3.11

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000 2 July 1984

Andrew Turnbull Esq
10 Downing Street
LONDON
SW1

Dear Andrew

BANKS' INTERNATIONAL LENDING

You wrote to me on 6 June about international debt schemes.

I attach the promised copy of the most recent survey of these schemes by the Bank of England.

The Mackworth Young scheme is listed on page 9 of the Bank's survey. Essentially it involves the creation of a new international body to act as receiver, relieving the banks of their debt (at a price) in exchange for its own guaranteed paper. It was first put forward two years ago. I attach a copy of a letter which the Chancellor has recently sent to Mr Mackworth Young about it.

The scheme proposed to the Prime Minister by Sir Walter Salomon, which you described in your letter, is not included in the Bank's survey. Its underlying approach - to introduce the market directly into the valuation banks' sovereign debt - is an attractive one. There would be a number of advantages if greater marketability of banks' international debts could be achieved. It is also clearly an advantage that under the scheme it would be bank shareholders rather than governments who would have to bear the cost. On the other hand, the proposition in the particular form put foward by Sir Walter Salomon would of course be a major step for any bank to take. It seems unlikely that it would be contemplated except in extreme circumstances. And in any circumstances there would be the risk that the adjustment to balance sheets might be too abrupt for confidence, leading to a major run on the banks. There have however, been some spontaneous moves towards increasing the marketability of banks' international debts, although so far only on a very modest scale, and we are doing further work on this approach in conjunction with the Bank of England.

As you will see from the Bank's survey - which I hope you find useful - a very large number of such schemes have now been put forward either publicly or in private conversation. Almost all start from the presumption that a significant proportion of the debt will not be repaid. Most go on to assume that either banks or debtors (or both) need to be protected from the consequences - usually in ways which involve costs to governments (ie taxpayers) in creditor countries and which would cut across (and probably cause to seize up) present arrangements for securing adjustment. It is, of course, largely for these reasons that we have set our face firmly against any global scheme in favour of the existing strategy as elaborated at the Summit - a case-by-case approach built

around adjustment by the debtors, a central role for the IMF, a limited flow of new money, and encouragement to the banks to make adequate provisions. If successful this approach will give time for the debtor countries to put their houses in order and time for the banks to build up adequate provisions and strengthen their capital base.

Yours ever
David

D L C PERETZ
Principal Private Secretary

SURVEY OF RESCUE SCHEMES

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Sprinkel

Source US Treasury Paper 27. 9.82

Concept

A new IMF borrowing arrangement would be established - the so-called 'emergency fund' - to supply stand-by lines of credit in "extraordinary or crisis situations that could seriously threaten the stability of the international monetary system". Participation would be open to any country prepared to make a minimum commitment, and provision would be made for countries to join at any time, and for individual countries to share their contribution on a formula related to the size of GDP and reserves, other than gold. It would be similar in nature to the oil facility and in addition to any general quota increase.

Mechanism

The new fund would be available to participants as very much a final resort and only usable when the following criteria were satisfied:

(a) "the country's balance of payments problem was likely to pose a serious threat to the international monetary system;"

(b) "the country's financing requirements were very large in relation to its IMF quota and normal access to IMF resources;"

(c) "a comprehensive and exceptionally strong IMF programme had been agreed;"

(d) "the funds required were in excess of amounts available from regular IMF quota resources."

The size of the drawings would be flexible (not necessarily related to quota size) and large, with repayments due between three and five years after the drawing and not permitted to remain outstanding beyond five years. However, the facility would not provide 'quick money' because an adjustment programme would have to be agreed before the arrangement could be activated. Access would be limited to the larger debtors because the smaller countries would be excluded by the implication of criterion (a).

However, generalised financing problems which collectively posed a real threat may allow individual countries to draw on the facility, even though their problems in isolation would not be a serious threat. Money to come from (i) official lenders (ii) market borrowing and (iii) new issues of SDRs (possibly).

The relationship between the new facility and GAB would need to be considered - perhaps GAB could be integrated into the new fund?

This proposal is the initiative which in fact gave rise to an increase in IMF resources through an enlargement of GAB. The Sprinkel plan was eventually superseded because of the political sensitivity of a policy which could be seen to be discriminatory in its allocation of funds (see criterion (a) overleaf) - a criticism which it is widely recognised was impossible to over-ride.

Bell i

Source Times 16. 7.82

Concept

This involves a proposed 'safety net' for the international monetary system in which the IMF would borrow money in the markets (a figure of $20 bn was mentioned) and operate a 'special' fund along the lines of Sprinkel, to help out countries facing immediate liquidity problems but which had a satisfactory long-term outlook. An informal co-financing arrangement is envisaged, with disbursements from the fund being made alongside commercial credits, in order to rebuff any suggestions that the scheme is merely a safety net for the banks.

Mechanism

The aim would not be to 'bail out' the banks by allowing any reduction in their exposure, but rather to increase the lending capacity of the IMF and thus have a stabilising influence on bank confidence. Details are vague, but presumably all member countries would be eligible and it is (apparently) envisaged that some sort of international consultative and liaison group set up by the G30 in conjunction with the IMF Board of Directors would administer applications to the fund as well as terms and conditions of lending.

ii

Source Times 15. 3.83

Concept

This proposal suggests that the commercial banks should establish an international lending facility linked to the IMF in order to bolster banking confidence. It is suggested that the benefits would be widespread - the IMF would be certain of new money from the commercial banks if and when necessary, the developing countries would be encouraged to agree to IMF conditionality assured of the Fund's supplementary resources and the criticism of 'bailing out' the banks would be met head on by such an initiative from their own numbers.

Mechanism

The international lending facility would technically, be a stand-by commitment of participating banks to borrowing countries, made available under the aegis of the IMF. The IMF would assess the borrower's needs and then negotiate with the commercial banks to draw an appropriate amount from the facility. It is recognised that some sort of carrot might need to be offered to the banks to get such an initiative off the ground and one might be to link it to a possible re-discounting facility for outstanding loans.

Williamson

Source Chapter 7 in 'Development Financing - A Framework for International Financial Co-operation' edited by Salah Al-Shaikhly 'The how and why of funding ldc debt';

Concept

Williamson advocates a new financial technique as a means of insulating what he sees as the necessary and desirable ldc borrowing from unexpected variations in the rate of inflation and from vulnerability resulting from short maturities and high nominal interest rates. The scheme involves an existing international institution 'sponsoring' the issue of 50 year indexed bonds denominated in SDRs on behalf of a collective of developing countries. This would ensure risk spreading for both borrowers and lenders. It would allow borrowers to vary their debt-service obligations with their ability to pay and it would also spread the lenders' risk over a number of borrowing countries, some of which would be unable to borrow on their own credit rating.

Mechanism

The technicalities of indexing are spelt out in the original paper (see reference above); briefly, the indexation formula would link the issue-date SDR with the current value of the SDR . If 'world prices' were to rise then the interest coupon payable would rise accordingly. The problem of finding a suitable index of 'world prices' could be resolved by using a price index of traded goods, which should be universal and would stabilise the purchasing power of the bond-holder for a country with a typical import composition.

The bonds issued by the Sponsor would be with recourse to the countries on whose behalf the funds are being raised, but there would still be an important place for guarantees from the Sponsor or third parties - limited, perhaps, to sums less than the total value of the bonds issued.

The essential aim would be to allow the investors to treat the bonds as low risk - perhaps through insurance with the proposed International Credit Guarantee Fund. Means of preventing countries from irresponsible borrowing would be devised through a maximum debt:GDP ratio.

This proposal was supported in the Treasury and Civil Service Committee's report on International Lending by Banks, in which it was suggested that it would help to remove current regulations preventing long-term institutional investors acquiring such assets and also permit the sponsoring organisation to set conditions which would ensure that prudent policies were adopted by the borrower.

Barclays Scheme

Source Attached to letter from Timothy Bevan (Barclays) to the Deputy Governor 1.3.83

Concept

This involves a scheme to improve banks' liquidity through the rediscounting by central banks of foreign debt with recourse to banks, and is proposed for liquidity purposes and also to remove the necessity for raising prudential deposits and liquidity. In order to prevent a general reduction of new commitments to international lending by the banks and thus delay the world recovery substantially, Leslie envisages a facility to rediscount a proportion of locked-in loans with the central bank. Clearly the central bank would need to lay down certain conditions and may only be prepared to rediscount a proportion of certain debts.

