United Nations A/AC.257/27/Add.9

General Assembly

Distr.: General
20 September 2001

Original: English

Preparatory Committee for the International Conference on Financing for Development
Resumed third session
15-19 October 2001
Agenda item 2
Review of the inputs to the substantive preparatory process and the International Conference on Financing for Development

Technical notes

Note by the Secretary-General

Addendum

Technical note No. 9:* Existing proposals to ensure availability of sufficient international liquidity in order, inter alia, to avoid unnecessary recessive adjustment process

I. Introduction

1. Even with appropriate preventive policies adopted at the international and national levels, it is very probable that financial crises will continue to arise. Calls are made for the creation of adequate multilateral mechanisms to manage them, which preferably should also have a preventive function. Equally important are the domestic measures that should accompany international action.

2. There are essentially three ways to confront international financial crises. The first would be to create an emergency financing service, which partially replicates, on the international level, the "lender of last resort" functions of central banks. The second option is to accept that the countries affected by the crisis have to temporarily suspend their debt service and outflows of portfolio capital. An alternative to unilateral measures by crisis countries is defining orderly multilateral rules for this type of action. The two options are not mutually exclusive. Indeed, the second may be necessary to ensure adequate distribution of the adjustment burdens between debtors and creditors and to avoid the "moral hazard" problems associated with emergency financing. A third way (which would also reduce moral hazard) is that of macroeconomic adjustment by the crisis country, often associated with an International Monetary Fund (IMF) programme. The proposals below address the three ways mentioned here.

* The preparation of the present technical note was coordinated by the Economic Commission in Latin America and the Caribbean (ECLAC). Staff from the following entities collaborated, in a personal capacity, in its preparation: other United Nations regional commissions, the Department of Economic and Social Affairs of the United Nations Secretariat, the International Monetary Fund (IMF) and the United Nations Conference on Trade and Development (UNCTAD).

01-54631 (E) 081101

II. List of proposals

3. In the list that follows, the origin of the proposal and the intergovernmental body to which the proposal was presented have been identified except in the case of ministerial communiqués (for example, the Intergovernmental Group of Twenty-four on International Monetary Affairs (G-24) ministerial communiqués are regularly presented to the IMF International Monetary and Financial Committee and the joint IMF/World Bank Development Committee and the results of the United Nations conferences are regularly presented to the General Assembly).

On international liquidity

Reviving special drawing rights (SDRs)

1. *Origin*: Report of the High-level Panel on Financing for Development, United Nations, June 2001 (see A/55/1000)

Presented to: Secretary-General of the United Nations

Proposal: "Consideration should also be given to reviving the special drawing rights (SDRs) created by IMF in 1970. The original intent of the SDR system was to allow international reserves to be increased, in line with need, without imposing real costs on the average country. In effect, no allocation has been made since 1981. Developing countries have had a strong need in recent years to build up reserves to reduce their vulnerability to crises, and have financed this build-up either by running current-account surpluses or by borrowing on terms much more onerous than those associated with SDRs. The result is a large flow of what is sometimes called 'reverse aid'. To prevent it or at least reduce it, IMF ought to resume SDR allocations" (see recommendations of the Panel, sect. entitled "Systemic issues: innovative sources of finance").

2. *Origin*: Report of the Secretary-General to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development at its second substantive session, United Nations, 18 December 2000 (A/AC.257/12)

Presented to: Preparatory Committee

Proposal: "The high-level event should suggest that, in view of the possibility of multiple and simultaneous financial crises, IMF, in cooperation with other relevant international institutions, undertake an assessment of the global capacity to respond to emergency needs for international liquidity, including the feasibility of temporary allocations of special drawing rights" (boxed boldface text between paras. 159 and 160).

3. *Origin*: Report of the Regional Consultation on Financing for Development in the Western Asia Region, Beirut, 23 and 24 November 2000 (A/AC.257/16)

Presented to: Preparatory Committee

Proposal: "The practice so far has been to provide assistance coordinated by IMF, to countries facing capital-account problems, after the collapse of currencies, in the form of bail-outs designed to meet the demand of creditors, maintain capital-account convertibility and prevent default. Such assistance has been associated with policy conditionality that went at times beyond macroeconomic adjustment. In other words, efforts have aimed at sparing hazard for international lenders and investors by putting the burden on debtors. To redress this situation, in addition to the role of IMF in providing current-account financing, ensuring systemic stability also requires contingency financing to countries experiencing payment difficulties linked to the capital account. Issuing reversible SDRs for use in the provision of international liquidity should be considered. The terms under which IMF would play the role of lender of last resort should be worked out" (para. 65).

