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MULTI-STAKEHOLDER CONSULTATION ON "SOVEREIGN DEBT FOR SUSTAINED DEVELOPMENT: ISSUES FOR COUNTRIES THAT ACCESS FINANCIAL MARKETS"

United Nations, New York, 7-8 March 2005

Secretariat Report of the Consultation[1]

The first of three multi-stakeholder consultations on "Sovereign Debt for Sustained Development" was held on 7-8 March 2005 at United Nations Headquarters in New York. It began with a set of panel presentations held in an open and informal meeting of the Economic and Financial (Second) Committee of the General Assembly on the morning of 7 March, under the chairmanship of the Chair of the Second Committee, Marco Balarezo (Peru).[2] It then moved to a set of two simultaneous roundtable discussions in the afternoon, followed by a concluding roundtable discussion the following morning, moderated by the Under-Secretary-General for Economic and Social Affairs, José Antonio Ocampo (see agenda).

There were, in all, 52 participants in the consultation, not counting the larger audience for the panel presentations. Of the 52 participants, 20 were from governments, almost all of which were from capitals. They came from ministries of finance, foreign affairs and investment, as well as from central banks. They were joined by 9 participants from international institutions (excluding the staff of the Financing for Development Office of the Department of Economic and Social Affairs who organized the meeting) and 9 independent specialists, mainly from academic institutions, as well as 7 executives from the international private financial and legal community and 7 civil society advocates (see list of participants).

The consultation was not meant to reach agreed conclusions and did not seek to do so. One may say, however, that there was a widely shared view that much work remained to adequately strengthen the capacity in developing and transition economies for safe use of external sovereign debt, and to internationally support the effective and fair resolution of debt crises when they unfortunately occur. One point raised early in the discussion seemed to have continuing resonance, namely that debt crises were symptoms of a problem rather than the problem itself, which was inadequate development. And

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[1] Department of Economic and Social Affairs, in a team led by Barry Herman and Ana Cortez, with other colleagues from the Financing for Development and Development Policy and Planning Offices (Hazem Fahmy, Sergei Gorbunov, Dominika Halka, Cornelia Kaldewei, Roland Molerus, Daniel Platz and Julien Serre). Their assistance, as well as comments from other colleagues, is very much appreciated.

[2] Brief biographies of the moderators and speakers are annexed to this report.

while greater political will may be needed by debtor governments to avoid approaching the precipice, they are forced to operate in a volatile world and often with seriously limited administrative capacity.

On some issues, an apparent consensus on the surface hid differences just below it. In particular, while greater transparency was lauded as a general principle, there was much information that governments, international institutions and private investors did not wish to share. Indeed, the policy of the International Monetary Fund (IMF) on transparency consists of different publication regimes ("voluntary", "presumed", etc), which reflect the difficulty in finding a compromise that suitably addresses the diverse concerns of member governments, and that the Articles of Agreement limit the Fund's ability to publish a document related to a member country without the member's explicit consent. One reason for their reticence, as voiced by one speaker, appears to be the fear that release of information when confidence is declining would accelerate the decline. Similarly, IMF's Contingent Credit Line was never used out of concern that signing up for it would be taken as a signal of pending distress, even though the credit line was intended for countries with strong macroeconomic policies. It was argued, in contrast, that if investors had more information, they would be more confident. Not knowing, they assume the worst. But investors, on their side, could also bet on a crisis occurring and profit when it happens, which is not information they would readily share with a debtor government (although large speculative positions usually leave a trail in the market). Thus, the proper content of transparency (with its implications for accountability) remained a topic for discussion.

In addition, a number of proposals were brought to the table on how to operationalize debt "sustainability," how to improve information sharing and communication, and how to resolve debt crises. There was interest in some quarters in further considering a number of these ideas, and proposals were made to this effect. In sum, the consultation appears to have achieved its main purpose of helping to air a number of considerations on sovereign debt that are of importance to countries that seek to access international financial markets. It is hoped that the discussion clarified views and helped participants find some common ground.

Panel presentations in the Economic and Financial (Second) Committee of the General Assembly

Marco Balarezo, Chair of the Second Committee and Deputy Permanent Representative of Peru to the United Nations, welcomed participants in the consultation to the United Nations and explained the exploratory type of discussion the General Assembly was seeking to foster when it mandated the multi-stakeholder dialogues. He also drew attention to what the Member States of the United Nations had said in the Monterrey Consensus concerning sovereign debt problems (see statement).