Mechanism

The rediscount facility would remain in force for the period of the loan and would immediately take not only the amount of the loan out of the balance sheet, but would also imply room for new lending. Leslie suggests that it would however be necessary to show the items as contingent liabilities since the central bank would retain recourse in the event of ultimate non-payment, although this in effect alters the scheme.

NB This proposal has been taken up publicly by Mr Timothy Bevan, Chairman of Barclays Bank - Guardian 8. 3.82.

Magnifico

Source Times 15.12.82

Concept

The IBRD would issue bonds with an average maturity of, say, twelve years to finance 'consolidation' loans to developing countries which would be required to use the proceeds to repay some of their short-term commercial bank debt. Magnifico suggests that the role proposed for the World Bank would reduce the need for international liquidity creation and reduce the strain on monetary policy. It is suggested that the value of using the IBRD in this way is that its reputation in the bond market would reduce the need for government guarantees.

Mechanism

The bonds would be placed through banking consortia, established jointly with the lending banks and a range of private and official investors (including the low-absorbing OPEC countries). The scheme envisages that the loans would be dependent on the adoption of short-term and structural adjustment programmes agreed with both the IMF and IBRD. It is implied that the scheme would have general application where serious debt-servicing problems existed.

There is also an assumption that the space created in the banks' portfolios by the relief of some of the debt burden would leave them willing to meet the ldcs' new requirements.

Mackworth-Young

Source 'The International Banking System': A Non-Inflationary Lifeboat' Note of 14. 9.82 to Bank of England

Concept

This scheme envisages a new institution, the International Debt Holding and Realisation Agency (IDHRA) under the aegis of the IMF (or BIS) and guaranteed by the G10 and OPEC central banks (though this would entail burden-sharing arrangements between governments and the passing of national legislation). Instead of providing for repayment in cash of the relevant debt (like the Magnifico plan), the IDHRA would substitute its own securities and in effect become the "receiver", while the governments through their ultimate assumption of the claims would be in effect the creditors. (A much simpler version had been proposed, with the IMF or World Bank acting as the receiver for ldc debt in exchange for say, 5-10 year non-marketable IMF/IBRD notes.)

Mechanism

The IDHRA securities would be capital-certain but initially non-interest-bearing or else realisable at discounted values in the market. Banks could convert these assets into low-coupon, freely marketable, IDHRA guaranteed bonds and would lose some income but have longer maturity assets discountable at their own central banks.

The IDHRA, in taking over some of the debt, should earn some net interest to set against deficiences in its net assets.

Leach

Source Letter to David Hancock, Cabinet Office 9.11.82 World Debt Crisis

Concept

Similar to Mackworth-Young's scheme: involves the establishment of a new institution, again under the aegis of the IMF and World Bank which would be prepared to assume up to 30% of banks' sovereign exposure to selected countries within a stipulated time and with certain conditions attached, including the proviso that a volume of new lending (equal to half the amount of debt transferred) should be directed to the ldcs via the institution. The details concerning the nature of the debt to be transferred are vague, but it is implied that it would be maturing debt either being rescheduled or about to be so.

Mechanism

The scheme envisages a yield penalty for the banks which would take the form of a 6% discount of the capital value of the transferred assets, but the substitute claims would get market rates. Half of the institution's capital would be raised by a compulsory subscription from the banks at the rate of 2% of country exposure transferred to it, and the other half by matching government injections. Unlike Mackworth-Young, who proposes a guarantee of the whole institution by central banks, Leach proposes that the only interest obligations would be guaranteed by the shareholder governments.

Leach suggests that the institution would have "a strong debt: maturity profile, enabling it to negotiate with debtor countries without undue pressure", and thus absorb any short-term debt shocks. He foresees it aiming at profitability through earnings on its capital and the spread between its own cost of borrowing and the income on its assets.

Kenen

Source Financial Times 14.2.83 Wall Street Journal 10.2.83
New York Times 14.2.83

Concept

The creation of a new international institution is envisaged to be called the International Debt Discount Corporation which would issue bonds guaranteed by the major industrialised countries' governments to the banks in exchange for the debts of developing countries. The IDDC would confine itself to countries that recognise it as successor claimant to the banks and to government debts or debts with government guarantees. The institution would need to retain a certain amount of capital as a reserve against default.

Mechanism

The commercial bank debt would be transferred at a discount (say, a 10% loss) and the banks would receive a long-term bond, maturing in anything between 10 and 20 years, with a lower rate of interest than that on the ldc debt. The institution would then reschedule the debt owed to it by the developing country, converting it into a debt of the same maturity and interest rates as the organisation was paying to the banks.

The commercial banks would not be allowed to choose which debts they discounted with IDCC, but would be required to present a percentage of their claims on every country doing business with the IDCC. Nor would they be allowed to hold on to their risky claims until they deteriorated even further and thus use the IDCC to minimise risk rather than resolve the debt problem.

This proposal was considered to be unrealistic by the Treasury and Civil Service Committee, who doubted whether the political will existed to support such a major extension of the role of official international institutions. It was suggested that such a scheme would create an overwhelming incentive for banks to avoid lending more to a country likely to rediscount its debts with the IDDC.

Rohatyn

Source FT 14. 2.83 Testimony to Subcommittee of International Economic Poilicy of the Senate Foreign Relations Committee; 19. 1.83

Concept

To "stretch out" the debt overhang and end the "fiction" that the current burden is made up of short-term, high-interest loans, a subsidiary of the World Bank or the IMF, or a totally new institution, guaranteed by various governments is envisaged. Rohatyn suggests that the mechanism for such a stretch out would not be difficult to determine once it had been decided how to allocate costs.

Mechanism

The institution would acquire the banks' credits (it is not specified at what stage or what proportion) in exchange for long-term, low-interest bonds of its own. The new entity would become the substitute creditor, on the same long-term basis, to the present borrowers. The banks would suffer loss of income, but owing to an increased security could be encouraged by the authorities to maintain their balance sheets intact or schedule a gradual and limited withdrawal.

This proposal was examined by the Treasury and Civil Service Committee and found to be unsatisfactory on the same counts as the Kenen scheme.

Lever i

Source Times 7.12.82 1982 Churchill Lecture "Deficit Finance - Bankers and Governments' 3. 8.82 New York Times 4. 6.82, 24. 9.82

Concept

Lord Lever suggests that, as an ideal there is a need for an International Bank both to regulate international finance and to act as lender of last resort. But, in practice his scheme proposes that the individual central banks should support their own commercial banks by protecting their liquidity. The central banks would have to act in harmony in order to avoid foreign exchange distortions and to prevent a widespread withdrawal of funds from the system through a collapse of confidence in an individual bank where lending has been normal and "broadly prudent".

Mechanism

Each central bank should offer to discount the paper of the lending banks and to roll-over interest and repayment to match any delays or defaults by the borrowers. Alternatively, the central bank could buy assets guaranteed by the private banks and accept delays in interest and repayments, subject to a commitment whereby the commercial banks would transfer out of their future profits or out of any future repayments from the debtors, funds to the central bank to meet their liability.

Such a scheme would sustain the banking system by enabling it to extend the period required to write down doubtful loans, without calling into question their liquidity or solvency.

The problem of future lending would be dealt with by a committee of central banks, which in collaboration with their governments would prepare a forecast of the volume of likely bank lending needed. This would then be apportioned via the banks to the borrowers and all loans would be registered with the committee.

The committee would guarantee the liquidity or solvency problems of the banks [international lender of last resort] while they in turn would be required to submit consolidated balance sheets so as to bring the overall Eurodollar lending under bank supervision.

Lever ii

Source 2. 6.83 Paper delivered to Trilateral Commission

Concept

In essence the proposal is to extend the power of the export guarantee agencies to cover some exports of capital aswell as those of goods. The agencies would insure not only trade flows but also appropriate ldc current account deficits. The agencies would have to act in co-ordination in setting country limits for such insurance and would also stipulate that the insurance facilities would be subject to IMF approval of the borrowers' economic policies. It would also be the role of the IMF to make the recommendations to the agencies for the insurance of capital export credits through the banks up to the amount of each year's reasonable current account deficit.

Mechanism

No detailed mechanism has been worked out, but Lord Lever believes that with insured credit to cover the current account deficit, each ldc central bank would be in a position to meet interest payments on existing debt, and avoid the debt servicing difficulties currently being experienced. It is also envisaged that the trading deficit would be met and thus the breakdown of the export insurance system would be avoided. It is assumed that existing debts would cease to be non-performing assets as "the normal action by their central banks as lenders of last resort would be available to deal with any cash flow problems arising from the rescheduling of capital repayments".