4. *Origin*: Economic Commission for Latin American and the Caribbean (ECLAC) secretariat, "Growth with stability: financing for development in the new international context" (LC/G.2117 (CONF.89/3))

Presented to: Latin American and Caribbean Governments at the Regional Consultation on Financing for Development in the Latin America and the Caribbean Region, Bogotá, 9 and 10 November 2000 (see A/AC.257/17 for summary)

Proposal: "To respond flexibly to financing needs during times of crisis, IMF's resources should be expanded considerably. Among the available alternatives, the most appropriate one is the temporary allocation of SDRs to member countries during crises. Those that do not face financing needs would keep these resources on deposit with the Fund itself in interest-bearing accounts. These temporary allocations could later be destroyed in order to avoid generating permanent liquidity. Another option would be to allocate the SDRs exclusively to member countries in crisis, which would repay IMF after the crisis subsides, at which time the SDRs would be destroyed. The third possibility is for IMF to make an allocation of SDRs to itself for use during times of crises. The latter two options would require the amendment of the IMF Articles of Agreement.[1] Of course, greater use of SDRs in the international financial system is an end in itself, which has long been advocated by developing countries" (chap. 2, sect. 4 (a), last paragraph).

5. *Origin*: G-24 ministerial communiqué, 23 September 2000, Washington, D.C.

Proposal: "Ministers reiterate their support for the study of a systemic emergency facility that could decisively underpin confidence in the international system when confronting extremely severe market crises. In this regard, Ministers recall proposals for IMF to be authorized in the event of a systemic liquidity crises to provide, through the temporary creation of SDRs, additional liquidity as needed — and to withdraw it when the need has passed. Ministers reiterate their call for a study of this matter and propose its discussion at the autumn 2001 International Monetary and Financial Committee meeting" (para. 23).

6. *Origin*: G-24, ministerial communiqué, 25 September 1999, Washington, D.C.

Proposal: "Ministers consider that the SDR instrument should be more readily used to supplement members' reserves at times of liquidity uncertainties. The present circumstances, in which developing countries are faced with a sharp contraction in capital flows and very high interest rate spreads, justify in our view a sizeable general SDR allocation. Such a strengthening of members' reserves would also give more confidence to members seeking a greater integration into the world economy" (para. 15).

7. *Origin*: Report of the Task Force of the Executive Committee on Economic and Social Affairs of the United Nations entitled "Towards a new international financial architecture", 21 January 1999

Presented to: General Assembly and Economic and Social Affairs

Proposal: "IMF resources should be enlarged in order to enable it to enhance the stability of the international financial system. Three channels can be considered. First, effective and swift mechanisms should be devised to increase its access to official funds in times of crises. Second, it could be granted authorization to borrow directly from financial markets under those circumstances. Third, and perhaps most importantly, SDRs could be created when several members face financial difficulties. The SDRs thus created would be destroyed as borrowings were paid. These mechanisms would facilitate the creation of additional liquidity at times of crises, without the painstaking negotiations of quota increases or arrangements to borrow. Moreover, current arrangements to borrow exhibit the shortcoming that they are activated only under systemic threat and after the approval of the suppliers of funds, with the corresponding delays in making new funds available to the Fund and the countries in distress. Indeed, the anticyclical use of SDRs to manage financial cycles should be part of a broader process aimed at enhancing their use as an appropriate international currency for a globalized world" (sect. 5, third paragraph).

Improved IMF facilities

8. *Origin*: United Nations Conference on Trade and Development (UNCTAD) *Trade and Development Report*, *2001* (United Nations publication, Sales No. E.01.II.D.10)

Presented to: UNCTAD Trade and Development Board

Proposal: "Given the increased instability of the external trading and financing environment of developing countries, an effective reform of the Bretton Woods institutions should seek to improve, not eliminate, counter-cyclical and emergency financing for trade and other current transaction" (overview, sect. entitled "Reforming the international financial architecture", seventeenth paragraph).

