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MULTI-STAKEHOLDER CONSULTATION ON "SOVEREIGN DEBT FOR SUSTAINED DEVELOPMENT: ISSUES OF SPECIAL CONCERN TO LOW INCOME COUNTRIES"
Maputo, 17 March 2005

Report of the Consultation

The Financing for Development Office of the United Nations Department of Economic and Social Affairs (DESA) and the Commonwealth Secretariat jointly organized a multi-stakeholder consultation on "Sovereign Debt for Sustained Development" in Maputo, Mozambique on 17 March 2005. Focused on issues of special concern to heavily indebted poor countries (HIPCs) and other low-income sovereign debtors, it was the fourth of a cluster of debt-related official meetings held in Maputo that week. It provided an opportunity for a free and informal exchange of views and indeed the discussions were rich and lively, reflecting on issues discussed by some of the participants in the earlier meetings as well as on the agenda for the consultation itself (see programme in English and French posted with this report). A number of proposals were brought to the table and are noted in this report.

The week had begun with a seminar on 14-15 March that the International Monetary Fund (IMF) organized for African senior officials about foreign aid and macroeconomic management (see http://www.imf.org/external/np/seminars/eng/2005/famm/index.htm). It was followed by a meeting of the Commonwealth HIPC Ministerial Forum on 15-16 March, to which a number of non-Commonwealth participants had been invited as guests, including a number of finance ministers from Francophone African countries and l'Agence Intergouvernementale de la Francophonie. Commonwealth Forum Members adopted a Ministerial Statement on implementation of the HIPC Initiative, deeper and wider debt relief, the IMF/World Bank framework for debt sustainability, domestic debt, and HIPCs in the global economy (see text posted on this web page). Non-Commonwealth African countries that participate in the HIPC Ministerial Network met during the afternoon of 16 March. Subsequently, the communiqué of the 11th HIPC Ministerial Meeting was issued. It pertained to improving debt-relief mechanisms, long-term debt sustainability, and financing the Millennium Development Goals (see texts in English and French posted on this web page). Finally, on 17 March, about 75 participants from African and other governments (from ministries and parliaments), donor and multilateral agencies, regional organizations, African and European private enterprises, and African and European civil society met for the multi-stakeholder consultation (see list of participants posted with this report).

The Deputy Secretary-General of the Commonwealth Secretariat, Mr. Winston Cox chaired the consultation. He opened the proceedings in plenary session and invited the Minister of Finance of Mozambique, the Honourable Manuel Chang, to address the meeting. The consultation then divided into two simultaneous roundtables, one of which focused on managing public policy on debt, aid and development in low-income countries, and the other on domestic and international private finance as an alternative source and use of funds. After breaking for lunch, the consultation continued with two additional simultaneous roundtables, one on debt sustainability and development and the other on effective debt workout processes. Roundtable moderators reported back to a closing plenary and the meeting concluded. Following are summaries of the roundtables, prepared under the responsibility of the Financing for Development Office of DESA with the assistance of a team drawn from the participants in the meeting.[1]

A. Debt, aid and economic policy management

Mr. Mothae Maruping, Executive Director of the Macroeconomic and Financial Management Institute of Eastern and Southern Africa and Mr. Chris Itsede, Director General of the West African Institute for Financial and Economic Management, jointly chaired roundtable A. The discussion highlighted relations between HIPC governments and their domestic stakeholders, between HIPCs and the Bretton Woods institutions (BWIs), and between the macroeconomic policies in a country's IMF programme, its national development plan and its poverty reduction strategy.

HIPC experiences in debt and aid policy

A number of speakers pointed out that inconsistency could arise between different policy imperatives faced by their governments. The country's macroeconomic programme as agreed with IMF was ranked first in international importance. It was usually supported by concessional loans from the Fund's Poverty Reduction and Growth Facility (PRGF) and has been considered a prerequisite for other international financial support, including HIPC debt relief. The PRGF programme also set the framework for the country's Poverty Reduction Strategy Paper (PRSP). While the PRSP might focus on a few selected economic areas, the government's broadest statement of its priorities and policies for development were contained in its national development plan.

