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# MULTI-STAKEHOLDER CONSULTATIONS ON "SOVEREIGN DEBT FOR SUSTAINED DEVELOPMENT"

**Concluding Session, Held in Conjunction with**
**The Fifth UNCTAD Debt Management Conference**
**Geneva, 20-22 June 2005**

## Secretariat Report of the Consultation

The Geneva multi-stakeholder consultation on sovereign debt for sustained development — the final meeting in a set of three — was organized within the context of the Fifth UNCTAD Inter-regional Debt Management Conference, which itself comprised the first three days of a week of meetings organized by UNCTAD on debt management (see agenda posted with this report at www.un.org/esa/ffd/09multi-stake-consul-flyer-debt.htm).

As in the earlier consultations, the Geneva meeting began and ended with plenary presentations, in this case taking place over three days and before an audience of over 250 participants from Governments of over 80 Member States of the United Nations and other stakeholders. These presentations took the form of keynote addresses and panel presentations by experts drawn from governments, international organizations, the private financial and legal sector, academia, and civil society advocacy networks and organizations (see list of participants posted with this report). The report on the plenary sessions was prepared by the UNCTAD Secretariat and is to be posted along with available papers on the DMFAS website (www.unctad.org/dmfas). The present report will thus focus on the other aspect of the Geneva consultation, namely, the roundtables.

A key aspect of the consultations on "sovereign debt for sustained development," has been to offer small roundtables to allow for more in-depth, unscripted and informal discussions among relevant stakeholders than are possible in a large and open plenary. In addition, so as to encourage an uninhibited exchange, the roundtable discussions followed the "Chatham House Rule." That is, while participants may use the discussions as background, none of them are to publicly identify the views expressed by any of the participants, all of whom in any case speak in their personal capacity. Participants were free to raise any issue of concern to them. However, the Financing for Development Office tried to help focus the discussion and avoid duplicating what had been said in earlier roundtables, which had been rich but did not warrant repeating, by offering a set of questions about possible next steps after the consultations, based on the

discussions in those earlier meetings (see the annex to this report).

About 50 individuals participated in the roundtables, which were held in the morning and afternoon of 21 June, with moderators invited by the Secretariat from among the participants. On the last day of the conference, the moderators, assisted by a team drawn from the staff of UNCTAD and the UN Department of Economic and Social Affairs (DESA),[1] reported back to the plenary on the discussions. As we wish to acknowledge the contribution of the moderators in helping to make the roundtables a success, we identify them in the following notes. The views expressed, however, should be ascribed to the Secretariat and not necessarily to the moderators.

## ROUNDTABLE 1: ISSUES OF PRIMARY CONCERN TO LOW-INCOME COUNTRIES

Mr. Geoffrey Mwau, Senior Advisor in the Office of the Executive Director for Africa Group I, World Bank, moderated the roundtable on issues of primary concern to low-income countries. Nineteen participants from governments, international organizations and non-governmental organizations (NGOs) contributed to the discussion. It focused on issues underlying the first three questions posed for discussion by the Secretariat, as well as an additional issue raised by an official participant who was concerned about misclassification of a country for aid and debt-relief purposes and its consequences.

### Additional debt relief and future financial assistance

Shortly before the Conference, the finance ministers of the Group of 8 (G8) proposed that the international community write-off the remaining debt that 18 heavily indebted low-income countries (HIPCs) still owed to three multilateral institutions: the International Monetary Fund (IMF), the World Bank and the African Development Bank. The 18 countries had reached the "completion point" in the debt relief programme of the HIPC Initiative. The new proposal thus embodied an acknowledgement that countries exiting from the HIPC programme required additional debt relief to help them attain the Millennium Development Goals (MDGs) by the internationally agreed target date of 2015. Moreover, the proposal was not to be limited to the 18 countries, but would be available as well to additional HIPCs when they also attained their "completion point." There was thus considerable interest in understanding the new proposal.

