

Berlin, 27 June 2011

**Managing Sovereign Debt Crises
in Developing Countries**

BMZ Workshop

Main findings

On 27 June 2011, the Parliamentary State Secretary to the Federal Minister for Economic Cooperation and Development, Gudrun Kopp, received a total of 44 high-ranking government representatives from developing and partner countries and experts from the research sector, civil society, the private sector, and international institutions such as the World Bank, the IMF, and the United Nations for an international workshop on Managing Sovereign Debt Crises in Developing Countries. The workshop's purpose was to identify possible answers and the next steps to be taken with a view to preventing and resolving debt crises in developing countries.

In her opening statement, Gudrun Kopp noted: "Experience has shown that developing countries repeatedly find themselves facing difficulties meeting their repayment obligations, which jeopardizes development goals. Notwithstanding all progress on preventing new debt crises, many of the poor countries continue to be particularly vulnerable to crises. As a result, they are at risk of not making full use of their development potential. One-shot debt relief and ad hoc solutions to debt crises are not a long-term answer."



Parliamentary State Secretary Gudrun Kopp underlined the advantages of an international debt workout mechanism.

The workshop's focus was on how to prevent and resolve debt crises in developing countries. Nonetheless, participants' thoughts on ongoing crisis response measures in the euro zone played a significant role in the debate. Participants pointed out that this crisis once more highlighted the risks involved in overindebtedness, including for developing countries. Not least because of the debt relief initiatives, many developing countries now have better macroeconomic environments and debt management capacity

than in the past, participants said, noting that thanks to this, the financial and economic crisis that started in 2007 did not have as dramatic an impact on these countries as had been feared. Participants believed, however, that no indebted country is free of debt crisis risk, especially if it is characterized by high economic vulnerability, which is the case for many developing countries.

During the first part of the workshop, participants highlighted the importance of institutional capacity for debt management, transparent and careful use of funding, sound economic policies, and monitoring through parliaments and civil societies. They noted that good financial governance is the fundamental prerequisite for preventing debt crises. Moreover, they said, the building of confidence in countries' relationships with investors is an important factor for stabilizing capital flows and regaining access to capital markets after a crisis.

They pointed out that these aspects are also important for the development of local bond markets, which could become another element in a robust public financial system. Another factor whose importance should not be underestimated, they said, is the recording of data, especially regarding contingent liabilities and subnational debt. Under certain circumstances, they noted, governments are forced to provide financial support to banks or other enterprises of systemic importance. The importance of these issues, according to the workshop's participants, has become evident in the current debt crisis in Europe.

They stated that in the developing world, debt crises are not just national problems. Rather, they are caused by global economic interdependencies that are becoming more and more complex as a result of increasing economic integration and the emergence of new official and private lenders. Participants felt that because of this, it is important to coordinate internationally on the formulation and implementation of guidelines for the prevention of debt crises (e.g., codes of conduct, IFI instruments), on the regulation of the financial sector, and on volatility management (e.g., counter-cyclical loans, regional buffer funds). With regard to codes of conduct, several participants noted that it would be helpful to have a single frame of reference (rather than several of them) that enjoys the acceptance of all stakeholders.



Representatives from international organizations, national governments, academia and civil society presented their views on the issue of sovereign debts.



An open discussion on aspects of debt crisis prevention and resolution evolved.



From left to right: Orlando Garner (Honduras), Paul Tasong (Cameroon) and Alhassan Allie Mansaray (Sierra Leone)

In the debate about resolution mechanisms, it became clear that there is a consensus about a number of fundamental principles that should govern a future mechanism, namely, fairness, transparency and timeliness. However, there is still disagreement about the design of a potential international mechanism to address overindebtedness issues. For such a procedure to be beneficial for all sides, participants noted, all interested groups need to be included in the negotiations. At the same time, they said, care

must be taken to ensure that insolvency guidelines set the right incentives. When it comes to debt restructuring in countries with access to capital markets, collective action clauses (CACs) could play an important role in the case of a crisis. Many participants emphasized that the prevention and resolution of crises can only be addressed efficiently if there is a functioning overall system.

Partner countries' representatives voiced the fear that the crisis in the euro zone might lead to a slump in concessional financing for development. They also said that the debate on potential debt crises must not lead to calls for excessive cuts in times of recession, because there is a risk that this might slow down economic recovery – and economic recovery is what makes debt reduction possible in the first place.