It was clear from the discussion that countries had not prepared their PRSPs with a view to attaining the Millennium Development Goals (MDGs). Indeed, the cost of attaining the goals in most cases had not even been calculated, although efforts were said to be in place to prepare a second generation of PRSPs that would target the MDGs, and costing exercises were already underway in a few African countries. In this regard, the IMF, through its focus on the fiscal budget constraint, intermediated between the anti-poverty and development needs of HIPCs on the one hand, and the amount of support that donors were willing to provide on the other. IMF

[1] In addition to Barry Herman and Ana Cortez of DESA, the team included Anna Msutze of the Macroeconomic and Financial Management Institute for Eastern and Southern Africa, Walton Gilpin of the Commonwealth Secretariat, and Pal Borresen of the United Nations Conference on Trade and Development. Their assistance was essential to the preparation of this report and is very much appreciated.

also advised on how much external credit a country should be willing to absorb in the context of the debt sustainability assessment, which depended on projections of economic growth, fiscal revenues and government expenditure.

In this context, governments and civil society observers asserted that IMF underestimated their relief and aid needs, in part as a result of overambitious Fund projections. One participant explained that on several occasions, there were differences between the revenue forecasting figures and expenditure frameworks of his country and those of the Fund. He was not sure whether the differences were a result of the methodology or capacity constraints, calling for closer dialogue in this area to identify the problem and to deal with it.

Participants also pointed to considerable gaps between commitment and delivery of financial assistance. In the case of debt relief, several speakers discussed what one called “negative relief”, in which a country that had not been servicing its debt would see much of it forgiven, but as it resumed servicing the remainder it would thereby increase its cash outlays for debt servicing. Another example given of perverse aid flows occurred when donors increased official development assistance (ODA) to help a country clear its arrears, but then did not follow up afterwards with continued assistance at the same level. It was also observed that four years had passed since one HIPC reached completion point and it had still not received all the promised relief from certain Paris Club creditors or comparable treatment from some non-Paris Club creditors. Overall, some participants felt that some countries had been short changed when donors re-allocated ODA to debt relief. They called for a re-examination of the aid delivery mechanism to ensure that there was additional aid funding on top of resources used for debt relief. There was also a call for independent overseers who would evaluate donors.

It would appear from the discussion that the current international debate on provision of aid as grants versus loans was not well understood. Firstly, some speakers saw perverse incentives built into the proposed IMF/World Bank approach to debt sustainability in low-income countries, in which countries with weaker policies would be deemed less able to carry external debt and would thus be “rewarded”’ with relatively more grant financing. This concern was answered, however, by the assertion that donors and creditors would likely offer less funding overall to countries with poor policies, so there would be no “moral hazard” on this score. Secondly, one speaker recalled that loan financing is typically made available for different purposes than grants, in particular, investment as opposed to current expenditures, and that the difference should help shape the desired mix. Where only loans were offered, governments had to assess their ability to carry such loans in addition to their existing stock of debt. Loans should preferably be directed to the productive sector, while grants were preferable for support of social spending, but they should be predictable, according to this speaker. Thirdly, governments needed to consider more than whether aid was a grant or loan in evaluating the aid offer. For example, technical assistance in grant form would make no balance-of-payments contribution if the money were spent in the donor country, as is the case for tied aid in the form of donor experts. Also, the time frame for disbursement of different types of aid differed: project aid typically had a long lead time and thus even if the funds provided were cheaper than another aid offer, having the funds sooner might be preferred.

More generally, it was argued that African governments needed to determine what projects and programmes they wanted to undertake and then seek funding for them, rather than have donors push favoured projects, and thereby set domestic priorities and impose attendant conditionality. All in all, multi-donor budget support in the form of grants appeared to be the generally preferred aid modality. Governments needed a strategy that would assist in deciding on the type of aid to be taken at any one time. Participants also stressed the need for governments to track aid, and civil society speakers expressed willingness to work with governments to ensure that grants were accounted for and that they were channelled to the intended beneficiaries.

A number of observations were made about shortcomings in how the HIPC process had been operating. In particular, while the "floating completion point" allowed the BWIs to extend the time until the completion point decision for countries having difficulty meeting their PRGF programme commitments, the funds for "interim relief" between the decision and completion points were fixed. If those funds were exhausted before the country reached the completion point, relief would stop. If no additional funds were provided, the country would be obligated to resume debt-servicing payments out of its own resources, in particular, to IMF, the World Bank and the African Development Bank. It was thus proposed that either a more realistic time frame should be agreed for the interim period or interim relief should be available with more flexibility.

