Fifty Years of Orderly Sovereign Debt Restructuring

50 th Anniversary
1956
Club de Paris
Paris Club
2006
50 e anniversaire

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of the International
Policy Forum
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Foreword

For its fiftieth anniversary, the Paris Club welcomed more than four hundred participants on June 14th 2006 for an international policy forum. This policy forum was held in the conference centre of the French Ministry of Finances, the usual setting of Paris Club sessions.

The participants had the opportunity to attend debates regarding the great challenges linked to the foreign debt of developing countries and the role played by the Paris Club during sovereign debt crises.

These debates were an opportunity to take stock of fifty years of debt treatments, during which more than 400 agreements were signed with 80 debtor countries. Participants have also studied, in two roundtables, the role played by the Paris Club in the international financial architecture as well as its role in the restoration of sovereign debt sustainability.

The policy forum brought together representatives of the different stakeholders in the international financial community and of the civil society as well as members of the media. This was an opportunity for participants to exchange views and react openly to roundtable members' speeches.

The quality of the debates has lead us to publish the proceedings of the forum. I hope that they will be a useful reference for academics, journalists and citizens who want to understand the Paris Club's role in the international financial community and, in a wider perspective, the working of the international financial architecture.

Xavier Musca
Chairman of the Paris Club

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Summary

Opening Statement by Thierry Breton, Minister of Economy, Finances and Industry, France[1]

"Ministers, Presidents, Governor, ladies and gentlemen, I am delighted to welcome you today to the Ministry of Economy, Finances and Industry for the fiftieth anniversary of the Paris Club and I would like to thank you for accepting our invitation in such great numbers.
I would like to extend a special welcome to the leading figures in attendance who, despite their busy schedules, have honoured us by attending our debates and sharing their views about the Paris Club.
Allow me to say a special word of thanks to those who have travelled a long way to be with us today.
Since the first meeting of the Paris Club, held at the Ministry of Finance back in 1956 to find a coordinated solution to Argentina's problems, we have written fifty years of the history of globalisation together. Fifty years of international cooperation aimed at tempering the shocks of globalisation for the countries involved.
During these past fifty years, the world has seen major changes, as many developing countries gained their independence and capital movements were deregulated. Fixed exchange rates gave way to floating exchange rates and flows of private capital between North and South underwent massive increases. Leading emerging countries became major economies and the world's population has seen unprecedented growth, which will not slow down until after 2050.
As we are entering the fiftieth year of the history of this forum for cooperation, risk management and dialogue, it is important to look back and see how far we have come, and also to look forward to prepare for the future and the challenges of the twenty-first century.
The Paris Club started by working alongside the International Monetary Fund and other creditors to achieve debt rescheduling that helped countries to regain the ability to honour their external financial obligations when they encountered balance of payment problems.
After the debt crisis in the nineteen-eighties, the Paris Club also started arranging debt cancellation. As awareness of the debt sustainability problems of certain heavily indebted developing countries grew, the international community took action.

1 The opening statement was pronounced in French.

At the urging of the President of the Republic, the 1996 G7 summit in Lyon established the Heavily Indebted Poor Countries Initiative (HIPC).
I would like to acknowledge all of the stakeholders who have contributed to this initiative, including successive Chairmen of the Paris Club, Managing Directors of the IMF, all of the creditor countries that belong to the Paris Club, other donors and the international financial community as a whole. It is a collective undertaking based on trust, mutual respect and fairness.
This look back reveals the spectacular advances made by the leading emerging countries, where the financial situation has been placed on a sound footing by their leaders' bold and determined action.
It makes us optimistic, since the African continent is experiencing very robust growth and it is finally starting to be seen for what it really is: a major player in the world economy, master of its destiny, increasingly acknowledged by private operators as a continent that can succeed and one that holds many opportunities.
This look back makes us optimistic because world growth looks more robust today than it has been in decades. This growth is critical for achieving the Millennium Development Goals.
Of course, there is still much work to be done. Our optimism does not make us forget the very difficult situation that many developing countries still find themselves in, especially the poorest among them. It reminds us that continuing development requires great consistency in public policies, particularly trade policy, official development assistance and debt treatment, so that our efforts are focused on the poorest countries. This optimism makes us look to the future, identifying the challenges facing future generations and working together to find solutions.
As we celebrate the Paris Club's fiftieth year, I am convinced that this anniversary does not mark the end of an era; instead, it marks the beginning of a new era. The Paris Club's methods, along with its spirit, make it especially well suited as a support and a financial pillar for considering the major issues relating to the future of the globalisation and development process.
I see three major interconnected issues.
- *The first major issue is achieving the Millennium Development Goals. Above all, this will require continued world growth at a faster pace. It also requires a new and different vision of the developing world, especially in Africa. This vision shall not be primarily based on compassion and helping, but on trust and economic partnership. It also requires us to take a new look at some of the choices made in our official development assistance policies. I'm thinking in particular about the*

withdrawal from infrastructure financing. The corollary is a steady improvement in the effectiveness of assistance and continuing the fight against corruption.
• The second major issue is management of the world's scarce resources: food, water, air, biodiversity, energy and mineral resources.
This challenge concerns both developed and developing countries and calls for the North and the South to come to the same lucid conclusion: the solution lies in international cooperation and not in isolation.
Making the investments needed to manage these resources in a world with a population of 9 billion in the middle of the century implicitly raises issues that are of prime concern for finance ministers, international financial institutions and the Paris Club. I'm sure that the second roundtable discussion will deal with this point. The question is whether loans are still relevant, compared to grants, in official development assistance policies. What is the right policy for financing governments, especially those that have just got out of debt?
Those who take part in the Paris Club's work are well aware that, for international cooperation to work, we must strike a balance between countries that may otherwise be tempted to let others act to improve their relative positions, but see on the whole that it is in their interest to cooperate and abide by collective rules.
What country could think today that it will never encounter any problems, any bump in the road or any economic and financial shock? What country can afford to stop cooperating with its partners in a world where positions change increasingly rapidly and where comparative advantages also shift suddenly?
I think it is critical to prepare public opinion to face a simple political fact: we need to work with other countries to manage the common good of the planet. We need to work with others to manage risks that we cannot cope with by acting on our own. This is not only in line with our values; it is also in our interest.
• The third major issue is linked to the first two. It is international governance. There has never been a more urgent need to develop a more effective and a more responsive international society.
As the same time, the time required to change existing international institutions has never seemed so long. This is a real challenge. An international society that cannot adapt and act quickly enough to keep pace with our changing world and its economic players would be condemned to powerlessness and a lack of public support.
The Paris Club is participating in this renewal effort. In addition to its members, the Paris Club already welcomes observer countries, and has engaged in very fruitful exchanges with them over the years.

I would like us to take it further. I would like the membership to grow so that it truly reflects international society at the dawn of the twenty-first century.
I invite all of the countries with international responsibilities that give them a leading role in the world economy and in the development of the poorest countries to join us.
In doing so, I am counting on them to maintain the pioneer spirit and solidarity that are critical for collective management of the economic and financial risks of continuing globalisation.
Thank you for your attention. I would like to wish you every success in your work."

Opening Statement by Stanley Fischer, Governor of the Bank of Israel and former First Deputy Managing Director of the International Monetary Fund

"It is a pleasure and an honor for me to take part in this celebration of the fiftieth anniversary of the Paris Club – both as a former IMF official, who learned so much from the former Chairman of the Paris Club, Michel Camdessus, with whom I had the pleasure of working for over five years, and in my present role as Governor of the Bank of Israel.

This organization, the Paris Club, is the gifted child of the French Treasury. But it is also in many ways a British institution – and I mean that as a compliment. It is a club, a voluntary gathering of interested parties, it operates without a written constitution, it operates case-by-case, and it displays a remarkable degree of pragmatism and flexibility that has enabled it to evolve and deal with an enormous variety of debt problems over the years – over 400 agreements with about 80 debtor countries and over $500 billion in debt rescheduled. In performing its essential task, the Paris Club has furthered the cause of development over the past fifty years. Now, at the age of fifty, it faces new challenges that ensure that it will have to keep evolving.

I would like to start by discussing some issues that are associated with debt relief, the basic purpose of this institution.

Like the Bank for International Settlements, the Paris Club grew out of the need for debt relief – a need which has been with us for as long as debt has existed. In gradually developing a flexible set of rules for granting relief on inter-governmental debt, mostly debt of developing countries, the Club has made a major contribution to the orderly operation of the international financial system.

Its principle of conditionality is critical. By adopting the IMF definition of conditionality, the Paris Club gained at least two major benefits for the international community: that of operating with the Fund's skilled professionals, who understand how to design and monitor an economic program; and second, the legitimacy of operating within an institutional framework in which both the creditors and the debtors are members. In turn, by putting the IMF at center stage in developing and enforcing conditionality, the Club contributed to the development of the Fund's own analytic and operational approach to economic programs.

There are nonetheless major questions about the effectiveness of the combination of conditionality, concessional loans, and debt relief. These concerns can be summarized by recognizing that many countries that received conditional debt relief once, received it again – and again. If I may make a personal remark, I once walked into a government building with a former Paris Club official, who said to me, "Well, we've paid for this building at least three times." So the underlying question is why has it turned out to be so difficult for many of the poorest countries to begin to grow on a sustained basis, despite receiving aid that amounted to double-digit percentages of their GDP over long periods, and despite being in IMF and World Bank programs for long periods. I suspect that if we were to go back to the participants in Paris Club discussions in the 1960s, they would say that income levels in many of the countries whose debts they rescheduled are much lower today than they would have imagined even in their most pessimistic moments. Some of those people may be here and we may be able to hear from them later in the day.

These concerns relate mostly to a number of African countries in which per capita GDP has been declining for decades. Now, that trend has fortunately started to reverse in the last three years, so we just may be in the process of turning a critical corner. The process of turning that corner is facilitated by the global commodities boom and by the fact that several African countries are now exporters of oil. Developments in South Africa are encouraging, and South African growth affects the countries around it. Nigeria is making progress too, with the help of a Paris Club agreement, one which I would say demonstrates both the flexibility of this organization and the persuasiveness of Nigeria's Finance Minister, who is present here today, and with the additional help of rising oil prices. So although we can be a bit more optimistic, the fact remains that the number of Africans living in poverty is increasing, a greater share of the world's poor live in Africa than ever before, and AIDS and other diseases are exerting a devastating effect on populations in many countries.

It is easier to raise questions about the effectiveness of the basic approach to development we have all followed and about the impact of conditional debt relief than it is to answer those questions. For the problem is not really conditional debt relief, but rather the question of what development strategies are most likely to succeed. I won't go into that question in any detail now, beyond stating that while we know many of the necessary conditions for growth, we clearly do not yet have a full set of sufficient conditions for growth. And whatever those sufficient *conditions may be, they certainly include institutional developments that we unfortunately have only a limited ability to influence at this stage.*

Over the course of its lifetime, Paris Club rescheduling programs became increasingly far-reaching. The original approach of flow rescheduling combined with new money lasted for nearly thirty years. In the 1980s – and particularly in the late 1980s – under the Brady Plan, Paris Club rescheduling arrangements began to include relief on the stock of debt. Now we all know as economists that to a first approximation what matters is the present value of the debt, so that once again to a first approximation, there is no major difference in the economics of flow versus stock rescheduling. To a second approximation, there is a difference because liquidity matters a great deal. Nonetheless, the shift from flow to stock debt reduction was a major change, in part because budget accounting in some countries made stock reduction more difficult politically – and in part no doubt because once the principle of not reducing the stock of debt was breached, there was only one logical resting point for the process.

That resting point is the cancellation of all outstanding debts, and a switch from loans to grants. That approach has now been accepted, first by the G8 and then by most of the creditor nations, in several cases quite reluctantly. So long as net transfers to the countries in need of aid rise, the grant approach is obviously better from the viewpoint of debt sustainability. But it is not yet clear that net transfers will rise as the approach to aid shifts from loans to grants. Indeed, the main argument against the new approach is that it may reduce the net flow of aid to countries most in need. It remains to be seen whether that will be the case; many good intentions have been expressed. We will have to see if those good intentions are carried out.

It is sometimes argued – and I confess that I sometimes have argued – that by making loans rather than grants, the donors encourage greater responsibility on the part of the recipient governments, which are thereby induced to contemplate repayment. But the fact that these loans often have long grace periods, and that governments often have short horizons, reduces the plausibility of this argument. I would give greater weight to a related argument: for many governments, it is politically easier to make concessional loans rather than grants, and the IDA cum Paris Club approach in effect turns these loans into a kind of high-risk but concessional bond claim on the recipient country. Or to put it differently, it is hard to see why countries that succeed when they receive concessional aid should not subsequently contribute to the financing of other countries, giving back to the

international community a part of what the international community contributed to them earlier.
Those who believe that aid is in any case ineffective - and there is a group that makes this contention - would see a reduction in aid as a benefit of the new approach. I continue to believe that aid targeted to particular needs, including health and education, and well-directed project aid can be useful and should be supported under reasonable circumstances and that for governments following the right policies, general budgetary assistance can also be productive. On balance, I believe the empirical evidence supports this view.
But there is little doubt that in many countries, although not in all, the overall record of the aid process has been disappointing, that aid failures have in some cases been associated with government corruption, and that the aid process itself may on some occasions contribute to government corruption. All these issues have come to the fore in the last 15 years, and the increasing attention they have been receiving should help improve the record of aid which, I believe, will continue to be an important component of the development process.
I would now like to turn to the creditor side of Paris Club operations.
The Paris Club solved the free rider problem by seeking to bring all the major creditors into the Club, by requiring a consensus for each decision, by requesting that participating creditors refrain from seeking better terms outside the framework, and by insisting that debtors not give better terms to any other creditor. But the Club does not require uniform treatment of different debtors, and that, I think, is part of the genius of this organization. It may also be part of the reason it is so hard to write a constitution, since enshrining the principle of non-uniform treatment in a constitution is complicated. Because the Club does not require uniform treatment, it has shown considerable flexibility and ingenuity in dealing with the different forms in which creditors are willing to provide relief, and in inviting relevant non-Paris Club members to take part in meetings and rescheduling programs as needed. Of course, this also means that political considerations play a role in determining the treatment each debtor receives, but we are all grownups and we should not be surprised that political factors intrude when inter-governmental debt is being considered.
For many years, the Paris Club preserved the senior status of the IMF and the World Bank, and did not request any debt reduction on their part. The logic behind this approach was quite simple, i.e. that the Fund and the Bank generally provided new money. This principle – of no debt reduction by the Bretton Woods twins - has now been breached, and it remains to be seen what the long-term

consequences will be. But it is worth recalling that countries include claims on the Fund as part of their reserves, and that at the time of the HIPC debt relief decision, at least one major country said that it would have to reappraise that view.

While the Club is able, to an acceptable extent, to produce comparable concessions by official creditors operating within its framework, it has increasingly had to deal with the issues arising from the expanding role of the private sector in financing developing countries, and the issues that result from the growing importance of official creditors that are not members of the Club and that have so far not taken part in its activities.

There are two issues with regard to the role of the private sector.

The first is the pace at which countries that have received debt relief begin borrowing from the market. In the case of countries in IMF programs, the Fund has been able to exert some influence on the rate of government borrowing from the private sector, but that influence has not necessarily been decisive. Once a country has exited an IMF program, control over its rate of borrowing is left to market forces and internal fiscal discipline. In periods of optimism about emerging markets and developing countries and of plentiful liquidity, as at present, these disciplines may not be sufficient to prevent trouble in the event of a global downturn and reduced capital flows to developing countries. I think the risk of such trouble has risen in recent years.

The second issue in relation to the private sector arises if debt rescheduling then becomes necessary. At that point, coordination and equal treatment between public and private sector lenders becomes difficult, and the Paris Club has yet to arrive at a fully satisfactory solution. In addition, some members of the private sector have argued that the claims of the Fund and the Bank should be included in any restructuring. This demand was clearest in the Argentine case, where private sector participants demanded that the Fund also agree to debt reduction. The logic of this claim on organizations operating as emergency lenders has never been clear.

The issue of private-public sector coordination in lending and debt restructuring poses a delicate problem for the official sector, which after all would rather see countries meeting their financing needs on the market – provided they can do so in a sustainable way. The debt restructuring principles proposed by the IIF, described in more detail by Jacques de Larosière in his comments later on, are useful in and of themselves, but putting them into practice will not be easy in individual cases. This was certainly evident in the Argentine case, but that was

an exceptionally difficult situation, and one hopes that it will not set a major precedent for the future.
Most recently, the Paris Club has been concerned about countries that have received debt relief and are borrowing heavily from other official lenders that are not members of the Club. The concern here is that such countries may be taking on more debt than is wise, and that in the event of a change in the global financial situation, future debt restructuring, official debt restructuring, will be much more difficult than in the past.
The answer to this concern may well lie in the wider context, in which the global financial architecture that was developed after World War II needs to adapt to the emergence of important new players, particularly the BRIC countries, which include China. As these new players from Asia and elsewhere begin to take more responsibility for the system – and that will inevitably happen – and as the system pays greater attention to them and their concerns, they may begin to appreciate the importance of existing institutions, both formal and informal.
In any case, we can be sure that the ingenuity and pragmatism that the Paris Club has demonstrated in its first fifty years will continue to contribute to the development of the international financial system, its ability to deal with official sector debt difficulties and its ability to contribute to the process that most concerns everyone here, the process of development.
Thank you very much."