Some of the participants in the roundtable who had been closer to the analytical work underlying the proposal than others shared their understanding regarding eligibility criteria for the new initiative, how it would work, and implications for new external financing for countries granted the additional relief. The latter question received the most attention. At the heart of the discussion was the debt-sustainability assessments (DSA) for low-income countries that IMF and the World Bank jointly prepare, which are used to determine how much assistance — from the International Development Association (IDA) of the World Bank, in the first instance — should be accorded in the form of grants and how much as loans. New assessments would have to be

[1] The contributions, which were by Makameh Bahrami, Kristine Forslund and Dusan Zivkovic of UNCTAD and Julien Serre of the Financing for Development Office of DESA, were also essential for preparing these notes.

made for countries receiving the additional relief. It was said that countries judged to have the capacity to start borrowing again after the additional relief would be "eased into new borrowing" over time.

This was apparently not the view, however, of all the G8 member countries. It was said that some G8 countries would like to end the "lend and forgive" cycle for poor countries, and would like to see the new financing for low-income countries in the form of grants only. This point would have to be settled by policy makers. Some technical aspects of the initiative also needed to be determined, such as the cut-off date of loans eligible to be written off (e.g., would relief be extended only on loans that had been fully disbursed, or include loan commitments on which some drawdown had begun, and so on). Moreover, a number of participants noted that while the Initiative included relief from debt servicing owed to the African Development Bank, it did not cover and should be extended to comparable relief from obligations that non-African HIPCs have to their regional development banks.

In any event, the Executive Boards of the participating institutions still had to determine how to fund the relief. That is, the now-standard practice is that some arrangement is made to cover the obligations being forgiven. In previous forgiveness exercises on multilateral debt, earnings on capital gains from revaluation of IMF gold, donor contributions and profits from World Bank operations have been used. Policy makers were to work on that issue in the ensuing months. However, one participant claimed that according to its Articles of Agreement, the World Bank at least did not have to receive payment from an alternative source in lieu of the debtor's repayment and instead could decide to "relax and modify" the repayment terms of the loans. But another participant noted that whether or not this pertained to the Bank's standard loans, usually denoted as those of the International Bank for Reconstruction and Development (IBRD), it would not apply to IDA loans, which are the ones at issue in this instance, as IDA is a trust operated by the Bank for the donors.[2]

There was considerable discussion of another question that had concerned several participants, which was how multilateral assistance would be allocated in the post-HIPC era. As regards the allocation of IDA resources to individual low-income countries, the answer was that they would be governed as before by the World Bank's Performance-Based Allocation System, which seeks to take account of both the needs of each country and its ability to use the IDA resources effectively, as judged by the Bank staff. The World Bank uses gross domestic product (GDP) per capita as a proxy for needs, and its Country Policy and Institutional Assessment (CPIA) index serves as a proxy for the effectiveness of resource use. Once each country's IDA allocation is determined, the Bank/Fund DSA is brought into the picture to determine how much of the IDA allocation should be provided as grants instead of as concessional loans. Thus, the grant/loan split is determined independently of the size of the country's IDA allocation.

## Debt sustainability

While the discussion in this roundtable focused on low-income countries, they share with

[2] However, it might be relevant to the IBRD loans at issue in the alleged case of mistaken country classification noted below.

middle-income countries being subject to analyses undertaken by IMF under its Debt Sustainability Framework (DSF) as part of the annual IMF "Article IV" consultations with member countries. Several speakers in the group highlighted the importance that all relevant parties participate in the evolution of the DSF, in particular, developing countries, and in its implementation at country level. This pointed to a general imperative for capacity building in these countries so that they could locally prepare their own scenarios of alternative futures and their implications for debt burdens under the DSF as a basis for discussion with the multilateral institutions, let alone for domestic policy making. There was broad support for enhancing the capacity of countries to conduct their own analysis, as evidence was cited that the quality of the DSA is better in countries that are able to prepare their own economic and financial simulations.

In addition to the need for capacity building, some participants saw a lack of clarity in what approach to take in assessing debt sustainability. This concern had been underlined by the G8 proposal to deepen relief for countries that were supposed to have been placed in a "sustainable" situation at the completion point of their HIPC programme and yet needed additional relief so they might have a better chance to reach the MDGs. The word "sustainable" was evidently being reinterpreted by the G8.