It was also asked whether, when governments go off track on their PRGF programmes and funding is cut off, would it be possible for the international community to protect or "ring fence" its support for social expenditures under the PRSP? More generally, many participants called on both Bretton Woods institutions to apply greater flexibility in their policies and funding. The choice of areas to be developed should be guided by the particular circumstances of individual countries in this view and not generalities.

The politics of sovereign debt and borrowing, and the capacity building imperative

There was considerable discussion of the politics of policy making in HIPCs. Some participants indicated that their countries were fully responsible for formulating their programmes while others indicated that the Bretton Woods institutions designed the programmes, with countries only making some minor adjustments. Another speaker raised a caveat that "ownership" of a programme should not be conceived as only at the level of government ministries. It is not sufficient that there is debate between technocrats in the finance ministry and in the BWIs. Ownership required for implementation of agreements — not just signatures on a piece of paper — resulted from a domestic political process.

It followed that there needed to be a mechanism that would ensure that policies were of good quality and based on the reality of each country. A number of speakers complained that the current arrangements were not working and that Fund staff should put more effort into understanding the specifics of the local situation, which was possible only through broader consultations with and active participation of local stakeholders. One speaker called for bilateral donor agencies to get more involved in the discussion of macroeconomic policy in individual countries and the embodied trade-offs. Participants stressed the need for the Fund to work better with governments to ensure that the programmes could be implemented. One participant recalled that the World Bank had organized retreats with government counterparts in his country, which deepened understanding and facilitated policy development. Participants from post-conflict countries stressed the need for assistance in enhancing capacity of officials to enable them to formulate credible programmes and for the Fund staff to be more attentive to their particular problems.

One participant noted that in some countries the involvement of the legislature was very minimal and where lawmakers were involved, as in approving loans or debt ceilings, the information made available to them by the relevant ministries was sometimes minimal. It was asked whether in such situations parliament was a deliberative body or “rubber stamp?” A speaker asked why was it possible for a few people in the administration to mortgage the country?

Many participants agreed with the notion of involving legislators in debt issues, but cautioned that their involvement should not stall the process unnecessarily. It was stressed that for the legislature to be actively involved, governments should embark on capacity building for legislators in order that they better understand and appreciate the issues and processes. It was also proposed that legislatures consider establishing their own technical advisory bodies independent of the government administration, which had been found useful in some cases in developed countries.

More generally, governments needed to put in place mechanisms for attracting qualified staff, utilizing their expertise, and retaining them. There appeared to be a general consensus as well that capacity building was key to successful implementation of the programmes, that it was superior to technical assistance, and that it worked better if well coordinated with local institutions, and if global and regional organizations were also well coordinated.

B. Private finance instead of sovereign debt in low-income countries

Mr. William Kalema, Chairman of the Board of the Uganda Investment Authority, and Mr. Georges Diffo, Head of “Pôle-Dette” (Pôle Régional de Formation et Gestion de la Dette en Afrique du Centre et de l’Ouest) co-moderated roundtable B. After introducing themselves and agreeing on specific topics to be addressed by the roundtable, participants engaged in an animated discussion. The overall focus was on examining different aspects of private sector sources and uses of financial flows, which inevitably account for a larger share of the total flow of funds as countries develop. The paragraphs below summarize the main issues discussed and proposals that participants wished to put forward as their contribution to the consultation process on external debt.

Investor-government relations

Participants argued that improved investor/government relations would require building on or enhancing public sector capacity. In this regard, improved governance was considered a key element. It was stressed that good governance went beyond issues of corruption and accountability; it encompassed the overall capacity governments needed to acquire in order to discharge their responsibilities effectively and efficiently.

After exchanging views on best practices by developing countries in this area, participants highlighted the importance of building up government credibility, which was largely based on economic and financial stability and policy consistency over time. The long-term nature of this process was acknowledged. Another necessary requirement was said to be the existence of an enabling institutional framework and a set of clear and fair rules, including property and individuals' rights.

Participants argued that in building up a country's institutional framework, governments must be aware of the private sector's objectives and requirements. In this regard, governments should look at the "check list" of elements considered important by rating agencies for obtaining a sovereign credit rating as a good place to start this process.