Roundtable 1
“The Paris Club and the international financial architecture”

The first roundtable chaired by Mario Draghi, Governor of the Bank of Italy

M. Draghi - Let me start out by thanking you for this invitation; I'm really honored to be here. But I also wish to thank the French Treasury as an institution and the string of Treasury Directors who are here today and whom I have been lucky to know, work with, and be friends with for almost 20 years. All these people and the institution of the French Treasury have done a fantastic job of managing the Paris Club for 50 years.

The Paris Club truly is a creature of its own time. It was a time when people – everybody, I would say – were convinced that only public funding would be available for the developing world. They were also convinced that cooperation would be essential not only to development, but also to preserving the international financial order. The main issue at the time was how to coordinate official lending.

Since then, the world has evolved. Most flows nowadays are private. Private lending, originally handled by commercial banks, is now performed by capital markets, and risk management techniques that were rudimentary in the early stages of private lending have become highly sophisticated.

Similarly, cooperation has evolved. It has moved from a focus on official lending into those areas that affect private capital flows, namely economic policy and financial stability, and into narrower fields like banking, financial, and corporate regulation, and market practices. This is the new area where regulators and economic actors are trying to achieve common standards and norms of behaviour – what has been called "soft law".

That is the way in which coordination has evolved in the last 50 years.

Does that mean that the Paris Club has fulfilled its task as an institution? Well, I don't think so, and all it takes to be convinced is to look at one figure. Out of the 1.4 trillion of medium and long-term public external debt of developing countries, roughly 400 billion is with bilateral official creditors, so Xavier, you can still look forward to a vast activity.

Now let me introduce our main speaker, before I proceed to introduce the various participants in the panel.

Jacques de Larosière – actually, I should say, *"A man who needs no introduction"* – is the former Managing Director of the IMF, and is presently advisor to the Chairman of BNP. But let me add one thing: he directed the IMF at a time in which coordination was essential – coordinating official lending and private creditors to preserve world financial stability in 1982.
Jacques, the floor is yours.

J. de Larosière[1] - It is a pleasure to be here with you and to see my friends from the Treasury whom I worked alongside for so many years.
The Paris Club has been through three distinct major periods over the last half-century, as Mr Draghi has just said, during which public-sector financing for the developing countries' deficits was phased out and replaced by private sector financing.
I would like to speak about each of these three periods in turn in an attempt to analyse the links and interactions between public-sector and private-sector creditors. But I should explain from the outset that I shall not be dealing with the issues that Stanley Fischer raised about development and cancelling the debt of heavily indebted poor countries. These issues will be covered in a special presentation by Michel Camdessus. Therefore, I shall focus on countries that have borrowed from the private sector and that are likely to return to a balance of payments situation that is sustainable in the medium term through debt rescheduling or debt cancellation.
I - The first period, lasting from 1956 to the nineteen-seventies, featured the predominance of the public sector.
It is generally agreed that the Paris Club was created on 16 May 1956, when Argentina agreed to meet its public-sector creditors in Paris to reschedule 500 million dollars in debt on what were called the "classic terms".
The "classic terms" corresponded to a standard treatment available to any debtor country in a programme with the IMF that revealed the need for the Paris Club to reduce its debt. These terms simply involved rescheduling the credits at the appropriate market interest rates, with a repayment schedule worked out on a case-by-case basis to be compatible with a return to medium-term sustainability of the debt of the country under consideration.
The Club then developed other terms to meet more severe debt relief needs. The "Houston Terms" still apply to the rescheduled debt of heavily indebted

1 Speech pronounced in French.

lower-middle-income countries. The "Naples Terms" include debt relief for highly indebted poor countries and the "Cologne Terms" include debt relief for countries that are eligible to the Heavily Indebted Poor Countries Initiative.

From the creation of the Paris Club until the early nineteen-seventies, most of the external financing was provided by the public sector. Therefore, it was vital for the public sector to be proactive, coordinated and disciplined in its dealings with debtor countries. The International Monetary Fund was at the heart of the system and the creditors belonging to the Paris Club represented a key element in the financing of emerging countries' deficits.

The Paris Club creditors realised that a number of principles, accepted by all of the Club's members, would be helpful for reaching agreement. There are five principles: decision-making on a case-by-case basis, consensus, conditionality, solidarity and comparability of treatment.

The third Paris Club principle, conditionality, is a good illustration of its concerted operations. I quote: *"Debt treatments are applied only for countries that need a rescheduling and that implement reforms to resolve their payment difficulties. In practice, conditionality is provided by the existence of an appropriate programme supported by the IMF, which demonstrates the need for debt relief."*

To ensure that creditors share the burden equally, the fifth principle of the Club is "comparability of treatment". It dates back to the agreement with Argentina, but, at the time, it applied only to public-sector creditors. It stated that *"Argentina shall not discriminate in its trade and payments between the participating countries, nor shall it enter bilateral agreements with non-participating countries that would result in discrimination against the participating countries"*

This meant that debt restructuring for emerging countries in difficulty was achieved during this first period using an effective and traditional arrangement: the IMF helped the country draft and implement a recovery programme and provided financing that opened up way for a "comparability of treatment" agreement with public-sector creditors and, later on, with private-sector creditors. But the amounts involved were relatively small where private-sector creditors were concerned, because foreign exchange restrictions at the time limited capital flows and meant that such creditors had loaned little to emerging countries.

II - The second period started in the nineteen-seventies and lasted until the early nineteen-nineties, as lending by international banks increased and concerted solutions were established.

Starting in the nineteen-seventies, as foreign exchange controls were phased out and markets were deregulated, international banks became more global and took on a growing share of the financing of emerging countries' sovereign debt.

Despite the oil crisis of October 1973 and the ensuing recession, there were no major financial crises during the nineteen-seventies. In fact, emerging oil-producing countries benefited greatly from rising prices and bank lending meant that other emerging countries benefited from the "recycling of petrodollars". During this period, real interest rates were practically zero, or even negative and the growing risks were obscured by a rapid increase in inflation in the industrialised countries and in the developing countries.

When Paul Volcker became Chairman of the Board of Governors of the Federal Reserve in 1979, he decided to bring inflation under control. Consequently, he tightened monetary policy and raised interest rates. The Fed Funds rate went from 4% in 1976 to 22% in July 1981. This led to a widespread recession. World growth slipped from some 5% to 0.2% in 1982.

At the time, international banks, and more particularly, American banks had huge exposures to developing countries, and these exposures made them very vulnerable. For example, the sovereign debt of the three largest countries in Latin America was much greater than the capital and reserves of the leading international banks in the United States. It is interesting to note that in 1989, bank financing accounted for more than a quarter of the third world's debt, which stood at 1,300 billion dollars.

After the financial crises erupted in Latin America in 1982, it became necessary to undertake a large number of debt restructuring arrangements. The International Monetary Fund played an important role at the time, which enabled us to avoid a collapse of the international financial system. It marked the beginning of a period of intense collaboration between the IMF, the World Bank, the BIS, the G7, the Paris Club, which started to meet once a month and the private-sector creditors organised into negotiating committees.

In every case, solutions found through negotiations in good faith were implemented. The debt strategy was based on a simple principle: creditors and debtors would negotiate rescheduling or restructuring, usually with a requirement to provide "new money" as part of programmes worked out with the IMF. The Fund's role, as an adjustment agent and the institution defining medium-term debt sustainability conditions on a case-by-case basis, prevailed over its role as a provider of funds.

The Brady plans worked out at the end of the nineteen-eighties were a major milestone in the debt strategy. The IMF, along with the World Bank, played a critical role by financing the partial guarantee for the securities issued in debt swap transactions. In exchange, this enabled the countries in trouble to obtain substantial reductions in their debt towards the private sector, but these plans ended in the early nineteen-nineties.

III - The third period started in the nineteen-nineties and has continued up until today. It is the period in which bonds have been predominant and in which the system that I have just described has been derailed.

Since the early nineteen-nineties, the private sector has been the main source of financing for developing countries. Net public-sector flows are diminishing and have even reversed since the beginning of the third millennium.

Throughout this period, the amount of debt rescheduled by the Paris Club has remained relatively stable and there has been nothing like the big rise in outstanding private-sector loans. After being a major player, the Paris Club has become a relatively minor player.

The IMF's policy of"lending into arrears", under which the IMF granted loans to countries that were in arrears, was established in 1989 and revised in 1998. This policy makes the Fund's conditionality more flexible and enables it to act, even when agreement still has to be reached with private-sector creditors.

During the 1994 Mexican crisis, and the 1997 Russian and Asian crises, the International Monetary Fund provided massive financing, deviating from its previously preferred role by focusing its action on facilitating adjustment and upholding contracts, while expecting the market to make most of the financial effort.

Starting from operating procedures that I consider to be effective and concerted, the system gradually deteriorated after a number of factors disrupted the previous pattern. These factors can be illustrated by some recent transactions.

- The form of debt has undergone profound change: bonds, whether issued by governments or corporations, have largely replaced bilateral bank lending or syndicated bank lending, which have shrunk considerably.
- Partly because of this, the population of private-sector creditors has grown much more diverse, with the arrival of market players (investment funds, traders, etc.), and even individual investors.
- The new form of debt and the dispersion of bondholders have obviously made it much more difficult to set up creditor committees and organise their

meetings. However, the difficulties must not be overstated, because they have been overcome in many cases, such as that of Argentina, where the Global Committee of Argentina Bondholders has brought together bondholders of all types who hold about half of the debt to be restructured. It should also be noted that committees made up of banks as initial creditors and investment funds that purchased the debt on the secondary market later on were set up in conjunction with the debtor countries. This is true in the case of Côte d'Ivoire and Congo.

• Taking advantage of this new context, some debtors, instead of negotiating with their creditors, made unilateral and coercive exchange offers for their debts towards the private sector, advancing the pretext of legal considerations relating to confidential information and risks of insider trading. Argentina is the most obvious recent example of this. Even though the Global Committee of Argentina Bondholders is very representative, it failed to make its voice heard. Meanwhile, the International Monetary Fund hardly provided any guidance to creditors on the issue of the medium-term sustainability of the debt to be restructured, which determines the efforts to be made, or about the soundness of the economic programme.

• Some investment banks and law firms sought well-paid consultancy work on unilateral offers, losing sight of the value of negotiated solutions, which, to my mind, are critical for the debtors to win back investors' confidence and gain access to market financing. Such financing is a fundamental element for the smooth operation of the international financial system. The case of Argentina illustrates this tendency but Iraq is also an example of it. The numerous offers of negotiation by a Committee of creditors representing more than half of private claims, the LCCG (London Club Coordinating Group) were ignored during the whole process. Thus, some private creditors were treated noticeably worse than public creditors and different offers were made to small and large private creditors.

Stanley Fischer asked a very good question: should we shift from loans to grants? This is a relevant question, especially for countries where the growth patterns and sustainability of debts make grants a better choice. But my remarks focus more on countries that rank higher up in the developing countries category and on emerging countries that have gained access to capital and debt markets.

For such countries, I would alert sharp minds not to think that debt securities must quickly be turned into grants, because grants would, by definition, be better than debts. Not at all. When a country is in a position to access the phenomenal source of growth that the international financial market represents, it must play the debt game according to the rules. The debt contract must be seen as one that must be honoured. If it is not possible to honour it, then the debtor must negotiate.

The IMF has a bit of a conflict of interest because it is a major creditor and since some countries refuse to comply with the constraints of a programme, it has not always abided by the criteria of its own "lending into arrears" policy, which includes a requirement for negotiations in good faith between the country concerned and private-sector creditors.

For example, the Fund did not always ensure the traditional anchoring of debt restructuring plans, which had previously been based on an existing programme and backed up by a letter of support for an exchange offer or by financing for guarantees in return for the efforts asked of private-sector creditors.

The large amount of liquidity and the surge of capital seeking returns in today's world mean that risk premiums have fallen to historic lows, perhaps giving some debtor countries the impression that they will always be able to borrow at low rates, no matter what happens. Many emerging countries have improved their balance of payments and rapidly built up their foreign exchange reserves. They are now starting to pay off their debts to the IMF ahead of schedule, which frees them from the constraint of having to negotiate programmes, in the immediate future, at least. This is a new situation and it is important for the Paris Club, since the Club's doctrine hinges on the existence of programmes with the International Monetary Fund.

Thus, the relationships between public-sector and private-sector creditors have changed substantially in the last half-century. Several questions have been raised about dealings with the Paris Club, particularly with regard to comparability of treatment:

• The fact that public sector claims cannot be renegotiated, regardless of whether or not they are in arrears, unless an IMF programme is in place, means that there is automatically a difference between the treatment of public-sector and private-sector creditors. Private-sector creditors may be compelled to accept a reduction of debt without any equivalent reduction being made on debt owed to public-sector creditors. If such debt is not in arrears, which is not always the case, it means that, in economic terms, the public sector is being financed by the private sector, which is contrary to equal treatment of creditors.

• "Reciprocal" comparability: from the outset, Paris Club agreements have stipulated that the debtor country shall commit itself to seek from its other creditors, including those in the private sector, treatment that is at least as favourable as that provided by the Paris Club members. When debts towards private-sector creditors are restructured before debts towards Paris Club members are (as is now starting to happen, thus giving rise to the situation that I have just described), a comparability of treatment clause becomes pointless. This could make it seem normal that private-sector creditors receive less favourable treatment and ultimately result in financing of the public sector by the private sector.

• Therefore, the current wording of the comparability of treatment clause allows for unequal treatment. In fact, it is not a comparability of treatment clause at all, since such a clause should seek to share the burden. Instead, it is a unilateral demand by public-sector creditors to be treated no more unfavourably than private-sector creditors, even though the latter may be subject to more stringent terms.

In my view, genuine comparability of treatment should be reciprocal and apply to both public-sector and private-sector creditors. It should also cover more than financial terms and deal with the way problems are to be approached. Public-sector creditors have the privilege of renegotiating their claims, whereas this is now far from true for private-sector creditors.

I would also point out to Stanley Fischer that, as far as I know, the decision-making bodies of the Argentina creditor committees never asked to have Argentina's debts towards the IMF and the World Bank included in the negotiations. Some individual statements may have been made to that effect, but it was never the policy of the bodies that were qualified to speak on behalf of the creditors.

This historical overview shows that the private sector has become the main component of financing for emerging countries, while, at the same time, the relations between private-sector creditors and the Paris Club have drifted away from the original model based on the IMF's critical role as an instrument for adjustment.

What can be done to improve the current situation and to restore the spirit of cooperation that should prevail over the process of renegotiating sovereign debt?

A few years ago, a proposal was made to establish a restructuring process under the aegis of the IMF. This "statutory" solution (Sovereign Debt Restructuring Mechanism – SDRM) failed to win the support of the markets, which raised many objections at the time.

After this initiative, the private sector, inspired by the Institute of International Finance (IIF), started a series of discussions with some emerging countries. Meanwhile, at Mexico's initiative, Collective Action Clauses (CACs) became widespread. These clauses enable holders of sovereign bonds to make arrangements with the issuing countries in the event of a crisis.

The discussions between the private sector and emerging countries led to the definition of *"Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets"*. The Principles were drafted jointly by the leading associations of private-sector creditors and by eminent representatives of the governments and central banks of bond-issuing emerging countries. The principles were then approved by the G20 meeting in Berlin in November 2004. They constitute a set of consistent practices inspired by market needs.

It is noteworthy that the private sector and the emerging countries, and not the governments of industrialised countries or multilateral institutions, were the ones behind this important document. Effective application of these principles, which I ardently hope for, would make possible a return to a more efficient and more stable international financial system.

The Principles focus on:

➢ Transparency and timely flow of information

➢ Close debtor-creditor dialogue and cooperation to avoid restructuring

➢ Good faith negotiations when restructuring becomes inevitable

➢ Fair treatment for all categories of creditors. As Jean-Claude Trichet, who is the inspiration for these principles, stressed, and I quote: *"They represent an important element in the effort to build a system centred on global cooperation, growth and financial stability."*

Thank you for your attention.

M. Draghi - Thank you, Jacques. I am now going to introduce the participants in the panel:

- Mark Carney, Senior Associate Deputy Finance Minister and G7 deputy for Canada.

- Enrique V. Iglesias, General Secretary of the Iberoamerican Secretariat and former President of the Inter-American Development Bank.
- Jean Lemierre, President of the EBRD and former Chairman of the Paris Club.
- John Lipsky, Chief Economist at J.P. Morgan Chase and future First Deputy Managing Director at the IMF.
- Sergey Storchak, Deputy Finance Minister of the Russian Federation.

This is a specially selected extraordinary panel. Jacques has asked: "How is the predominance of private capital flows going to affect future coordination? How difficult is it to coordinate? What is the relationship between official lending and private flows?" All these questions are going to be discussed by this table. Mark, you're first. We will proceed in alphabetical order.

M. Carney - Thank you, thank you very much, Mario.

It's a great pleasure for me to be here today to celebrate this anniversary. I'd like to start out by stressing how much the Paris Club has contributed to making the international financial system work and how much Canada values that contribution.

As Mario said, since the Club was founded, the French Treasury has provided an exemplary Secretariat, and its directors have been outstanding. We are lucky to have them in the audience and on the panel today; they have gone on to make vital contributions to international finance.

A recent initiative mentioned by our lead speaker was that of Jean-Claude Trichet in fostering dialogue between emerging market borrowers and codes for good creditor borrowing communications in the orderly restructuring of private claims. The resulting principles reflect the two key developments that I think every speaker has mentioned thus far, which are the rapid growth of the private sector and the rapid growth of bond finance.