Brandt

Source Brandt Reports I and II "Common Crisis: North-South - Co-operation for World Recovery"

Concept

The Brandt Commission originally suggested that World Bank guarantees might stimulate additional commercial lending to ldcs. The IBRD is already empowered to provide guarantees to member governments for specific projects, but had not used them because direct lending had been regarded as most appropriate on a cost basis and to avoid the stiffer conditions of commercial lending. The IBRD staff had concluded full guarantees would still be of little use and although partial guarantees may be more favourable, they would still carry risks for the Bank.

The second report suggests that the IMF should undertake borrowing programmes from central banks and the private capital markets, in addition to any increase in quotas. IMF conditionality ought to be altered significantly to shift the emphasis away from short-term BoP adjustment towards longer-term structural changes. The report states that "the above measures would create a framework of confidence in which private bank lending to developing countries would be able to expand". One further measure advocated was "consideration of an Investment Credit Guarantee Fund to promote project lending by commercial banks".

Bailey

Source Wall Street Journal 3. 3.83

Concept

The plan proposes the creation of a new financial instrument, the Exchange Participation Note, issued by a debtor country's central bank to give creditors a claim on a certain percentage of the country's future foreign exchange earnings. The aim would be to reduce the debtor's burden of principal repayment in the short term - as the borrowing country would only pay within its immediate means - and at the same time the creditors would avoid the cumbersome organisation of repeated reschedulings. It is suggested that a secondary market for the notes may emerge.

Mechanism

Instead of receiving principal payments as scheduled, creditor banks would receive the notes, entitling them to say 3% of the country's foreign exchange earnings. The notes would only be applicable to some of the foreign debt - excluding particularly projects earning foreign exchange. In the long term, a creditor could be paid more quickly, in theory, than under the original terms, and this incentive for bankers and debtors to fund projects that generate foreign exchange is seen as an important advance on the more usual bridging loan, which eventually only succeeds in adding to the debt servicing burden.

Pierre-Brossolette

Source - Report of G30 study on longer term evolution of International Financial Institutions 24. 1.83

Concept

This proposal has two broad aims; the first is to reduce the debt servicing burden for the ldcs on a long-term basis - through linking the annual debt repayment to a certain percentage of export receipts. A new international agency, linked to the IMF, would be established to purchase at its own risk a certain pecentage of the commercial banks' outstanding foreign loans. These purchases would be priced slightly lower than nominal value. The second aim would be to maintain a flow of new funds within the ceilings stipulated, through the agency operating refinancing lines or giving a performance guarantee in respect of a certain percentage.

Mechanism

Certain criteria would have to be met for debtors to be offered help in this way:

- the production of regular, full statistics on the amount and composition of their debt;
- an undertaking not to contract further debts which would result in future repayments exceeding the agreed level;
- the creation of negotiable securities, as the counterpart of the new rescheduled debt.

The agency would have a small called-up capital base as the operations would be financed on the commercial markets.

Hudson Institute

Source: Wall Street Journal

Concept

The main idea of this proposal, suggested by Mr Jimmy W Wheeler, is to index the principal on the developing countries' bank loans to the rate of inflation. With inflation currently receding, it is argued that the plan is not as drastic a change as it was when first proposed in the late 1970s, and potential disruption is now minimal. As with all indexing schemes, however, there would be a problem in agreeing on an index - as the wrong inflation indicator could cause distortion.

Mechanism

Instead of tying the interest rate to inflation, as is the current practice, the Hudson plan (tying the principal to inflation) would push the inflation-added payments towards the end of the loan. At the moment, interest payments move up and down with inflation which in effect transfers longer-term to short-term debt, as in inflationary times high interest rates push up current payments, while inflation eats away at the value of the remaining principal (inflation accelerating amortisation).

Under current conditions if a borrower has a $10 mn loan, with a ten-year maturity, inflation is at 10% and the interest rate is 15%, the borrower will be paying $1.5 mn interest the first year and $1 mn in principal (totalling $2.5 mn). Under the Hudson Institute plan, if the principal is indexed to the 10% inflation rate, the interest rate would drop to the real rate of 5%, or $0.5 mn in the first year and the principal repayment would remain at $1 mn - totalling $1.5 mn. The $1 mn "saved" would be added to the loan itself and amortised over the remaining nine years.

Muldoon

Source Report of North-South Group, OECD - 16. 3.83

Concept

This proposal suggests the establishment of a Facility under which short-term debt (both of original final maturity of less than x years and a remaining final maturity of less than x years) would be consolidated into long-term fixed interest bonds, under international guarantee and supervision. All developing countries would be eligible for assistance in such restructuring and the eligible debt would include official and officially-guaranteed debt both in the form of bank loans (but excluding ECGD-backed loans or their equivalents) and public bond issues. Membership of the Facility would be open to all countries; with each member committing a maximum liability for guarantee purposes. In the event of the Facility having to honour its guarantee, funds would be called from members up to and in proportion to their maximum liabilities. It is envisaged that total guarantees should not exceed maximum liabilities.

Mechanism

With the agreement of the Facility and of individual creditors, the borrowing country would issue bonds to replace its existing obligations. The detailed structure remains vague at the moment, but it is proposed that they would be of medium to long-term maturity (fifteen years has been suggested as a norm), interest rates would be fixed possibly in proportion to the SDR rate or linked to the rate of charge on the use of IMF ordinary resources. The replacement of existing obligations would take place either at par or at a uniform discount, although some degree of flexibility might necessitate individual discounts agreed for the particular debtor.

Taylor

Source Guardian 24. 3.83; speech to American Chamber of Commerce

Concept

Arguing that existing schemes only tackled past debts and would probably lead to a further contraction of working capital, Taylor advocates a 'scheme' under which international agencies would guarantee new bank loans in order to maintain an adequate flow of funds. The guarantees should be of the kind used by export credit agencies, but for less than the 80-90% cover usual in current export and commodity credit agreements ["to keep the banks honest"].

Mechanism

No details available.

N.B. Taylor suggested a proposal such as this should be on the agenda of the Williamsburg Economic Summit - the subject of a current congressional resolution by St Germain (Chairman of the House Banking Committee).

Laulan

Source Outline attached to note for record on meeting between M Laulan and Mr Burns HMT 17. 3.83

Concept

This proposal is concerned with two broad aims - to bolster banks' confidence and to ensure that future lending will be utilised more effectively than in the past. It is entirely prospective and fails to mention anywhere the problem of the present stock of debt. . The idea is of one setting up "upstream" new procedures between the IMF and the banks and "downstream" methods of guaranteeing loans.

Mechanism

Before a loan is granted, it would be necessary for the banks to engage in very detailed consultations with the IMF, if the loans are intended for balance of payments financing or the World Bank if the loans are related to project financing. The purpose of these "upstream' consultations would be to obtain a "stamp of approval" by the official institutions who, it is claimed, are in a better position to assess country risk and appropriate use of the funds than the commercial banks.

"Downstream" - it would then be necessary to offer some sort of guarantee to the banks and institute effective risk-sharing in order to maintain a flow of funds. Laulan himself admits this idea is "rather simple" and suggests that the BIS or Central Banks could also play a role, particularly in the case of smaller, regional banks.

Zombanakis

Source The Economist 30. 4.83

Concept

The IMF is seen as the indispensable element in any new initiative and an increase in its resources are of paramount importance. In consultation with the IMF and the creditors, countries in a critical situation should draw up adjustment programmes as at present, but over a longer timescale of say 13 years. Such a programme would thus be less restrictive for the borrower than a short-term rescue and release some restrained demand to help world recovery.

Arrangements under the agreed programme would be interrupted or made conditional if the IMF and creditors were uncomfortable with the borrower's progress.

Mechanism

Once new repayment schedules had been arranged, the IMF would guarantee amounts due in the final three years (ie years 11-13 of the example). This guarantee would be viewed by the creditors as the means of securing repayment of their claims at the time it is applicable. With this security, the banks could resume their consideration of new loans, provided they were within the IMF programme. If the borrower were to fail on its commitments, the guarantee could be revoked. This would be a safeguard against banks offloading their debts on to the guarantee in the final three years. Only if the IMF conditions had been met in the first ten years, could the guarantee be used in years 11-13.

In order to lessen pressure on the eurodollar market, lending banks from strong creditor countries should be asked to convert claims on borrowers to their own currencies. This would increase confidence of the lending banks and reduce pressure on the dollar.

For all rescheduled loans, a new set of terms should be worked out by negotiation. The banks should accept an interest rate comparable to the return on government paper available to them. The difference

between the original rate and the new rate should be charged to the borrower as a guarantee fee. This amount, accruing over the years, would contribute towards the guarantee's funding requirements.