It was acknowledged, however, that in low-income countries, the sequencing of reforms to fulfill such requirements might differ from that followed in middle-income countries. Political stability and strategic vision were considered a must — elements regarded as missing in several low-income countries. It was also stressed that the vision, i.e., the country's long-term development strategy, needed to be efficiently communicated to investors and society at large. At the same time, several participants expressed concern about prioritizing investors' requirements at the expense of social protection legislation.

Private investment and sustained development

The group reviewed developing country experiences in attracting foreign private capital. Several participants expressed their concerns about creating a race to the bottom in terms of incentive policies, as social, environmental and fiscal considerations had not been duly prioritized. In this regard, it was suggested that governments should use cost-benefit analysis in their assessment of the amount and types of incentives to offer to attract the foreign investor.

Participants argued that the mechanisms that would ensure that foreign direct investment (FDI) contributed to poverty reduction were not in place. They stressed the need to have a comprehensive approach to ensure that FDI produced pro-poor growth. Furthermore, participants expressed the view that governments needed to better communicate their FDI strategy with civil society and that the design of that strategy needed to be more inclusive and transparent.

In the particular case of the HIPCs, it was felt that FDI could be used as a means to reintegrate these countries into the global economy, and the potential contribution of FDI for the creation and/or increase of debt-carrying capacity was highlighted. Additionally, some participants mentioned the need to create mechanisms that would ensure that part of the profits from FDI was reinvested in the domestic economy.

The group agreed that the development of the local private sector was fundamental for growth and development and that the foreign investor should not to be promoted at the expense of the local investor. Participants argued for a leveled playing field. In this sense, the group suggested that mechanisms to support the local private sector needed to be built in. In attracting FDI, for example, policy makers should fully explore supply linkage possibilities with the domestic economy. Additionally, possibilities should be considered in designing public sector investment so as to "crowd in" private investment.

Participants stressed that many domestic small and medium enterprises (SMEs) were severely credit constrained and felt that governments should make available mechanisms that would facilitate their access to credit. In this regard, international financial institutions should allow greater flexibility in government expenditures so that insurance and other guarantees could be provided for SMEs. Moreover, participants noted that government arrears to the domestic private sector were frequent and debilitating and should be cleared and avoided.

The development of local capital markets

Participants argued that the development of local capital markets could contribute to poverty eradication. They recognized that the shortage of long-term capital in many developing countries in general, and in Africa in particular, led to higher domestic interest rates, one of the factors impeding credit access by local entrepreneurs.

Experiences were noted in which the public sector "crowded out" the private sector through heavy government borrowing. Furthermore, participants argued that in several instances financial institutions, albeit liquid, were dissuaded from lending to the private sector owing to a weak institutional framework. Lack of contract enforcement was regarded as a major constraint to increased lending. It was also important to promote the mobilization of domestic savings in order to create a larger pool of resources for investment, which would have a potential beneficial impact in lowering interest rates and increasing credit access.

It was also noted that there were insufficient financial mechanisms for demand and intermediation of long-term credit in many countries and that such mechanisms needed to be developed before sovereign debt markets could be a reality in low-income countries. The private sector could develop long-term instruments (e.g., mortgage loans) for private investment portfolios. The potential contribution of private institutional investors, such as insurance companies and pension funds, for developing the long-term capital market was stressed.

Public Private Partnerships

A number of participants in the group voiced concern about how effectively "public private partnerships" (PPPs) could be as instruments to foster investment and savings in low-income countries. It was noted that a number of PPPs had even been facing challenges in middle-income developing countries, constrained by drawbacks in domestic judicial systems (e.g. failure to deliver reliable and quick settlement of disputes). In addition, it was noted that some PPPs (e.g., in public transportation) were not working so well in developed countries either, where the institutional framework was robust.

Participants remarked on the complexity of PPP agreements, particularly for the provision of services. Moreover, they noted that weak government credit standing diminished the usefulness of government guarantees in large-scale projects. Thus, they argued it was not realistic to expect much from PPPs in the medium term in low-income countries.

The group noted that PPPs were currently supply driven and that there was a need to make the process more demand driven. In this regard, the role of donors and international financial institutions in promoting PPPs was noted. It appeared to be the group's view that governments should be the ones to decide when PPPs were the right instrument. Accordingly, some participants recommended that governments should approach donors with alternative proposals for their consideration and that a passive role should be avoided.