I am going to concentrate the balance of my remarks on one aspect of this – mentioned by Jacques de Larosière – which is the absence of reciprocal comparability of treatment and recognizing, as he said, that it is increasingly difficult to enforce the comparability of treatment principle.

I will state my prejudices or rather views up front, which are that if the private sector opts to move first, I see no reason why it should not bear the risk of doing so. The issue for the public sector is to create an environment so that the private sector has sufficient information and minimal uncertainty as to our motivations and our potential future course of action.

And I will suggest four ways to enhance that transparency:

• First off, a transparent mandate for the Club or as much transparency as can be achieved in a pragmatic organization, as has been mentioned. From my perspective as a Treasury official, it should be noted that one of my obligations is to protect my taxpayers. And if the opportunity for a better deal emerges from a situation in which the private sector has unilaterally moved first, I may take it.
• Secondly, clarity about the ground rules for discussion. Stanley Fischer and others have quite rightly emphasized the importance of the conditionality principle, the importance of having an IMF program. We should recognize, especially with the Nigerian Minister of Finance here, that while in some cases there is no need for a funded program, a policy support instrument is important. Now going forward, we are fortunate to have John Lipsky with us, because we need continued credible execution of that instrument in order to be able to rely upon it. I would like to stress the importance of the case-by-case nature of the Paris Club approach.
• The third element of transparency I would underline has to do with debt servicing capacity. I believe Argentina has already been mentioned. I think the criticism is partly justified that the public sector did not lay out the broader resource envelope that could be available for future debt servicing in the case of Argentina. That made for a messier restructuring, although I am not sure it would have changed the outcome, given that the deal actually achieved was broadly consistent with what the Fund and the broad official sector thought at the time was Argentina's debt servicing capacity. The final deal was not that far off. If we had known then what we know now, it might have been different, but we did not.
• Finally, a transparent assessment of good faith negotiations. Three elements are involved. First, assessment of the threshold; second, a judgment in terms of whether there have been negotiations, the importance of offers and counteroffers; and third, in the event that the private sector moves first, the presence of the Fund program, since it can be argued that at a minimum it will maintain debt servicing ability, although it is unlikely to enhance it.
To conclude, there will be crises. We are seeing the ample liquidity that has been described, starting, and just starting, to drain away. And the Paris Club and the IMF will continue to be at the heart, I believe, of their resolution. Therefore, they need to be credible, and this is a point that I believe, Stanley Fischer made. This really does put a premium on the governance discussions that are currently under way for the Fund. The structure, the governance structure of the Fund must reflect changes in the global economy and I agree

with the point that having a stake will increase the leadership of the players. So I guess, to sum up, I would wholeheartedly agree with the diagnosis that we have just heard. I hope I sound slightly more optimistic about the prognosis. It seems to me that people are engaged, the issues are identified and as the turnout here today suggests, the will is there. Thank you.

M. Draghi - Thank you, Mark. I will now give Enrique the floor. But before, I will ask Xavier Musca to take over the chair of this roundtable discussion, because, unfortunately, I have to go. Thank you.

E. V. Iglesias - I'm extremely pleased to be here with you today; I have a lot of friends in this place. I believe there were two reasons for inviting me. First, it has been my privilege to work with the Paris Club for close to fifty years – a privilege that comes with age. And second, I'm Latin American. During the past fifty years, we've given the Club a lot of work!

I'd like to say a few words about this highly important 50th anniversary as it relates to my own experience in Latin America all these years. First of all, I fully agree with Jacques's report. It was quite helpful, explaining what has happened in our region in highly didactic terms.

I remember the first stage of Paris Club negotiations very well, in those first 20 years when multilateral credit was really the main source of financing for my own country. Of course, the banks were there, and the Paris Club was too. But in those days, it was relatively easy; all you had to do was go to Washington to negotiate with the IMF. Once an agreement had been reached, the Managing Director used to call the banks in New York for a little bit more money, and then he would call Paris for further relief. So those were years in which things were much, much easier than they would be later on.

The second stage was much more complicated. In the 1970s, we started to see private banks playing an active role, becoming major creditors, particularly to the private sector, as Mr. de Larosière recalled.

I remember quite clearly that there were times of abundant liquidity and easy money. I would say there were times of great recklessness on all sides – on the part of both countries and the markets. So when you look back, you can understand. The issue at the time was recycling that money, lending it to Latin America and other countries to avoid inflation in the North. That was the philosophy prevailing in those days. At the time, the IMF, the Paris Club and the private banks played a very important role.

The third stage was in the 1990s, as we started to get a sense of the new financial climate of the century. I used to call Mr. Camdessus in those days, and I'd tell him it was the crisis of the 20th century. We started to see a new phenomenon: the contagion effect.

So we started to wonder about the spirit in which we had been operating the current account in our countries. Basically, we were not fully prepared for globalization of financial markets, and that led to major crises that were highly dramatic in many cases.

At present, we are facing new challenges, challenges specific to a new century. I'm thinking in particular of my own region. We are experiencing a period of bonanza, with high commodity prices and low interest rates, at least in the last few years. Another very important point is that there is a much better understanding of how to manage macroeconomic policies. All these things have combined to produce a very special situation, and the question is: How do we take it from there? And what roles should multilateral institutions and the markets themselves play?

One of the issues facing us is that we have two kinds of countries: those referred to as middle-income countries with access to the financial markets, and those that still depend heavily on traditional ways of financing their development process.

The middle-income countries continue to represent a challenge. How should we respond to them? These countries need to have a fund because they need outside investment. But the question is how to define the role of multilateral institutions in relation to middle-income countries?

The World Bank has conducted a very interesting analysis (and when I was at the regional bank, we did as well) in an effort to redefine the task of these multilateral institutions in this new situation of abundant liquidity.

I think these institutions have a very important role to play. First of all, they have to be close to the private sector. Private sector banks should be actively involved in financing certain weaker areas like infrastructure. Perhaps local government should also be brought into the process and become an additional focus for these multilateral institutions.

In any case, this is a new phenomenon, and the question as to what to do with the policies of these institutions is very much on the agenda.

Of course, we still have the other countries, those that depend heavily on the traditional lending programs of multilateral banks, commercial creditors, etc. But I tend to agree with you, Jacques. When I was at the InterAmerican

Development Bank, the whole area of grants was very much under discussion. I frankly have my doubts on the issue. It's not that we should try to prevent these countries from draining resources from abroad. But I think that loans make it easier to monitor the way the money is being used. And until I can be convinced otherwise, I would rather stick to this approach. But the discussion is still open.
A further point has to do with international commercial credit of all kinds. Concern has been voiced recently in the press that we need to be careful about the way commercial credit is being managed and applied. I think it is very important to keep in mind that easy lending policies made restructuring more difficult.
Last of all, the dramatic experience of Latin America has a great deal to teach us about how to bring the whole question of financing for development into focus. First of all, those countries that actually were able to pursue orthodox, rational macroeconomic policies succeeded in putting the issue aside. They could manage it. And everybody should be reminded that prudent, sound macroeconomic policy management remains a valid principle for building a new development financing system. But prudence is also required in evaluating the risks involved in both policies and commercial credit on international markets. In my experience, prudence has not always been the prevailing attitude. So I'm making an appeal for sound, prudent financial policies in the way financial markets behave in relation to their credit policies.
In all these areas, the Paris Club has always tried to adapt, and I greatly appreciate that. The Club has consistently sought to understand the problems, to be accommodating, to introduce debt reduction in certain cases. Its experience has been unusual and its activity highly important, both in its own right and for the future work of the IMF and the multilateral banks. I think you have a very special ability to advise and to work jointly with all these institutions.
So, I simply wanted to say that I am very happy to be here today and to have been able to witness the work of the Club. So congratulations and good luck for the next fifty years. Thank you.

J. Lemierre[1] - I would like to add a few words to Jacques de Larosière's remarks. I greatly admire him, not only as the Head of the French Treasury, the Governor of the Banque de France or the Managing Director of the IMF, but especially for having created the institution that it is now my honour to lead.

1 Intervention in French.

I would like to say a few words about the private-sector debate. I have a slight disagreement with Jacques on this point. I'm speaking from my point of view as both former head of the Treasury and President of the EBRD, which is an institution that works primarily with the private sector.

The public/private comparison is a bit artificial. The public sector provides long-term financing and should take risks; the private sector should provide better terms.

The private sector behaves differently, as I can see every day in the region where the EBRD is active. The private sector has a competency that the public sector does not always have: risk management. This means the capacity to take on risk, to measure risk and to price risk. This is something the public sector either does little of or else does badly.

The private sector obtains shorter maturities and higher yields. The counterpart should be some risk exposure.

The public/private comparison has a limitation, which I shall illustrate with an example from the EBRD's action. In 1998, the EBRD ran into a serious crisis caused by Russia's problems. The EBRD has never used its status as a public-sector creditor to protect itself against economic risk. It merely uses its special status to ensure funds transfers, and not to protect itself against economic risk. That seems normal and legitimate to me.

In today's world of abundant liquidity, the private sector, fortunately, is easily providing financing for the region's needs. It would be wise to remember one lesson from the Argentinean crisis, that raises fewer questions about what happened after the crisis than about what happened before : why had so much private financing been invested without a proper analysis of the risks? This was and remains a fundamental question.

Excess liquidity leads to similar phenomena, meaning:

1 – An inability to assess the apparent macro-economic soundness of a number of decisions,

2 – The short-sightedness of a number of investors solicited by commercial banks,

3 – The systematically optimistic and overly short-term view of many investors in the market.

This leads to a fairly simple conclusion, which is that we must attempt to see what can be done to control these flows properly and to ensure that the risk is duly acknowledged by the private sector. Several measures should be implemented.

➢ The IMF’s role is critical. I have some regrets about its limited role when countries are not benefiting from an IMF programme. This is a fundamental issue for the markets. Commercial banks should push for much greater involvement of the IMF than is the case today. This is very important.

➢ More or less orderly treatment procedures in the event of a crisis. The principles that have been adopted under the aegis of the G20 and implemented by the private sector are good ones. They ensure transparency, sound intervention techniques, consultation and coordination. They should be expanded.

However, we must be more careful about the guarantees that are sometimes provided and requested by commercial banks. Starting with currency boards, which are an excellent technique but a dangerous one. Then sovereign guarantees. I am astonished to see the loans that commercial banks sometimes make on the strength of a sovereign guarantee.

However, the risk analysis is carried out differently. This is a cause for concern. I’ll take it a bit further. It sometimes happens that public-sector loans and private-sector loans (commercial loans) are considered in the same way. The main feature of public-sector loans is that they usually stipulate very strict rules for supervising the paying out of funds, which is not always true for commercial loans.

The nature of the loans is different, of course, and the rates may be slightly different, but not necessarily very different today. This difference in the nature of the loans could be a cause for concern.

Close attention must be paid to loan guarantee techniques. A financing procedure is now being developed that is bound to be an issue for the Paris Club. I’m talking about financing for local and regional governments, or sub-sovereign financing.

We provide a lot of non-sovereign financing to local governments. In that case, EBRD’s policy is to try not to obtain sovereign guarantees.

My final remark relates to the role of public institutions. The IMF, the World Bank, the IFC, the regional development banks and the OECD have an important role to play in helping to protect the private sector from its own excesses and exuberance.

This can be achieved by helping the private sector discern all of the risks in the market. Some of the markets are still extremely complex, opaque and prone to the formation of bubbles.

I am struck by an issue that does not relate directly to the Paris Club, but which will become a topic of debate in a few years. I’m talking about the massive wave of IPOs that we're seeing around the world. Many IPOs are taking place in London, New York and Hong Kong. There are also huge waves of Asian and Russian IPOs. The real issues with IPOs are corporate governance, the sustainability of governance, transparency, and the quality of decision-making. IPOs shift the debate further than the Paris Club as it is related to other types of investments, which can raise questions themselves.

In conclusion, I would say that the Paris Club has done remarkable work, which is still topical. What I've just said shows that there is still a need for a very active and lively forum in which public institutions can engage in a dialogue with private institutions.

After fifty years, the Paris Club must find new ways of carrying out its action, exploring new financial instruments and new cooperation procedures.

The Paris Club will still have to make sure of one thing with regard to the private sector: it must leave risk where it ought to be, with the private sector.

J. Lipsky - Thank you for the honor of being here today with such a distinguished panel and such a distinguished audience. You have heard, but maybe I should make it clear that when I was invited to participate, it was as the chief economist of J.P. Morgan, and it is known that on September 1st, I will become the First Deputy Managing Director of the IMF. So in a certain sense, I am neither fish nor fowl. But as I sit before you today, I am still a fish. But you will undoubtedly think that I am becoming a fowl, so my remarks should be taken in that context with respect to what I can and cannot say. I am not speaking for the IMF; I am speaking as a J.P. Morgan representative.

I would also like to add just one personal note. As a young economist at the IMF, I had the honor of participating in the Paris Club meetings for Brazil in 1984, under the leadership of Jacques de Larosière, of course, one of my heroes. The Paris Club was chaired at that time by Michel Camdessus. So it is amazing to think how many years these gentlemen and their successors have provided strong leadership for the global economy and financial markets at such important times. Their example has been an inspiration to me, and I am very honored to have the chance to follow them in public service.

I will be brief, because I have been listening closely to what has been said so far in this panel and by Stanley Fischer. A lot of very important comments have been made and there is no point in my making them over again. But let's take up one of the points that Jacques de Larosière made. He implicitly stated that the constant for the Paris Club has been change, important change in markets, and that the changing nature of markets has inevitably created difficulties and moments of crisis, because in general, the system had not adequately or completely anticipated the exact nature of the problems when they arose. So there has always been a degree of improvisation, sometimes successful and sometimes less so.

Let me make one short comment. The latest movements in emerging market debt and emerging market securities in general have created great concern. The very favorable pricing of risk in emerging markets over the past few years has resulted in excesses. Excess liquidity, and perhaps excessive imprudence and the recent volatility, are all harbingers of impending problems.

But while that may be the case, it seems to me that when we look back at the last few decades, what we see is that countries can produce individual crises through their individual actions. But in general, the problems in emerging markets reflect prior instability in developed markets, not the other way around.

How many of you, in 2002, anticipated that the following four years were going to be one of the strongest periods of global growth, with low inflation and relative stability, compared to the previous decade? My guess is that virtually none of you would have expected that. I certainly did not and I was considered very optimistic. It seemed relatively straightforward to me that such unexpected success would produce an exceptionally favorable environment for emerging market securities.

You have to realize that, for the participants, this has been the best of times. But, in a sense, it has created new uncertainties because these markets have, in a way, lost their benchmarks, have lost a sense of benchmark. Although the participants observe that in spite of a few challenges, the news continues to be broadly good, a certain amount of uncertainty and heightened market volatility was inevitable, notably uncertainty about the outlook for the industry in developed markets. So we have entered a period of what I hope will be healthy testing, because this volatility represents a re-establishment of some sense of trading ranges for these markets.

The point to be made here is that as long as industrial country authorities are successful in sustaining solid growth with low inflation, it seems unlikely that they will be facing generalized challenges in emerging markets. So that is where our primary responsibility lies, yet at the same time, we have to think ahead and assume that troubles eventually will come. We need to prepare for them. You have heard lots of remarks about the changing nature of international markets, and the constant has been the growing role of private sector initiatives or private sector participation in providing capital to developing economies.

One recent development has struck me as potentially very positive, yet at the same time problematic: the participation of international investors in local currency-denominated securities has grown substantially. My J.P. Morgan specialist colleagues told me that over the past year, perhaps as much as 30% of net new flows into emerging markets have been in the form of purchases of local currency-denominated securities. If that proves to be a durable trend, then even in local markets, we are going to see the relative growth in corporate securitized business debt, corporate debt and equities, and their rising importance in relation to sovereign issues, even in local markets, not just in international markets.

That also means that this trend is potentially a powerful source of greater sophistication and strength for local financial markets. So this is a situation whose long-term implications should be very positive, but we should be aware that in the short run, it could enhance volatility in those markets as new entrants may change their minds.

It also implies that the boundary between domestic and international markets is becoming more tenuous. We will be confronted with new challenges in crisis prevention and crisis resolution. At the same time, as previous speakers have pointed out, even in the case of sovereign debt, widespread use of collective action clauses (or CACs) in new issuance indicates that we are in a period of transition, in the sense that debt that is covered contains collective action clauses, so in theory, it should not be subject to default, because the contract itself includes the possibility of renegotiating the terms.

Let's hope that all foreign currency-denominated sovereign debt will eventually contain collective action clauses that prescribe methods for dealing with potential restructuring or renegotiation. But for some years to come, we will be living in a highly complex environment in which some of this debt is covered by CACs and some is not, in which the participation of international investors in local currency markets will inevitably wax and wane. This is going to be an exceptionally challenging situation. I welcome Jean Lemierre's remark that the IMF and other international institutions should not and cannot use the excuse of complexity to justify inaction.

This period of relative prosperity and relative stability is the right time for us to think hard about what form the next crisis will take, and to try to anticipate it.

This is not going to be easy, but now is the time to think hard and to take action consistent with our conclusions. Thank you very much.