The IMF is not at present empowered to give guarantees and a fund would have to be established - the Guarantee Loan Fund (GLF) - made up of contributions from countries in an enlarged G10. This facility would be provided with standby letters of credit by the G10 creditors drawn to meet guarantee payments and repaid under conditions worked out subsequently.

Schumer

Source Press release by C Schumer 7. 3.83

Concept

This scheme (like Rohatyn) proposes the conversion of short-term, high-interest debt into more manageable lower interest debt stretched out over a longer period. It suggests extended co-operation between the IMF, central banks, indebted countries and private banks in devising acceptable restructuring of the debt. The indebted country's rearranged annual repayments of interest and principal would be set at a prudent percentage of its annual export earnings. An IMF 'insurance fund' in case of default is suggested, financed by a small surcharge on the renegotiated balance and paid jointly by debtors and commercial banks.

Mechanism

Schumer suggests that the Bank Examination Council would require each bank to increase loan loss reserves, whenever a bank's loans to foreign, public or private borrowers cannot be honoured according to the original terms and conditions without additional borrowing or a major restructuring. Such loan loss reserves will not be required if new loans or terms form part of an IMF-negotiated restructuring.

In tackling potential future problems, Schumer proposes that the Bank Examination Council should enforce country lending limits on US banks as a percentage of an insured bank's capital. Decisions would be taken outside the bank in this procedure - and the Council will report the limits to Congress, together with an estimate of the amounts of convertible debt. Schumer recommends that the IMF would seek to establish uniform country lending limits for all banks involved in international lending.

Aliber

Source Statement to Sub-committee on International Trade, Investment and Monetary Policy 26. 4.83

Concept

Aliber suggests the establishment of a new US government agency - New Government Credit Agency (NGCA) - to buy debt sold by the US commercial banks. NGCA would be financed by special Congressional Appropriations and from selling its own securities in the capital markets with a US Treasury guarantee.

Ideally, NGCA would be established and never used; its very presence would reduce the likelihood that it might be used. It is suggested that its willingness to provide banks with capital would ensure the stability of the banking system, even though banks have already incurred large loan losses on ldc debts. The risk to NGCA itself would be modest, for these losses have already occurred, even though they have not yet been recognised.

Mechanism

NGCA would be ready to lend to the banks at commercial market interest rates. These loans, subordinated to deposits and to other types of debt issued by the banks, would be arranged in combination with warrants to buy shares of the bank's stock. These warrants would carry a modest exercise price so the banks would receive new equity capital if the warrants were exercised.

The terms offered by NGCA would be sufficiently attractive so that the size of the banking system would not be reduced. The terms must not be so severe that the bankers prefer a reduction in the size of the banks to borrowing from NGCA.

Sumitomo i

Source - Sumitomo Bank Review April 1980

Concept

To help recycle liquidity to non-oil ldcs, two options were suggested. (The liquidity at that time was in the form of OPEC surpluses). First, to improve or expand the function of existing official institutions such as the IMF and the World Bank. Such strengthening could be achieved through various means - easing the lending conditions of IMF facilities, enabling the World Bank to raise funds through massive capital increases or issuing bonds and establishing an international development fund (as proposed in the Brandt report).

The second option would be the establishment of a new international credit guarantee system to strengthen the "recycling" channel of commercial banks. Advantages were seen to be the imposition of BOP discipline at times of insolvency and a relatively light financial burden achieved by paying only the interest portion at the time the guarantee is used.

Mechanism

The system would guarantee bank loans to the non-oil ldcs and collect guarantee fees from borrowing countries. If a country experienced difficulties on amortisation, the system would give guidance on economic management and repay the bank all or part of the outstanding interest. Funds would be raised through a transfer of part of the IMF gold facility to the system and through contributions from IMF member countries and by any other country desiring to make use of the system's facilities.

Sumitomo ii

Source - The Eagerly Awaited Creation of the "Life-Boat" System

Concept

The "life-boat" system proposed is that of an emergency SDR facility - "a renovation of the current SDR system". This involves an increase in SDR resources, with the IMF reserving the right to distribute the increase in SDRs, and an emergency SDR facility. It is argued that because indebted countries will be bound to repay as early as they can under the facility, international liquidity will only show a temporary increase and that for most industrialised countries acceptance of SDRs will be nothing but a shift from foreign currency reserves and will impose no financial burden.

Mechanism

When any debtor country is on the verge of defaulting on its obligations, the IMF will make an emergency allocation of SDR regardless of the ceiling imposed on the country in question, which will carry a commitment to repay as early as possible.

NB See note by FGA 30. 6.83

Morgan Guaranty

Source World Financial Markets June 1983 (monthly publication of Morgan Guaranty Trust Co.)

Concept

The aim is to keep channels of private finance to ldcs - in this case primarily higher - and middle-income countries - open directly (as opposed to indirectly, through a mechanism such as IMF borrowing in the market) by using IMF and World Bank resources to back portions of international loans to them, and to promote productive investment.

Mechanism

i) IMF scheme

IMF assets (amount not specified) would be set aside to establish an insurance pool, which would back portions of international loans to ldcs called for as part of an IMF stabilisation programme. Developing countries would have to pay an insurance premium (presumably to the IMF), but would pay lower spreads over Libor to banks because of the IMF guarantee.

ii) World Bank scheme

A new subsidiary of the World Bank would be created, to participate with banks in eurocurrency syndications. Credits would be extended at commercial rates and tied to World Bank project loans. This scheme does not entail guarantees as such, but, rather, a strong incentive to borrowers to maintain the servicing on these loans - in that failure to make regular payments would lead to the halting of disbursements of (all current) World Bank project loans.

This mechanism is regarded as a suitable means of stimulating commercial flows and improving control over their use, with the aim of benefitting economic growth in the borrowing country.

Griffith-Jones & Lipton

Source International lenders of Last Resort: Are Changes Required

Concept

The initial assumption on which the proposal is based is that the purpose of a lender of last resort is to "ensure a stable ... flow of credit to sound borrowers": an assumption which may be open to debate. The proposal is not strictly intended as a rescue scheme for the current international debt problems, but more of a contingency plan, for use as part of an LOLR call when needed by a bank.

Mechanism

In the event of a bank calling on the LOLR facility, the LOLR would purchase some or all of the bank's claims upon sovereign debt at a substantial discount. This would impose a de facto "penal rate" but the bank's deposits and, above all, its capacity to lend would be protected.

Afterwards, the LOLR would negotiate with borrowers to recover the debt - at a considerably lengthened maturity - at a rate between the discount price paid to the bank and the original rate due.

Atkinson

Source Bow Group Paper: "No Equity in International Debt"
28. 6.83

Concept

In order to establish stability in the international monetary system, the author proposes an expansion of non-bank aid and equity investment in specific developing country projects. It is suggested that the IMF and the World Bank establish a subsidiary organisation - the International Resources Development Agency (IRDA) to shift the emphasis from debt rescheduling and macro-economic considerations to a more equity-based, micro-economic approach to borrowing countries. The IRDA would include representatives from the Chambers of Commerce and Overseas Development Agencies (or equivalent) of IMF member countries, who would have a dominant role in the IMF team sent to negotiate with a debtor country.

Mechanism

It is advocated that the personnel and resources already devoted by national governments to Third World development would be used to:

(i) shift the emphasis of IMF-type conditionality towards the promotion of resource development through foreign equity investment

(ii) provide International Equity Guarantees for inward equity investment into countries with debt problems. Such guarantees would insure against political dispossession, not commercial failure

(iii) collect micro-economic data, help a debtor country to identify economic distortions, resource and skill shortages and international markets for foreign exchange earning exports

(iv) co-ordinate the provision of administrative and civil service expertise by developed countries to developing countries.

Only if a significant percentage of the debt servicing problem could be relieved through foreign corporate investment and aid programmes, would the IMF recommend and co-ordinate further injections.

Friedberg

Source How to Solve the International Debt Crisis 27. 4.83

Concept

The "debt work-out" proposed has three elements. First, banks need to recognise losses in an orderly manner. Second, greater incentives must be provided for the debtors to adopt IMF approved sacrifices and third, the debt relief should avoid the "socialisation of bailing out costs". To achieve this third goal Friedberg suggests a series of squeezes - initially on shareholders, then on the largest and most sophisticated depositors and only as a last resort on the nation's taxpayers.