Participants argued that governmental PPP strategies needed to be debated publicly. Civil society participants felt that often they had not been consulted and were left unaware of developments in this area. It was suggested that in several instances popular resistance originated in lack of information and miscommunication, which could compromise PPP success and that an open dialogue — albeit necessary — had been missing.

Some participants expressed concerns about the degree to which PPPs contributed to poverty eradication and access by the poor to public services when privatized. The group agreed that the political economy aspects of PPPs needed to be duly acknowledged. It was argued that governments should maintain regulatory powers over essential services so as to ensure access to all citizens, including the poorest. It was also recognized that neither PPPs nor privatization would solve all problems in providing essential public services. Some direct government involvement would continue to be needed.

Private flows, remittances and capital flight

In considering additional sources of financing, participants remarked that workers remittances had become the largest net private transfer of financial resources to developing countries. Accordingly, remittances had a potential positive role to play in the development of local capital markets. Other potential sources of finance were also noted, such as a tax on foreign currency transactions, but the group did not discuss them.

Participants observed that remittance inflows could be offset by capital flight. Where it occurred, flight capital constituted a drain on available resources, which needed to be brought back into the concerned countries. Participants made a distinction made between flows that fled the country in times of crises, thus signaling loss of confidence in governments and their policies, and those illicitly acquired (money laundering, corruption, etc), which were of a different nature. Increased regulations and surveillance introduced after 11 September 2001 were considered a welcome development in this area. Many participants did not think capital controls were an efficient way of preventing capital flight but believed them useful in smoothing volatility of capital flows

C. Debt sustainability and development

The moderators of the third roundtable were Mr. Matthew Martin, Director of Debt Relief International, and Mr. José Maurel, Head of the Debt Management Section in the Special Advisory Services Division of the Commonwealth Secretariat. The discussion in this roundtable returned to a number of the points raised during the morning meetings. It pushed analysis of them further and underlined a number of specific proposals that had been emerging during the day’s discussion.

Debt sustainability and debt relief

The discussions commenced with concerns being raised about the exclusion of social development from the debt sustainability analyses (DSA) undertaken for developing countries by the Bretton Woods institutions. In addition, the relevance of exports and gross domestic product as denominators in key debt indicators was questioned, as HIPCs and other low-income countries were liberalising their trade policy and governments were less dependent on fiscal revenues from trade. Also, funds from exports, private remittances and other inflows were primarily in private hands and did not constitute a major revenue source for government.

In consequence, in one view, shocks from export earnings volatility were an insufficient indicator of vulnerability of fiscal revenue flows to the country. On the other hand, some participants were of the view that the DSA did not sufficiently factor in external and internal shocks, e.g., conflict and price shocks. In addition speakers highlighted the fact that debt sustainability lacked a "human development" component. There seemed to be general agreement that the DSA should take account of social expenditure needs.

Participants unanimously viewed contingent liabilities of governments as very dangerous and requiring careful monitoring. Most speakers agreed that such liabilities would show up as debt in the future even though they might not be immediately obvious as such. HIPCs should therefore monitor all contingent liabilities in order to avoid implicitly taking on future debt obligations.

In setting the human development imperative against the explicit (let alone implicit) debt burden, civil society participants strongly advocated for 100 per cent debt cancellation. One speaker acknowledged the impracticability of a blanket approach to debt cancellation for all HIPCs, but maintained that it was necessary anyway on moral grounds. Participants from HIPCs argued that they had paid their debts several times over, as debts that stood at US$ 20 billion a decade ago, had grown to US$ 45 billion due to late charges and charges on late charges.

Indeed, a number of government participants maintained that they could not meet the MDGs without additional debt relief. Some national parliaments were against paying debt servicing that was three times more than social and development spending. There was a discussion as to whether donors should cancel 100 per cent of the stock of debt owed to them or provide equivalent cash flow relief as and when the payments fell due. The consensus was that a stock cancellation was preferable, even though it might have adverse consequences for future donor inflows.

However, it was also pointed out that debt cancellation might not release additional international resources for development on a net basis, as the cancelled debt would have to be covered by the government cancelling the debt. It was feared that if all the debt were cancelled, it would reduce aid funds that actually supported programmes. Indeed, HIPC debt relief would only create resource flows if the recipient country had been servicing her debt prior to debt relief. If not, there would not be any flows to divert from debt servicing to social sector improvements. Another speaker suggested that official export credit agencies should take the losses of debt cancellation and write them off as bad debt without any link to ODA.