S. Stortchak - Dear friends, I think I have the right to refer to many of you as friends, because many of you have negotiated with us as debtors, and still others as creditors. Many of the people here today have shared endless nights with me in which we negotiated multilateral agreements with other nations. So Russia has a very interesting story to tell of working within the Club as both a creditor nation and a debtor nation. From the beginning, our experience has been a success story for the Club, and I believe many of you will share my opinion.

Our lead speakers have described in detail how the Club has changed in recent years, especially during the last decade. But as I see it, none of them referred to the factors which influenced these changes.

So I am going to be a bit provocative by saying that Russia has played a major role in changing the Club. I'll give you a number of examples.

In 1996, we negotiated for three nights and four days, probably the first exit treatment. Definitely, it was not the first but it was the hardest in the history of the Club. Five years later, the Evian approach came into being, based to a large extent on what was discussed during those difficult nights.

Another example, reflecting a different side of our story, has to do with when we started negotiations with the Secretariat about entering the Club as a full-fledged member. For the first time in the history of the Club, we received the Club's written principles. That marked, in a sense, the beginning of a new era for what as already an old institution. Those principles were first drawn up during our sessions with the aim of explaining the Club's mission and methodology.

At the beginning, we discussed the role of the Club in the financial architecture of the world. The Club played a vital part in the early 1990s when we were faced with the issue of the former Soviet Union's liabilities. They totaled around $100 billion, one half owed to the Club, the other half owed to the private sector. And although that may not be such a large amount, the most important point was that one third of the total was overdue.

Together with the IMF, the Club made every effort to find a way to restructure these obligations, meaning debts. There were over fifteen former Soviet republics at the time, before they merged into a single obligor as the Russian Federation. I had the privilege of participating in those successful negotiations, and I'm looking forward to another round of multilateral discussions with the Club tomorrow, hopefully the last! Thank you.

X. Musca - Thank you very much, Sergey. This roundtable has provided an illustration of the issues raised by Jacques de Larosière. I would now like to hear briefly from the floor to get the debate started.

L. Pereira da Silva[2] - I would like to take the opportunity offered by the fiftieth anniversary of the Club to show, as my colleague Sergey has done, that there have been some success stories.
Brazil has just turned over an important page in its financial history with the Paris Club. I would like to bring a message of reasonable optimism and salute the creative pragmatism of the Paris Club.
In the last fifty years, the Club has managed to avoid the known pitfalls of cooperative schemes by evolving to keep pace with the major changes that have taken place in international financial architecture, with globalisation, increasing flows of private funds and the growing sophistication of financial markets, as many of the speakers today have pointed out.
My reasonable optimism stems from the fact that many developing countries, and especially emerging countries, are now less exposed to market whims, even though I recognise, as Mr Lipsky mentioned, that volatility can occur at times of relative uncertainty about the exact course of monetary policy changes in advanced countries. This reasonable optimism is the attitude to take with regard to emerging countries for two reasons.
First of all, many of them, in the wake of the Asian crises, have adopted economic policies that are better suited to a globalised financial world, with floating exchange rates, clear inflation targets and very responsible fiscal policies that are often very austere. This has increased their ability to withstand market ups and downs.
The second reason is that many of these countries have been able to take advantage of favourable international trade cycles to reduce their external vulnerability. This applies to both the public and private sectors. Brazil is a case in point. It took on board the old saying *"God, the Paris Club and globalisation help those who help themselves!"* This is the same principle that we apply in the football World Cup; we help ourselves to try to win!

2 L. Pereira da Silva is the Secretary of State for International Affairs at the Brazilian Ministry of Finance. Intervention in French.

In any event, we adopted sound macro-economic policies and robust fiscal policies, and low inflation helped us to reduce our vulnerability.

I also mentioned the Paris Club's creativity in strengthening a number of elements in international financial architecture with regard to a number of points. I will talk about two of these.

The first is volatility. Despite the advances in risk analysis, the progress made by rating agencies and better policies in emerging countries, there will still be a number of international private finance bubbles. International leaders should continue discussing prevention and insurance arrangements during global crises of confidence for countries with robust and sound policies, which may be affected by exogenous shocks.

Brazil will take part in the IMF's poverty reduction and growth facilitation program for poor countries. We need to think along the same lines for prevention programmes for middle-income countries. This is how I would answer the question asked by Jean Lemierre.

The second general issue is development financing, beyond the question about loans or grants put to us by Stanley Fischer, who asked us to think about new sources of official development assistance that are more predictable, more permanent and more effective than budget allocations, which tend to be cyclical and political in nature.

Brazil, along with many other partners, including France, has started discussing the idea of creating more innovative mechanisms and international taxes. These are pilot projects, but they are important for completing the range of instruments for official development assistance.

The definition of tax bases and rates need to be discussed, but the real problem for development assistance lies in the incentives and penalties for positive and negative externalities that exist in a globalised world and which call for global treatment.

Thank you.

Ms Crosnier[3] - It was my great pleasure to take part in the negotiations on Mexico's debt in 1987 on behalf of my bank. Today, we take part in committees where there are funds as well, and our experience has been good.

I have two questions. Everybody is talking about creativity. I get the feeling that not having formal bylaws has helped you, but it would seem that there has

3 Société Générale Group. Intervention in French.

been a major effort to draw up a code of conduct setting out major principles. Can this be transposed to other circumstances?
We have heard about the BRICs. I get the feeling that Russia has already contributed a lot. Do you intend to continue?

X. Musca - We'll come back to that point.

D. Millet[4] - I shall be fairly blunt in my judgment of the Paris Club. I am pretty astonished by the autism of the leaders whom we have heard speak around this table.
We have heard about the little problems between creditors, but the 2.8 billion people on this earth living on less than two dollars a day have not been mentioned in the debates and I fear that we won't hear about them for a fairly long time yet.
The logic advocated by the Paris Club is responsible for the deterioration of living standards on the planet. Your choices are profoundly ideological. You present them as immutable principles, but as long as you refuse to question these choices, there can be no lasting and equitable solutions to the economic problems in our world.
On 16 May, we held a demonstration in Paris and in other French cities. We took a photo of it for the anniversary of the Paris Club. I can give you a little booklet to this effect of people who said "fifty years for the Paris Club is long enough!" The nice unanimity about the Paris Club's role is nothing but a façade.
For me, the Paris Club is a key element in the domination that the peoples of the South have been subjected to on a global scale. Personally, I would like to express the wish that this anniversary is the last.

X. Musca - That's an interesting contribution.

Mr Kapoor[5] - I would like to put this discussion into context by citing some facts that may have been forgotten along the way.
When we speak of the financial debate about international debt, we present the Paris Club as part of the solution, but the enormous capital flows, which

4 Chairman of the Committee for Third World debt cancellation. Intervention in French.
5 Adviser to NGOs on development financing. Intervention in French.

are two to four times greater than the stock of debt, have not been mentioned. We haven't spoken about them. If we consider them, perhaps the countries that have been spoken of as debtor countries would be creditor countries and they would need their own club to think about how to repatriate this capital flight and these stolen assets. I would like the roundtable to address this aspect of the problem, which is one of the reasons why financial flows are undermined. This has not been debated.

My last point is that the concept of the joint responsibility of the creditors has not been raised, nor have the loans to Mobutu and other regimes more recently, or to sub-Saharan Africa or the loans to Congo and South Africa, which are still being serviced.

It is not merely a matter of creditor countries sitting down together to negotiate. The negotiating should be on a level footing, on the basis of all known loans and debts, some of which were recycled almost immediately in the form of capital flight, as was the case in Russia and Latin America.

IMF's founding principles included the prevention of massive capital flights between Europe and the United States. The IMF's role in identifying and repatriation of assets was discussed at that time, and it could be a part of the solution. The Paris Club, the creditors and the IMF must recognize the scale of the problem and provide solutions.

Mr Merckaert[6] - Before this event started, a kind of unfair debt World Cup was held, with 19 creditor countries on one side and one debtor country on the other. You probably know the quote by Gary Lineker, the British striker, who said, *"Football is a game with 22 people and in the end the Germans always win."* With debt, the creditors always win in the end. This is only natural, since they are both players and referees in the process.

This profoundly arbitrary system is shocking for us. We ask that it be changed to involve all of the players with clear ground rules that are applied to all.

The system is not just arbitrary; it is also inefficient, as some of the speakers have shown, because it is incapable of preventing the behaviour of vulture funds or free-riders. The rules today do not apply to all players.

6 Comité catholique contre la faim et pour le développement (CCFD) which coordinates the debt and development platform made up of trade unions and NGOs in France for the cancellation of the Third World countries'debt. Intervention in French.

That is why we are seeking the drafting of an international debt law and why we would like the members of the Paris Club to engage in such a dialogue under the aegis of the United Nations, which we feel is the most neutral forum for holding this debate.

X. Musca[7] - Please allow me to say a few words in conclusion. No matter how valuable the further debates we could have might be, we must move on because we have an agenda. It is very hard for me to sum up the debates and even more difficult to do so for the questions from the floor.
In response to Damien Millet and the other NGOs that have spoken, I would say that the questions that they have raised are important and legitimate ; this session is testimony to the fact that the Paris Club is not autistic, that it is willing to take on board these remarks and criticisms, which provide a contrast to the flood of praises that we have heard since the beginning of this meeting. A second roundtable discussion chaired by Mr. Kaberuka will be held later on, dealing more specifically with developing countries. Then we could resume a more in-depth discussion of the important questions that have just been raised. I would just like to make one remark to Mr Millet. I do not think that the debate that we have just had at the instigation of Jacques de Larosière on the links between the private sector and the public sector is unrelated to development concerns, quite the contrary in fact.
I am one of those who think that an international organisation is always better than the law of the jungle. Everyone is free to harbour questions or doubts about the operations of international organisations, even informal structures, such as the Paris Club. You can dispute its methods and its objectives, but from the point of view of development, the ground rules applying to all public-sector creditors and the relationships between public-sector and private-sector creditors are key issues.
Please allow me to focus my remarks on this point that Jacques de Larosière has mentioned.
The debates have shown that there is a very broad consensus on the facts. It is clear, and everyone has said so, that the share of financing from public-sector creditors has decreased and that, consequently, the share from private-sector creditors has increased. Private-sector financiers have used a remarkably diversified range of financing methods, from bank lending to market financing

7 Intervention in French.

in foreign currency and in local currency. This raises formidable questions for the general organisation of crisis treatment and prevention.

Jacques de Larosière has given a very good account of how the international community has stumbled around on its way to solving these problems. There was an inconclusive debate about the SDRM, major initiatives regarding collective action clauses and, finally, the G20 principles.

The fact remains, as illustrated by a few cases, such as that of Argentina, that all these arrangements, even though they are steps in the right direction, do not constitute the complete answer to the problem facing us: what should the relationships between the public sector and the private sector be?

It is obviously very difficult, following this debate, to outline any solutions, so I shall refrain from doing so. I would just like to list a few of the elements on which I feel a consensus has been reached through this first discussion. Please allow me to share a few personal thoughts. I will start with these thoughts so that nobody thinks my general conclusions might be too biased.

Perhaps because I am the head of the Treasury, I am on the side of those who, like Mark and Jean Lemierre, have some trouble putting the public sector and the private sector on the same footing. Reverse comparability of treatment is not, in my personal opinion, a viable option as it stands. Private and public creditors are not in the same situation, as has been abundantly explained.

I would add another element. I'm not sure that we must give a number of debtors who do not play by the rules too much of a temptation to start dealing with the private sector issue by presenting creditors with a *"fait accompli"* – I'm thinking of certain countries – and then imposing the same treatment on public-sector creditors, who would be trapped by the reverse comparability of treatment rule.

My second personal remark is that I agree completely with what Jean Lemierre and John Lipsky said about the incredible complexity that the current excess liquidity in the system has added to the general issue, which means that we may deem the problem to be more serious than it will look in a few years' time. What I mean is that we have undoubtedly seen years in which the flow of private capital to some emerging countries might have been excessive and disorderly. At the same time, it could be thought that this excess liquidity facilitated non-cooperative solutions for the treatment of private-sector debt. The situation is likely to return to normal as the excess liquidity is gradually withdrawn from the system.

With regard to local currencies, I fully understand the remarks and concerns expressed by John Lipsky, but I would stress the very positive long-term prospects that John himself mentioned. After all, many of the crises in past years stemmed from the inimical situation in which a country borrowed in a currency other than its own and was then exposed to the consequence of exchange rate fluctuations that had nothing to do with its own situation.

We could hope that the growth of financial markets in local currencies will cause investors to be more prudent, since they will have to look at the specific risk of each currency. It will also reduce the risk for each of the issuing countries stemming from changes in the international macro-economic situation over which they have very little influence.

Once this has been said, I must mention the points on which there is agreement.

The first point of agreement is that we are still looking for a solution. At this stage, there are no miracle cures.

The second point of agreement was mentioned by several of the speakers. We must strengthen the G20 principles. I want to reiterate the importance that we place upon these principles.

The third point of agreement is that the public sector must make an effort. For the Paris Club, this is the transparency that Mark Carney urges us to ensure. More importantly, and this is not judgmental coming from me, the IMF must make an effort.

During all of the presentations I heard calls for the IMF to be more present in situations where programmes are under way, but also in situations where there are no programmes. Several speakers rightly pointed out that this new role for the IMF was intimately linked to the redefinition of international financial architecture to take better account of structural changes in recent years.

The fourth point of agreement is that responsibility is shared and that the private sector must, of course, provide its share of the effort. On this point, I refer to the remarks by Jean Lemierre on the need for greater prudence, more selectiveness and the critical importance of factoring in risk.

I failed to answer a question regarding the extension of Paris Club's membership. We are convinced that the Club's credibility hinges on its capacity to include all of the new lenders in the debt restructuring process.

We have had very constructive discussions with a number of leading emerging countries. In the case of Russia, the problem has been clarified, as Sergey mentioned. In the case of Brazil, good cooperation exists and is gaining strength every day. Brazil was able to take part in occasional restructuring operations, but this is not the end of the story, of course. You may already know that the latest G8 summit, as well as the previous G7 summit, called on emerging donors and emerging lenders to be more closely involved in defining lending policies within the framework, to be outlined by the World Bank and the IMF, of debt sustainability analysis. We shall continue this effort. We are also trying to involve all of the donors as much as possible.

I've taken rather a long time to speak and I apologise. I hope that I have given a more or less accurate account of our discussions. I am aware that I cannot give a full account of the diversity and the value of the speakers' contributions. I would like to thank all of the speakers for their contribution, which have been precious for us.

I thank them for their kind words about the Club, which I do not take as compliments for me, since I have only been the Chairman for a short time. On the other hand, I thank them for these kind words on behalf of my predecessors. I only acknowledge one merit of the Club for today: we made a good choice for the members of our panel and John Lipsky shows our ability to anticipate events. We shall try to live up to this in the future, as we have in the past.

Thank you.

Roundtable 2
“The Paris Club and the restoration of the debt sustainability”

The second roundtable chaired by Donald Kaberuka, President of the African Development Bank

D. Kaberuka - On behalf of all of us, I would like to thank the French authorities and Treasury for taking the initiative of involving the African Development Bank in this event.
My African colleagues and myself are here to show our appreciation for the work that the Paris Club has accomplished over the years. It has done so with great flexibility and Africa has benefited greatly from it. I don't think that many Africans think of the Club as an instrument of domination. Michel Camdessus will explain all that to us.
As the Chairman of the Paris Club stressed a while ago, Africa is making substantial progress right now. There may be some regions that are slipping backwards, but on the whole, Africa is starting to make large gains. The factors behind these gains include favourable conditions on international markets, but also the cumulative results of several years of reforms, including more efficient management of government debt.
Members of the panel are here today to discuss issues of sustainability. Now, I don't know if Michel Camdessus needs to be introduced. I simply want to say to you that for many people in developing countries, he was an outstanding Managing Director of the Fund, in a period when issues of debt were being seriously discussed, when the original doctrine of the Paris Club was changing radically. And he was able to link these with the Millennium Development Goals.
I remember him at a meeting in Libreville, holding up the Millennium Development Goals, urging all of us to put them on our agendas. He is still very active in Africa on water issues. Many of you are familiar with his work on the commission for Africa, and recently he and the head of the French Agency for Development, Mr. Sévérino, published an excellent article in the International Herald Tribune on the issue of debt. I very much regretted that he did not ask me to co-sign it, because I would have, since I agreed with everything he said.

M. Camdessus[1] - Thank you Mr President, it has been a pleasure to work under your presidency.
As I'm sure is true for many of us here today, it is a genuine pleasure to join you in recalling the last fifty years. I recalled many events listening to Jacques just now and reading some of the papers.
For my part, when I started working at the Paris Club, we met in a much more beautiful palace than this one, but the meeting rooms were much less comfortable and there was absolutely no air-conditioning!
That being said, I shall try to do my duty by dealing with the key role that the notion of debt sustainability has played in the Paris Club's activities and in the gradual changes made to its intervention procedures.
I shall start by studying these points. Then I shall look at how the debt sustainability issue has changed within the broader context of the debate about financing for the poorest countries and made it possible to restore the situation of many countries through debt cancellations granted in recent years.
The notion of debt sustainability, which we spoke about in much vaguer and perhaps less pedantic terms fifty years ago, has become, over time, a key element in the Paris Club's activities and a key element of international cooperation, of course.
I shall not go back over the definitions that are now accepted and express the situation of a country where solvency over time has been ensured, without having to make at one point a massive adjustment to the balance of revenue and expenditure that would have destabilising economic and social consequences.
Debt sustainability is a critical aim for a creditors' club, because it maximises the probability that debt will be repaid in full and that normal and mutually beneficial relations can be established on a lasting basis.
Therefore, it is not really so much a matter of generosity as one of common interest through solidarity.
The means that creditors have implemented to achieve this objective have changed since 1956. In its early history, and even in the early nineteen-eighties, the Club approached debt problems as actual liquidity problems, temporary liquidity crises and not insolvency problems.
We thought that any problem, treated in time, could be solved by appropriate rescheduling, backed up by a resumption of international financing as part of

1 Intervention in French.

a stand-by programme or an enhanced IMF facility supported by contributions from the World Bank.