Mechanism

In the first instance, Friedberg proposes to replace the current practice of rescheduling at increased spreads, with a lower rate of interest tied to a commitment by the borrower to reduce its principal. He suggests that banks could offer a one percentage point reduction in interest for every half-point amortization of principal.

Friedberg sees the plan benefitting both sides; the ldcs will view this as a gesture of goodwill and sacrifices will seem more worthwhile if the debt burden is actually diminishing, while the banks will be forced to accept reality. Interest rate reduction will be offset by healthy domestic earnings, while losses will be tax deductible and would become smaller over time. However, Friedberg provides some startling figures - a 5 per cent interest rate reduction on loans to financially troubled ldcs would reduce in the first year Citicorp's pre-tax profits by 38%, Bank of America's by 62% and Chase Manhattan's by 75%.

In a second phase to his proposal, Friedberg suggests that loans to ldcs could be amortised to zero over 20, 30 or 40 years. This may run into problems, as psychologically it lets the debtor off the hook by removing any compelling reason to repay. It also runs counter to tax rulings which prevent provisions over 2% of loans. The solution suggested is the on-selling of troubled loans by banks in the open market and by tender.

The banks would keep a number of these loans equal to 2% of their total loan portfolio. Individuals and other financial institutions would be eligible to purchase loan participations, which would continue to be monitored and serviced by the originators. The risk would thus be spread through the greater number of participants.

The market would price the loans and before their sale interest rates would be reduced as a pre-requisite for a similar (though half as large) reduction in principal. The loans would be more attractive because of the lower risk involved - lower because the interest cost would be more manageable and because of the yearly sinking fund.

II(8a)B28&29

Bolin

Source - The Economist Financial Report 21. 7.83

Concept

Bolin suggests the establishment of an Export Development Fund, which would be closely allied to the World Bank, but backed by the export credit agencies of the industrial countries (similar to Lord Lever's second plan - page 14).

Mechanism

The new fund would be in a position to make loans beyond the optimum maturities favoured by private banks (7-8 years) and less than the 15-year or longer maturities that the World Bank favours. The new organisation would obtain its loanable funds by placing its own floating-rate 8-14 year notes with investors in the Euromarkets. It is envisaged that initially, these notes might be taken up by the commercial banks involved in the loans. Over time, a secondary market might be developed.

Zolotas

Source - Times 11. 1.83

Concept

This proposal suggests a new fund in which the guarantors would be the IBRD, the IMF, the surplus OPEC countries and the highly industrialised countries. Membership would be open to all World Bank member countries. All major international lenders deemed to be applying prudent banking practices would be eligible for guarantees, which would be extended to balance of payments and development lending.

Mechanism

The fund would be income-generating so that after a few years of operation sufficient reserves would have accumulated gradually to reduce the risk of guarantors. Guarantees could be a fixed percentage of loans, or the percentage of coverage (a maximum ceiling of say 70 per cent) could be open to negotiation between the bank and the fund. It is envisaged that lending to ldcs who do not have access to the private capital markets could be covered up to 90 per cent.

Yassukovich

Source The Guardian 10. 8.83.

Concept

A three stage plan is proposed aimed at removing commercial banks from the mechanism of sovereign lending and replacing them by the international institutions. The key to the scheme is its long-term nature - Yassukovich estimates it would take 20 years to achieve an orderly transfer of sovereign debt from the commercial banking system to those official agencies which, representing governments, are the only means of enforcing adjustment on ldcs while minimising adverse political consequences.

Mechanism

The first stage would be to convert the new loans recently negotiated between banks and debtor countries into IMF facilities. These would be funded directly by the banks in the same proportions as their existing commitments to the new money facilities. The banks would fund the IMF on interbank terms but they would be relieved of the additional credit exposure to the countries in difficulty. This would not be viewed as market borrowing by the Fund, but as a similar operation to reserve requirements or special deposit schemes which require national banking systems to hold central bank assets.

The second stage would involve the gradual assumption by the IMF of the agent bank roles currently carried out by members of existing syndicates representing the bulk of the external debt of the countries concerned. The banks would effectively become sub-agent to the Fund and the IMF would assume the role of principal counterparty on behalf of international lenders to the governments concerned.

The third stage would involve a gradual redistribution of commercial bank exposure. A consortium of official lenders, consisting of the IMF, the IBRD, the regional development banks and central banks would assume, over a predetermined period of time, the banks' credit exposures, while the banks retained the funding exposure at the outset. Gradually the funding exposure would also be run down through the issue of marketable securities by the consortium which could be sold on the capital markets.

Source - Letter in 'Euromoney' May 1983 P.9

Concept

This scheme proposes to establish a new institution, the International Debt Redemption Bank (IDRB), which would create a secondary international currency called Special Redemption Units (SRU) and would purchase outstanding loans to ldcs at a discount in terms of SRUs at a fixed par value. It is envisaged that the capitalisation of the IDRB, initially at $10 billion, would be provided by the IMF, World Bank, commercial banks and governments. While on the one hand a commercial bank would obtain security for its existing loans, and be in a better position to increase its exposure, on the other hand a debtor would have to observe some form of IDRB - imposed conditionality.

Mechanism

The IDRB would create SRUs to the value of fifty times its capital - which is roughly what the present global debt is estimated at. It is claimed that since the SRUs would be freely acceptable and rediscountable with other banks, the bank that discounts its sovereign debt with the IDRB would be assured of the safety and liquidity of its loan. SRUs would be accepted in all international transactions by countries dealing with the IDRB. Like the Eurocurrencies, SRUs would be accepted as bank deposits and be interchangeable among these currencies and SDRs at a pegged exchange rate.

Rao argues that while the World Bank lacks the resources to discount sovereign debt, the IDRB would create secondary money in SRUs. A liability would be created in the form of an SRU against an asset of a sovereign debt. SRUs would operate through two rates: a par value fixed higher than the dollar to cover expenses, rate of return for holding the debt till maturity and the risk, and a discount rate, which would include provision for a minimum dividend to be distributed to shareholders and minimum contribution to the general reserve fund. Therefore when a sovereign debt discounted by IDRB matures, there will be a contractionary impact on world liquidity.

Dale

Source Financial Times 31. 8.83

Concept

The proposal is based on the premise that it is advisable to leave the stock of debt to take care of itself and to concentrate on sustaining international credit flows. The suggestion is that the IMF formally guarantees new bank loans to the extent that its own lending programmes are conditional on additional bank credits.

The assurance of renewed credit flows would sustain the international banking system awaiting an upturn in global economic activity and initially, at least, there would be no debt relief and no losses imposed on the banks. If, however, the debt burden of the ldcs becomes unmanageable because of unfavourable economic developments, the scheme could be adapted to provide debt relief - for instance by having banks write off some proportion of their old loans over a period of time.

Mechanism

The guarantees would be sold to the banks either at a uniform rate of, say, two per cent per annum or at a variable rate reflecting the perceived creditworthiness of the borrower. To counter the criticism that banks were being "bailed out" , old debt could be subordinated to the new as is the case under corporate debt restructuring.

The scheme could be used as a tap to control the flow of new credits as changing economic conditions dictate. The ultimate objective would be, however, to allow market forces to take over as early as possible.

Brunner

Source "International Debt, Insolvency and Illiquidity" in Economic Affairs, April 1983

Concept

The authors* outlined a seven-point policy as follows - points 2 and 3 of which may be regarded as constituting a rescue scheme.

1 Explicit formulation of a long-term strategy - governments need to discriminate between countries which are unlikely to repay in the future and countries that can be expected to repay principal and interest after a rescheduling. The former should be declared in default.

2 Rescheduling the maturity structure of outstanding debt - the magnitude of the problem and the long-term requirements of the solution suggest that rescheduling should be arranged at regular intervals. Domestic adjustment policies, accepted as conditions of rescheduling, could also be monitored effectively.

3 Gradual adjustment of new loan extensions - loan extensions need to be tied to the debtor nations' commitment to alter their domestic policies. Otherwise, interest payments may depend on further loan extensions even after the improvements expected with recovery from the current recession. This solution merely postpones the problem to some future date, by which time its repercussions will have become more serious.

4 The role of the IMF - monitoring and assessment of both debtor and creditor nations from a crucial part of the scheme - a task for which only the IMF is suited. It would involve a re-examination of the IMF's usual 'austerity measures' that encourage debtors to reduce imports. Financial policies and the creation of incentives to produce and export should be the major targets of the IMF.