There appeared to be a consensus on the benefits of the recent debt relief initiative of the United Kingdom (the proposed International Finance Facility). At least, it was seen as a step in the right direction. It was also suggested that funds from the sale of IMF's gold and other innovative financing mechanisms, including global taxation, could help offset the debt of the world's poor countries.

PRSPs and development budgets

It was suggested that the donor community should ensure consistency between the PRSP and the budget, and that the size of the PRSP not be determined as a consequence of the PRGF programme. Participants in the roundtable decried the fact that some countries received much more financial assistance than others. The case of the Republic of Korea having received at an earlier stage of its development over four times the aid of Nigeria was discussed. Some participants perceived the following problems with PRSPs: they were sometimes imposed on countries and not entirely home grown; they tended to focus on social spending and ignored the need to develop infrastructure; their policy conditions were sometimes not consistent with national development plans.

Speakers felt that most countries were complying with the conditionality of the multilateral institutions, but were not being rewarded with sufficient additional donor inflows or debt cancellation. There was a broad feeling that compliance with conditionality should be translated into aid flows to match expenditures required under the PRSP.

Participants also suggested that debt relief funding should be made available for infrastructure development and should not only target the social sector. Some participants were of the opinion that countries should be able to issue bonds on the international market, and that the donor community should not impede a country's entry into the capital market. Improvements in infrastructure were considered vital for meeting the MDGs.

Participants in the group also cautioned that changes in fiscal revenue flows as a result of converting a government entity into a PPP be fully analysed and the choice of investment determined through a participatory approach. Countries should decide the way forward and should determine what to privatize, e.g., water in urban or rural areas, and poverty reduction or infrastructure development. Speakers also felt that it was wrong to assume that PPPs were necessarily the way forward for all African countries. Country circumstances should determine the choice. A number of speakers felt it was immoral to privatize the supply of water, but a few disagreed, citing the successful privatization of water in cases like Ghana. There was no consensus on this issue.

The forum went on to discuss the PRSP preparation process and expressed concern that there was not enough participation of the local authorities. Some members said that there was significant local participation in the process in their countries, but agreed that there were vast differences in local capacities to develop national plans. It was also suggested that countries should be able to introduce a national development plan into the process and shape the PRSP within it. Some positive examples of a participatory process in PRSP preparation in Gambia, Uganda, and Ghana were discussed. It was suggested that in the case of Kenya, the PRSP was forced on the Government.

Speakers maintained, in sum, that the PRSP should not be limited by the PRGF, and stressed that conditionality should not slow the poverty reduction process. HIPCs should show a commitment to public expenditure, and should factor their public expenditure programmes into their poverty reduction programmes. More work needed to be done on linking macro and social need into programmes arranged with the IMF.

A global approach to a global responsibility

Some participants called for the creation of an advocacy panel at a high level to articulate Africa's needs to Western governments. One problem was that the donor community and Western governments did not trust HIPC governments to spend donor funds wisely. It was thus proposed that country specific independent observers be chosen to oversee the relationship between the donor community and each recipient country in order to appraise the effect of donor policies on HIPCs. In the same vein, some speakers suggested the need for a mechanism to independently evaluate the public expenditure management of HIPCs.

Some participants perceived a lukewarm Northern approach to improved human development in the South. In this context, the issue of trade subsidies was lengthily discussed. Participants in the group felt that it was unfair and immoral for some Western governments to protect their markets with subsidies of about US$ 1 million a day and yet not have the political will to provide 100 per cent debt relief to HIPCs, which inevitably were disadvantaged by those subsidies.

D. Towards more effective debt workout processes

Mr. Henri Raubenheimer, Director for Global Economic Organizations in the South African Ministry of Foreign Affairs, and David Beers, Managing Director of Sovereign and International Public Finance Ratings at Standard and Poors in London, moderated the final roundtable. The discussion focused on debt renegotiations in general, Paris Club debt relief in particular, and alternative approaches, including the matter of "odious debt."

Can the debt restructuring process be reformed?

