

UN Workshop
Financing for Development
Monterrey Consensus
Debt

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Panel Comments
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€ I am grateful to Benu Schneider and the other organizers of this workshop for putting together such an impressive and diverse set of perspectives, and for inviting me to contribute a few thoughts.

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- € By the time it was shelved, the IMF's proposal was a modest one. Its goal was to resolve expected coordination problems among foreign bondholders of middle-income countries.
- € It would have been a standing mechanism, but one that barely encroached on the existing ad-hoc system of debt rescheduling, including:
 - The “paradoxical non-institution” (Mr Trichet’s words) of Paris Club, for restructuring official bilateral credits, AND
 - For middle-income countries, the case-by-case bond restructuring pattern that was emerging with Ecuador, Pakistan, and Ukraine
 - For low-income countries whose debt was overwhelmingly official, HIPC then MDRI
 - All of these were linked, with the IMF as the hub – as Benu’s paper shows – in a predictable, but neither formal nor obligatory fashion
- € SDRM would have added a modest standing creditor coordination mechanism and a dispute resolution forum limited for the most part to restructuring procedures.
 - It would not block legal proceedings against debtor countries (although it might permit recovery of litigation proceeds).
- € Even this modest proposal was ultimately judged too intrusive by market participants, the United States, some of the other G-7 and, importantly, by representatives of large emerging market issuers.

- € The passage of Resolution 1483 implemented one of the most controversial aspects of the IMF’s initial design, yet it was barely noticed in the broader sovereign debt circles. The resolution was exceptional and political – premised on “threat to international peace and security”; the implementing Executive Order in the US cited an “unusual and extraordinary threat to the national security and foreign policy of the United States.”¹

- € But in its exceptionalism, the resolution reflects the essence of the current sovereign debt restructuring regime – it is **piecemeal, ad-hoc, and informal**. It is also at least as political as it is technical, and for low-income countries, substantially controlled by the creditors.

¹ The relevant language is as follows: “*Determining* that the situation in Iraq, although improved, continues to constitute a threat to international peace and security . . .” Security Council Res No 1483, UN Doc S/RES/1483, preamble (May 22, 2003). “[T]o address the unusual and extraordinary threat to the national security and foreign policy of the United States posed by obstacles to the orderly reconstruction of Iraq . . . I find that the threat of attachment or other judicial process against the Central Bank of Iraq constitutes one of these obstacles.” The President, Exec Order 13364—Modifying the Protection Granted to the Development Fund for Iraq and Certain Property in Which Iraq Has an Interest and Protecting the Central Bank of Iraq, 69 Fed Reg 70177, preamble (Nov 29, 2004).

II. The Challenge

€ The papers for this session address this fragmentation and informality.

- Benu's focus is on fairness, legitimacy,

- If problem is that some countries end up in permanent receivership, lose policy autonomy and capacity as a result of repeated restructuring and layering conditionality, the solution may be different than if you think that
 - Problem is collective action among bondholders [Note large U.S. corporate statistics – reorganizations take years]... or
 - Illegitimate – odious – debt ... **and still different than if you think that**
 - The challenge is the sheer diversity of stakeholders in debt distress – including domestic institutions and individuals, BOTH as debt holders AND as recipients of government services – with no agreed way of allocating losses among them.
- € I worry that legal and institutional reform for restructuring any subset of debt – official, bonded, external, domestic – is doomed to fight the last war, and not worth the scarce political capital – it mi