Regarding the determinants of debt sustainability, studies were cited that showed that had the HIPCs been able to achieve GDP growth equivalent to the average growth of low-income countries, their debt burdens would not have become unsustainable (no judgement was offered as to why economic growth of these countries was relatively low). A related point was raised concerning the relation between government expenditure and growth, which has gathered increased importance now that additional public resources are to be freed by the G8 proposal for the HIPCs. It was stressed that the allocation of public resources should be more carefully examined, and that a thorough analysis is needed for selection of publicly financed projects, which should be undertaken in an efficient and transparent decision making process so the best projects would be selected and financed.

In response to the Secretariat's first question addressed to this roundtable (see annex), some participants advocated research-oriented seminars at this point rather than additional multi-stakeholder consultations on debt sustainability. Indeed, both UNCTAD and the United Nations Development Programme had recently embarked on organizing such activities, including multi-stakeholder consultations at national level. However, a participant from a developing country government called for continuing to bring together governments, civil society, multilateral institutions and donor governments to work on these issues. Her concern that there was too much confusion regarding debt relief and sustainability was echoed by another developing country government participant, who avowed that each stakeholder has his own concept of sustainability, and it was necessary to get more clarity. Another official participant emphasized that the Bretton Woods institutions hold many seminars and that something deeper than a seminar was needed. It was further argued that when civil society "pushes back" with their analyses of country situations and critiques of proposed principles for the international community to apply, as on debt sustainability, the international financial institutions become more careful in their own analytical work.

### Paris Club and debt workout mechanisms

On the question of the functioning of the Paris Club, it was pointed out that the Club worked closely with IMF, and that a Fund programme was a prerequisite for Paris Club negotiations. However, the Paris Club did not add more conditionality than that already agreed to under a Fund programme, with one exception: a few countries include human rights questions in bilateral agreements to implement a Paris Club "agreed minute." For a country to obtain a Paris Club agreement it is also necessary to have a good track record of cooperation with its creditors. On the Secretariat's question about a proposal to deal with liquidity problems with more multilateral resources and to apply debt reduction only when addressing solvency problems, the broad view was that in practice distinguishing between the two is often difficult.

It was argued that the Paris Club was relatively efficient as a negotiating forum to decide debt relief compared to the time needed for a country to negotiate with its commercial bank creditors in a London Club arrangement. This notwithstanding, Paris Club agreements do not bind non-Paris Club official creditors and debt-crisis countries often experience long delays when trying to deal with unpayable debts owed to this group of creditors. Participants generally agreed that the comparability of treatment of private and official creditors in a debt workout was a sound principle, but, as one participant pointed out, there are currently no international structures to ensure that Paris Club and non-Paris Club creditors actually give comparable treatment.

A structure such as the IMF-proposed Sovereign Debt Restructuring Mechanism might have been a step in that direction; however, the proposal did not win enough support for discussion of it to continue at IMF. A number of other proposals have been put forward by international organizations and civil society. One such idea mentioned in the roundtable was to explore developing a mechanism modelled on Chapter 9 of the bankruptcy law of the United States, which applies to municipalities.

Responding to another question put by the Secretariat, various participants proposed that issues related to the Paris Club be addressed within the existing international framework, and that there is no need to create a new multi-stakeholder working group to deal with this topic. Participants saw that the Paris Club has evolved over the years, and that it is a more transparent institution than ten years ago. It was pointed out that in the last few years, UNCTAD and the Paris Club Secretariat engaged in joint training seminars for debtor countries, a practice that could not have been envisaged a decade ago.

### South-South debt question

Participants broadly agreed that while there was a problem of South-South debt, it was not of such a magnitude as to justify the creation of a multi-stakeholder working group to consider it. Nevertheless, it was stressed that the co-ordination of creditors is an important issue, as uncoordinated lending at concessional and commercial interest rates might result in renewed debt sustainability problems in a number of post-HIPCs. It was emphasized that a number of international organizations are concerned by such practices, and that efforts are being made to improve co-ordination among creditors.