At the time, the conventional wisdom among creditors was that the debtor countries would be able to repay their debts in full over the long term, if they were rescheduled properly.

Starting with the Mexican crisis in August 1982 (I can still see today's Secretary General of the OECD coming to see us at the Louvre back in August 1982), the growing payment problems of a large number of developing countries caused the activity of the Paris Club to pick up sharply. And yet, despite repeated rescheduling, once, twice, three times, four times, countries never managed to break out of the rescheduling cycle.

With the failure of the Baker Plan and of the idea that virtuous programmes would cause new money to flow in sufficient quantities, it became clear to the international financial community that no lasting solution could be found without cancelling part of the debt.

The International Monetary Fund, but it was not alone, helped to break what was a real taboo by stating that there was nothing outrageous about taking on board the financial lessons to be learned from the secondary market in bank loans, which provided a fairly objective measurement of their impairment.

In 1988, just before the Toronto G7 summit, for the first time a partial cancellation was granted for the debt rescheduled through the Paris Club. This decision by the G7 members was then taken up by all of the creditors. It was an important step in recognizing that the problem was not one of liquidity, but one of solvency. This recognition made it possible to accept the idea of cancelling debts.

It was a difficult step to take. This conceptual breakthrough was a painful one and IMF, which was not the only one behind it, was bitterly criticised for it for some time. It was hard for the banking community to accept that some of its claims, even though ample provisions had been set aside, would have to be written off in order to protect the rest. The first step had to be taken.

It was taken and the partial cancellation of debt marked a return to reality for all development players, who became aware that such cancellations were inevitable for countries coping with major external shocks or countries suffering from external shocks combined with disastrous internal management.

This state of affairs is now obvious for development economists, for whom the debt cancellations of this period were akin to window-dressing for the writing-off of bad loans. Nevertheless, we must admit to collective short-sightedness at the time, given the true scale of the crisis. We may have been lacking in foresight, and this may have delayed some of the necessary adjustments.

Starting in 1988 and 1989, the notion of debt sustainability started to become a very important issue in the international debates about debt cancellations. From a world ruled by an excessive focus on the sanctity of contracts, the creditor community was moving into a world where partial cancellation of debt helped to re-establish the sustainability of debt, but without renouncing the sacrosanctity of the contract.

The creditors in the Club advanced very carefully along the road to debt cancellations. In 1988, there were only partial cancellations of maturities falling during a three-year period. It was not until 1995 that the Paris Club agreed on the Naples Terms, which cancelled part of the stock of debt. Just now, Stanley Fischer showed that the distinction between the two forms of debt relief is not always clear in financial terms, however, the Naples Terms represented a further break with the past, and Uganda was the first beneficiary in February 1995.

The key step was taken in 1996, with the HIPC initiative that called for multilateral creditors to participate in efforts to reduce debt. Once again, this major change had to overcome strong resistance, because the special status of multilateral creditors was perfectly justified.

It took three years of debates to get the financial community to agree to this next step, which compromised the untouchability of multilateral debt and involved gold sales by the International Monetary Fund and/or budget contributions to offset the financial cost of the initiative for the IMF and the World Bank.

In spite of everything, the obstacles were overcome and the initiative was implemented in 1996, followed by the enhanced initiative in 1999. These moves made a substantial contribution to restoring the sustainability of the debt of the countries that made it through the entire process.

Then, at Gleneagles, a further step was taken. What happened? What has it meant?

In the decade between 1988 and 1999, the international financial community finally accepted the idea that debt cancellations are justified when they are needed to restore debt sustainability. As of that moment, the concept became conventional wisdom. The reality principle prevailed in the end, but it would be unreasonable, I must say it bluntly, to overestimate the role that debt cancellations play in underpinning the growth of developing countries and to make them an ordinary instrument for financing development. I am afraid that the G8 went off the rails somewhat on this point. It may be sacrilegious to say so here in this temple of G8 and finance, but I'll say it anyway.

The G8 went off the rails when it committed itself to forgiving 100% of the claims on a number of countries without looking too closely at the individual circumstances of each of them and with no regard for sustainability analyses. This was a major breach, and an exceptional one, I hope, of one of the fundamental elements in the doctrine established by the Paris Club and the multilateral institutions. Even if, as I would like to believe, the donors live up to their commitments to offset the cost of the initiative for multilateral institutions so as not to compromise their future ability to take action, I think that this spectacular initiative, which ignores some important principles, will only make a relatively small contribution to increasing the net resources that development countries need to achieve the Millennium Development Goals and to increasing the flow of resources to meet their actual needs.

The measure appears to be a generous one, but, despite everything, it still leaves the question of how we should increase our official development assistance commitments between now and 2015.

We discussed this point at length in the Commission meeting that the British Prime Minister called on the day before the Gleneagles Summit. There was a very strong temptation to make a gesture in relation to debt. Everyone was expecting it. It was only after much debate that we realised that even if we did so, casting aside all of the Paris Club principles, we would only be taking a tiny step down the road toward doing our part in the effort needed to ensure that the Millennium Development Goals have a chance of being met.

It is very important that the Blair Commission acknowledged that a gesture based on sustainability was required towards the poorest countries as far as possible, but that the real topic was how to come up with much greater amounts (around four times greater) for official development assistance in the form of grants, but without necessarily abandoning the notion of credit. Credits and loans are required when the situation of the borrowing country and the nature of the projects warrants it. But using debt to finance education projects or maternal and child health projects in very poor countries does not make any sense. The principles that we were moving towards with regard to the proper distribution of international efforts with regard to loans and grants are perfectly justified.

In my view, as of today, the international community can congratulate itself on the major progress that has been made in reducing debt, where such

reductions are needed most and with reductions of up to 100% in some cases. But today's effort and I would like to get the NGOs involved in this, must focus on our share of the effort with regard to grants to ensure that the Millennium Development Goals are met by countries that are making every effort to do so.
I would like to come back to a question that has already been discussed at length about the risk of a new debt crisis, if we fail to learn the lessons of the past. We must welcome the arrival of new capital providers, who are willing to lend money and contribute to the development of poor countries. But it would be much more reassuring to be sure that they are doing it to achieve goals that are truly aligned with these countries' development priorities, for projects that are suited to debt financing and that the loans are granted transparently and in consultation with international partners. If nothing else, it is in the creditor's interest to know about the extent of the borrower's debt situation, the borrower's actual solvency situation and joint efforts that the international community has made in the borrower's favour. Without such knowledge, we are likely to end up with a new debt crisis, even though all of the lessons learned in the past could help us to avoid it.
I would like to conclude my remarks with this call for the new creditors to act wisely and by saying that I welcome the openness of mind with which the current Chairman of the Paris Club has invited them to join the major creditors, who have vast experience. I would like to say how much I wholeheartedly wish fifty years of success and happiness for those who succeed us at the Paris Club.

D. Kaberuka - Thank you very much. You have covered some critical questions. I will now ask Mr Carstens to answer two of the questions that Michel Camdessus has just raised: is there a risk of a real debt crisis? Did the G8 make a mistake? Has the process been derailed?

A. Carstens[2] - Well, thank you very much Mr. Chairman. It really is a pleasure and an honor for me to be here with you at this important, 50th anniversary milestone for the Paris Club.
I also feel a little be awkward to be presenting the views of the Fund in front of two of the Fund's very distinguished ex-Managing Directors, one very distinguished ex-First Deputy Managing Director and one very distinguished, hopefully future Deputy Managing Director. At the same time, the presence of

2 Deputy Managing Director of the International Monetary Fund.

this collection of distinguished personalities associated with the Fund reflects the very close association between the Paris Club and the IMF.

We usually refer to the World Bank as our sister institution, but the same could actually be said of the Paris Club. Probably, the best way term for the Paris Club would be a “non-institution” institution. Just as we sometimes speak of “non-bank” banks, we can speak here of a “non-institution” institution.

In any case, I find it very appropriate that this second panel is about the issue of putting squarely on the table the issue of debt sustainability. The objective of the IMF in collaborating with the Paris Club is precisely to induce debt sustainability in debtor countries. The basic idea is that debt relief finances adjustment, adjustment that is supported by the Fund and the World Bank. So the concept of debt sustainability is very deeply ingrained in the relationship between the Paris Club and the IMF.

As Michel Camdessus very eloquently put it, debt sustainability is a central issue in international financial architecture, and it has also been a great principle in the evolution of Paris Club policies.

Regarding the role debt sustainability plays in the Fund, it is a principle that is widely used in many different instances in the International Monetary Fund, not only in our business or our collaboration with the Paris Club. It is part of our exercises among emerging markets and low-income countries to conduct sustainability analysis. In the case of program countries, it certainly helps establish the macro-conditions, and it certainly has an impact on conditionality, especially in relation to borrowing on non-concessional terms or other types of financing that can affect debt sustainability. And it also has relevance to an activity that absorbs a third of the Fund’s budget, which is technical assistance and capacity building.

We can observe that most of the countries in the world have become keenly aware of the need to manage debt and have made considerable improvements in that area. This is an aspect that will contribute in time to more stable financial relations in the world.

The Fund has also sought in different ways to promote transparency, because one of the main ingredients in shaping lending policies is information. The Fund tries to collect the necessary information and make it public in cooperation with the countries involved, in order to promote better decisions by lenders.

In our debt sustainability analysis, we still face major challenges. One of them, which was mentioned by my future colleague John Lipsky, is how to deal with the issue of domestic debt. There are other important issues in the way we read our debt sustainability analysis. Contingent liabilities, growth potential, the impact of investment, the way resources are being used – all sides of the equation need to be incorporated into the picture. Prudence in the way that business is done should also be taken into consideration. Both the World Bank and the Fund are striving to enhance our debt sustainability analysis by introducing some of these issues.

I'd like to go back to Michel Camdessus's presentation, in which he raised two issues that I consider essential.

The first one is that debt relief initiatives by creditors should be firmly anchored in debt sustainability considerations.

The second issue is that providing financing for development through debt relief is probably a second-best strategy. In principle, I agree with these conclusions. Certainly, debt relief should not be used in excess. We have to make sure it doesn't amount to a breach of a contract. In a way, debt relief can be a disincentive. It can send signals that might not be the best and affect future financing for the countries receiving it.

At the same time, we have to bear in mind that we do not live in a perfect world. We also have to realize that in specialty loans among nations and even multinational institutions, politics play a very important role. In different instances, what the international community has tried to do is to seize the opportunities to bring resources to low-income countries through debt relief, while knowing that it will generate some distortions. I think that is true of HIPC. It can also be said of MDRI. We need to be sure that the overall benefits of those programs really outweigh any distortions they create. And in both cases, HIPC and MDRI, these principles apply.

I certainly share many of the concerns that Michel expressed in his presentation. But given the challenge of meeting the Millennium Development Goals that faces low-income countries receiving resources, any reasonable opportunity to produce those resources needs to be taken advantage of. At the same time, I fully endorse Michel's opinion that this should not let the donor countries off the hook. And the challenge in store for us is still huge.

This, I believe, is why the Fund embraced the idea, and we are convinced that it will contribute to the development of those countries. MDRI also has something to do with debt sustainability. In many cases, it has made it possible to offset the effects of undesirable indebtedness in HIPC countries. Some of those effects were caused by lending practices by the Fund that have since

been corrected by the PSI and the DSF, while others are being addressed by the World Bank through grant financing.
On the issue of "free riders," there really is no need for me to elaborate. It is a challenge for the Paris Club, the Fund and other creditors and institutions.
We have to embrace this new challenge and provide a lasting solution to it.
And finally, I also agree with John Lipsky that both the Fund and the Paris Club need to use this period of relative stability to prepare for the crises to come. So others probably will be celebrating the next fifty years of the Paris Club, because I am sure it will still exist.
Thank you very much.

D. Kaberuka - Thank you very much, Mr. Carstens. I very much appreciated your last two points.
We are running a bit behind schedule, because I will have to give the floor to Mr. Trichet at some point soon, and we still have four very exciting speakers to go. Nigeria was a major beneficiary of the Paris Club not long ago. What are the risks that other countries will go on another debt spree, borrowing huge amounts of money and causing another debt crisis in the years to come? Could you comment in five minutes' time on those low-income countries that cannot access new funds? How can they meet the Millennium Development Goals?

N. Okonjo Iweala[3] - I wish to express my gratitude to the Paris Club for inviting me today. The Club's 50th anniversary is actually a double celebration for us in Nigeria, since it also marks our emergence as a creditor of the Club. So all the best to the Paris Club, and to Nigeria!
I'm afraid it isn't entirely fair to give me just five minutes, but then again, life is not fair, so I'll try to do the best I can. Nigeria is probably a "foster child" for all the good things that have been said about the Club: the case by case approach, flexibility, even innovation. In obtaining debt relief for us, the Paris Club exhibited all of these characteristics.
We were viewed as a unique case, which enabled us to do more things or to get more consideration than we otherwise might have. One of the side benefits of this is that when I encounter ministers of the G8 and members of the Paris Club, they now walk towards me with smiling faces and open arms instead of turning the other way, which used to be the case.

3 Finance Minister of the Federal Republic of Nigeria.

But Nigeria was able to put forward an argument in its dealings with the IMF, because when you start, the rules are not always clear, but, as you go along, you get to know that certain things are mutable with the Club. We were asked to have an arrangement with the IMF. It could not work politically in the country in a straightforward way, but we were able to get a type of arrangement – the PSI referred to earlier on – that enabled us to carry out our own program.

That was perhaps tougher than what the Fund could have gotten from us as a country. But the Paris Club accepted that a non-financial program like the PSI could take the place of the regular IMF program. I want to commend them and the IMF for this. Like Russia, we forced the Paris Club to do certain things it would not have normally considered doing. We want to thank them and the G8 for that.

With regard to innovation, we had some windfall oil earnings that enabled us to negotiate early repayment with a slight discount. And we were able to recycle some of the $12.4 billion into meeting the MDGs. We will come back to this highly controversial issue. But we were happy with the deal that we got. We think it is a fair deal.

What I am trying to say is that there can be creativity and innovation at the Paris Club and that can help.

But, I want to come back to the issue of debt sustainability which Michel commented on. Debt sustainability analysis has to be carried out. If your debt can be shown to be sustainable, then you obviously don't have a strong case for debt relief, even if you fulfill all the other requirements. And that is where the issue of debt sustainability first emerged.

I am very happy to hear Agustin Carstens talk about the IMF's willingness to take other considerations into account, because I feel that debt sustainability analysis tends to be geared to making a country appear sustainable, when it actually is not. Many other considerations are not taken into account, such as domestic debt, as was mentioned earlier on, other types of public debt, contingent liabilities, and so on and so forth.

In the MDGs, Kofi Annan has stated that a country is considered sustainable if it can also finance the MDGs. That is the new definition of sustainability. But it is not the consideration on the table when the Paris Club talks about debt sustainability. So the real question is: how is the Paris Club going to take this new approach into account?

In the case of Nigeria, we pushed very hard. At one point, we were told not to mention the word "MDGs," that it was not a concern of the Paris Club. We also insisted that the volatility of our earnings be taken into account. And eventually, it was. If oil prices fall below the threshold of thirty dollars a barrel, the sustainability of Nigeria's debt would be very much called into question.

I want to raise a point that I see as closely linked to the MDGs: what is the definition of debt sustainability? How is the Paris Club going to evolve to take into account the fact that African countries, that all developing countries, will need to finance the MDGs?

If sustainability means paying back your debts – which you should do, as a good debtor – then how do you get the additional financing needed to meet education, health and all the other objectives mentioned by Michel? And this is where the additionality issue comes very much into play.

I would just like to touch on a couple of other issues that Michel raised, and set the Paris Club a few challenges.

In his address earlier on, the Minister of Finance, Thierry Breton, said that fifty years was the beginning for the Club, not the end. But aren't fifty years enough? Can the Paris Club survive with its current approach, in which the rules from the creditors' side are not always known? Things will have to change.

How will the Paris Club adapt to the so-called emerging donors, and to alternative sources of financing that may compete with its work? These are the key issues confronting the Paris Club going forward. From the point of view of the creditor countries – at least from where we sit – there will have to be further, ongoing change. I dare say that the Paris Club will still be here fifty years from now. But it may be a very difficult fifty years if the Club does not change and continue to adapt its approach.

It has to change its definition of sustainability and what it means, to continue to be flexible in its relationship with the Fund, so that the creditor countries can have an environment in which their real needs and concerns are taken into account, and not an artificial definition of sustainability.

The Club will also have to adapt to the existence of these new emerging donors. Is the right response to invite the donors into the Club so that everybody is following the same rules? Russia has already joined. What will China and other emerging donors do? Will they remain outside? If they do, and if they operate with their own rules, how will the Paris Club adapt to the new situation?

And what about liquidity in international financial markets? Some countries are now able to take direct advantage of it, rather than turning to members of the Club.