Jomo K. S., Assistant Secretary-General for Economic Development, Department of Economic and Social Affairs, then offered a developmental context for the discussion upon which the participants were about to embark. In particular, he linked concerns about how to make "debt sustainability" into an operational concept coherent with development imperatives and the need to reach the Millennium Development Goals, and he outlined several policy challenges arising from the dominance of private finance in international financial flows to (and from) developing and transition economies (see statement).

Panel 1: "Debtor-creditor relations in good and bad times"

Axel Bertuch-Samuels, Deputy Director, Capital Markets Department, IMF, moderated the first panel presentations. In setting the stage for the discussion, he briefly outlined major developments in defining terms of engagement and modalities of conduct between creditors and debtors during good and bad times, such as "collective action clauses" in bond contracts and the Principles for Stable Capital Flows and Fair Restructuring in Emerging Market Economies (elements of a "code of conduct"), which were recently welcomed by the Group of 20.

Pedro Fachada, Manager, Investor Relations Group, Central Bank of Brazil, described the Brazilian experience in introducing an Investor Relations Programme, which facilitates two-way communication between the Government of Brazil and its large number of private creditors (principally bondholders). It appears that the programme has boosted investor confidence in Brazil, which had been shaken by domestic and international developments only a few years before. He emphasized, however, that while communication was important, it does not substitute for strong macroeconomic policy (see statement).

Giuseppina Zarra, Head of the Office on International Debt, Italian Ministry of Foreign Affairs, described the operations of the Paris Club of government creditors, in which she participates on behalf of Italy. She highlighted a number of concerns about the Club in today's international financial environment, including that debt relief by private creditors be made "comparable" with that accorded by the Paris Club. Although debtor governments are required to seek such comparable treatment by the terms of their Paris Club agreements, they are not usually in a position to bring it about, especially when official credits make up a minority of the debt. She saw a need for Paris Club creditors to reach out and engage better with the private creditor community (see statement).

Mark J. Siegel, Managing Director, Babson Capital Management, remarked that the case of Brazil, as presented by Mr. Fachada, while very successful, was not typical of borrower behaviour in the region. Regarding the Paris Club, he said that in addition to order, stability and speed in resolving debt crises, fairness should also count, not just expressions of power. Debt sustainability, he continued, eludes satisfactory measurement because it results in equal measure from skilful economic management and credibility. He attributed volatility in private capital flows to developing countries to swings in market sentiment between excessive optimism and pessimism, a result of low levels of

trust between official and private sectors, which remain ill informed about each other. From his perspective, the multilateral institutions and borrowing governments still keep too many secrets. This reflected the political risk governments perceive from greater transparency about policy and outcomes for which they would be held accountable. Nevertheless, he believed that commitment to communicate in good times and bad is the best remedy.

Oscar Ugarteche, who is a professor at the Pontifical Catholic University of Peru and collaborates on the debt campaign of Estrategia Andina-CentroAmericana-Amazónica, followed up on the preceding statement by remarking nothing is impossible politically. Indeed, he called for major international reform. He criticized workouts from debt crises as inadequate and also unbalanced as private creditors have to carry most of the burden of debt restructuring owing to the preferred status of multilateral creditors. To remedy that, he advocated creation of a UN-based International Board of Arbitration for sovereign debt defaults. All creditors would have the same status and follow common rules of the game. More information would have to be provided by creditors and the government to the public as well as each other (civil society had as little information as the private creditors, he said). Social expenditure and investment should be protected. He did not fear that introduction of an arbitration process might raise the cost of international sovereign borrowing. In his view, it has been inappropriately cheap. Governments should rely more on their own tax revenues in his view.

Panel 2: "Debt sustainability: what it implies for policy makers, private sector and civil society"

Vikram Nehru, Director, Economic Policy and Debt Department, World Bank, moderated this panel. He moved directly to the presentations, taking the opportunity between presentations to offer comments, as on the need to focus on the overall debt of a sovereign and not just external debt. Indeed, there has been a substitution of domestic for foreign debt in a number of countries, which is not necessarily less risky, as domestic debt is usually costlier and carries greater risk of interest rate increases.