9. *Origin*: Report of the Managing Director to the International Monetary and Financial Committee on IMF in the process of change, 25 April 2001

Presented to: International Monetary and Financial Committee

Proposal: "Executive Directors agreed that less intensive monitoring arrangements than under other Fund facilities would be appropriate for members that had strong track records on policies and qualified for the CCL (Contingent Credit Lines). Executive Directors also agreed that the conditions for complementing the activation review should be simplified to ensure the member using the CCL of greater automaticity in the disbursement of resources. In addition, the Board reduced the initial rate of charge to half of the surcharge under the Supplemental Reserve Facility (SRF) and also reduced the commitment fee on CCL resources" (para. 18).

10. *Origin*: President of the Inter-American Development Bank

Presented to: Eighty-second meeting of the Committee of the Board of Governors, Santiago de Chile, 18 March 2001

Proposal: "Emergency assistance: the bank should provide support in emergency situations caused by financial market volatility, as has occurred during recent years. It should be noted, though, that it is not the responsibility of multilateral development banks to take an active part in resolving financial crises, which should mainly be dealt with by IMF. However, alleviating the impact such crises have on the masses directly concerns development banks' responsibilities. One of the main factors in the setback in the fight against poverty over the past few years has been the dramatic impact of recent crises on the standard of living of the working class, massive disappearance of small and medium-sized enterprises, and the resulting increase in unemployment."

11. *Origin*: G-24 ministerial communiqué, 23 September 2000

Proposal: "Ministers note the intensive efforts currently under way for reforming IMF facilities and hope that the latest decisions of IMF's Executive Board — especially the elements relating to making the CCL more attractive — would constitute an important improvement in the operation of the facilities. They note, in particular, that the preventative character of the CCL has been considerably strengthened by the proposed greater automaticity of its activation by countries faced with contagion. Ministers also welcome the increased incentives that the CCL could provide to eligible countries to maintain good policies. They urge the international community to support the early eligibility of interested members. Ministers underscore the following imperatives in the future evolution of IMF's various facilities. First, there should be sufficient flexibility in the administration of the facilities to meet the diverse requirements of IMF's heterogeneous membership, given their different stages of development and the variety of shocks affecting them. In this context, Ministers propose that, should the present level of oil prices be sustained, access under the Compensatory Financing Facility and the Poverty Reduction and Growth Facility (PRGF) should be more flexible. Second, changes in the facilities must not jeopardize the fundamental cooperative character of IMF. Third, IMF financing should be complementary to borrowing from capital markets rather than a substitute, in view of the fact that structural reforms take relatively longer to formulate, implement, and bear fruit, depending on the country's degree of integration into the global economy" (para. 19).

12. *Origin*: G-24 ministerial communiqué, 15 April 2000, Washington, D.C.

Proposal: "Ministers express serious concern about proposals for the reform of the Bretton Woods institutions in ways that would deprive access to either IMF or World Bank Group resources for any group of members, and especially for the poorer members whose eligibility for other sources of assistance is dependent upon the catalytic role performed by the Bretton Woods institutions. They regard proposals for raising the cost of access to the Bretton Woods institution facilities as shifting the burden of resource provision from one set of developing countries to another. In this context, Ministers have strong reservations regarding any significant shortening of maturities for IMF facilities that are provided in support of members experiencing balance-of-payments disequilibria of a structural character and that could not be corrected in short order. They call for further work on how the CCL could be modified to improve incentives for its use through moderating its cost, reducing the potential risk of sending negative signals to markets, and simplifying procedures on its activation. Ministers underscore the importance for the Bretton Woods institutions to maintain a range of instruments to address the needs of their diverse memberships" (para. 8).

Regional monetary funds

13. *Origin*: Report of the Regional Consultative Meeting on Financing for Development in the European Region, Geneva, 6 and 7 December 2000 (A/AC.257/15)

Presented to: Preparatory Committee

Proposal: "... the recent financial crises in Asia and the Russian Federation have also shown that international capital movements are inherently unstable and can trigger severe financial (banking, currency, debt) crises, with attendant severe economic and social costs. In view of their strong dependence on foreign capital, developing countries and transition economies are especially vulnerable to the excessive volatility of such flows. Efforts to mitigate or prevent such financial crises should therefore be at the top of the policy agenda. This is all the more urgent because such crises reflect the impact of both policy failures and market failures" (para. 50).