Some participants claimed that debtor country governments have not exhibited a similar level of collaboration so far. Nevertheless, cross-border cooperation among civil society organizations in debtor countries appeared to function well, in the sense that there were a number of examples in which non-governmental organizations created a common position on debt issues for a whole region. It was suggested that more effective cooperation among governments could strengthen their position in the international financial system.

**Who pays for errors?**

Discussants agreed not to deliberate on the last two questions on the Secretariat's list. Rather, they devoted considerable attention to a problem brought by a participant that was said to have arisen from World Bank misclassification of her country. When the country entered the transition process from a centrally planned economy to a market-based system, the World Bank classified the country as middle-income. However, this assessment proved to be faulty, and was recognized as such by the Bank. The country was reclassified as an "IDA-only" country (meaning, it was judged of sufficiently low income to borrow from the World Bank only on IDA's concessional terms). The difficulty for the country was that during the period of its initial classification, a number of non-concessional IBRD loans had been extended. It was said that the country finds it hard to service these obligations and would like to see them converted into IDA loans.

Participants pointed out that something like this problem had arisen in the 1980s for developing countries that had been reclassified from IBRD to IDA borrowers. In that case, a portion of funds received from overall IDA principal repayments was set aside for special additional loans to selected "IDA-only" countries that had once been IBRD borrowers. These were countries that had seen their per capita income fall so low as to only be able to take new loans on IDA terms. Eligible countries then used these "Fifth Dimension" loans to pay interest on their outstanding IBRD debt. The case at hand differs from the Fifth Dimension programme in that the reclassification to IDA-only status was said to have not been the result of a severe decline in GDP per capita (although that had happened as well), but of acknowledged error in GDP measurement.

One of the participants noted that this was an example of a more general critique one could make of the international financial institutions, in that borrowing countries are held responsible for repaying loans even when the loans were based on "bad advice." In commercial law, a private firm can apparently contest the obligation to another firm in such a situation, but not in relations between a sovereign borrower and a multilateral institution. This he said was unfair to the borrowing countries.

## ROUNDTABLE 2: ISSUES FOR GOVERNMENTS ACCESSING INTERNATIONAL PRIVATE FINANCING

Mr. Nazem Abdalla, Team Leader for Regional Integration and Financing for Development at the UN Economic and Social Commission for West Asia in Beirut and Mr. David Beers, Managing Director for Sovereign and International Public Finance Ratings at

Standards & Poors in London, jointly moderated Roundtable II. The discussion focused on issues for governments accessing international private financing. Twenty-nine people attended the roundtable, representing governments, central banks, NGOs, private sector companies, international organizations and UN regional commissions. The dialogue was lively and challenging, with participants discussing and — unique in the series of roundtable discussions — taking straw polls on proposals contained in each of the five questions that the Secretariat had presented as a basis for discussion.

**Impact on policy making of the focus on debt sustainability**

Participants reached informal consensus in favour of calling for an international discussion of the impact on policy making of the focus on debt sustainability. Emphasis was first placed on the importance of including in the concept of debt sustainability more than the question, "does a country pay up?" It was suggested that the starting places to look for relevant criteria for debt sustainability was in the IMF Debt Sustainability Framework and the United Nations Secretary-General's linkage, as contained in his report "In Larger Freedom,"[3] of debt sustainability and the financing of the MDGs. Research being conducted by NGOs was also offered as a possible basis for further inquiry.

Several participants called for broadening the approach to debt sustainability and policy making. They stressed that the issue should not only be considered within the HIPC context, but should be used by countries accessing capital markets as well. The discussion also emphasized that an examination of broader aggregates than just the standard indicators is essential to investors who seek to understand the strategy of a country and its economic outlook in order to get a good perspective on investment opportunities.

It was felt that no single model of debt sustainability can be used in policy making. That is why, for instance, the ratios used by the IMF and World Bank for HIPC relief or for classifying low-income countries for eligibility for grant financing may need to be adapted before being used by individual countries. Participants also believed that several lessons could be drawn from past experiences and should be leveraged to analyze potential impacts of policy making on debt as well as vice versa. In particular, experience has shown that static approaches often proved to be wrong, as changes in key elements such as world commodity prices could affect debt sustainability analyses of concerned exporting countries.