Beethoven Herrera, Economic Adviser to the Latin American regional workers' organization of the International Confederation of Free Trade Unions, noted that debt in Latin America increased 30 times compared to its levels in the 1970s. Given this fact and the poor state of development in the region, he asked how the borrowed funds had been spent and considered the possibility that much of this money had been appropriated by illegitimate political regimes. He saw the need to distinguish between loans made to legitimate and illegitimate regimes (according to him the concept of "odious" debt did not do the job). It was also necessary to distinguish between loans that were properly invested and those that were not. He suggested linking the flow of debt-servicing payments to exports and he supported the idea of creating an international independent arbitration body, which among various questions could address that of loan legitimacy (see statement).

Thomas Engle, Deputy Director, Office of Monetary Affairs, US Department of State, outlined US policy toward external debt of developing countries. Focusing first on crisis prevention and while acknowledging that "one size does not fit all" in policy design, he advocated: broadening the tax base and improving revenue collection; restraining fiscal expenditure, especially during boom times; building credibility of fiscal policy and transparency; being open to international trade and investment, in particular to speed adjustment and generation of additional tax revenue following currency devaluation; and addressing property rights, state enterprise reform and contingent liabilities. He applauded the spread of collective action clauses in bond contracts, the work in progress on a code of conduct for debtors and creditors, and efforts to develop policy-monitoring programmes at IMF as a market-signalling device for countries that do not need to borrow from IMF. On resolution of debt crises, he underlined the need to balance the interests of debtor and creditor, and to maximize the chances to return to sustainability and financial market access. He saw the Evian Approach in the Paris Club as an important initiative for ending the ineffective practice of serial rescheduling of the debt of insolvent countries (see statement).

Emmanuel Moulin, Secretary-General of the Paris Club and Chief, International Debt Office, Ministry of Finance of France, briefed the audience on the Evian Approach, which was adopted by the Club in 2003 for countries not participating in the initiative for heavily indebted poor countries (HIPCs). The key innovation is that Club members explicitly consider whether a country's debt situation is "unsustainable," drawing on a debt sustainability analysis (DSA) prepared by IMF. The Club thus seeks to distinguish insolvency from illiquidity, which requires different treatment. Debt treatments would be tailored to the situation in the country and delivered in stages. Also, more coordination with private creditors is intended in order to facilitate the debtor receiving comparable treatment from them. Mr. Moulin illustrated the Approach for the case of Iraq, where Paris Club creditors have held 32 per cent of its external debt of $114 billion. The DSA clearly demonstrated that Iraq's debt was unsustainable, and following assessments of various possible scenarios, the Club agreed to cut its claims in steps, summing to an 80 per cent cut by 2015, when Iraq's debt indicators were to be in line with commonly used sustainability thresholds. Receipt of the full relief package is contingent on meeting strong policy performance conditions (see presentation).

Iwan Azis, Professor of Economics at the University of Indonesia and Cornell University, expressed scepticism about operationalizing the concept of debt sustainability. Conventional debt indicators have been poor predictors of debt crises. Countries with strong indicators have fallen into crisis (as in East Asia), while countries with weak indicators have not. He cautioned as well about deriving policy recommendations from cross-country studies. Debt crises are explainable but not predictable. Specificity of countries needs to be taken into account in debt vulnerability assessments, as well as the relations that govern each country's financial flows with the rest of the world. As a case in point, he cited the generous pledges of assistance to Indonesia after the tsunami and the slow flow of disbursements. Lastly, the speaker underlined the need to address domestic public debt in parallel with foreign debt. In Asia, domestic government debt had grown relative to annual government revenues and gross

debt servicing was absorbing a large share of government expenditures. Another alarming issue is that domestic banks hold much of this debt. It provides them with relatively risk-free income and thus undermines their essential economic role of extending credit to private borrowers.

Mr. Khalid Sheikh, Senior Vice President and Head of Emerging Markets Analysis and Multilateral Organization, ABN-AMRO, Amsterdam, advocated incorporating the views of private banks in efforts to promote sovereign debt sustainability. He noted that the banking sector often carries a substantial financial burden in sovereign debt crises and therefore should be recognized as one of the stakeholders. It can contribute when trying to design ways of avoiding such crises or lessening their consequences. According to the speaker, a new set of more dynamic debt sustainability indicators should be developed, which would take into account not only government but also banking and corporate sectors. It should try to account for interactions between those sectors and identify trigger mechanisms specific to each of them.

Roundtable discussions

Although some time was allotted in the Second Committee for discussion from the floor of the panel presentations, most of the points were dealt with more intensively in the roundtables and may be discussed better in that context. Participants in both roundtables were invited to consider the morning's presentations and to bring their own ideas and concerns to the table.