14. *Origin*: ECLAC secretariat, "Growth with stability: financing for development in the new international context" (LC/G.2117 (CONF.89/3)) (see A/AC.257/17 for a summary thereof)

Presented to: Latin American and Caribbean Governments at Regional Consultation on Financing for Development in the Latin American and the Caribbean Region, Bogotá, 9 and 10 November 2000

Proposal: "Considering that financial contagion has a significant regional component, the existence of regional funds would have important advantages over an architecture with only a global fund. The first advantage lies in the possibility of changing financial agents' expectations and behaviour towards the region as a whole, thus preventing contagion. With expanded international reserves provided by other members of the fund, and perhaps also lines of credit (including contingent lines) obtained by the fund on international markets on better terms and in larger quantities than individual countries, the participating countries would have much stronger defences against crises. As has already been noted, the fund could also play a major role in the efforts to coordinate macroeconomic policies and prudential norms" (chap. 2).

15. *Origin*: Asia and the Pacific Region Governments at Regional Consultation on Financing for Development in the Asia and Pacific Region, 2-5 August, 2000, Jakarta, Indonesia

Presented to: Preparatory Committee

Proposal: "It was generally felt that the Asia and Pacific region had great potential for increasing regional cooperation.

"• Implementation of regional cooperation should be a phased process, beginning with those measures that are easiest to implement.

"• The measures agreed by the Finance Ministers of the Association of South-East Asian Nations countries, China, Japan and the Republic of Korea (ASEAN+3) in Chiang Mai, Thailand, were good examples, and strong support was expressed in favour of pursuing actions in this direction.

"• The use of the inter-bank swap arrangements agreed in Chiang Mai should allow for the participation of countries at different levels of openness and development in regional arrangements. They provide the potential for deeper cooperation in this area.

"• Another area for regional cooperation involves establishing a legal regulatory framework for international banks operating in the region" (para. 50).

16. *Origin*: Asia and the Pacific Region Governments at Regional Consultation on Financing for Development in the Asia and Pacific Region, 2-5 August 2000, Jakarta, Indonesia

Presented to: Preparatory Committee

Proposal: "The proposal for the establishment of an Asia Monetary Fund needs to be pursued; such an institution could be an important step towards the prevention and management of financial crisis" (see para. 51, third bulleted subparagraph).

17. *Origin*: Meeting of Asian Finance and Central Bank Deputies, agreed summary of discussions, Manila, Philippines 18 and 19 November 1997

Proposal: "Deputies agreed on the need and desirability of a framework for regional cooperation to enhance the prospects for financial stability. This framework, which recognizes the central role of IMF in the international monetary system, includes the following initiatives: (a) a mechanism for regional surveillance to complement global surveillance by IMF; (b) enhanced economic and technical cooperation particularly in strengthening domestic financial systems and regulatory capacities; (c) measures to strengthen IMF's capacity to respond to financial crises; and (d) a cooperative financing arrangement that would supplement IMF resources" (para. 3).

Streamlining conditionality in adjustment programmes

18. *Origin*: Report of the High-level Panel on Financing for Development, United Nations, June 2001 (A/55/1000)

Presented to: Secretary-General of the United Nations

Proposal: "In IMF, the shift to crisis prevention, including the timely detection of external vulnerability, is yet to be completed. Another important pending issue is the streamlining of the Fund's conditionally." The Fund frequently imposes too many conditions and unrealistic demands on borrowing countries, exceeding its core mandate and taking insufficient account of domestic authorities' willingness and capacity to execute its demands. "Without impairing the Fund's ability to comply with its core mandate, borrowing countries should be given the opportunity to choose their own path to reform" (see recommendations of the Panel, sect. entitled "Systemic issues: faster reform of the international financial architecture").

19. *Origin*: Managing Director, IMF, statement on the occasion of the Spring Meeting of the International Monetary and Financial Committee 29 April 2001, Washington, D.C.

Presented to: Spring Meeting of the International Monetary and Financial Committee, 29 April 2001, Washington, D.C.

Proposal: "Conditionality remains indispensable for safeguarding the Fund's resources by ensuring that they are used appropriately to promote adjustment. It is also clear that structural change is indispensable for sustained growth. But countries cannot do everything overnight. Thus, there is a need to decide on priorities, focusing the Fund's conditionality on those measures that are critical to the macroeconomic objectives of country programmes. The aim of streamlining should be to leave member countries' scope to make their own policy choices and thus develop the political support necessary for a sustained reform process, while tackling vigorously the main problems that have brought them to IMF for financial support" (sect. 5, first paragraph).