It was argued that the essential characteristics of sovereign debt workouts were that they were highly decentralized, took a long time, and were governed by rules that were primarily informal and had evolved over a long period. That also meant the practices could continue to change. A creditor who lent long-term to a developing country government that was currently deemed a good performer nevertheless faced considerable uncertainty about what might happen to the claim if the country's debt had to be restructured ten years into the future. A central question that had been asked in recent years was thus could the international sovereign debt workout process be made more coherent and certain? The experience of the IMF's proposed Sovereign Debt Restructuring Mechanism had not been encouraging. Different and changing interests of various governments led it to be first floated and then killed.

Creditor interests more generally were very different and they therefore had different objectives in a debt restructuring negotiation. One needed to contrast what the creditors said and what they did. At the extreme speculative end of private creditors were the "vulture funds," which would buy non-performing bonds or bank debt in the secondary market at substantial discount. They expected to profit from selling the restructured debt at a smaller discount from the initial face value after the country completed its negotiations (although others in this group might seek to collect the full face value through court proceedings). Retail bondholders had other objectives than institutional investors. Along with commercial banks, both groups occupied a middle position between the speculators and the official creditors in the Paris Club. The latter had a policy objective and the extent of relief they were willing to accord was said to depend on the lending governments' relationship with the debtor (e.g., Paris Club attitudes towards Iraq today and five years earlier were contrasted). Multilateral creditors only countenanced debt relief in the most extreme circumstances, which the financial markets have accepted as proper, especially for IMF, which lends for macroeconomic adjustment when no one else will.

Participants were told, however, not to be pessimistic as a result of the poor prospects for systemic reform. A speaker averred that a debtor government in a crisis situation could take the initiative and even shape the restructuring package if it had a clear strategy, which would be more convincing when it was presented in the context of a policy reform package to which the government was committed and had sold to the population. In this view, the reason debt workouts took so long was not the absence of a uniform and coherent negotiating structure, but the limited capacity and interest of particular debtor governments to negotiate with their creditors. Another participant picked up on this point and noted that there were two ultimate goals in debt workouts: development and capacity to service debt, with the creditors focused on the latter. Debtors should then work on achieving the former.

Experiences at and around the Paris Club

The viewpoint that sovereign debtors were incipiently powerful was received sceptically. Participants from debtor country governments did not seem to feel at all powerful. They focused their comments on Paris Club experiences. One official saw his country's Paris Club negotiation as having been an internal discussion among the creditor members. Moreover, much of its debt was owed to one large creditor whose position changed during the time its debt crisis was before the Club. All of that was outside what his government could affect. They were essentially observers at the Paris Club, and there was no debtors' club.

Another issue of asymmetric power in the Paris Club concerned delivery of agreed relief. One participant said that while most creditor countries implemented their agreement with his country, some "dragged their feet." He called for some mechanism to maintain discipline among such members. In response, it was suggested that delays in delivering on Paris Club agreements were usually for complicated "technical" reasons and that if members did not respect their commitments the whole logic of the Club would fall apart. Another debtor government official also reported on having experienced such delay and said that one of its creditor governments had agreed to a debt stock reduction for the first time and explained to his government that it had difficulty in figuring out how to effectuate the agreement at the detailed level of individual loans. Nevertheless, that debt remained unresolved and on the debtor's books.

A further concern of the debtor countries, which Paris Club members were said to share, was obtaining "comparable" relief from non-Paris Club creditors. Several debtor countries reported difficult experiences in this regard. Non-member governments had told them they did not feel bound by the agreement among the members. One participant even described some non-members as "intransigent." An additional participant observed that one non-Paris Club creditor voted on the IMF Executive Board to approve her country's adjustment package, including its financing parts, and yet the capital of the country was not forthcoming with its relief on comparable (and expected) terms. A private-sector participant suggested that the debtor government not pay anything to the recalcitrant creditors in such circumstances, a strategy that has worked in the past to bring them to the table to negotiate a fairer deal. A government participant suggested creating a non-Paris Club committee on a South-South basis. Another observed that political pressure on non-cooperating, non-Paris Club governments by the more powerful countries might help.