These are some of the questions to be addressed. In the case of Nigeria, we have said that we need to set rules to govern and limit our new borrowings. We are very lucky that as a result of restructuring, our debt to GDP ratio has fallen from about 85% to 16%. External debt now represents 5% of GDP. So we have seen some dramatic changes. But we have set ourselves fiscal responsibility guidelines in a bill. We are not to borrow beyond a certain level, no more that about 25% of GPD.

We have to keep our debt level down. We are not to borrow beyond concessional loans for the foreseeable future, once again to encourage prudence. There is an onus on the borrowing countries to make sure that if they are going to the market to borrow, they have to observe some rules so that they do not fall back into the same trap that they emerged from. The same goes for lending countries. They must not become free riders and recreate the crisis and the problems that existed before.

We think there is work to be done on both sides; borrowing countries should also abide by the rules. We may have one exception in our commercial debt as we try to restructure it, and we may have to turn to the market for help. But beyond that, we have instituted these rules in a bill, and that is the way forward for the borrowing countries – to place restrictions on themselves. Borrowing countries should try to keep their debt level down, manage their resources better, generate internal resources for investment, try to attract FDI, and limit borrowings.

If they can achieve all that, the Paris Club may not have a great deal of work forwarding the future.

Thank you.

D. Kaberuka - Thank you very much, Ngozi. Mr. La Via, Michel Camdessus raised two issues which I think the Bank could respond to, particularly in the growth context. I would like to hear what you have to say on this issue. How do the Bank and other institutions fit in? And what about the new donors?

V. La Via[4] - Thank you, Mr. Chairman. It is really a pleasure to be here. As Mr. Camdessus so rightly said, the Paris Club's role in restoring debt sustainability has been absolutely critical.

The restoration of debt sustainability in a large number of countries has also been a great example of international cooperation among key creditors, and

4 Chief Financial Officer and Vice President, World Bank.

the World Bank is very proud to have played a role in this process with the IMF as well as with other IFIs.

I would like to take this opportunity to pick up on some other points made in the excellent talk you just heard from Mr. Camdessus and update you on what we are doing to address these issues. On the debt sustainability framework, we could not agree more with Mr. Camdessus that it would be wrong to overestimate the role of debt cancellation. In itself, cancellation does not automatically guarantee debt sustainability, nor is it sufficient to ensure there will be no new deterioration in debt sustainability.

As creditors, collectively and individually, we need to be cautious. In collaboration with the Fund, the World Bank has put considerable emphasis on developing the new joint debt sustainability framework. This analytical framework recognizes that sustainable debt levels are highly dependant on the quality of the policy framework, and it in turn uses the country policy institutional assessments, or CPIAs, which have also been developed by the World Bank.

The CPIAs take account of governance indicators, and the World Bank has accentuated this focus on governance. The quality of the policy framework, which includes governance, is central to reaching the HIPC completion point and to obtaining relief on the multilateral debt relief initiative.

After debt relief has been achieved, the Bank remains just as involved. We continue to monitor governance and help client countries to strengthen their institutions in order to use resources freed up by debt relief to meet the Millennium Development Goals.

Mr. Camdessus has stressed that meeting the MDGs will require channeling more resources to developing countries. This reasoning lay behind our insistence to donors that debt relief granted under MDRI should not come at the expense of future resources for our grant and "soft loan" window, the International Development Association or IDA.

We are committed to ensuring that all the resources are allocated to maximum effect, and we have an approach that combines performance and debt sustainability. Each recipient country's IDA allocation is determined on the basis of performance, measured in relation to its CPIA score. The best sustainability analysis is one that determines the appropriate mix of grants and concessionary credits the country receives.

We are also tackling the problem of "free riders" which is rightly a cause for concern to Mr. Camdessus. This is a high priority for the international community, and the Bank is in the process of crafting a proposal to our board. We expect to have a policy in place shortly.

Mr. Camdessus is also right when he cautions us against short-sightedness and calls for greater vigilance. This goes not only for countries benefiting from HIPC and MDRI, but also for middle-income countries which are clients of the International Bank for Reconstruction and Development (IBRD).

Significant development challenges remain, and we still have a long way to go before reaching the MDGs. Debt sustainability and policy performance including good governance are also central elements in assessing the access of these countries to IBRD financing. There is no doubt that some IBRD borrowers have made very significant progress, and their creditworthiness has greatly improved. They have gained easier and cheaper access to private capital markets and in parallel, demand for IBRD financing has lessened.

Yet the World Bank strives to maintain a constant policy dialogue with all of these countries and to highlight the importance of keeping external and public debt at sustainable levels. But as Mr. Camdessus pointed out, we recognize that financial history has a habit of repeating itself. We are conscious of these risks and have therefore tried to remain far-sighted and well prepared. Through prudent management, the IBRD's financial position is stronger at present than it has been for many years.

In conclusion, Mr. Camdessus has legitimate worries, and the Bank has similar ones. We place debt sustainability, policy performance and governance issues at the center of our strategy for helping low and middle-income countries face their development challenges and reach the MDGs. Even with this strong, three-pronged strategy, we may not be able to prevent the next debt crisis. But we do believe the strategy will serve to cushion the impact. Moreover, the Bank has constantly strived to make sure it is financially ready and strong to face the next crisis. Thank you.

D. Kaberuka - Thank you very much, Mr. La Via. You were exceedingly brief!

F. Oddone[5] - I would like to thank you sincerely for this invitation. As you probably suspect, the NGOs' view of the Paris Club's activity is at odds with the very flattering vision presented up until now. This could be seen in the civil society statement released today. However, I think that I am expected to adopt this discourse and I wouldn't want to disappoint anyone.

5 Debt policy and advocacy Officer, Eurodad. Intervention in French.

The time has come for unbridled discussion rather than celebrating the past, which is not really appropriate when we consider the practical achievements of this cartel of creditors over the long term. This has nothing to do with the qualities and commitment of the persons here representing the nineteen members (I was one of them myself until very recently), or with the outstanding professionalism of the Secretariat. Instead it relates to something much more systemic that directly involves the political determination and coherence of the countries represented here.

What has the work of the creditors been in recent decades? If we look at the number of visits made by a very large number of debtors, we see that what has been accomplished is at best financial sustainability in the short term: purely and simply restoring the all-important capacity of payment. It could not have gone any other way. The avowed and immutable goal was to safeguard all of the capital lent and, especially, to maintain open markets in the South for credit-financed exports in accordance with the prevailing geostrategic interests at the time.

This turned out to be a vicious circle, as is amply clear from the increasingly large doses of relief, but everything points to this being the desired effect. Alas, it is not merely a matter of the analysis lagging behind events, as Mr Camdessus seemed to be saying, but a deliberate refusal to grant a definitive end to indebtedness so as to maintain control and influence, thereby depriving countries in the South of any real economic and political autonomy.

This state of affairs was already unacceptable back in the mid-nineteen-nineties, but it became even more so when all of the Paris Club member countries made a formal commitment to do their part to ensure that the Millennium Development Goals are met.

Michel Camdessus is right to say that the Multilateral Debt Relief Initiative operated with no regard for any concept of sustainability. Therefore, in taking this initiative, the G8 countries confirmed the shortcomings of the HIPC initiative and admitted that debt could be sustainable according to the conventional concept, but still be unsustainable with regard to the MDGs.

It was not a case of the creditors going off the rails. The MDRI must be the starting point for a redefined concept of sustainability, as called for by the Nigerian Minister of Finance, sustainability that gives due consideration and first rank to the resources needed to achieve the MDGs. That may seem a bit strong, but according to a recent British academic study, such a redefinition would call for a debt reduction of between 400 and 600 billion dollars for all countries in the South. This means that the MDRI only goes one tenth of the way.

One should not caricature the NGOs' position either. We are well aware that any cancellation of debt on its own is not enough to finance the MDGs. That is why we are acting very firmly to obtain immediate compliance with the rich countries' official commitment to devote the famous 0.7% of GDP to ODA.

Instead of bemoaning the emerging problem of free-riders, which is primarily the result of a lack of available financing for developing countries, it would be better for the rich countries to put their money where their mouth is, as the saying goes, and provide the countries in need with the necessary resources to achieve the MDGs in the form of grants. Who could ask for more? A good start would certainly be to acknowledge a very embarrassing phenomenon for our countries, by which I mean the creditor countries.

As the authors of the Commission for Africa Report, including Michel Camdessus, so aptly put it: *"Much of the debt was incurred by dictators who were enriching themselves through their countries' oil, diamonds and other resources and who were supported during the Cold War by the very countries now receiving debt repayment. Many of these rulers siphoned billions of dollars out of their country using the financial systems of developed countries."*.

I could not have said it better myself. It is high time that creditors take responsibility for their acts, acknowledge the existence of illegitimate debts and cancel them unconditionally. Most of these odious debts have actually been repaid and public-sector and private-sector creditors should return the money to the countries that have been plundered.

This would be a helpful first step, but not enough to rebuild genuine sustainability on the road to achieving the MDGs. So as to avoid giving the impression that we never applaud governments for taking positive action, allow me to stress that Norway has officially started to look into the issue of odious debt. We say "bravo" and we encourage the other creditors to join in this effort.

How can you justify the fact that a young democracy, like Nigeria, which needs the support of the North to solve its problems, has had only 60% of its debt cancelled, whereas Iraq, a long-suffering country with much higher per capita GDP has had 80% of its debt cancelled?

How can it be justified that Nigeria has to pay 12.5 billion dollars into the coffers of our export credit agencies in the space of six months, which is more than the MDRI represents for the whole of Africa in ten years?

Madame Minister, I am not surprised that the creditors welcome you with open arms! This institutional schizophrenia between what the Club is still doing, since it is not a development agency, as was repeated to us recently, and what the governments that belong to the Club are saying in other venues, is, unfortunately structural in nature. It is the result of the structure of the Club, where the creditors make the rules and decide on the measures to apply to individual debtors, who have to deal with a totally arbitrary system here. Professor Fischer calls it"flexible"but we call it arbitrary. We are all adults here, so we know that the issue is profoundly political.

Nothing could be farther from a genuine fair and transparent multilateral process, or from a legal framework that safeguards the debtors' rights, as is the case in the domestic legal systems of the 19 members present today, where an impartial judge, rather than one of the parties to the dispute, rules on the enforcement and validity of contracts. Today the law of the strongest, i.e. the creditors, is applied in the international treatment of debt.

To ensure a solution that is fair to all stakeholders, either public, private, debtors or creditors, clear, fair and binding ground rules for international debt are urgently needed to give legitimacy to the venue that treats it.

In conclusion, the French jurist Lacordaire said back in the nineteenth century: *"Between the rich and the poor, between the strong and the weak, it is freedom that oppresses and the law that emancipates."* The lack of rules regarding debt penalises the weakest in the world. Creditors must work with debtors to come up with comprehensive, fair and impartial arrangements for treating debts that cannot be sustained on the way to achieving the MDGs.

The governments belonging to the Paris Club should therefore seize the opportunity offered by this anniversary to end the current practices and institute new ones. We are not seeking the law of the jungle, but fair and equitable rules. To use another football metaphor, *"If it doesn't happen, history will show its red card!"*

D. Kaberuka - Professor Daniel Cohen, do you agree that all debts should be cancelled?

D. Cohen[6] - I might have trouble answering that in the time that has been given to me. I would like to start by saying what a great honour it is for me to be seated at this table among such distinguished representatives of the international financial community.

6 Professor of Economics, École normale supérieure, Paris. Intervention in French.

The question that underlies everything that has been said so far is whether we are celebrating the anniversary of an institution or non-institution that is hitting its stride, or if we are getting ready for its swan song, that this is perhaps its last great anniversary, since debt cancellation policies have produced the desired results (Ms Okongo Iweala told us just now how much Nigeria's debt has been reduced) and the new consensus that is emerging in academic circles, which are not the most important, in the American administration, and sometimes even in international organisations, is now to give grants and not to make loans.

We have moved from one consensus to another, whereby grants are now supposed to become the main means of helping the poorest countries.

My question is as follows: how can we be so sure that this radical paradigm shift is a good thing for poor countries? Academics give several reasons to explain why they are in favour of a change in doctrine for the poorest countries, of giving grants and cancelling debt. But the most sweeping opinion has already been given by the Meltzer Commission, which met at the request of the United States Congress and recommended cancellation of all debt and a grant-only policy.

This argument was very aptly summed up by my two colleagues Mr Bullow and Mr Rogoff, who said that if the poor countries rely on public money for their financing today, it is partly because they do not have access to private financing. These countries do not have access to private financing for a very simple reason: they are not solvent. They do not have enough institutional credibility to convince private-sector creditors to lend them money. The public creditors' illusion, they say, is to think that they will be more likely to collect their debts than the private sector would.

Yet, everything we have learned shows us that this is not the case. If we look at the value of a debt that is made up of a greater proportion of public-sector lending than private-sector lending, is the value of that debt less? This would seem to mean that public-sector creditors have a preferred right to collect, but the answer is no.

Without getting into the econometrics of the matter, what we are hearing today shows that public-sector creditors, who have to contend with the pressure of public opinion, are bound to be in a weaker position to collect their debts than private-sector creditors are.

If private-sector creditors are not giving loans, there is no reason for public-sector creditors to do so, according to Bullow and Rogoff. Debt cancellation in recent years has demonstrated the absurdity of the illusion that these loans would be repaid one day.

This is the basic argument, which we can change in different ways, but it goes to the crux of the problem.

How does this argument stand up intellectually? Is it true that poor countries do not have access to international financial markets for the reasons given by Bullow and Rogoff, meaning that these countries lack the institutional credibility, governmental capacity and what have you, to repay their loans?

I don't think so. The econometric research analysing the determinants of why the poorest countries do not have access to international financial markets shows that it is simply a matter of volatility. Their extreme vulnerability to the most volatile international shocks explains why the poorest countries are also the ones with no access to international financial markets.

The "volatility" variable largely outweighs all of the other variables, including good governance indicators and even the country's potential for growth. I'll cite the figures that everyone already knows. A poor country in the group of the fifty poorest countries is hit by a major shock every three years on average. These shocks can be natural disasters, or commodities shocks that cause a drop of at least 10% in commodity prices. Such a country comes to the Paris Club once every four years on average. Roughly speaking, this is the pattern for such countries.

If this is the main reason why poor countries do not have access to international financial markets, it means a radical change is required in our thinking about choosing between grants and loans. If you lend 100 to a developing country, meaning a poor country beyond the reach of the international financial markets, and there is only a one-in-two chance that it will be repaid, the risk premium that the international financial markets would require would make almost any of the underlying projects unprofitable.

For public-sector creditors, a loan of 100 with only a one-in-two chance of being repaid is worthwhile. Leverage means that for a budgetary cost of 100 it is possible to lend 200.

If volatility really is to blame, an instrument should be maintained, as long as the debt cancellation rules are explicitly laid out and as long as it is very clear from the outset that, when a commodities shock occurs, the debtor country would automatically be entitled to a clear-cut procedure enabling it to obtain a new type of subsidised loan, without having to go through a long procedure that always manages to solve the crisis once it is too late. Maybe, instead of having the primary subsidy with very long maturities, very long grace periods and very low interest rates, it could contain a contingency component that the financial markets are unable to provide at this time.

If I had another three minutes, I would go into the reasons why the financial markets, when dealing with emerging countries, nearly always fail to include contingency clauses, even though such clauses are clearly necessary, and even though the markets are dealing with commodity producers that are obviously vulnerable to the risk of falling commodity prices. When these countries borrow on international financial markets they never manage to get contingency clauses written into their loan contracts.

I personally tried to convince a commodity-exporting country to have a clause written into its loan contract stipulating that if the price of the commodity fell by half, the debt could be at least partially cancelled in this extreme case, which was not at all likely at the time the loan was made. The banking advisers of the country explained that investors would not like such a clause.

Getting back to my point, I would say that today, we need to discuss whether it would be useful to deprive ourselves of this instrument, of this leverage that could be provided by loans with contingency clauses. I personally feel that this discussion would be helpful. If the Paris Club wants to celebrate its seventy-fifth anniversary, it must put all its efforts in this direction.

D. Kaberuka - Thank you very much. Before handing over to Mr Trichet, who has been waiting so patiently, I would like to hear from the floor.

Mr Medelci[7] - If we are here to assess the Paris Club's chance of getting older, we are missing the point. The Paris Club exists and it has served a purpose.

In the nineteen-nineties, my country came to the Paris Club to regain its financial health. This carried a cost and, perhaps, one day we should look at how much the solution has cost and contributed to each side. The fact is that we have come through a difficult period. We were happy to come back to the Paris Club more recently to arrange for early repayment of our debt.

I'm sure Algeria is not the only country in this position. When we talk about debt sustainability, we should talk more about sustainability for a given country. Today, we are undoubtedly exploring a very narrow avenue, which tends to attribute the ability to produce development solely to financing and financial matters.

The questions we ask ourselves as developing countries are questions that you have already found solutions for in the developed countries. Fifty years ago in

7 Mr Medelci is the Minister of Finance of Algeria. Intervention in French.

your countries and your regional groups, there were underdeveloped areas, which were perhaps just as underdeveloped as many of the countries that we represent here. You discovered the meaning of solidarity, through innovative arrangements, and gave it an economic and social content.
The desire to avoid a real debate about developing countries is like filling the tank of a car that doesn't start, without first checking to see whether the car has tyres or not.