20. *Origin*: G-24 ministerial communiqué, 28 April 2001, Washington, D.C.

Proposal: "Ministers note that IMF conditionality has become excessive during the last decades in both magnitude and scope, particularly in areas that lie outside the Fund's mandate and expertise. They emphasize the need to take into account the institutional capacity and domestic legislative processes of programme countries in implementing conditionality. Furthermore, excessively broad and detailed conditionality undermines the national ownership of programmes, which is essential for their successful implementation, and hinders compliance with the Fund's conditionality. The conditions applied to low-income country programmes seriously strain their administrative capacity, especially when they are combined with additional conditions included in programmes with the World Bank, the regional development institutions and bilateral donors. Ministers welcome the review initiated by the Managing Director of IMF of the scope of conditionality in Fund-supported programmes and the decision of the Fund Board to implement the proposed shift from broad coverage to a more selective application of conditionality. They emphasize that the objective is not to weaken, but to streamline conditionality and make it better focused, more effective, and less intrusive, as well as to enhance programme ownership. Ministers stress the importance of the principle of uniformity of treatment of all countries, while taking into account the particular circumstances of each country. In addition, they underline the importance of a comprehensive revision of Fund programme design. They stress the need for technical assistance for the development of institutional capacities in these countries. Ministers note that efforts to streamline conditionality should also address the issue of how to better define the division of labour between the Fund and the World Bank, while preventing cross-conditionality. Conditionality in areas outside the Fund mandate should not be included in Fund-supported programmes" (para. 12).

21. *Origin*: Report of the Regional Consultative Meeting on Financing for Development in the European Region, Geneva, 6 and 7 December 2000 (A/AC.257/15)

Presented to: Preparatory Committee

Proposal: "The overriding principle of international financial institution (IFI) assistance, including in the field of finance, must be 'country ownership'. Conditionality is an essential part of concessional lending, but the nature of conditionality should be reviewed in the context of prevailing domestic economic fundamentals, which will differ across countries. It was noted that conditionality is an important indicator for private investors and lenders" (para. 54).

22. *Origin*: Report of the Regional Consultation on Financing for Development in the Western Asia Region, Beirut, 23 and 24 November 2000 (A/AC.257/16)

Presented to: Preparatory Committee

Proposal: "The second theme is crisis resolution and management, through a rationalization of the role of IMF by focusing on its core functions and simplifying its facilities structure, streamlining conditionality, greater transparency in the Fund's own operation and stronger safeguards on the use of its resources, wider involvement of stakeholders in the design of adjustment programmes and closer involvement of the private sector in crisis resolution" (para. 51).

23. *Origin*: G-24 ministerial communiqué, 25 September 1999, Washington, D.C.

Proposal: "Ministers express concern about the intrusiveness into socio-political matters — stretching beyond the mandate of the Bretton Woods institutions — as reflected in the increasing tendency to extend conditionality to issues of governance and social policy. New layers of conditionality are being added with respect to private sector involvement in crisis resolution that are likely to raise the costs of access to markets, if not prevent access altogether. Ministers express their strong reservation to applying Enhanced Structural Adjustment Facility (ESAF) and International Development Association (IDA) conditionality to the regular operations of the Bretton Woods institutions" (para. 11).

On private sector-related issues

Collective action clauses

24. *Origin*: Report of the High-level Panel on Financing for Development, United Nations, June 2001 (A/55/1000)

Presented to: Secretary-General of the United Nations

Proposal: "In the discussions on a new financial international architecture, an important outstanding issue concerns how to prevent lenders from calling in their capital if confidence erodes. For this purpose, bonds should have collective clauses that permit a qualified majority of bond holders to approve changes in their payment clauses. Major industrialized countries should join Canada and the United Kingdom of Great Britain and Northern Ireland in introducing such clauses into the bonds they issue, to ease the way for the adoption of these clauses in bonds issued by emerging markets" (recommendations of the Panel, section entitled "Private capital flows: actions by industrialized countries").

25. *Origin*: G-24 ministerial communiqué, 25 September 1999, Washington, D.C.

Proposal: "Ministers note that some industrialized countries have indicated their willingness to incorporate majority restructuring and majority enforcement provisions in bond issues in their markets, and they encourage other industrialized countries to follow this lead, while reiterating their concern about the possible adverse impact on interest rate spreads of developing countries' bonds" (para. 7).