Issues of volatility and uncertainty were discussed, in particular with regard to the role of official foreign reserve holdings. Reserves can serve to reduce uncertainty in a context of generalized risk arising from foreign exchange markets, commodities or interest rates, but discussants noted that priority policy concerns often differed among countries. China and India were mentioned as cases in which exchange rate policy shapes decisions on reserve accumulation. This was possibly gaining importance in other Asian countries as well. On the other hand, Brazil or Turkey were said to run primary surpluses and accumulate reserves mostly to build investor confidence. The opportunity cost on policy making of holding high levels of

[3] Report of the Secretary- General "*In larger freedom: towards development, security and human rights for all*" (A/59/2005).

reserves versus investing in development projects was also mentioned as among elements worth working on in a proposed international discussion. Countries focusing on sustaining investor confidence through high levels of reserves may leave essential services unfunded, raising questions in the minds of investors about the long term political sustainability of such a focus.

Finally, just as there are different approaches to debt policy among developing countries, other actors also take different considerations into account when assessing debt sustainability strategies. For example, the private sector, when considering investment opportunities, tends to focus on the financial repayment capacity of a country rather than on the MDGs (even though there is increasing awareness of the initiative). It was also noted that private investors tend not to focus on long-term growth, as they do not hold their financial assets for long periods of time. In contrast, NGOs tend to pay more attention to the MDGs as a way to gage the sustainability of indebtedness and place emphasis on a country's sustainable development capacity. The different approaches of the various actors need to be taken into account if there is to be a full discussion.

**Debtor/creditor transparency**

Participants agreed that the creation of a multi-stakeholder working group on debtor and creditor transparency could be beneficial, as they were all in favour of more transparency on debt issues. Examples of efforts to improve transparency were provided, including the case of Mexico's Investor Relations Office. Other examples focused on the need for greater transparency in specific areas were provided, regarding for instance IMF Article IV reports, which are not always made available by Governments, IMF Executive Board decisions, and decisions of national export credit agencies (ECAs).

It was felt that transparency was a shared responsibility. Creditors in particular need to enhance their role in that regard. Creditor reporting was described as often insufficient and some called for establishing standards on minimum disclosure to constituencies, in particular for ECAs. ECAs illustrate how public information can often be insufficient on the official creditor side. European ECAs for instance offer limited access to inquirers even for important projects, and non-disclosure policies generally make it very difficult to understand creditors' decision-making processes.

The so-called "Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets" were also discussed as a way to increase transparency by providing guideposts for cooperative behaviour of all concerned parties. The use of standardized information templates was highlighted as a useful way to increase transparency. As some templates already exist, it was proposed that examining them in the context of identifying best practices would be useful.

The need for civil society in debtor countries to be informed of agreements made between their government and creditors was also emphasized, as information was apparently often withheld by the relevant authorities. It was stated that the lack of information hinders the ability of members of civil society to engage in dialogue at the national level.

**Additional mechanisms for improved debt workouts**

The proposal to create a multi-stakeholder working group to explore additional mechanisms to improve debt workouts was widely supported and discussed at length. Participants agreed with the proposal that the working group examine such issues as a code of conduct for sovereign debtors and their creditors, operationalization of the doctrine of "odious debt," and provision of arbitration or mediation services to facilitate dispute settlement. While there was no agreement on the shape that an additional mechanism or mechanisms should take, there was a feeling that if an assured international debt workout mechanism existed, it would make creditors and debtors more cautious in lending and borrowing, which would be good.

Participants suggested that a multi-stakeholder working group could examine the seniority of creditors' claims, as there is an ongoing debate as to whether certain creditors should have priority over others.[4] They also highlighted the possible need to address issues such as "rogue" creditors, "rogue" debtors and the creation of an international legal framework. Discussants considered a number of related questions, such as what happens when a sovereign debtor does not want to come to the table and whether or not that is a legitimate option?

Regarding the question of creating an international legal framework for debt workouts, doubts were raised about the feasibility of such a framework in light of the diverse interests and incentives across actors. Participants noted that such efforts might encounter similar challenges to those faced in the creation of the International Criminal Court, which enjoyed broad international support but where not all countries were willing to participate. However, it was pointed out that the presence of such diverse interests could in fact justify the formation of such a mechanism to facilitate a clean agreement process. The opinion was also expressed that the public sector approach to restructuring has become too politicized and that an enforceable mechanism may be useful.