Speaker from the floor - I would like to thank all the speakers for their wonderful presentations, but I am a bit concerned about a statement that is continually being repeated here – that the Paris Club should get ready for the next crisis. What an oppressive message you are sending to those of us in Africa! Because what you are saying is that we cannot manage our own affairs, that we will continually run into debt and we will continually come back to the Paris Club for debt relief. My hope is that in 50 years' time there will be no Paris Club, and that is what we should be aiming for! Our objective should be for all of you to go away so that we can manage our own affairs! That is the sort of message we want to hear in Africa!

Mr. Kaberuka - Thank you! I am glad I gave you the floor!

Mr Diop[8] - Mr President, at the risk of making Michel Camdessus blush, I would like to thank him for everything he has done on this matter.
I was at the Institute when he was the Managing Director of the Fund and I am familiar with his convictions. I would like to second what he said about increasing the resources provided by the MDRI. This increase in resource is ill-suited to the countries' real needs.
You are well aware that for a Budget Minister, this period is the most difficult. I would like to give you a few statistics for my country. Nothing was said about the oil shock, but in the 2006 budget, we had to come up with nearly 117 billion CFA francs to temper the shock for the social sectors.
In year-on-year terms, this accounted for nearly 55 billion between 2004 and 2005, and nearly 51 billion between 2005 and 2006. At the same time, the MDRI provided a break of some 45 to 50 billion on debt service. In the end, the MDRI will provide just enough to attenuate the oil shock for the social sectors.

8 Mr Diop is the Finance Minister of Senegal. Intervention in French.

It is important that a debt sustainability analysis be carried out for each country and that it should go beyond what we expect from the MDRI.

M. Roeskau[9] - I am taking the floor just to show you how the activity of the Paris Club is reflected in our ODA figures, because that is what we are doing among many other things at OECD. We are providing the statistics on official development assistance. Now let me give you two figures. In 2005, we had an enormous increase in ODA and it led us to a number of $106 billion in that particular year of 2005. It is something to be very proud about because it was an increase of over 30%. Now $23 billion of those $106 billion were debt relief. This was a welcome sign of the activity and effectiveness of the Paris Club, of what you have done in Nigeria, in Iraq, but also of the implementation of the enhanced HIPC initiative decided on at the Cologne summit. So in the end, it also reflected the responsiveness of the Club to demands from NGOs, to worldwide campaigns in 2000 for debt relief. I think we are moving towards a situation where there is almost full debt relief for the poorest countries, even without highly complex international legislation.

Now having said this, let me add two remarks. One is that this large share of debt relief in total ODA may be temporary, because next year, there may not be such important cases as Iraq last year, with the result that ODA figures will go down again, sending out a very negative signal.

The second point is that with all the good things that the Paris Club has done, there is one thing it apparently cannot do: it cannot provide fresh money to make headway towards the Millennium Development Goals. It may open the way, at least for private sector money, but it does not provide additional fresh money, and that is a point that will probably show up in our ODA figures over the next years. Thank you.

Mr. Kaberuka - I want to thank Michel Camdessus for his excellent presentation and this excellent panel. I will not claim to summarize, but I have one thing to say at this point. There is one word we should have mentioned here, something called the Monterrey Consensus. It says that whether you give debt relief, increase aid or open the markets, you cannot deliver development unless conditions for development exist in the country.

9 Mr Roeskau is the Director of development in the OECD's Development and Cooperation Directorate.

So we have not mentioned the importance of governance, of business stability, but these are pre-conditions for effective resource use, whether they are local resources, resources released by debt relief or additional resources from ODA. This is an extremely important point.

So my answer to my sister who asked whether we will still be here in fifty years is that it depends on how all the parties stick to the Monterrey Consensus limits. If you give debt relief to a country which then withdraws two years later or if there are huge cases of abuse of power, you clearly cannot deliver growth. Secondly, it is important to posit this against a background of economic growth. There is a real issue of infrastructure currently being discussed in Africa. If tomorrow the markets are open, there are things we have to do in Africa to ensure that we will benefit from these open markets. So as we discuss the record of the Paris Club here – which has been excellent – it is important to see the bigger picture, the preconditions in terms of governance and business stability, while also preparing countries to benefit from trade and investment, which are the best way to get out of debt. It is important we bear this in mind.

We called this conference to determine whether the Paris Club has fulfilled its mandate, and the verdict here is that, yes, it has. So on your behalf let me thank Michel Camdessus. Now Mr. Trichet, you have the floor.

Final Statement by Jean-Claude Trichet, President of the European Central Bank and former Paris Club Chairman[1]

"Thank you very much, Mr President, you are constraining me, but I am delighted to be constrained. My speech is available in both languages and I will distil it so that you don't have to stay too late, even though I must say that I am very moved and I can see that many others here are moved too.
Many members of governments or former members of governments have negotiated the rescheduling of their debt, often right here in this room. It was a very important event for them, since, at the time, it was undoubtedly one of the major issues facing the country as a whole.
In the audience there are also successive Paris Club groups from 25 and 30 years ago. I have been reunited with those who, along with all of the other members of the Paris Club at the time, rescheduled Poland's debt for the first time, then Egypt's debt and that of a number of other countries, those who were there when the Soviet Union itself joined the category of entities that were unable to repay their creditors.
I know that the people who took part in those meetings are very moved today. For those of you who have never taken part in such negotiations, you must know that they involve substantial psychological intensity. The debtor country's team reports directly to the head of State or the head of government and is aware that the outcome is a matter of extreme importance.
Many of the delegates taking part in the Paris Club meetings have their own instructions from their governments. Sometimes, these instructions are at odds with what seems to be needed, in consideration of new information that may be obtained, or the arguments presented by the debtor country or by the Minister leading the delegation. Therefore, it is not unusual to stay up until one in the morning, two in the morning, three in the morning or four in the morning in difficult cases. That's what happened with Mexico, Brazil, the countries I already mentioned and many others.
For each delegate taking part in the negotiations, it gives a feeling of taking part in an important matter, of a team spirit, a feeling of energy. I have never felt anything like it in any other type of negotiation, I might add. There is a very special element, which stems from profound mutual confidence after a time.

1 The Final Statement was pronounced in French.

I had some names to mention, but I'll only mention one, a woman, Ms Van Ee is here. I remember everything we have been through together. You symbolise all of the networks of government, creditor and debtor representatives, who met here and who feel that they have been a part of great and critical events for the smooth operation, not only of the countries in question, but also of the worldwide system. At one time, practically all of the Latin American countries had stopped making payments, along with practically all of the sub-Saharan African countries and many other countries in the Middle East, as well of the whole Soviet Union and other countries that were communist at the time.
It is nearly forgotten now. We remember Mexico's debt in the nineteen-nineties, very difficult problems in Asia and the problem of Argentina. Perhaps we no longer remember what happened in the nineteen-eighties. I should mention some names. They have already been mentioned, but it is helpful to remember that, without the network of institutions and leaders, including Jacques de Larosière and Michel Camdessus, Paul Volcker, Alan Greenspan, Bill Mc Donough and many other participants, without this very close cooperation, I don't think we would have made it through a period that, in retrospect, seems to have been genuinely extraordinarily difficult.
I would like to look at the Club's activity from the angle of the issues being raised today and also from the angle of its role as a laboratory, which in my view has enabled us to grasp a number of much broader current trends in international financial architecture.
All of the issues that I will speak of have been dealt with very aptly over the course of this event, which I think has been outstanding by the value of the contributions made by the various participants and for the breadth of points of view, giving us an opportunity to hear many different takes on these issues. Changes in the debt strategy, from the point of view of the Paris Club, are the key issue. Many speakers have discussed these changes, including Michel Camdessus. I am speaking from conviction when I say that great democracies need criticism. We can always argue, as Michel Camdessus has, that it is very difficult to stay ahead of events at all times. When you are running major institutions and systems, there is sometimes a tendency to lag behind events. This means that criticism is always welcome.
When we look at everything that has been done in recent years in perspective, when we look at what has been done since the Toronto Terms introduced a completely new concept for both the Paris Club creditors and all private-sector creditors in 1988, as part of a change, as part of a conceptual breakthrough in the

debt strategy, when we look at all of the changes and improvements made in the spirit of international community, in line with the adaptations to the London Terms in 1991 and the Naples Terms in 1995, and when we look at the new initiatives for heavily indebted poor countries, we can see how well the world system has always been able to adapt.
All of the cities that I have mentioned are cities where the G7 and G8 summits were held. All these changes were drawn up by international financial institutions that have been extremely active, the International Monetary Fund, the World Bank, and by the Paris Club. This was very flattering for the Club. When the international debt strategy started to change, there was a sort of direct connection between the work at the Paris Club and the international financial community as a whole, including the summits of heads of State and government. We may wonder whether these changes were rapid enough, but the indisputable fact is that they existed and that they enabled us to get through some very difficult times without ever having an actual halt, if I may call it that, in international financial relations as a whole, despite some serious threats.
I am sure that we will continue to adjust the debt strategy. The context is now totally different from the previous one. It is perfectly normal for some topics that seemed to be very important to become less so and for other topics to come to the fore.
I would like to talk about one such topic. Many speakers have talked about it. Stanley Fischer did so first, followed by others, including you, professor. It is the discussion about the choice between loans and grants for the poorest countries or for certain projects. I think your economic and scientific approach is the right one and I say it without hesitation.
In this area, like in so many others, we must conduct serious economic research and then make the best decisions. We may be pushed into making a decision by other considerations, including the appearance of generosity, but I am struck by the fact that what you said had been somewhat anticipated by Stanley Fischer when he said that we need to think and see what is the best from the point of view of the poorest country in a very difficult situation.
Another subject discussed here that I think is topical, and I am speaking under the scrutiny of the past, present and future Managing Directors or First Deputy Managing Directors of the IMF here, is the interaction point, or the interface between the IMF and its changing strategy. Here at the Paris Club we are paying very close attention to the renewal of the IMF's strategy initiated by its senior management.

It is clear that the question of what type of conditionality should underpin debt rescheduling is a critical one for the Paris Club. It encompasses the IMF's worldwide strategy as a whole. We are thinking hard about this point. We have seen the Managing Director's preliminary conclusions. The IMF's role as a lender is to be wound down in the present period. Its role in monitoring and general supervision is now the dominant one.
However, we must not rule out the possibility that, in certain cases and under certain circumstances, its lending role might be reactivated. I know that the Managing Director does not rule out this possibility. We must keep this function in working order, if I can put it that way. Private markets have completely changed the angle of approach for the IMF's action.
I also heard some other very important points mentioned. On the principle of comparability of treatment between the private and public sector, the private sector is well aware that if it engages in negotiations and signs a deal before the public sector does, there will be a degree of asymmetry between the private and public sector, simply because the public sector is using public money.
I don't think that this is a theme of a major and serious opposition between public and private actors. The private sector must understand that this asymmetry means that when the Paris Club reschedules debt, there is a comparability of treatment clause, which has always existed and is one of the Club's fundamental principles.
The last point that I would like to deal with, after selecting a number points from all those that have been covered, is the complete universalisation of the Club, of which I am very much in favour. When we were rescheduling Poland's debt, I personally had the satisfaction of seeing Brazil, which was one of Poland's creditors, come to the table. I heard Russia explain to us that it had been in the past, and would no longer be in the future, on one side and the other of the table. The Paris Club is obviously meant to be completely universal. This constitutes a great advantage. The Paris Club was one of the first institutions, perhaps the first informal institution, before the G20 and before the expansion of the G7, to open up, as I just said, to emerging countries and developing countries, saying: "If you have a problem, an issue to settle, the Paris Club is open for you."
I mentioned two countries, but I could mention others. We have other examples of this type, before the universalisation of a number of informal clubs, which had previously been reserved for industrialised countries only, but such restricted membership is totally out of keeping with the way the world is changing today.
This is the point that I would like to conclude with, Mr President. We can see the Paris Club and its principles not so much as a kind of laboratory, which does not

correspond to the nature of the Paris Club, a universal body that has played a substantial role, but more as a test bench for concepts that later turned out to be very helpful and were widely used, as I interpret the events of the nineteen-nineties, the end of the nineteen-nineties, and the junction between the nineteen-nineties and the first years of the twenty-first century.

The Paris Club aspired to be a universal body from the outset, or as soon as the opportunity existed in its membership, independently of its relationship with emerging countries. The idea of letting reschedulings and agreements be hammered out bilaterally with no transparency at the global level predated the Paris Club. The Club was created to do the opposite, to be open and transparent. It was a tremendous innovation to invite all of the international institutions, the IMF, the World Bank, the regional development banks, the United Nations Development Program and the OECD to take part in the meetings, to observe the discussions between the parties and to be fully informed about the rescheduling negotiations. This level of transparency was unprecedented and it contrasted favourably with bilateral negotiations behind closed doors that left the rest of the world, including the international institutions, in the dark.

The concept of transparency is a major concept and it can explain everything that happened in the nineteen-eighties and in the nineteen-nineties and everything that is happening now. It is the strongest concept and the one that offers the best explanation of how we were able to overcome the major difficulties encountered in the Asian crisis. Because we applied the transparency principle very broadly to monetary, fiscal and foreign exchange reserves policies, along with all activities at the global level, under the aegis of the international institutions, we succeeded in making substantial improvements, especially with regard to crisis prevention.

I shall insist on one point in particular. The Paris Club is based on the idea of consensual voluntary agreements. As you so aptly put it, my dear friend, the non-institutional institution or the institutional non-institution, the idea of having voluntarily accepted principles and a number of rules of good conduct showed outstanding foresight. It started with the Paris Club, applying to very practical and concrete problems on a case-by-case basis, but with reference to very strong principles.

What did we see at the end of the nineteen-nineties and the start of the new millennium? The global application of voluntary codes of conduct and best practices that did not rely on the creation of new institutions or new laws and regulations. Instead they relied on long-winded preparatory work by professionals and the gradual emergence of a global consensus.

From this point of view, the G20 was completely instrumental. It was open to all of the countries of systemic importance in the world, including the emerging countries of systemic importance.
This global spread of voluntary principles in a tremendously wide range of areas, from the conduct of policies by the public sector and governments and the behaviour of the private sector in a very large number of cases, to the rules that have a systemic influence at the interface between various bodies, is a sign of our times.
Perhaps we should thank the Paris Club for testing all these developments, for having demonstrated the effectiveness of the concept, which could be very productive, and for having made a major advance in international financial architecture possible.
Please allow me to conclude with a word about financial stability. It is the overarching concern in everything we have covered here. You are aware that central banks consider financial stability to be one of their major responsibilities. They also consider that monetary stability and solid anchoring of inflation expectations are a necessary, but not sufficient, condition of international financial stability.
In today's world, in view of all of the observations made by everyone from the private and public sector, I am more than ever convinced that maintaining international financial stability is critical for the balanced development of all countries in the world, which is the goal that we share. Thank you."

Annex

Biographies of the Speakers

Michel Camdessus

Michel Camdessus is Honorary Governor of the Banque de France. He assumed office as Managing Director and Chairman of the Executive Board of the International Monetary Fund (IMF) from 1987 to 2000. Michel Camdessus was educated at the University of Paris and earned postgraduate degrees in economics at the Institut d'Études Politiques de Paris and the École Nationale d'Administration. Following his appointment as Administrateur Civil in the French Civil Service, Michel Camdessus joined the Treasury in the Ministry of Finance and Economic Policies in 1960. After serving as Financial Attaché to the French delegation at the European Economic Community in Brussels from 1966 to 1968, he returned to the Treasury and went on to become Assistant Director in 1971, Deputy Director in 1974, and Director in February 1982. During the period 1978-84, Michel Camdessus also served as Chairman of the Paris Club, and was Chairman of the Monetary Committee of the European Economic Community from December 1982 to December 1984. In August 1984, Michel Camdessus was appointed Deputy Governor of the Banque de France, and was appointed Governor of the Banque de France in November 1984. He served in this post until his appointment as Managing Director of the IMF. Michel Camdessus was named Alternate Governor of the IMF for France in 1983 and Governor of the IMF in 1984. Michel Camdessus retired from the IMF on February 14, 2000. He was appointed Personal Representative of the French President for NEPAD in 2002. He was also Chairman of the Panel on Financing Water Infrastructure in 2003.

Mark Carney

Mark Carney is Senior Associate Finance Minister of Canada. Prior to joining the Department of Finance, he was Deputy Governor of the Bank of Canada and Managing Director at Goldman Sachs Canada, where he worked in their Toronto, New York, London and Tokyo offices. Mark Carney has a B.A. in Economics from Harvard University, a M.A. and a Ph.D. in Philolosophy and Economics from Oxford University. From 1988 to1991, he was an Analyst at Goldman Sachs, in London and in Tokyo. During four years (1994-1998), he was appointed Executive Director for Debt Capital Markets for Goldman Sachs, London. He was then appointed Vice-President Corporate Finance for Goldman Sachs in New York (1998-2000) and Vice-President Investment Banking Services for Goldman Sachs in Toronto (2000-2002).

From 2002 to 2003, he was Managing Director of Goldman Sachs in Toronto. In 2003, he was appointed Deputy Governor of the Bank of Canada and in 2004 Senior Associate Deputy Minister of Finance. Since October 2005 he's also Canada's G7 Deputy.