26. *Origin*: Declaration of G-7 Finance Ministers and Central Bank Governors, Birmingham, United Kingdom of Great Britain and Northern Ireland, 30 October 1998

Proposal: "In addition, as part of the process of developing better ways to respond to crises, we call upon:

> "(i) The private sector to facilitate 'collective action clauses' for more orderly workout arrangements and we will consider the use of such clauses in our own sovereign and quasi-sovereign bond issues;
>
> "(ii) The World bank in cooperation with IMF and other multilateral development banks to work with the members to put in place effective insolvency and debtor-creditors regimes;
>
> "(iii) IMF to move ahead, under carefully designed conditions and on a case-by-case basis, with its recently reaffirmed policy of lending into arrears. We will instruct our Executive Director to monitor application of this policy carefully in the current environment;
>
> "(iv) The private sector to build upon its experience with some emerging market countries in developing market-based contingent financing mechanisms, the conditions of which might provide either greater payments flexibility or the assurance of new financing in the event of adverse market development. The private sector also needs to be involved appropriately in crisis management and resolution" (section entitled "Stability of the international financial system").

Standstill, debt renegotiation and arbitration

27. *Origin*: Report of G-7 Finance Ministers and Central Bank Governors on strengthening the international financial system and the multilateral development banks, 7 July 2001, Rome, Italy

Proposal: "We welcome the progress that has been made recently to involve the private sector in the resolution of financial crises and underscore the need for further progress. We agree on the need for further efforts to implement a range of measures, in particular:

> "• We stress the importance of information-sharing and enhancing the dialogue between countries and their private creditors, both during normal periods and when addressing emerging pressures in the external account;
>
> "• We encourage countries to establish mechanisms to support a dialogue with creditors and call on the Fund to support this process;
>
> "• We also agree on the importance of collective action clauses to facilitate orderly crisis resolution. The international financial institutions should encourage the use of such clauses through their operations" (para. 12).

28. *Origin*: Report of G-7 Finance Ministers and Central Bank Governors on strengthening the

international financial system and the multilateral development banks, 7 July 2001, Rome, Italy

Proposal: “We welcome the agreement by IMF to take further work on the framework for private sector involvement with a view to achieving greater clarity, taking into account the need for operational flexibility. In particular, further efforts are needed to:

“• Review the requirements and procedures used to determine access to IMF financing, including clarifying and strengthening them as necessary in order to reinforce the exceptional character of large official rescue packages. Exceptional financing, through any IMF facility, requires extensive justification. For instance, there should be evidence that the country has experienced a sudden, disruptive loss of confidence; that an early correction of difficulties is expected; and that there is a risk of contagion that could pose a wider threat to the stability of the international financial system. It should also take into account efforts by the debtor country to secure participation by private investors;

“• Enhance the analytical basis for the Fund’s assessment of a country’s financial position. Programmes should include thorough analysis of the country’s medium-term debt and balance-of-payments profile, and prospects for regaining market access. To this end, the Fund should also provide detailed information and programme assumptions about sources of private financing and reinforce the monitoring and assessment, as appropriate, of private flows during programme implementation;

“• Review the experience with the Fund’s policy for lending into arrears;

“• Strengthen the relationship and increase coordination between IMF and the Paris Club in the process of assessing the level and scope of participation of private creditors in debt restructuring cases, especially concerning comparability of treatment;

“• Ensure that all programmes are subject to transparent ex post monitoring and evaluation, with a view to assessing the involvement of the private sector against the assumptions made in the programme” (para. 13).

29. *Origin*: Report of the Regional Consultation on Financing for Development in the Western Asia Region, Beirut, 23 and 24 November 2000 (A/AC.257/16)

Presented to: Preparatory Committee

Proposal: “To face up to financial crises, funds required for bail-outs have been continuously increasing. In order to secure them, ‘involving’ or ‘bailing in’ the private sector has been contemplated. Creditors should share in bearing burdens and be made responsible for their actions. Orderly debt workouts, associated with standstill on servicing, could be considered. They may include reorganization of assets and liabilities of the debtor, including extension of maturities, and, where needed, debt equity conversion and debt write-off. Involuntary mechanisms have been resisted, but it should be emphasized that the need for mandatory provision has arisen precisely because voluntary approaches have not worked in stemming debt runs. Fearing that mandated automatic triggers could reduce their access to financial markets, developing countries have insisted that they first be introduced in sovereign bonds of industrialized countries” (para. 67).

