creditors correlates while prior defaults. Looking across illustrative cases, the number of creditors doesn't appear to be endogenous to their prior default or restructuring activity.

Next, I turn to operationalization. To account for outliers, [Supplementary Appendix J](#) reanalyzes the main model excluding notable cases. In [Supplementary Appendix K](#), results are also robust to using the unlogged or lower estimate (excluding Argentina) of creditors. Additionally, while I hypothesize that governments turn to public signaling when dispersion dissuades coordination, the mechanism more precisely implies that is because recalcitrant creditors with different preferences may not have a way to exercise their voice other than holding out or litigating. To gauge whether this is the case, I substitute the number of creditors on the *BAC* and the percentage of creditors that are represented on the creditor committee (*% on Committee*).²⁴ If this is about divergent creditors being left out of institutional forums where negotiations occur, I expect the relationships to be negative. The findings meet expectations, suggesting that it is the number of creditors who do *not* have a seat at the bargaining

²³Controlling for these factors, the results are robust.

²⁴1 divide the size of the creditor committee by the total number of banks (high estimation).

table that matters most. They also suggest a potential solution to coordination problems, perhaps at the expense of efficiency. Finally, I substitute the number of creditors for a *Bond Exchange* dummy. Insignificant findings suggest that bond restructurings do not automatically inspire creditor coordination concerns in indebted states.

[Supplementary Appendix K](#) also offers additional operationalizations of the dependent variable. Model 6 relies on Enderlein, Trebesch, and von Daniels (2012)'s indicator of default *Threats* (0,1) and Model 7 relies on their full *Coerciveness* Index (on a 0–9 scale). Higher numbers of creditors are positively associated with these alternative measures of debtor state behavior.

Lastly, [Supplementary Appendix L](#) turns to specification. Results are robust to including additional control variables that model the government's decision-making process. The findings do not change when controlling for political institutions, socioeconomic variables, or financing pressure. Results are also robust to using robust standard errors, decade-fixed effects, in lieu of a time trend, and the elimination of fixed effects altogether. As collective action clauses (CACs) represent a legal innovation that rose to prominence in the early 2000s and allowed a supermajority of bondholders to force a restructuring on all credit holders—regardless of agreement—I also introduce a 2000s dummy, in combination with a year time trend.²⁵ Results are also robust in analyzing the onset of public declarations (Hegre and Sambanis 2006; McGrath 2015).

Discussion and Conclusions

Debt restructuring is a complex process involving both heterogeneous actors and strategies. Indebted states don't just decide when to default, but *how* to default. This paper is among the first to investigate the variation in indebted state strategies in debt restructuring negotiations. It moves past the “blackbox” of understanding restructuring as a dichotomous outcome and shifts scholarly attention to the importance of negotiation procedures. More importantly, it is the first to my knowledge to stake the claim that variation in creditor preferences determines how indebted states act in negotiations. Indebted governments turn to costly and coercive behaviors, like publicly proclaiming default, when they need to coordinate a dispersed group of creditors around large concessions. Using novel data on creditor committee characteristics, the main finding is that because institutional norms constrain heterogeneous creditors to a single outcome, governments are more likely to make public declarations of default as the number of creditors increases.

²⁵To date, very few CACs have been activated. While CACs have gained in popularity, they remain more of a latent concept designed to protect bondholders (Weidemaier and Gulati 2013).

This suggests important new avenues for future research. First, it highlights the importance of negotiating tactics as an integral mechanism in the achievement of restructuring outcomes. While leftist and democratic governments achieve higher haircuts vis-a-vis their private creditors, institutional arguments rest on the assumption of credible information transmission (DiGiuseppe and Shea 2019; Mamone 2020); Yet, we don't know how this information is provided during negotiations. How governments get to their preferred outcome matters, especially where governments are conceptualized as strategic actors with a host of tools at their disposal.

Second, my findings demonstrate the need for a renewed focus on the creditors themselves. How do creditors interact with each other and how are interactions shaped by institutional rules? When and under what circumstances does heterogeneity undermine the achievement of mutually beneficial outcomes? How does this impact crisis duration or debt sustainability? If creditor composition matters for how states bargain with their private creditors, it's likely that compositional characteristics matter in other creditor forums—and in establishing the comparability of treatment across forums. The same dynamics raised in this paper are likely to be at play in official bilateral lending (i.e. the rise of China)²⁶ and in multilateral lending (i.e. the rise of new multilateral development banks like the Asian Infrastructure Investment Bank). The links between these different creditor forums will also be important because official creditors possess diplomatic tools that leverage both indebted states and other creditors (Gould 2003). For example, the findings of this paper predict that the proliferation of commercial creditors will matter less if the IMF or other actors can act as a viable third-party enforcer against commercial creditor holdouts in future restructurings. If the collective action problem can be solved through supranational organization, as repeated UN calls for a new global debt restructuring infrastructure suggest, indebted states will have less need for costly signaling. Subsequent research should be attuned to how creditors matter across forums, between forums, and for additional outcomes.

The implications of this work for debates about reforming the global architecture of sovereign debt restructuring are also substantial. In the case of debt restructuring, it is the norm of consensus and burden sharing that ties indebted states to multilateral negotiations. This opens a larger debate over the appropriate degree of formalization in the debt restructuring process. On the one hand, the UN has pushed for greater burden-sharing agreements between creditors of all types. On the other hand, the use of collective action clauses to curtail hold-out creditors has become more popular. This work highlights that these institutional innovations will have

²⁶See Acker, Brautigam, and Huang (2020).

different and conflicting procedural implications that have not yet been considered by policymakers. While burden-sharing arrangements across creditor types might exacerbate the creditor heterogeneity problem and force indebted governments toward costly signaling, collective action clauses allow an increased number of bondholders to object to a restructuring without overturning the agreement, thereby decreasing the need for costly signaling. *How* multilateralism is executed will affect the political risks governments are willing to take to secure higher concessions.

More broadly, the results suggest that who states bargain against matters for how they bargain. While this article focuses on negotiations between an indebted state and a group of commercial creditors, inter-group dynamics with diverging preferences are ubiquitous in international cooperation. This mechanism is relevant to bargaining in international forums as diverse as the European Union, The International Monetary Fund, and NATO where a majority of actors must be coordinated around a common solution. As multilateral forums of all types increase in size, the accommodating increase in heterogeneity may create a fundamental change in bargaining behavior. By changing governments' preferences for different bargaining tactics, inclusivity may also have negative implications for political stability.

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