Roundtable 1

Participants from all stakeholder groups in this roundtable appeared to see the merits of the Monterrey holistic approach to debt, recognizing that appropriate policies in the areas of building trade capacity, attracting foreign investment and providing a sustained growth environment would contribute to debt sustainability. In addition participants noted that it was necessary to ensure sustained support for measures to eliminate poverty and preserve the environment as part of debt sustainability in the long run.

One context for the discussion was that governments have to make choices and the choices are embodied in budgets. In some cases, debtor countries have to choose between maintaining social services and meeting debt-servicing obligations. New borrowing implies future debt-servicing, or as one participant put it, government borrowing is simply deferred taxation. It was therefore considered paramount for sustainable growth and development that there was strong country ownership of development policies, including a strong voice of civil society, when undertaking new borrowing and in debt-restructuring negotiations when they become necessary.

The vital importance of government transparency was widely recognized, not only in the relations between debtor countries and their creditors, but also between the government and its people, whose right (and obligation) is to monitor how money from debt and taxes is spent. It was stressed that a debtor government in a workout from crisis could increase its present and future credibility by providing reliable information on how debt relief is used to promote debt sustainability and social goals. However, concern was voiced over how much transparency was optimal, as disclosure of sensitive information might by itself induce creditors to "test" the country's sustainability by a speculative attack, bringing about a crisis that might not have occurred on the basis of economic fundamentals.

Different participants pointed out the increasing role of domestic debt and the importance of deepening domestic financial markets in order to reduce financial sector vulnerabilities. Private sector participants stressed the positive role that domestic branches of foreign banks could play in domestic financial market development.

There seemed a general agreement on the difficulty in designing an unambiguous analytical concept or measure of debt sustainability applicable to all countries. It was indispensable to differentiate between countries and regions in the discussion of the appropriate management of external debt (Africa, Latin America, and Asia are in very different situations). In addition to difficulties in quantifying reliable indicators, some commonly used indicators can also be misleading. Examples given included the debt service ratio, which only measures actual debt service payments, but ignores arrears. Also, it was agreed that qualitative judgments of specific country conditions were always necessary. Citing the recent experience in assessing debt sustainability in Argentina both before and after the recent default, it was proposed that consideration be given to measuring the ability to sustain debt relative to the potential growth rate of the economy. For debt restructurings in general, this suggests a need for flexibility within a system of norms.

A recurring theme in the discussion was how to handle debt crises. Several participants argued that an arbitration framework would provide a superior way to work out from unsustainable debt. While there were doubts about the political viability and legal standing of such a mechanism, voiced mainly by private sector participants, many of the discussants favoured the idea of exploring some sort of an international agreement on arbitration. There were, however, differing views about practical implementation. Most participants argued that IMF would not be credible as a neutral arbitrator, given its conflicting interest as a preferred creditor. At the same time, participants from the private sector were not sure that the UN would be the appropriate forum to develop such a framework since the private sector is not represented there.

It was recognized that different stakeholders have fundamentally different objectives in debt negotiations. Private enterprise, including financial institutions, requires profits for continued operation. Private creditors are rewarded for taking risks by the possibility to make profits, but risk also means there will be losses from time to time. Governments operate under different principles: they are responsible for ensuring their

citizens' welfare and economic development, while international financial institutions have a mandate to promote stability and development. Although there were calls for "comparable" treatment of private and official loans in a debt workout, it was widely accepted that "comparable" would not be the same as equal, given their different roles.

Private sector participants pointed out that, in any debt restructuring, consideration should be given to future financial inflows. While this required sufficient debt relief to allow for future sustainability, without which a country would not have access to the international capital market, it also meant relief could be excessive if it deterred private creditors from future lending.

It was stressed that lending to sovereigns was a political process, and thus debt renegotiations per se were also political processes. In this context, there was a need to recall the importance that the Monterrey Consensus gave to developing countries' responsibility for and ownership of their own development. It was argued this implied giving them greater influence over the outcome their debt renegotiations, as well as commensurate responsibility in determining the policies of the multilateral financial institutions that oversee the international strategy for debt workouts.

Roundtable 2

Participants in the roundtable rapidly fell into an animated discussion covering a wide range of issues, reflecting the complexity of some of them and the diversity of perspectives and interests of the stakeholders. The main themes discussed were debt sustainability, debtor/creditor relations and debt workouts.