Generally, the workshop showed that the creation of a sovereign debt workout procedure should not be discussed in isolation but rather as one aspect in the debate on financing for development. Participants said that fear of overindebtedness must not prevent players from making urgently needed investments. They noted that it is important not to fear loans but to use the funds wisely. This also means, they said, that tools such as the IMF/World Bank Debt Sustainability Framework (DSF) need to be made more flexible so that profitable projects can be financed through non-concessional funding while taking account of debt sustainability. They noted that developing countries require donor support when they negotiate agreements on the use of natural resources.



The moderator Susanne Luithlen (left) guided through the workshop and Yuefen Li (UNCTAD) summarized the conclusions.

After a day of intensive debate, Gudrun Kopp concluded: "The discussion today made it clear to me that we have to put even more effort into developing debt management capacity and into transparency with regard to the use of resources in our partner countries." She also announced that the BMZ would expand its support in the area of debt management in the near future by continuing its support for UNCTAD's DMFAS debt management program and also starting to support the World Bank's Debt Management Facility.

In conclusion, Gudrun Kopp said: "With regard to the question of resolving debt crises, today produced a mixed bag of results – which does not surprise me at all since the subject matter is highly complex. Please allow me to draw the following, preliminary conclusions: In spite of all the difficulties it is worthwhile to continue to be advocates for the creation of an international debt workout mechanism. However, it is important in terms of implementation to look towards pragmatic approaches that can be implemented swiftly. We received some very valuable suggestions from you today in this regard."



Mariama Williams (South Centre) and Jürgen Kaiser (erlassjahr.de) during coffee break.



Dominique Desruelle (IMF), Barry Herman (Initiative for Policy Dialogue) and Kathrin Berensmann (DIE-GDI) used the informal dinner for further exchange of ideas.

Final Program

8:30	Registration	
	Moderator: Susanne Luithlen	
9:00	Session I: Opening Session	
	Opening remarks	Gudrun Kopp , Parliamentary State Secretary, Federal Ministry for Economic Cooperation and Development, Germany
	Input	Kathrin Berensmann , Senior Economist, German Development Institute (DIE-GDI)
9:45	Session II: Good Financial Governance for Debt Crisis Prevention	
	What are the major challenges of responsible sovereign lending and borrowing?	
	Introductory note	Christoph Paulus , Professor, Law Faculty, Humboldt University, Berlin
	Inputs & Discussion	Carlos Primo Braga , Special Representative and Director, External Affairs, World Bank, Paris Dagmar Linder , Managing Director, Regional Management Central and Eastern Europe, Deutsche Bank Daniel Mukoko , Assistant Director, Office of Prime Minister, Democratic Republic of Congo
11:15	Session III: Policy Options for Debt Crisis Resolution	
	What instruments or additional mechanisms are desirable for responding to future sovereign debt crises?	
	Introductory note	Stephany Griffith-Jones , Financial Markets Program Director, Initiative for Policy Dialogue, Columbia University, New York Barry Herman , Chair Task Force, Initiative for Policy Dialogue, Columbia University, New York
11:45	Lunch break	
13:00	Continuation of Session III: Policy Options for Debt Crisis Resolution	
	Inputs & Discussion	Dominique Desruelle , Assistant Director, Strategy, Policy and Review Department, International Monetary Fund (IMF), Washington DC Claus-Michael Happe , Head of Division, Development Banks/GIZ, Debt Rescheduling/Paris Club, Financial Inclusion, Creditor Positions, Federal Ministry of Finance (BMF), Germany Jürgen Kaiser , Political Coordinator, erlassjahr.de Alonso Segura , Head of Research, Banco de Crédito del Perú (BCP)

14:30 **Coffee break & snack**

15:00 **Session IV: Country Perspectives on Next Steps**

What are necessary steps to be better prepared for future debt crises?

Inputs by country
representatives &
discussion

Victorio J. Taccetti, Ambassador of Argentina in Berlin

Mohamed Lemine Dhehby, General Director, Investment
Projects and Programs, Ministry of Economic Affairs and
Development, Mauretania

Orlando Garner, Advisor to the Minister of Finance, Ministry of
Finance, Honduras

Alhassan Allie Mansaray, Senior Economist, Ministry of Finance,
Sierra Leone

Paul Tasong, Permanent Secretary, Ministry of Economy,
Planning and Regional Development, Cameroon

Short coffee break
inbetween

17:30 **Session V: Closing Session**

Wrap-up

Yuefen Li, Head of Debt and Development Finance Branch,
United Nations Conference on Trade and Development
(UNCTAD), Geneva

Concluding remarks

Gudrun Kopp, Parliamentary State Secretary, Federal Ministry
for Economic Cooperation and Development, Germany

18:00 **End of Workshop**

18:30 Informal dinner and boat trip on the river Spree

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