30. *Origin*: ECLAC secretariat, “Growth with stability: financing for development in the new international context” (LC/G.2117 (CONF.89/3))

Presented to: Latin American and Caribbean Governments at the Regional Consultation on Financing for Development in the Latin American and the Caribbean Region, Bogotá, 9 and 10 November 2000

Proposal: “Multilateral rules should be established for contending with the two basic problems of coordination that negotiations of this type entail: the possibility that some creditors (and, eventually, debtors) will resist participating in solutions (the free rider problem), and the slow pace of the process or repeated negotiations, generating high costs for debtors and creditors (‘negative sum game’).

> “To solve the first of these problems, collective action clauses must be included in debt contracts (be they for government bonds, bonds issued by private institutions, or private bank loans) to authorize the countries where the debtors are located to defer payment (as interest accrues) for a limited period, in cases of capital flight for reasons beyond their control, or to unilaterally declare a longer moratorium if their payment capacity is clearly insufficient. These clauses should be universal, applied equally to debt contracts entered into by industrialized countries, so that markets will not penalize countries that introduce such clauses with higher interest rates or more restricted access to funds. Temporary payment suspensions could also be extended to outflows of portfolio capital.
>
> “A solution to the second problem noted above might be the setting up of mutually agreed multilateral arbitration mechanisms to resolve disputes in debt renegotiation or refinancing processes. Further, it would be appropriate to promote flexible agreements so that relatively foreseeable contingencies could be accounted for, with a view to avoiding renegotiations and explicitly encouraging creditors to continue providing resources to countries facing difficulties during critical periods.
>
> “Whatever systems are devised should be applicable to all countries, regardless of their level of development” (chap. 2, sect. 4 (b)).

31. *Origin*: News release of G-20 Finance Ministers and Central Bank Governors, Montreal, 25 October 2000

Proposal: “We believe that encouraging the wider use of mechanism to improve communication between debtors and creditors will help to ensure that debtors countries and private creditors participate cooperatively in restructurings” (annex, sect. 3, fifth paragraph).

32. *Origin*: Managing Director of IMF, Prague, 26 September 2000 (address)

Presented to: Board of Governors of the Fund, Prague, 26 September 2000

Proposal: “There is broad agreement that the operational framework for private sector involvement should rely as much as possible on market-oriented solutions and on voluntary approaches. It is also undisputed that there may be exceptionally difficult cases that call for more concerted approaches to involve the private sector, including the possibility of standstills as a truly last resort.”

33. *Origin*: G-24 ministerial communiqué, 23 September 2000, Washington, D.C.

Proposal: “Ministers propose that the Fund deepen its studies of proposals for engaging, in a case-by-case manner, the private sector in the resolution of financial crises, including the development at the international level of equitable procedures for debt settlement as already exist at national levels” (para. 22).

34. *Origin*: Asia and the Pacific region Governments at Regional Consultation on Financing for Development in the Asia and Pacific Region, 2-5 August 2000, Jakarta, Indonesia (A/AC.257/13)

Presented to: Preparatory Committee

Proposal: “A number of views were expressed on the question of involving the private sector.

> “• Greater participation of the private sector was imperative to ensure an equitable distribution of the costs of financial crises between debtors and creditors, but there is no agreement yet on how to ‘bail in’ private lenders;
>
> “• Such measures as conditionality clauses in bond contracts, standstill and improved bankruptcy legislation are desirable but not exhaustive;
>
> “• Since most of lenders are in developed countries, a suggestion was made that greater transparency, supervision and

regulation of international lenders and investors by these countries themselves were needed" (para. 48).

35. *Origin*: G-24 ministerial communiqué, 25 September 1999, Washington, D.C.

Proposal: "Ministers recognize that the role of private capital flows will continue to expand in an increasingly integrated global economy. Therefore, it is difficult to visualize the prevention or resolution of financial crises without direct and timely private sector involvement. In this regard, the major challenge for the international community is to develop a market-friendly strategy for involving the private sector in a manner that does not disrupt or unduly raise the cost of capital flows to developing countries. Ministers suggest that any strategy should minimize spillover effects on other borrowers. They encourage further progress towards voluntary arrangements for private sector participation before crises arise, such as through contingent credit lines, embedded call options, and debt-service insurance. Other provisions are also needed to cover both crises prevention, as well as resolution, including bankruptcy procedures, the establishment of creditor-debtor councils, and in extreme cases the possibility of a standstill of debt repayments. In addition, Ministers stress the importance of symmetrical disclosure of relevant information as between the private and public sectors" (para. 4).