Participants recognized the difficulty in agreeing to a precise definition or appropriate indicators for the concept of debt sustainability. For example, one participant observed that although total foreign debt of developing and transition economies has declined globally, there has been a big increase in domestic debt and so one should be less sanguine than the reduction in external debt alone might suggest. Other participants stressed the need to have a more comprehensive approach in debt sustainability analysis (DSA) and include development objectives, particularly in view of the need to achieve the internationally agreed development goals. A participant suggested that, the balance sheets of creditors and debtors needed to be taken into account. Also, while debt dynamics in DSAs showing rising debt-service ratios would be considered unsustainable, debt crisis could even arise for countries with stable debt-service ratios. Some participants suggested that the DSA methodology developed by the Bretton Woods institutions could be adjusted to take account of these factors. Others argued that the United Nations could contribute to this process, enhancing the comprehensiveness of the analysis by bringing to bear its broader perspective.

It was clear that for middle income countries, international financial markets, in particular, bond markets, play an important role in shaping perceptions of the sustainability of a country's debt and the risks the country faces. The more widespread ownership of emerging market bonds in recent years compared to the limited number of

banks that dominated international lending in the 1970s and 1980s has changed how the market makes its assessment. However, an additional consideration was raised concerning small versus large investors. Financial intermediaries retailed Argentine bonds mainly to inexperienced European households when professional investors judged them as too risky and were trying to sell them. One private sector view was that this practice should be prevented.

Dealing with exogenous shocks like natural disasters, especially in small island developing states, was extremely difficult for a government attempting to manage debt in a sustainable manner, highlighting the need for a better international official safety net. It was also suggested that the use of "catastrophe bonds" (which pay off if some named undesired event occurs) or other sorts of contingency-triggered bonds should be explored. Good debt management per se was not sufficient to maintain sustainability, as exogenous shocks could undermine the situation.

Participants from developing countries, academics and civil society called for a renewed framework for debtor/creditor relations. Private sector participants cited the need for greater government information and transparency, which it saw as a global public good. Some participants pointed to the asymmetry in focusing on provision of information by the borrower when there are two sides to investor-creditor relations. Examples of recent initiatives to facilitate better debtor/creditor communication were cited (e.g., the Global Information Clearinghouse in the private sector and the practice encouraged by IMF for governments to release significant amounts of information from Article IV consultations). However, some participants doubted the usefulness of such exercises, as available information was not always used or taken into account by market participants in earlier crises. Also, having the "political will" to make economic policy adjustments when the need arises, which is necessary for an effective debt management strategy, is not easily communicated through the provision of information.

With respect to resolution of debt crises, many participants discussed the Paris Club. Some of them voiced concern about the complexity of current debt crisis workouts under Paris Club procedures. These are linked to IMF processes in that a Fund programme is a prerequisite for a Paris Club arrangement and embodies an assessment of the need for relief. In this context, one participant called for distinguishing more clearly between a liquidity problem and a solvency problem. In this view, it might be cost-effective for the country to have a liquidity problem dealt with expeditiously at the Fund and the Paris Club could deal with solvency problems. In the case of the former, the indebted country would not need to resort to Paris Club rescheduling, as often happens, if instead it could draw on sufficient credit on appropriate terms. Moreover, after a debtor is accorded a Paris Club agreement, it still must follow with bilateral implementing agreements and sometimes the interest rates and penalty costs imposed at that point can be prohibitive. Transparency in bilateral negotiations was necessary. Political considerations that enter into Paris Club debt resolution were also mentioned, which helps make the process opaque and unpredictable. On the other hand, as middle-income countries shift increasingly to borrowing from private instead of official sources, the role of the Paris Club in solving sovereign debt problems was declining.

How the Bretton Woods institutions monitor debt-workout negotiations between a sovereign debtor and its private and public creditors and their prospective impact on the debtor country's adjustment programme was discussed with the example of Argentina in mind. Discussions followed on the cost of paying back debt versus defaulting. Some participants pointed out the difference in post-default opportunities between small countries (not likely to be able to work out a successful debt restructuring on their own) versus countries with large economies and huge debt burdens (more likely).

The issue of debt resolution through collective action clauses (CACs) was also raised here. Presently there is a growing trend to include CACs in new bond issues, but the full benefit in debt restructuring can only be achieved when they are included in the entire stock of securities. This will take perhaps ten to fifteen years. What, it was asked, are the mechanisms in place for debt restructuring in the transition period?