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* Karl Brunner, Michele Fratianni, Morris Goldman, Jerry L Jordan, Allan H Meltzer, Anna J Schwartz.

little benefit from a diversification beyond three or four developing countries, provided that the cross-correlation between these countries of the various risks involved is small; furthermore, the developing countries are themselves only one part of a bank's wider international portfolio. The "big four" borrowers therefore offer a reasonable degree of diversification in this context, comprising as they do a major oil exporter; a rapidly industrialising country with diversified exports and rich in natural resources; a self-sufficient country with considerable potential; and a successful producer of manufactured goods.

However, it is not immediately evident that this portfolio diversification reasoning provides the correct criterion by which to judge the appropriate degree of concentration. Certainly, many countries were excluded almost entirely from bank lending for either political or economic reasons, or both. This is in part because political factors have proved particularly difficult to assess, not least for the banks themselves, while the relevant economic indicators in this context remain elusive, encouraging a degree of conservatism in banks' behaviour. In practice, there may be an element of circularity - through self-fulfilling expectations - in any ex post assessment, since some countries may have been able (or unable) to realise their potential only because of the availability (or non-availability) of the external finance required for development.

Another important determinant of the banks' lending policies may have been the favourable response of the authorities - governments and central banks - of the developed countries both to "recycling" in general and to specific types of lending. At a minimum, the absence of active discouragement - in relation either to the overall level of international lending or to its distribution, and either as part of overall economic policy or as a purely supervisory interest - is perhaps as significant as the presence of active encouragement.[8]

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[8] As early as February 1975, the Governor of the Bank of England was able to say - in a speech at the Overseas Bankers Club - that "the speed and flexibility with which [the world banking system] dealt with the [oil moneys] has provided time for other and longer term channels for investment to be opened up ...". In a similar speech in February the following year, he said: "The international banking system [has] made an important contribution [but] commercial banking cannot cover the whole need ..... The emphasis must therefore turn to more official financing". Despite this clear recognition of the dangers of unbalanced financing, little positive was in the event done to prevent it.

Montagnon

Source Financial Times 30. 9.83

Concept

This proposal envisages a free market approach to the debt crisis which will has the advantage of avoiding demands on public expenditure. It suggests that the World Bank takes $1 bn from its liquid resources and uses the money to establish a new affiliate - an investment bank which could borrow in the money markets. With a prudent gearing ratio of nine to one, the new affiliate would have at its disposal a fund of $10 bn to lend to those ldcs which are experiencing immediate debt-servicing problems. The bank itself is unable to increase its one to one gearing ratio, as its existing bond holders have been promised that the ratio will never be changed.

Mechanism

Montagnon offers two possible roles for this supplementary fund. It could be used to extend the maturities of the troubled debtors, or more imaginatively, to extend loans to the IMF itself. Montagnon suggests that this would relieve the Fund from the humiliation of repeated recourse to the BIS and avoid the "radical" changes of character necessary if the Fund were to engage in direct market borrowing.

Source Financial Times 29. 9.83

Concept

Brittan identifies the "steep and unexpected" rise of the dollar as the unforeseen element which contributed to the ldcs' debt-servicing difficulties. His proposal is that of an interest-rate subsidy, which would be granted to developing countries to compensate them for all or part of the increase of the real value of the dollar as determined by the Managing-Director of the IMF since some appointed date, perhaps 1980, when the dollar last appeared to be near a "normal" value.

Mechanism

The value of the subsidy should be adjusted according to the prevailing value of the dollar. It is intended to phase out the subsidy in any case after, say, five years. If the value of the dollar is still unreasonably high, it is something that the rest of the world will have to adjust to, but the developing countries will have been given time to make the adjustment.

It is suggested that the best form which the subsidy could take would be outright, but it may be necessary to disguise it in the form of an SDR allocation, longer-term concessionary IMF credits or relief channelled via the banks.

The suggested subsidy should be applied to the interest payment, in order to remove the doubt over interest-servicing and to create a situation in which the principal could be restructured with confidence.

Witteveen

Source Per Jacobsson Lecture 25. 9.83

Concept

Witteveen suggests the creation of a loan insurance facility for the new commercial bank finance required under the IMF adjustment packages, which would insure against political risks, comparable to the national export credit insurance agencies' function in trade finance. He notes Lord Lever's suggestion of a centralised international agency to fulfil this role (see page 14) and the US Exim Bank's attempt to set up similar arrangements for Mexico and Brazil, but suggests that the IMF itself should establish such a facility.

It is suggested that a system of IMF-insured loans would stimulate borrowers to meet their obligations to a greater extent, as failure to do so would jeopardise further financial assistance and access to the financial markets, although there may be a danger that the IMF-insured portion of a borrower's external debt would assume 'preferred creditor' status and discourage non-insured flows.

Mechanism

The insurance would only be forthcoming if the debtor country were to meet the IMF agreed performance clauses (Witteveen does not make clear at precisely what stage the insurance would be given - presumably after time has been allowed to monitor the debtor country's progress). The percentage to be insured and the premium paid by the banks for this protection should be flexible according to the needs of the situation. It is envisaged that some part of the risk, say 25%, should in all cases remain with the banks.

As the amount of the insured credit grows, the IMF's resources will need to expand in parallel, possibly in the form of guarantees by participating governments. Witteveen states that the IMF would assume the role of assuming a sufficient flow of international credit to troubled countries, and central banks could then "focus unambiguously on their national supervisory tasks".

Needham

Source Wall Street Journal 3.10.83

Concept

Needham suggests that the parallel between sovereign and corporate borrowers' liquidity problems should point to a similar solution and her proposal is that the banks become equity participants in the debtor nations' enterprises. It is claimed that the benefits deriving from such a move would include a halt in the current cash haemorrhage which would allow borrowers to devote capital to production and trade, healthier bank balance sheets with a decreased proportion of doubtful assets and an avoidance of demands on public expenditure to compensate for the bad judgement of borrowers or banks. The capacity of the ldcs to absorb such participation is not seen to be a problem; it is pointed out for instance that Brazil has nearly 500 state-owned enterprises.

There would be no need for radical changes in US banking laws, as banks are permitted to own stock from debt previously contracted (DPC).

Mechanism

One method of conversion would be to establish stock arrangements similar to closed-end trusts. The debtor government could create a pool of a variety of stocks, and the banks would own a proportion of a diversified group of common stock. Banks could become board members of a holding consortium and provide advice on such matters as export potential. It is suggested that where a country borrowed for activities peripheral to revenue-generating business, the state could "swap" some of that particular debt for equity in its other enterprises.

An alternative mechanism would be for the sovereign borrower to establish a holding company of stock in state enterprises, in which banks would hold shares.

In the short-term bank earnings may suffer, and auditors may argue that the current market appraisal is in reality less than its book (loan converted) value, but Needham believes such problems are overcome by the simple fact that equity in potentially successful businesses is preferable to defaulted loans.

Goldsmith

Source Wall Street Journal (Europe)

Concept

Goldsmith's plan is the only one covered to date that discriminates between borrowers from the "free" world and "hostile, Communist" debtors - his greatest concern is to avoid the leftward shift that might follow over austere adjustment. He also considers it unreasonable to force banks to recognise losses on loans at "too brutal a pace" because "pressure was applied to them by Governments, central banks,. etc..... to act as the conduit for recycling petrodollars to poorer nations".

Two possible solutions are analysed - debtor countries could be given "time to pay their debts progressively - if they take whatever internal measures are necessary" or they could be bankrupted.

Mechanism

The self interest of the "free" world should be the only consideration. Those countries whose debt is worth rescheduling are to be given, say, a 20-year grace period with repayments only to be made over the following 5 years and interest fixed at the "currently low figure of 6 to 7%". Interest payments would be guaranteed by the IMF or central banks but because, discounted over 25 years, principle repayments are of only lesser importance, they need not be covered. In return for the interest guarantee, the original creditors must hold loans to maturity, so reducing liquidity creation. (If repayments were considere unlikely, present limits on the deductability of provisioning at a rate greater than 2% pa could cause problems.) For those countries who are to be bankrupted central banks would buy up loans at a discount not too onerous to the original lenders, presumably on the grounds that only the official sector could successfully follow through the receivership of a sovereign state. (In the apparently unlikely event of it being considered worthwhile to give communists more time to repay their debts, provision should be made for official purchases of loans at any time in the future that strategic interest dictates a switch from accommodation to liquidation).

[It should be noted that, under present rules, Sir James appears to consider all $450 bn of developing country debt as unsustainable.]

Guenther

Source Financial Times International Banking Report 14.10.83.