A special aspect of South-South debt renegotiations underlined how complicated bilateral debt relations have been. This pertained to HIPC debt owed to other HIPCs and other low-income countries. HIPCs as creditors are supposed to negotiate bilateral debt restructurings that produce comparable results to the Paris Club arrangement. If a HIPC received 90 per cent Paris Club debt forgiveness, then it could demand 90 per cent relief from another HIPC that was its creditor. It would then be required to service the remaining 10 per cent. However, a bilateral donor who had gone beyond the 90 per cent "Naples terms" on its own obligations might increase its contribution to the country to cover the cost of the remaining 10 per cent, bringing the relief on the inter-HIPC debt up to 100 per cent as well. This has happened. But another case was when a HIPC might seek 90 per cent relief from another low-income country that had itself received no debt reduction from the Paris Club. In that case, the creditor country might object and the donor might not wish to pay the 10 per cent either. It was asked if this was fair. It was also asked if it really was necessary. It was instead proposed that the Paris Club countries consider not only the obligations of the HIPC to each member but also to other countries that were going to come before the Paris Club and fold their debt to each other into the bigger negotiation, thereby freeing the HIPCs from having to negotiate bilateral deals among themselves or with other low-income countries.

Complaints were also voiced about private creditors who were supposed to deliver "comparable" treatment to that of the Paris Club members. It was reported that the Paris Club tries to consult with the major private creditors before beginning negotiations with the debtor. Whether or not coherence in overall debt relief results, there have been several cases in which some private creditors have not cooperated at all, as quite a few of them have sought to obtain full repayment of their obligations through the courts of the developed countries. Indeed, it was reported that US$ 250 million was under litigation for 5 poor countries. The Commonwealth Secretariat has undertaken a legal support initiative to help the HIPCs contest this in the courts. One problem here, as a debtor government participant reported, is that private creditors fully appreciated that the Paris Club was informal and did not entail a legal obligation on them. A participant suggested, however, that a broader appreciation of appropriate private-sector treatment of sovereign debt and peer pressure within the private financial community to enforce it could result if there were a private-sector counterpart to the Paris Club. He thus proposed creation of a private creditors' council.

Other approaches to debt workouts

The roundtable also discussed two unconventional approaches to debt relief, "odious" debt and use of some form of arbitration mechanism. Neither could be said to have won majority support, but they highlighted important concerns.

The odious debt argument is that when governments financed by external loans do odious acts, successor governments should be relieved of the obligation to service those loans. In essence, the creditors shared a measure of responsibility for them and should suffer a penalty as a result, at least in so far as repayment of the debt was concerned. One participant saw new relevance to that argument from the Paris Club treatment of Iraqi debt. On the other hand, the UN Security Council had indirectly given guidance on that case and there was no consensus on the odiousness argument as such among Paris Club members.

Nevertheless, it was argued by an African official that the argument should be taken seriously as there have been odious regimes and taxpayers in the successor regimes have suffered the consequences in bearing the burden of servicing the loans. He proposed that the issue be discussed at the United Nations. A participant from a developed country government said that the question was about international justice and how to make it operational. A civil society participant saw the need to distinguish odious from legitimate debt of a government and that it required studying the projects that were financed and the responsibility for them. A private-sector participant recalled that the question of whether to honour the debts of a previous regime was discussed in Aristotle’s *Politics*. He believed Aristotle’s answer in principle was no, but in practical terms yes.

The other heterodox proposal was to shift from the largely creditor-led approach to debt crisis negotiations to a more balanced approach through arbitration, in particular the “fair and transparent arbitration process” that has been advocated by a number of civil society groups. The actual debt restructuring process did not appear to work well and the proposals of the United Kingdom and others to further enhance the HIPC process was taken as an acknowledgement of that. Those proposals were a “quick fix” and not a systemic reform that would assist in dealing appropriately with debt crises when they arise in the future as well as those still unresolved today.

A more negative view was that, while arbitration was a standard mechanism for resolving financial disputes, even internationally, the same question of enforcement applied to the case of arbitration that applied in all other treatments of sovereign debt. Both the creditors and the debtor must be willing to honour the decision. Arbitration to resolve disputes, the rules under which it would operate and the arbitration forum itself were usually written into investment contracts signed by all parties. The presumption of the investors was that disputes could actually be settled by arbitration. The view in the private sector has now been coloured by a number of Argentine utility investment cases, in which the Government was said not to have accepted the arbitration decisions. It would appear, in other words, that resolution in this case required additional informal negotiation.