There was interest as well in the concept of "odious" debt, but it needed to be defined clearly and made operational. The participants discussed the issue at length, but did not arrive at an agreement on how to approach the problem. Some participants felt that they should have a general definition, whereas others believed that time could be better spent by working on a case-by-case basis to identify what specific debts should be labelled as odious. Some participants noted that efforts to identify odious debt were being undertaken independently by some legal and academic writers, but that those involved were not well informed about each other or interacting adequately. A working group could begin a more systematic consideration of the issue. Within this context, the discussants also raised the point that some *ex ante* assessments of odious debt might well conflict with actual behaviours *ex post*.

**Other issues**

Discussants agreed that a study group was not required to examine proposals to bring

[4] This topic had been raised as well in the other roundtable, where it was noted that there was no legislation requiring that the multilaterals be accorded "preferred creditor" status, meaning obligations to them had to be repaid before those of any other creditors. It was simply a convention, albeit one that the major shareholders in those institutions preferred to maintain and that the bilateral and private creditors accepted.

new financial instruments to market to share sovereign credit risk, such as internationally marketed local currency bonds, GDP bonds, commodity bonds, or catastrophe bonds. A few participants felt that that the topic was not a high priority issue: markets will tend to offer any kind of financial instrument if there is a demand, and in the absence of demand such instruments are probably irrelevant. The work being undertaken by the Inter-American Development Bank and IMF was also mentioned and examples of existing instruments offered by multilaterals and governments were provided, such as commodity-indexed bonds from the World Bank and GDP-indexed bonds recently introduced by Argentina.

Discussants decided not to discuss the proposal that a multi-stakeholder working group be formed to consider ways to better inform small investors about risky international investments. Some felt this issue could be incorporated in the work on issues of transparency.

## CONCLUSION

The Secretariat's central hypothesis in organizing the multi-stakeholder consultations on "sovereign debt for sustained development" was that stakeholders from governments of North and South, international institutions, the private sector and civil society could fruitfully talk to each other about debt. This hypothesis was built on the experience of the Financing for Development process that had prepared the Monterrey Summit in March 2002. Never before had members of all the relevant stakeholder groups come together simultaneously for informal exchanges on issues of financing as it related to development, facilitated by the UN in effective cooperation with the other "major institutional stakeholders" (Bretton Woods institutions and World Trade Organization). The chemistry in the meetings that built toward Monterrey worked. Did that reflect a unique set of circumstances or could it be replicated and for a more detailed level of inquiry? The experience of the debt meetings in New York, Maputo and Geneva, in which IMF and the World Bank provided important assistance to the UN team, says it could.

Indeed, in considering proposals arising from the previous discussions, the Geneva roundtables were able to distinguish those on which there was more and less enthusiasm for continued inquiry. In particular, views converged around the prospect of value added from an additional period of multi-stakeholder discussion on three specific themes, namely,

- Elaborating the concept of debt sustainability, its application and impact on policy,
- Enhancing debtor and creditor transparency, and
- Exploring potential additional mechanisms for improved debt workouts.

Such discussions might well facilitate and complement efforts that should be made to move work on these topics forward in the forums responsible for making international policy.

In sum, the Geneva discussions were frank, in some instances more than lively (albeit at other instances less energetic), but always of serious purpose. They often converged toward common understandings and sometimes even agreement. If the participants took away a greater appreciation of different views and if this helps inform discussions in policy-making forums, the multi-stakeholder consultations on debt will have been a resounding success. Only time will tell.

## Annex. Secretariat proposals for consideration in roundtables

### I. Issues of primary concern to low-income countries

**1. Should there be a multi-stakeholder working group on debt sustainability?**

This would be about the concept of 'debt sustainability' and its application in particular by low-income countries, not the current focus on grants versus loans of the International Development Association (IDA). It could take up how to operationalize the Secretary-General's call in his "In Larger Freedom" report to redefine debt sustainability as that debt level that allows a country to both achieve the Millennium Development Goals and reach 2015 without an increase in its debt ratios. It could also address technical issues, like how to account for arrears, contingent liabilities, and consider 'social stress testing.'