Concept

Guenther sees the need for a "giant step" to alter the fundamental conditions which are at the heart of the present problems. He envisages some kind of creditor-initiated moratorium or grace period of, say, three-years on all external debt for an individual country - in effect a comprehensive rescheduling. From a regulatory point of view, in the US, while reschedulings must be publicly reported, rescheduled loans even with a grace period need not be classified as sub-standard or non-performing assets, and thus the impact on banks' balance sheets could be minimised.

Such a plan would offer meaningful relief to the debtor, in the form of a breathing space to achieve results from macro-economic adjustments.

Mechanism

He suggested solutions to the expected critcisms that the costs would not be borne equitably and that some large creditor banks would be in danger. It is proposed that the creditor banks' governments would issue interest bearing certificates equal to the present value of the deferred maturities of the recheduled debt. These could be held by the banks as assets until the end of the grace period when they would be cancelled. The interest yield would be below that on the rescheduled debt, to reflect lower risk, and possibly also below the market yield for government securities, in order to apportion some of the cost of adjustment to the banks.

The banks would be subject to a surtax on interest receipts on the rescheduled debt to offset the earlier drain on federal or national treasuries in servicing the certificates.

Such a system, it is suggested, would place tight controls on future external financing, while the banks would benefit from healthier debtors and an avoidance of writing down assets on a potentially dangerous scale, while at the same time they would receive a reduced, but certain income flow.

De Groote

Source Financial 3.12.83

Concept

The proposal is broadly that loan repayment by the developing countries should be tied to the pace of recovery of their economies. It is envisaged that constant rescheduling would thus be avoided.

Ad hoc emergency rescue packages needed to be replaced by long-term co-operation between the IMF and the commercial banks. It would be necessary for the IMF to provide more information to commercial banks on BoP forecasting without breaching confidentiality on exchange rate policy or similar matters. The banks in return should be prepared to allow fluctuations in debt repayments.

Mechanism

A minimum repayment level is envisaged, with movements above this rising and falling in line with export revenue. It is suggested that the scheme could be implemented without the need for international intervention or legislation by the authorities. (No distinction is made between interest and principal repayments.)

<u>Lira</u>

Source Journal of Commerce 7.10.83

Concept

This is specifically designed as a rescue scheme for Brazil, but could be applied to any of the large debtor nations. Lira proposes a temporary and partial 'disengagement' from the international borrowing system by the borrower in order to achieve stability - and suggests a period of five years.

The disengagement would be partial for two reasons. Borrowing relationships with multilateral development agencies would continue as they still provide positive resource transfers. In addition short-term trade-related financing facilities would also be maintained - although in practice, there may be problems of definition involved here.

Lira views the plan as a logical extension of the Mexican moratorium in 1982.

Mechanism

For all external debt, apart from the categories mentioned above, the Brazilian Treasury would assume the obligations and would maintain interest repayments as specified on the original agreements. During the fourth year of the disengagement, the Brazilian government would indicate conditions of repayment beginning at the end of the fifth year, and to calculate appropriate repayment schedules for the principal.

It is suggested that outstanding loans would be classified "as if performing" for the five year moratorium as the interest income would continue, although Lira coes not rule out the need for some banks to mark down the value of their loans to meet goverment requirements.

One of the chief advantages from such a scheme would be to let the domestic rate of interest be determined by domestic savings and investment, rather than being "propped up" by the abnormal levels of the international rate. It is not envisaged that such a move would cause friction with the IMF - in fact Lira suggests that Brazil would abandon some exchange restrictions to which the Fund objects.

Ogden

Source Tomorrow and Beyond - Some Thoughts on Issues Ahead for the World Economy 9.11.83

Concept

Ogden suggests the establishment of Regional Stabilisation Funds as Phase II of the debt management policy in an attempt to address the problems in political as well as economic terms. These facilities would be available to countries which have reached agreement with the IMF and which have and are projected to continue to have significant trade surpluses.

It is suggested that such Stabilisation Funds, managed by the World Bank, in tandem with the IMF Standby Agreements, could provide a more orderly mechanism and a better assurance of sufficient funds to provide for economic growth in the debtor countries. The IBRD could establish a buffer amount of, say $500 mn in the funds.

Mechanism

Countries would agree to donate to the Fund a fixed percentage of their export proceeds and creditor banks would contribute a certain percentage of their existing loans to each member country of the Fund. The creditor banks would continue to accrue interest under the original terms of the loans, but once accrued the interest claims would be surrendered to the Fund in exchange for negotiable instruments. These instruments would call for fixed annual repayments, initially applied to interest and secondly to reduction of principal, as general obligations of the Fund, backed by an assignment.

At the time of joining the Fund, each member country would negotiate with the Fund the annual interest rate applicable against claims surrendered to the Fund. The difference between this rate and the commercial rate accrued by the banks would affect the number of years export proceeds would be so dedicated. Surrendered export proceeds would initially be directed to interest claims and then to the reduction of principal. It is suggested that the debtor countries would thus fix one variable for planning purposes - the interest rate - as long as they remain in good standing with the

Stabilisation Fund. Ogden also makes the suggestion, admitting that it is unrealistic, that shortfalls within the range of export proceeds could in part be made up by other member countries separately from the Fund agreement.

McNamar

Source: Remarks to 5th International Monetary & Trade Conference
5.12.83

Concept

McNamar suggests the implementation of a five-point strategy for what he terms as phase III of the ldc debt difficulties ("the time for an orderly work-out of the debt problems in the coming years") following phases I and II - the crisis mentality and a recognition of the need to take action by industrialised and developing countries alike.

He lists five criteria necessary for the "orderly work-out" without giving any detail of how they are to be achieved or maintained, and in fact he states little more than the obvious.

He goes on to list three major threats to resolving the problem as protectionism, a possible resurgence of high interest rates and potential oil price increases, and considers that protectionist policies by the industrialized nations are the most serious threat.

Mechanism

McNamar's five components of a successful recovery are as follows:

1 industrialised governments should adopt policies to sustain non-inflationery growth;

2 ldcs must be encouraged to follow sound economic policies to allow them to live within their resources;

3 the IMF and other international financial institutions must be strengthened to meet the growing needs of the system;

4 continued commercial bank lending must be encouraged; and

5 there must be continued willingness and capability to provide bridge financing where necessary.

McNamar merely encourages institutions to continue current policies rather than outlining an original approach. Under points 4 and 5 above for example, he states that new lending and refinancing through rollovers and extension of maturities must occur, and the BIS must continue to meets its challenge.

Roosa

Source - Ernest Sturc Memorial Lecture - Washington 2. 11.83

Concept

An extension of the role of the IMF is suggested, in dealing with banking syndicates faced with a succession of borrowing countries in distress. In addition to working with the indebted countries in developing economic programmes, Roosa suggests that the IMF should involve itself in the settling of financing terms - both for new credits and credit renewals.

Complementing this role of the IMF, the IBRD would work towards programmes aimed at longer-term structural adjustment (supported by the IFC in the case of the more advanced developing countries and by the IDA in countries qualifying for its concessionary assistance). Roosa favours extending the scope of cofinancing not only with banks, but also with other institutions more appropriate for long-term international commitments. He sees a parallel between an extension of the international institutions' powers in this way and the procedures developed in handling domestic indebtedness, in the case of Lockheed, Chrysler and International Harvester in the USA. If pursued alongside a strengthened policy of bank examination and supervisory procedures in the major lending countries, cumbersome mechanisms involving new institutions, are avoided.

Mechanism

The IMF programmes would include the following essentials, while varying in detail from country to country:

- a comprehensive programme, addressed both to the private sector and to government, combining corrective retrenchment with structural rehabilitation.

- an agreed grace period of several years for the payment of all principal due over those years and a rescheduling of future principal repayments to be determined towards the end of the grace period, and related to projections of future foreign exchnage earnings.

- reduction of interest rates on all new or renewed loans close to LIBOR, with provision for reductions to or below LIBOR at annual intervals in relation to success in meeting targets in the above-mentioned programme.

- participation in the programme for longer-term reconstruction by the IBRD, IFC or IDA. The World Bank group would serve as a catalyst for co-financing on terms consistent with the grace period and interest rate provisions of the IMF side of the programme.

- provision of short or medium-term credits from the IMF, and other sources, with funds released in accordance with progress towards agreed objectives.

It is envisaged that there would be terminal dates for any interest rate concessions and provision could also be made for supplemental "catch-up" payments as certain agreed benchmark points are reached in the recovery path.

Gill

Source - paper attached to letter to Mr R H Gilchrist 6. 1.84.