Agustin Carstens

Agustín Carstens is Deputy Managing Director of the International Monetary Fund since August 1, 2003. A. Carstens has a Ph.D. (1985) and M.A. (1983) in Economics from the University of Chicago. He has a B.A. in Economics from the InstitutoTecnológico Autónomo de México (ITAM)(1982). Prior to taking up his current position he was Mexico's Deputy Secretary of Finance. From 1999-2000, A. Carstens served as an Executive Director at the IMF (representing Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain and Venezuela), after a career at the Banco de México (Central Bank), where his positions included those of Director General for Economic Research and Chief of Staff in the Governor's office. In addition, he has been an organizer of the United Nations Conference on Financing for Development in Monterrey and of meetings of the Group of 20. He has also served as Alternate Governor for Mexico at the InterAmerican Development Bank and the World Bank. He has published articles for the Federal Reserve Bank of Boston, the University of London, the OECD, the IMF and the World Bank. He has also published articles in *Columbia Journal of World Business, American Economic Review, Journal of Asian Economics, Journal of International Finance, Cuadernos Económicos del ICE* (Spain) and *Gaceta de Economía del ITAM* (Mexico).

Daniel Cohen

Daniel Cohen is Professor of economics at the University of de Paris-I (Panthéon-Sorbonne) and at the Ecole Normale Supérieure (ENS) in Paris. He is also Director of the CEPREMAP (Centre Pour la Recherche Economique et ses Applications) in Paris. Daniel Cohen is also Research Fellow at the Centre of Economic Policy Research (CEPR) and member of the Council of Economic Analysis (CEA). He's also scientific adviser for the OECD Development Centre. He was member of the Commission on Macroeconomics and Health (chaired by Jeff Sachs) and co-director (with Sir George Alleyne) of the Working Group "Health, Economic Growth, and Poverty Reduction". From 1991 to 1998, he was Co-director of the International Macroeconomics Program at the Centre for Economic Policy Research (CEPR).He has been a member of the Institut Universitaire de France

(1993-1998) and a member of the Council of the European Economic Association (1993-1999).

He was Consultant to the World Bank, External Debt division (1984-1997), Consultant to the TACIS Program on Russia, European Commission (1992-1997) and Chairman of the Scientific Committee of the European Economic Association Congress (Helsinki, 1993). He has been a visiting Scholar at Harvard University (1981-1982 and 1983-1984) and an Adviser to the Bolivian government (with Jeffrey Sachs) in 1985. Daniel Cohen is the author of "Private Lending to Sovereign States "(MIT Press, 1991) and of several well known books on globalization translated in more than ten languages: "Les infortunes de la Prospérité" (Paris: Julliard, 1994), "Richesse du Monde, Pauvreté des Nations" (Paris : Flammarion, 1997), "Nos Temps Modernes" (Paris : Flammarion, 2000) and "La mondialisation et ses ennemis" (Paris : Grasset, 2004).

Mario Draghi

Mario Draghi has been Governor of the Bank of Italy since January 2006. A graduate of the University of Rome, he has a PhD in Economics from the Massachusetts Institute of Technology (1976) and subsequently served as Professor of Economics at the University of Florence from 1981 to 1991. Before joining the Bank of Italy, Mario Draghi has served as Vice Chairman of Goldman Sachs International. He has extensive international experience of macro-policy making and corporate activity. Mario Draghi has been Director General of the Italian Treasury from 1991 to 2001 and has been the Chairman of the European Community's Economic and Financial Committee. He was also a member of the G7 Deputies. In 1993 he was appointed chairman of the Italian Committee for Privatisations. In 1990 Mario Draghi served as an advisor to the Bank of Italy. From 1984 to 1990, he has been Executive Director at the World Bank. Professor Draghi has significant corporate experience both as a lawmaker – he has chaired the committee which redrafted Italian corporate and financial legislation ("Draghi Law")- and as board member of several banks and corporations (ENI, IRI, BNL, IMI).

He is a member of the Board of Trustees of the Princeton Institute for Advanced Studies and a Fellow at the Kennedy School of Government, Harvard University. Professor Draghi has published in various publications on macro-economic and financial issues.

Stanley Fischer

Stanley Fischer has been Governor of the Bank of Israel since May 2005. He took the B.Sc (Econ) and M.Sc. (Econ) at the London School of Economics (1962-1966), and has a Ph.D. in economics from the MIT (1969). He was Assistant Professor of Economics at the University of Chicago until 1973. The same year Stanley Fischer returned to the MIT Department of Economics as an Associate Professor and was appointed Professor of Economics in 1977. He has been visiting professor at the Hebrew University in Jerusalem and at the Hoover Institution in Stanford. Prior to joining the Bank of Israel, Mr. Fischer was Vice Chairman of Citigroup from February 2002 to April 2005 and also Head of the Public Sector Group from February 2004 to April 2005. He was also Chairman of the Country Risk Committee and President of Citigroup International. Mr. Fischer was the First Deputy Managing Director of the International Monetary Fund, from September 1994 to August 2001. Before joining the IMF, Mr. Fischer was the Killian Professor and Head of Department of Economics at the MIT. From January 1988 to August 1990 he was Vice President and Chief Economist at the World Bank. Mr. Fischer is a Fellow of the Econometric Society and the American Academy of Arts and Sciences, a member of the Council on Foreign Relations, the G-30, and the Trilateral Commission. He's also a Guggenheim Fellow and a Research Associate of the National Bureau of Economic Research. He has served on the Boards of the Institute for International Economics, Women's World Banking and the International Crisis Group, as well as the International Advisory Board of the New Economic School, Moscow. Mr. Fischer is the author of *"Macroeconomics"* (with Rudiger Dornbusch and Richard Startz, 2004). He is also the author of *"Lectures in Macroeconomics"* (with Olivier Blanchard, 1989), *"Economics"* (with Rudiger Dornbusch and Richard Schmalensee, 1988), *"IMF Essays From a Time of Crisis"* (2004) and *"Indexing, Inflation, and Economic Policy"* (1986). From 1986 to 1994 he was editor of the NBER Macroeconomics Annual; he has also served as Associate Editor of other economics journals and of books among them *"Securing Peace in the Middle East"* (1994).

Enrique V. Iglesias

Enrique V. Iglesias is Secretary general of Cumbre Iberoamericana. Enrique V. Iglesias graduated from the Uruguay's Universidad de la República in Economics and Business Administration in 1953 and pursued specialized programs of study in the United States and France. He has been the Inter-American Development Bank (IADB) president from 1988 to 2005. Prior to his election as president of the

IDB, Enrique V. Iglesias was Uruguay's Minister of Foreign Relations (1985-1988). During thirteen years (1972-1985), he has been Executive Secretary of the U.N. Economic Commission for Latin America and the Caribbean (ECLAC). He was the Secretary General of the U.N. Conference on New and Renewable Sources of Energy which was held in 1981 in Kenya. In 1986 he was Chairman of the Conference that launched the Uruguay Round of international trade negotiations in Punta Del Este in Uruguay. These negotiations led to the creation of the World Trade Organization. Enrique V. Iglesias was President of Uruguay's Central Bank from 1966 to 1968. Enrique V. Iglesias has taught economic development at Uruguay's Universidad de la República and was director of its Institute of Economics. He has written various articles and papers on Latin American and Uruguayan economic issues, capital markets, external financing and multilateralism. Enrique V. Iglesias has received many honorary academic degrees and professional awards.

Donald Kaberuka

Since November 2005 Mr Kaberuka is the President of the African Development Bank. He was educated in Tanzania and the United Kingdom where he obtained his M.A. in Economics and a PhD in Economics from Glasgow University in Scotland. He was Rwanda's Minister of Finance and Economic Planning from 1997 to 2005, and has been widely acknowledged as the principal architect of the successful post-war reconstruction and economic reform programme of the country. He initiated and implemented major economic and governance reforms in the fiscal, monetary, budgetary and structural domains including the independence of the Central Bank. These reforms resulted in the widely acclaimed recovery of the Rwandan economy, sustained economic growth and enabled the country to benefit from debt cancellations under the HIPC Initiative in April 2005. Before he joined the government, Mr Kaberuka had 12 years experience in the Banking industry, trade finance, international commodity business and Development issues. He was Governor for Rwanda at the World Bank, the IMF and the African Development Bank.

Jean Lemierre

Since July 2000, Jean Lemierre is President of the European Bank for Reconstruction and Development (EBRD). Mr Lemierre is a graduate of the Institut d'Etudes Politiques de Paris. He has a degree in law, and is graduated from the Ecole Nationale d'Administration. Jean Lemierre has had a long and distinguished career in international finance. He was Head of the Private Office of the French Minister of Economy and Finance and Director of France's Treasury Department. He served as a member of the European Monetary Committee and, prior to taking up his position at the EBRD, was Chairman of the European Economic and Financial Committee. He was Chairman of the Paris Club. Previously he had served as Head of France's Internal Revenue Service and Head of the Tax Policy Administration.

Jacques de Larosière

Jacques de Larosière entered the French Treasury Department in 1958 where he worked mostly on international financial matters. Since 1998 he is Advisor to the Chairman at BNP Paribas. He's also President of the Observatoire de l'Epargne Européenne (OEE) and Co-chairman of Eurofi 2000 and of the "Committee on Crisis Management and Crisis Resolution in Emerging Markets" of the Institute of International Finance (IIF). In 2006, he has become a member of the Group of Trustees for Emerging Markets Finance Initiative (IIF). From 1974 to 1978 he was Undersecretary for Monetary Affairs. From 1978 to 1987, he was Managing Director of the International Monetary Fund (IMF). He was Governor of the Banque de France for six years, from 1987 to 1993, and President of the European Bank for Reconstruction and Development (EBRD) for 5 years from 1993 to 1998. He is a member of the "Académie des Sciences Morales et Politiques" of the Institut de France.

Vincenzo La Via

Vincenzo La Via is the Chief Financial Officer of the World Bank. Mr La Via holds a degree from the Università La Sapienza in Rome and a PhD in economics from the University of California, Los Angeles. He joined the World Bank in 2005 from Banca Intesa, Italy's largest bank, where he served as Chief Financial Officer. Previously he served as Director General of the Debt Management Department at the Italian Ministry of the Treasury. V. La Via has been Managing Director of the Italian investment management company, Akros S.p.A. From 1985 to 1991 he worked at the World Bank, joining in the Young Professionals Program, spending a year as advisor to the Italian Executive Director, and then working as Senior Investment Officer in the Treasury Department.

John Lipsky

Since September 2006 John Lipsky is Deputy Managing Director of the International Monetary Fund (IMF). Prior to this appointment John Lipsky was Vice Chairman of the JPMorgan Investment Bank. A graduate of Wesleyan University, John Lipsky has an M.A. and a Ph.D. in economics from Stanford University. John Lipsky served as JPMorgan's Chief Economist, and as Chase Manhattan Bank's Chief Economist and Director of Research. From 1992 until 1997, he was Chief Economist at Salomon Brothers, Inc. He directed Salomon Brothers European Research Group from 1989 to 1992. Before joining Salomon Brothers in 1984, he spent a decade at the IMF and served as the Fund's Resident Representative in Chile between 1978 and 1980.

In 2000, he chaired a Financial Sector Review Group, set up by former Managing Director Horst Köhler, to provide the IMF with an independent perspective on how the Fund should organize its financial sector and capital markets work. John Lipsky's professional activities include serving on the Board of Directors of the National Bureau of Economic Research, the Economic Club of New York, the American Council on Germany and the Japan Society. He's also a member of the Advisory Board of the Stanford Institute for Economic Policy Research and of the Economics Subcommittee of the Bond Market Association. Mr. Lipsky is a member of the Council on Foreign Relations.

Xavier Musca

Xavier Musca is Director General of the Treasury and Economic Policy Department since November 2004, Chairman of the Paris Club since July, 2005 and President of the European Economic and Financial Committee since November, 2005. Xavier Musca is a graduate of Institut d'Etudes Politiques de Paris and of the Ecole Nationale d'Administration (1985). He has been an Auditor at the General Inspectorate of Finance (1985) and a special adviser to the head of the General Inspectorate of Finance from 1988 to 1989. He held various responsibilities in the French Treasury Department and was appointed Deputy Director for Europe and Monetary and International Affairs in 1996, Assistant Director in 2000, head of the Department for the Financing of the State and the Economy at the Treasury Directorate in 2001 and Director of the Treasury in June 2004. From 1993 to 1995, Xavier Musca was technical adviser for Financial Affairs and International Economic Issues in the Private Office of the French Prime Minister. From May 2002 to June 2004, he was Principal Private Secretary to the Minister of the Economy, Finance and Industry.

Francesco Oddone

Francesco Oddone has been Debt Policy and Advocacy Officer at Eurodad since 2005. He graduated from Bocconi University (Milan) and from the New York University where he also teached. He has worked for the Italian Treasury from 2001 to 2003 and was a member of the Italian delegation to the Paris Club. Founded in 1990 as the European branch of the Forum on Debt and Development (FONDAD), Eurodad was conceived as an international coordination mechanism on debt issues, beginning with a commercial debt campaign, but quickly broadening to include official bilateral and multilateral debt. During the first half of the 90s the work focus became international financing frameworks in general: multilateral and bilateral debt, and financing policies of the International Financial Institutions (IFIs), in particular, Structural Adjustment. With the launch by the IFIs of the Heavily Indebted Poor Countries (HIPC) Initiative in 1996 and the Poverty Reduction Strategy Paper (PRSP) Approach in 1999, Eurodad has taken up the challenge of acting as an information hub on these issues, developing a body of knowledge to be used as a resource by both the members and the wider development community. In 2001, given the increasing activity of members in economic policy capacity-building in the South, Eurodad was tasked with the coordination of these efforts and launched the Economic Policy Empowerment Programme (EPEP).

Ngozi Okonjo Iweala

Dr. Okonjo Iweala is the Minister of Finance for the Federal Republic of Nigeria since July 2003. Dr. Okonjo Iweala graduated with a B.A. magna cum laude in Economics from Harvard University and holds a Ph.D. in Regional Economics and Development from the Massachusetts Institute of Technology. Prior to this appointment as Minister of Finance for the Federal Republic of Nigeria, Dr. Okonjo Iweala was Vice President and Corporate Secretary of the World Bank Group. She joined the World Bank in 1982 through the prestigious Young Professionals Program, and made a career of over 20 years there working on various operational regions from the Middle East and North Africa, to East Asia and Africa. She rose through the ranks from an Economist to Vice President and Corporate Secretary. In 2000, she took a leave from the World Bank to serve as an Economic Adviser to President Obasanjo of Nigeria. Dr. Okonjo Iweala has published several papers in development journals, the most recent of which she co-authored with some Bank colleagues on "The Impact of the East Asian Financial Crisis on Laos and Cambodia", published in *Finance and Development*. Dr. Okonjo Iweala is also co-editor of a recent book entitled *"The Debt Trap in Nigeria: towards a Sustainable*

Debt Strategy" and co-author of a biography of the famous Nigerian writer Chinua Achebe entitled *"Teacher of Light"* (2003). She is on the Board of several NGOs and Foundations, in Nigeria and abroad, and has participated in numerous international conferences where she has also represented Nigeria and during her time in Washington, the World Bank.
Dr. Okonjo Iweala is the recipient of numerous awards and honours, among them the Euromarket Forum Award for vision and courage on the design and implementation of Nigeria's Economic reform program.

Sergey Stortchak
Sergey Stortchak is Deputy Minister of Finance of the Russian Federation. He is a post-graduate from the State Institute of the International Relations of the Ministry of Foreign Affairs of the USSR (1981) and a doctor in economics with the specialization in international currency and credit issues.
Sergey Stortchak worked in the Institute of the World Economic and International Relations of the Academy of Science of the USSR (1981-1988). From 1988-1994, he was Second Secretary, in charge of the questions related to the East-West financial relations and international debt at the Permanent Representation of the USSR to the United Nations and other International Organizations in Geneva. From 1994-1998, he was Deputy head of the Department of external credits and foreign debt and responsible for the questions of the former USSR external debt towards the members of the Paris and London Clubs at the Ministry of Finance of the Russian Federation. During six years (1998-2004), he was Deputy Chairman; responsible for the management issues of external debt of the former USSR and the Russian Federation external financial assets at the Bank for Foreign Economic Relations of the USSR. From 2004 to 2005, Sergey Stortchak was Director of the Department of the International Financial Relations, State Debt and State Financial Assets at the Ministry of Finance.

Jean-Claude Trichet
Since July 2003, Jean-Claude Trichet is President of the European Central Bank (ECB). Jean-Claude Trichet is a graduate of the Ecole nationale supérieure des Mines de Nancy ("Ingénieur civil des Mines"), a graduate in economics from the University of Paris (1966), a graduate of the Institut d'Études Politiques de Paris (1966) and of the Ecole Nationale d'Administration (1971). He was appointed to the General Inspectorate of Finance in 1971. Jean-Claude Trichet worked as an engineer from 1966 to 1968. He started his career in the French Treasury

Department in 1975 and became Director of the Treasury in 1987. He was also Adviser to the Minister of Economic Affairs (1978), Adviser to the President of the Republic on industry, energy and research (1978), Director of the Private Office of the Minister for Economic Affairs, Finance and Privatisation (1986). He was Chairman of the Paris Club from 1985 to1993. Until 1993, he was Alternate Governor of the International Monetary Fund and of the World Bank. From 1992 to1993, he was Chairman of the European Monetary Committee. During six years he was Governor of the Banque de France (1993-1999). He was a Member of the Council of the European Monetary Institute until 1994 and Governor of the World Bank until 1995. In 1993, Jean-Claude Trichet was appointed Chairman of the Group of Ten Governors.

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