Looking toward potential agreed international reform, some government and civil society participants called for a clear set of rules for workouts from sovereign default. Some participants said that current debtor/creditor relations excessively favour creditors. Besides answering complaints about government secrecy, new rules could address concerns expressed about lack of creditor transparency, as on their willingness to take losses and forgive debt. New rules could also address the concerns of some participants about inadequate involvement of civil society during debt rescheduling (and also when contracting debt). Under such rules, it was argued that the voices of both creditors and debtors should be considered. One proposed mechanism was an independent, fair and transparent arbitration process, which would preferably be organized under the auspices of the UN.

A significant part of the roundtable discussion focused on the issue of "odious debt," although participants did not reach a consensus on how to address this issue. Some believed a workable definition was possible, while others argued the notion was too sensitive to be clearly defined. In this regard, one participant suggested the creation of a working group that would attempt to come up with a clear definition of the term, with a view to arriving at internationally agreed norms to apply to new borrowing so that creditors lending in such circumstances would understand from the start that the status of their loans was internationally compromised.

Concluding discussion: focus on the future

The consultation reconvened the morning following the two roundtables to consider the degree to which the discussion seemed to be leading towards interesting conclusions and proposals. Each of the following points received a measure of consideration and thus warranted being reported here.

One recommendation was that development policies and prospects should form the basis for debt sustainability calculations rather then “ability to pay” in the short term. Several participants argued that in fact the targets that official creditors use for post-relief debt sustainability indicators often reflected more the resources that the creditors were willing to put forward for additional relief than the “ability to pay” of the recipient countries. Furthermore, there were important interrelations among foreign and domestic debt, aid, trade, foreign and domestic investment, and economic growth. Participants could thus agree on the necessity for a holistic approach to debt, as called for in the Monterrey Consensus. The general view was that debt sustainability remained an elusive analytical concept and that further work by the international community was needed on this subject.

Several participants stressed that the vulnerability arising from a given level of debt of a developing country could be reduced if there were better mechanisms to shift some of the interest and exchange rate risk to the creditors. It was thus recommended that new instruments for borrowing, such as GDP-indexed bonds, should be explored, as well as borrowing in local currency, which is part and parcel of deepening the domestic financial market.

Participants called in unison for enhanced transparency on the side of both debtors and creditors. The experiences of a few Latin American governments in information sharing with investors, such as those of Brazil, Colombia and Mexico, were deemed successful. It was observed that small countries might find it hard to take advantage of economies of scale in information provision and communication with the global investor community and that regional cooperation might provide a solution to the scale problem, as among groups of small island developing states. Better disclosure of investor positions in securities and derivatives markets was seen as a critical step as regards transparency of the international financial sector. A proposal was made to establish a multi-stakeholder working group that would seek to agree on what types of information about sovereign debtors and private creditors were most pertinent to debt sustainability and should be included in standard information templates.

The value of additional information notwithstanding, some participants cautioned that market investors have in the past not made sufficient use of already-accessible information or simply ignored it. Also, some governments of small debtor countries did not seem to put a high priority on spending significant amounts of financial resources on investor relations, particularly when they did not envisage significant market borrowing in the coming years. On the other hand, it was observed that some other governments of small economies, such as Uruguay, have opted to create investor relations programmes.

Many participants were critical of how sovereign debt restructuring has been carried out and proposed investigating alternatives. It was claimed that the Paris Club was non-inclusive, cumbersome and inequitable. It was also said that some middle-income countries faced higher private external financing costs after debt restructuring negotiations with the Paris Club, meaning that private creditors perceived increased risks to have resulted. This could be due to how repayment obligations would bunch in the

future owing to the Paris Club rescheduling of debt-servicing instead of a write down of the debt. Another criticism was levied at the IMF. It was said that the IMF's role as an independent advisor and mediator was compromised by its role as a creditor, which could lead to a conflict of interest. Also, the IMF Executive Board, which is dominated by developed countries, was said not to reflect developing country interests.

