

Berlin, 27 June 2011

**Managing Sovereign Debt Crises
in Developing Countries**

BMZ Workshop

Main findings

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

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



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

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

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

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

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

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



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



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



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

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

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

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

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



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

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

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



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



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

Final Program

8:30 Registration

Moderator: Susanne Luithlen

9:00 **Session I: Opening Session**

Opening remarks

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

Input

Kathrin Berensmann, Senior Economist, German Development Institute (DIE-GDI)

9:45 **Session II: Good Financial Governance for Debt Crisis Prevention**

What are the major challenges of responsible sovereign lending and borrowing?

Introductory note

Christoph Paulus, Professor, Law Faculty, Humboldt University, Berlin

Inputs & Discussion

Carlos Primo Braga, Special Representative and Director, External Affairs, World Bank, Paris

Dagmar Linder, Managing Director, Regional Management Central and Eastern Europe, Deutsche Bank

Daniel Mukoko, Assistant Director, Office of Prime Minister, Democratic Republic of Congo

11:15 **Session III: Policy Options for Debt Crisis Resolution**

What instruments or additional mechanisms are desirable for responding to future sovereign debt crises?

Introductory note

Stephany Griffith-Jones, Financial Markets Program Director, Initiative for Policy Dialogue, Columbia University, New York

Barry Herman, Chair Task Force, Initiative for Policy Dialogue, Columbia University, New York

11:45 **Lunch break**

13:00 **Continuation of Session III: Policy Options for Debt Crisis Resolution**

Inputs & Discussion

Dominique Desruelle, Assistant Director, Strategy, Policy and Review Department, International Monetary Fund (IMF), Washington DC

Claus-Michael Happe, Head of Division, Development Banks/GIZ, Debt Rescheduling/Paris Club, Financial Inclusion, Creditor Positions, Federal Ministry of Finance (BMF), Germany

Jürgen Kaiser, Political Coordinator, erlassjahr.de

Alonso Segura, Head of Research, Banco de Crédito del Perú (BCP)

14:30 **Coffee break & snack**

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

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

Inputs by country
representatives &
discussion

Victorio J. Taccetti, Ambassador of Argentina in Berlin

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

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

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

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

Short coffee break
inbetween

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

Wrap-up

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

Concluding remarks

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

18:00 **End of Workshop**

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

Final List of Participants

Juana Aristizabal-Pinto

Quality Management Officer
Economic Affairs, Public Finance, Budget Support
Europe Aid - European Commission
Brussels
Belgium
Juana.ARISTIZABAL-PINTO@ec.europa.eu

Carlos A. Primo Braga

Special Representative and Director for Europe
External Affairs
World Bank
Paris
France
cbraga@worldbank.org

Ronny Bechmann

Economic Development and Employment
Head of Sector Project
Development Economics
Deutsche Gesellschaft für Internationale
Zusammenarbeit (GIZ)
Eschborn
Germany
Ronny.bechmann@giz.de

Dominique Desruelle

Assistant Director
Strategy, Policy and Review Department
International Monetary Fund (IMF)
Washington DC
USA
ddesruelle@imf.org

Katrin Berensmann

Senior Economist
World Economy and Development Financing
German Development Institute (GDI)
Bonn
Germany
kathrin.berensmann@die-gdi.de

Mohamed Lemine Ould Dhehby

General Director
Investment Projects and Programs
Ministry of Economic Affairs and Development
Nuakchott
Mauritania
dhehby@hotmail.com

Fanwell Kenala Bokosi

Policy Advisor
AFRODAD
Harare
Zimbabwe
fanwell@afrodad.co.zw

Alexander Freese

Economic Development and Employment
Advisor
Development Economics
Deutsche Gesellschaft für Internationale
Zusammenarbeit (GIZ)
Berlin
Germany
Alexander.Freese@bmz.bund.de

Pal Ivar Borresen

Senior Sovereign Debt Expert
Debt and Development Finance Branch
United Nations Conference on Trade and
Development (UNCTAD)
Geneva
Switzerland
pal.borresen@unctad.org

Luis Fuhr

Secretary
Embassy of Argentina in Berlin
info@embargent.de

Paul Garaycochea

Head of Division
World Bank Group, IMF, Debt Relief, International
Financial Architecture
Federal Ministry for Economic Cooperation and
Development (BMZ)
Berlin
Germany
paul.garaycochea@bmz.bund.de

Meike Janosch

Planning Officer
Planning and Development - External Financial
Control and Public Debt
Deutsche Gesellschaft für internationale
Zusammenarbeit (GIZ)
Eschborn
Germany
meike.janosch@giz.de

Orlando Garner

Advisor to the Minister of Finance
Ministry of Finance
Honduras
ogarner@sefin.gob.hn

Christina Jöckle

Desk Officer
Economic and Financial Policy Division
Federal Foreign Office (AA)
Berlin
Germany
400-1@diplo.de