Notes

[1] See different variations of the first of these proposals in United Nations (1999), Council on Foreign Relations (1999), Meltzer and others (2000) and IMF (2000a). Regarding the latter two, see Ezkiel (1998) and Ahluwalia (1999).

References

Ahluwalia, Montek S. (1999). The IMF and the World Bank in the new financial architecture. *International Monetary and Financial Issues for the 1990s*, vol. XI. Sales No. E.99.II.D.25. UNCTAD.

Asia-Europe Meeting (ASEM) (1997). A New Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability. Meeting of Asian Finance and Central Bank Deputies. Agreed summary of discussions. Manila, Philippines, 18 and 19 November.

Council on Foreign Relations (1999). *Safeguarding Prosperity in a Global Financial System: The Future International Financial Architecture*, Task Force report. Washington, D.C.: Institute for International Economics.

ECLAC (2000). Growth with stability. Background document to the Regional Consultative Meeting on Financing for Development in the Latin American and the Caribbean Region. Santiago de Chile: ECLAC. LC/G.2117 (CONF.89/3).

Ezekiel, Hannan (1998). The role of special drawing rights in the international monetary system. *International Monetary and Financial Issues for the 1990s*, vol. XI. Sales No. E.99.II.D.25. UNCTAD.

G-7 (2001). Report of G-7 Finance Ministers and Central Bank Governors, Rome, Italy, 7 July.

G-20 (2000). News release of G-20 Finance Ministers and Central Bank Governors, Montreal, Canada, 25 October.

G-24 (1999). Ministerial communiqué, 25 September.

_____ (2000a). Ministerial communiqué, 23 September.

_____ (2000b). Ministerial communiqué, 15 April.

_____ (2001). Ministerial communiqué, 28 April.

Inter-American Development Bank (2001). Remarks by Mr. Enrique V. Iglesias, President of the Inter-American Development Bank, to the eighty-second meeting of the Committee of the Board of Governors, Santiago de Chile, 18 March.

IMF (2000a). The IMF we need. Remarks by Michel Camdessus, Managing Director of IMF, at the Institute for the Study of Diplomacy, School of Foreign Service, Georgetown University, Washington, D.C., 2 February.

____ (2000b). Address by Horst Koehler, Chairman of the Executive Board and Managing Director of IMF, to the Board of Governors of the Fund, Prague, 26 September.

____ (2001a). Report of the Managing Director to the International Monetary and Financial Committee on IMF in the process of change, 25 April.

____ (2001b). The IMF in the process of change. Statement by Horst Koehler, Managing Director of IMF, on the occasion of the Spring Meeting of the International Monetary and Financial Committee, 29 April.

Meltzer, Allan H., and others (2000). Report to the Congress of the United States of America on the International Financial Advisory Commission, Washington, D.C., March.

United Nations (1999). Towards a new financial architecture. Report of the Task Force of the Executive Committee on Economic and Social Affairs of the United Nations, 21 July. Spanish-language version issued in March by ECLAC as document LC/G.2054.

____ (2000a). Report of the Secretary-General to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development, 18 December 2000. A/AC.257/12.

____ (2000b). Report of the Regional Consultative Meeting on Financing for Development in the Asia and Pacific Region, Jakarta, 2 to 5 August 2000. A/AC.257/13.

____ (2000c). Report of the Regional Consultation on Financing for Development in the Western Asia Region, Beirut, 23 and 24 November 2000. A/AC.257/16.

____ (2000d). Report of the Regional Consultative Meeting on Financing for Development in the European Region, Geneva, 6 and 7 December 2000. A/AC.257/15.

____ (2000e). Report of the Regional Consultation on Financing for Development in the Latin American and the Caribbean Region, Bogotá, 9 and 10 November 2000. A/AC.257/17.

____ (2001). Letter dated 25 June 2001 from the Secretary-General to the President of the General Assembly transmitting the report of the High-level Panel on Financing for Development (Zedillo report), New York, 26 June.

United Nations Conference on Trade and Development (2001). *Trade and Development Report, 2001*. Sales No. E.01.II.D.10.