It was also stressed that in debt negotiations small developing countries were often at a disadvantage compared to bigger developing countries, such as Argentina. Not only did large countries put more investor claims at risk during a debt renegotiation, but they also had better ability to absorb the cost of advisors for more sophisticated negotiating strategies. In small countries, one civil servant might have responsibility for what would be done by a staff unit in a large country. Also, some participants raised the issue of differential treatment and questioned why the Paris Club applied comprehensive treatment to the external debt to certain countries such as Iraq and not to other equally, or even more, pressing cases like Nigeria. Moreover, it was argued that the creditors' *quid pro quo* for relief for weakened or less independent governments has gone so far as to include effective handover of economic sovereignty; i.e., debtor government policy changes had to be accepted that national policy makers had earlier rejected. Indeed, it was asked why countries that had already reformed their macroeconomic policies but were still in need of a debt restructuring should be required to accept the conditionality embodied in a new IMF programme in order to complete their debt relief negotiation?

Although it was not on the agenda, one part of the discussion focused on the Highly Indebted Poor Countries (HIPC) Initiative. There was little controversy that the Initiative had brought benefits to HIPCs. However, a number of participants emphasized that the Initiative did not relieve fiscal pressure on governments, as HIPCs were expected to increase social and human development expenditures in exchange for debt relief. The result was a "debt swap" rather than debt relief. While the Bretton Woods institutions actually did not impose a strict dollar-for-dollar requirement in this regard, they did encourage such a redirection of spending. The key point, which can safely be said to reflect the views of all participants, was that substantial additional aid transfers to HIPCs and other low-income countries were essential. These transfers were commitments under the Monterrey Consensus and needed to be implemented in full. Indeed, substantially more aid was needed to reach the development goals of the Millennium Declaration.

While the majority of participants appeared to feel that the process for debt workouts could be improved, opinions differed on the appropriate mechanisms and which actors should be involved. Private sector participants referred to ongoing efforts to draft a "code of conduct" for sovereign debtors and private creditors, but pointed out that the initial draft principles had been prepared from the creditors' point of view and needed to also reflect debtor countries' views. Although the increased number of bonds with collective action clauses was seen as a positive development, several participants doubted that this mechanism would provide sufficient protection for creditors during a crisis.

Several interventions addressed the issue of "odious" debt, an international legal doctrine that has been used to absolve a government of the responsibility for servicing a

debt obligation, usually one incurred by a previous regime. A participant proposed creation of a working group under the auspices of the United Nations to develop a legal framework that would facilitate applying the concept of odious debt in a forward-looking manner.

It was taken to be the consensus view that all nations need an effective domestic bankruptcy law and that the cost of having no bankruptcy law would be very high. On this basis, several participants from academia and civil society organizations suggested a mechanism to improve debt workouts at the international level modelled after Chapter 9 in the US Bankruptcy Code, which is for municipalities and other non-sovereign domestic entities. In this view, internationalising Chapter 9 procedures would safeguard the debtor's sovereignty, give the population a voice and ensure a fair and transparent process. On a similar note, some participants supported the proposal for a "fair and transparent arbitration process" (FTAP), which would be overseen by an impartial body and would enable countries in debt crisis to renegotiate their repayments on terms that would protect their expenditures on basic social services. Some participants expressed scepticism about the political feasibility of these proposals, as the industrialized countries would not even accept adoption of anti-litigation clauses for the limited cases of the HIPCs.

In conclusion, one could perceive a convergence of views that any meaningful approach to reform of debt workouts should involve all stakeholders in its development, including the official and private sector as well civil society. One concrete proposal in this regard was to establish a working group to consider how to bring the various stakeholders together to create a meaningful space for such a dialogue.

Annex. **Biographical sketches of speakers on the panels**

Panel #1: Debtor/creditor relations

Moderator

AXEL BERTUCH-SAMUELS is Deputy Director of the Capital Markets Department of the International Monetary Fund. He has been at IMF in various capacities during his career, including as an Alternate Executive Director for his country, Germany, and special advisor to the Managing Director. He has held senior positions at the European Bank for Reconstruction and Development, the Ministry of Finance of Germany, and at the German Savings Banks Association. He has also worked in the 1970s for the United Farm Workers of America as an exchange volunteer.

Panelists

PEDRO FACHADA obtained an M.S. in Economics at the Pontifícia Universidade Católica do Rio de Janeiro in 1989. He worked in the private sector until 1997. He joined the Research Department of the Brazilian Central in 1998, where he helped implement the modelling framework of the Bank's inflation targeting regime. In 2001 and 2002, he worked as a senior advisor to the Board of the Bank, and since 2003, he is the head of the bank's Investor Relations Group. Mr. Fachada has also taught courses in International Economics and Monetary Policy at the undergraduate program of the University of Rio de Janeiro and in several graduate programs in Brasilia.