**2. Should there be an international discussion of the Paris Club, including by the Bretton Woods institutions and debtor governments, as in the Executive Board of the International Monetary Fund (IMF)?**

The Paris Club is an informal club that makes its own rules, but it is also part of the international financial architecture. It has responded to attacks with several reforms (greater transparency, meeting with private creditors, the Initiative for the heavily indebted poor countries (HIPCs) and Evian Approach), but Paris Club debt treatments are still very complicated and protracted processes. Also, for liquidity problems, there could be an alternative to expensive Paris Club arrangements, namely additional IMF lending. When should the international community lend or reschedule?

**3. Should developing countries form a South-South working group to develop processes and principles for resolving South-South debt problems?**

There are numerous difficult cases of official creditors from Southern countries having claims on other Southern countries, including HIPCs. Some South-South debt is resolved as part of HIPC programmes, but there is a lot of unresolved debt and no clear approach to resolving it.

**4. Should there be a system of independent and credible monitors to help fully implement HIPC and other agreements by monitoring implementation of commitments of the debtor and its creditors?**

As sovereigns and multilateral institutions accord most debt relief for low-income countries, there is no enforcement mechanism on the creditors. There is, however, close monitoring of the debtor government by IMF. The monitor could 'name and shame' the recalcitrant creditors and call for pressure for them to meet their obligations.

**5. Do we need a multi-stakeholder discussion process on how to close the 'financing gap'?**

There has been a lot of focus on raising official development assistance (ODA) in general and on delivering additional HIPC relief, although the modalities are not fully agreed yet. The discussion of grants versus loans in IDA masks a broader question: usually grants and loans finance different kinds of activities; will aid allocations overall be distorted by a generalization of the IDA debt-sustainability analysis? In any case, this takes us only part way to closing the gap.

## II. Issues of primary concern to countries accessing financial markets

**1. Should there be an international discussion of the impact on policy making of the focus on debt sustainability?**

One way countries have sought to build investor confidence is to run large primary budget surpluses, which ensures resources are available to service debt in the short run. But if essential services are underfunded, the policy can be politically unsustainable. Also, are some countries building up official reserves to excessive levels to minimize default risk at too great an opportunity cost in terms of foregone investment and growth?

**2. Should there be a multi-stakeholder working group on debtor/creditor transparency?**

There has been a general policy thrust towards making more information available, but is it all the right information at the right time? What information should private and official creditors reveal? What should be in the standard templates used to inform the investor community?

**3. Should there be an independent study group on bringing new financial instruments to market to share credit risk in sovereign debt in different ways?**

There have been a number of proposals – like internationally marketed local currency bonds, GDP or commodity bonds, or catastrophe bonds – and some issues have been sold. However, these seem to be largely niche items and some proposals of only a year ago have already disappeared (see Issues Paper). Is there a role for policy in helping to introduce innovative financing instruments?

**4. Should a multi-stakeholder working group be formed to consider ways to better inform small investors about risky international investments?**

Consumer/investor protection through appropriate provision of information may require strengthening, based on the European experience with Argentine bonds. There do not seem to be adequate safeguards or industry standards or codes. Would such a working group raise consciousness of the issue and perhaps lead to stronger guidelines?

**5. Should a multi-stakeholder working group be formed to explore additional mechanisms for improved debt workouts?**

The flurry of proposals and consideration of reform has largely passed, with only minor changes in how sovereign debt crises are treated. The proposals had been tabled out of dissatisfaction with the existing system. The proposals were rejected, not because the existing system was considered ideal, but because the proposals were deemed worse by a large number of stakeholders. Nevertheless, interest continues in exploring ideas like a code of conduct for sovereign debtors and their creditors, operationalizing the doctrine of ‘odious debt,’ or offering mediation or arbitration services to facilitate effective and fair dispute settlement. Is it time to return to reform discussions (as recommended by the Secretary-General in his report to the coming High-Level Dialogue on Financing for Development)?