Stephany Griffith-Jones

Financial Markets Program Director
Initiative for Policy Dialogue
Columbia University in the City of New York
sgj2108@columbia.edu

Siraj Reshid Jundi

Deputy Head of Mission
Embassy of Ethiopia in Berlin
sreshid@aethiopische-botschaft.de

Aaron Halfen

Policy Adviser
Multilateral Bank and Finance Section
Ministry of Foreign Affairs
Oslo
Norway
aroh@mfa.no

Jürgen Kaiser

Political Coordinator
erlassjahr.de
Düsseldorf
Germany
j.kaiser@erlassjahr.de

Claus-Michael Happe

Head of Division
Development Banks/GIZ, Debt Rescheduling/Paris
Club, Financial Inclusion, Creditor Positions
Federal Ministry of Finance (BMF)
Berlin
Germany
claus-michael.happe@bmf.bund.de

Gudrun Kopp

Parliamentary State Secretary
Federal Ministry for Economic Cooperation and
Development (BMZ)
Bonn
Germany
gudrun.kopp@bmz.bund.de

Barry Herman

Chair Task Force
Debt Restructuring and Sovereign Bankruptcy
Initiative for Policy Dialogue
New York
USA
hermanb@newschool.edu

Klaus Krüger

Senior Project Manager
Development Policy Forum
Deutsche Gesellschaft für internationale
Zusammenarbeit (GIZ)
Berlin
Germany
klaus.krueger@giz.de

Dagmar Linder

Managing Director
Regional Management Central and Eastern Europe
Deutsche Bank
Frankfurt/Main
Germany
dagmar.linder@db.com

Erika Renneke

Senior Economist
International Monetary Affairs
German Bundesbank
Frankfurt/Main
Germany
erika.renneke@bundesbank.de

Yuefen Li

Head
Debt and Development Finance Branch
United Nations Conference on Trade and
Development (UNCTAD)
Geneva
Switzerland
yuefen.li@unctad.org

Mario Sander von Torklus

Head of Division
Sevelopment Policy, North-South Questions
Federal Chancellery
Berlin
Germany
Mario.sander@bk.bund.de

Susanne Luithlen

Coach / Moderator
Köln
Germany
mail@susanne-luithlen.com

Carmen Schickinger

Principal Economist
Africa Department
Kreditanstalt für Wiederaufbau (KfW)
Frankfurt/Main
Germany
carmen.schickinger@kfw.de

Alhassan Allie Mansaray

Senior Economist
Public Debt Management Department
Ministry of Finance
Freetown
Sierra Leone
alliehassan2002@yahoo.com

Anke Schlimm

Deputy Head of Division
Division 401: Development Policy
Federal Foreign Office (AA)
Berlin
Germany
401-0@auswaertiges-amt.de

Daniel Mukoko

Assistant Director
Office of the Prime Minister
Kinshasa
Democratic Republic of Congo
daniel_mukoko@yahoo.fr

Rosmarie Schlup

Head of Delegation, Paris Club
State Secretariat for Economic Affairs (SECO)
Swiss Confederation
Bern
Switzerland
rosmarie.schlup@seco.admin.ch

Christoph Paulus

Professor
Department of Civil Rights, Civil Procedure and
Insolvency Law and Roman Law
Humboldt University Berlin
Berlin
Germany
christoph.paulus@rewi.hu-berlin.de

Pia-Nadja Schulz

International Investments and Finance, Debt
Rescheduling, Worldbank, Development Banks
Federal Ministry of Economics and Technology
(BMWFi)
Berlin
Germany
pia-nadja.schulz@bmwi.bund.de

Alonso Segura Vasi

Head of Research
Banco de Credito del Peru (BCP)
Lima
Peru
alonsosegura@bcp.com.pe

Rainer Venghaus

Head of Berlin Office
External Affairs
World Bank
Berlin
Germany
rvenghaus@worldbank.org

Christiaan Spaans

Policy Advisor
Foreign Financial Affairs
Ministry of Finance
The Hague
The Netherlands
n.c.spaans@minfin.nl

Gundula Weitz

Desk Officer
World Bank, IMF, Debt Issues
Federal Ministry for Economic Cooperation and
Development (BMZ)
Berlin
Germany
gundula.weitz@bmz.bund.de

Victorio J. Taccetti

Ambassador
Embassy of Argentina in Berlin
info@embargent.de

Mariama Williams

Senior Fellow
Global Governance Programme
South Centre
Geneva
Switzerland

Paul Tasong

Permanent Secretary
Ministry of Economy, Planning and Regional
Development
Yaounde
Cameroon
ptasong@yahoo.com

Mardi Wu

First Secretary
Trade and Economic Department
Australian Embassy in Berlin
mardi.wu@dfat.gov.au

Christoph Trebesch

Post-Doctoral Researcher in Economics
Hertie School of Governance
Berlin
Germany
christoph.trebesch@fu-berlin.de