MARK SIEGEL is Managing Director and Head of Emerging Markets investments at Babson Capital Management LLC, a $100 billion investment management subsidiary of Mass Mutual and part of the Mass Mutual Financial Group. He is responsible for setting investment strategy for, and directly overseeing the firm's investment positions in developing markets on a global basis. Mr. Siegel is also a co-founder and member of the board of the Emerging Markets Creditors Association (EMCA). Prior to joining Mass Mutual, Mr. Siegel was a Managing Director and Chief Investment Officer — Fixed Income with Darby Overseas Investments, Ltd. His experience also includes privatization and advisory work at Salomon Brothers in New York and London, and consulting work for the Boston Consulting Group.

OSCAR UGARTECHE is a professor at the Pontifical Catholic University of Peru in Lima and collaborates with Estrategia Andina-CentroAmericana-Amazónica (Andean, Central American and Amazon Debt Campaign).

GIUSEPPINA ZARRA graduated in International Relations and Politics, University of Urbin, Italy. She also holds a Master's degree from the Italian Society for International Organizations. Ms Zarra joined the Italian Diplomatic Service in 1991. Since 2002 she has been a Counsellor in the Ministry of Foreign Affairs, heading the desk for Debt Management and Export Credit Issues. She is also the Deputy Head of the Italian Delegation at the Paris Club.

Panel #2: Debt sustainability

Moderator

VIKRAM NEHRU is the Director of the World Bank's Economic Policy and Debt Department, which covers developing country macroeconomic and debt issues, including growth diagnostics,

sub-national development, fiscal analysis, HIPC implementation, low income country debt sustainability, and middle income country debt dynamics. Prior to that he was the Manager of the Heavily Indebted Poor Countries (HIPC) Unit, which is responsible for implementing the HIPC Initiative. An Indian national, Mr. Nehru completed his graduate and postgraduate degrees at Oxford University before working with the Government of India for four years. He began his career with the World Bank in 1981.

Panelists

IWAN AZIS is a professor at the University of Indonesia and Cornell University, where he is currently teaching microeconomics and financial economics at the Johnson Graduate School of Management. He has published on topics of macroeconomic and financial modelling and macro-micro linkages. His recent publications cover topics such as policy analysis in a financial crisis situation; the dynamics of debt management; modelling the impact of asymmetric information on monetary policy; and the role of international financial institutions. Prof. Azis has conducted research and consulting work for various international organizations, and is currently helping the Indonesian Central Bank (*Bank Indonesia*) with its policy research.

THOMAS ENGLE is Deputy Director for Monetary Affairs at the United States Department of State. He is a career member of the U.S. Foreign Service, having joined in 1986. Besides Washington assignments in the State Department's International Finance and Development deputate, he has served at U.S. embassies abroad in China, Japan, Pakistan and Germany, and on secondment as a programme director at the APEC Secretariat in Singapore. His most recent overseas assignment was as Economic Counsellor at the U.S. Embassy in Berlin. Mr. Engle holds a masters degree in international relations from the Johns Hopkins University School of Advanced International Studies.

BEETHOVEN HERRERA is Emeritus Professor at the Universidad Nacional de Colombia, at the Universidad Externado de Colombia, visiting Professor at the United Nations Staff College in Turin (Italy) and a member of the Colombian Academy of Economics. Mr. Herrera is also an external consultant to the United Nations and external advisor to the Latin American Workers Organization and to the Latin American Episcopal Council (CELAM). He is a regular collaborator of the economics newspaper *Portafolio.*

EMMANUEL MOULIN joined the French Treasury in 1996, after graduating from the French National School of Administration (ENA). He held positions as deputy head of division in several services until 2000, when he became alternate Executive Director for France at the World Bank in Washington D.C. He's been head of the International Debt Division at the French Treasury and Secretary-General of the Paris Club since September 2003.

KHALID SHEIKH joined ABN AMRO in September 1987, after having worked as an economics and policy advisor at the Dutch Ministry of Foreign Affairs, and undertaken a Doctorandus at Erasmus University, Rotterdam. Mr. Sheikh also holds a master Degree in Development Economics from Erasmus University in Rotterdam and a post-doctorate Master in Financial Economics Degree from the Tilburg Institute of Academic Studies. Currently, Mr. Sheikh is working at Group Risk Management. Also, he has been an active member of an international working group on Collective Action Clauses and Codes of Conduct. He was also heavily involved in determining a private-sector alternative to the IMF's SDRM-proposal.