Concept

Gill proposes the establishment of national investment trusts in the form of closed end funds as a way of converting outstanding bank debt into equity. He suggests that these would provide a permanent pool of foreign savings with secondary market liquidity. Gill maintains foreign equity investment should not only be seen as a welcome source of long-term finance but also as preferable to direct investment because the equity investors would be passive and holding relatively small positions in the shares of any one company.

Mechanism

The funds could hold marketable equities, debt instruments or a combination of the two. If an external equity fund were to sell at or above net asset value foreign banks would have an incentive to convert loan claims into fund shares and subsequently onsell them for foreign exchange through a secondary market. There are two possible type of bond funds - external and domestic currency, but debt conversion via this route would imply significant book losses, which the commercial banks have not yet appeared willing to suffer in exchange for a reduction in their ldc loan exposure.

Lindbeck

Source - 'The International Economic Turmoil and the Developing World' 27. 1.84

Concept

Lindbeck proposes that existing commercial bank debt should be transformed into long-term bonds, possibly even consols, which could be sold through secondary markets. In order to sustain new capital flows it is suggested that the debtor nations should issue "priority bonds" approved by the IMF, possibly in cooperation with the World Bank. The idea would be to create a new debt instrument which could generate additional capital flows and attract new lenders, with less concentration than at present on the holdings of the claims.

Mechanism

It is envisaged that the national central bank, or some other public agency, of the creditor countries would offer to take up part of the bond issue of the existing consolidated debt - in order to limit the fall in market value of the claims. Lindbeck also suggests that existing lenders could hold the securities as long-term investments or sell them at a discount - thus realising the losses against which most European lenders have already made provision.

Guttentag and Herring

Source - "International Banking: Vulnerability and Crisis"
(summary by JSB - 13. 2.84)

Concept

The proposal aims to replace the present arrangements with a system designed to keep funds flowing in the short term and simultaneously introduce long-run structural reform. The latter would be engineered through the establishment of a reliable secondary market in all cross border lending - relying on a conduit role for the IMF, IBRD or some new entity by their buying loans, pooling them and selling participation interests in the pooled funds. It is suggested that the conduit might provide guarantees of some kind to the certificate holders.

Mechanism

Action intended to resolve the current crisis would include the raising of new money by the debtor nation through issues of marketable, floating rate, consol certificates to which previous debt would be subordinated. Issues would be approved by the IMF, which together with the IBRD, would acquire a portion. IMF control and surveillance would continue until the consols had been retired. It is also proposed that a large proportion of the old debt would be purchased by a sovereign entity of the borrower country (eg its central bank) which would issue a new floating rate consol certificate. The debt, currency by currency, would be homogenised and carry a single penalty spread, in order to reduce the liquidity burden while maintaining pressure on the real burden to encourage the debtor to clear the outstanding stock.

Kanitz

Source - 'A proposal for Renegotiating the Brazilian International Debt' October 1983

Concept

Kanitz sees the primary cause of Brazil's international debt problem as the indexing of creditor country inflation into international interest rates; he therefore proposes a system of lending based instead on real interest rates, which would maintain the purchasing power of principal, and make possible a build up of reserves. It is suggested that the scheme would help to calm the international financial market by stabilising interest rates and allowing room for growth by the developing countries.

Mechanism

To resolve the current financial impasse, Kanitz proposes the following seven-point agenda of international lending reforms:

(i) interest rates should not reflect international inflation, but debtor countries should pay real, rather than nominal, rates of the order of 2.5% to 3.5%;

(ii) this could create a form of real international prime rate, which would be welcome by investors, avoiding the extensive volatility of real interest rates over the past five decades (including negative rates at times - most recently in the late seventies);

(iii) as a result, the lender's principal would be assured against inflation - measured against some criterion such as the CPI of the lender country;

(iv) higher real interest rates should be paid for longer term loans, helping to revitalize the market in this area, which is now practically non-existent;

(v) spreads would be set at 20% of real interest rates which Kanitz considers to be "a just renumeration for the financial institutions involved";

(vi) borrower countries would commit themselves to achieving trade surpluses 50% greater than their interest payments under the new system and

(vii) would also pledge to safeguard reserves generated by these trade surpluses until they formed 20% of the debt, in order to restore confidence.

Following the implementation of these proposals, Kanitz suggests three further options to follow:

(i) a portion of debt could be liquidated;

(ii) the reserve - debt ratio could be raised further or;

(iii) the reserves could be used to attract additional loans - providing these remained below 20% of the reserves.

Griffiths

Source - 'Responsibility for Solving the Debt Crisis' 6.12.83

Concept

Griffiths believes that piecemeal solutions are preferable to global solutions, as the latter involve unacceptably high risks, political difficulties or an unrealistic burden of adjustment. He advocates the principles of minimal institutional change and, not surprisingly from his particular political standpoint, the use of free enterprise and the market economy.

Griffiths believes that responsibility for a solution must lie with all parties concerned - thus,in a combination of sound medium-term monetary policies by the developed countries, co-operation between the international financial organisations and the commercial banks and continuing adjustment policies by the ldcs.

Mechanism

High real growth in OECD countries is seen as a pre-requisite for improved conditions in the ldcs, but cannot usefully be achieved from a traditional fiscal boost. Griffiths suggests that the key to medium term stability is the pursuit of declining targets for monetary growth and public expenditure as a proportion of GNP, combined with an initiative aimed at reducing protectionism. The IMF should continue to play an important role in co-ordinating the management of international debt difficulties, but it would be unwise to increase the Fund's (or the IBRD's) powers permanently at the expense of individual nations.

The ldcs themselves need to change their development strategy to give higher priority to export growth, and seriously consider the possibility of exchanging debt for minority equity participation - overcoming political reluctance. The main responsibility of the banks is to continue the rescheduling process, but in a way which

writes off amounts of ldc debt, so that book value approximates market value, and they should be prepared to hold equity in public sector ldc corporations in exchange for debt. Griffiths considers that central banks ought to encourage a secondary market in government guaranteed ldc debt, which would clarify the valuation of the loans and provide the banks with greater liquidity.

Wallich

Source - International Commercial Banking from a Central Bank viewpoint 29.12.83 FT 5.11.83

Concept

Wallich suggests a pooled insurance scheme to replace the implicit self-insurance undertaken by lenders at present, who charge a risk premium as part of the interest rate and set aside reserves. He states that pooled insurance, where it is possible, is clearly cheaper because it allows for better spreading of risks, but he does question whether it is applicable to the risk of ldc lending and if so, why the market has not already developed some sort of insurance scheme. To calculate an appropriate insurance premium for this type of risk, and to gather together the resources that would make the insurance credible, would not be an easy task.

Mechanism

Wallich proposes that the banks should resist pressure to lower interest rates charged to ldcs in difficulties and instead use part of their interest receipts to establish a common insurance scheme. He suggests that the banks could initially set aside one or two percentage points of their interest charged on new Third World loans. The resulting pool of funds would then be used to cover participating banks against loan losses on up to around 2% of their total portfolios - admittedly very limited, but exceeding the current average loan loss provision of 1.2% made by US banks.

De Vries

Source - International Ramifications of the External Debt Situation - November 1983; Dealing with External Debt - Long-term Finance for Restructuring the Debtor Economies - January 1984

Concept

De Vries considers the present problem to be one of liquidity. He believes in the underlying solvency of the ldcs, solvency which it is acknowledged is crucially dependent on a resumption of growth in the Third World, a quick reversal of the outward resource transfers now occuring and a halt to the spreading of protectionism. Besides aiming to restore the liquidity position of debtor countries, three additional areas need addressing: a policy of restructuring and encouragement of new investment in the debtor economies; the mobilisation of new long-term funds distinguished from short-term finance and the continued efficiency of the international financial system.

Mechanism

De Vries believes that action is needed to reduce short-term credits to more normal levels consistent with individual country requirements for trade finance. He does not rule out the possibility that in some countries part of the short-term debt may have to be consolidated into longer-term obligations.

The sharp rise in interest rates is seen as the most serious blow to the debt-servicing capacity of the ldcs and it is proposed that an analysis of interest rate levels compatible with the prospects of individual borrowing nations should be undertaken by the World Bank. It is suggested that a critical level of borrowing costs - related to growth and export capacity - can be worked out for each country and that any rise in interest rates above this will automatically be followed by an unsustainable burden of debt. The ceiling will vary from country to country, but for the majority real interest rates in excess of 3% are probably unmanageable and for poorer economies the critical level is probably much lower.

De Vries suggests that attention needs to turn to limiting the high premia charged over the basic lending rate and also to offering some form of compensation to be applied when rates exceed certain specified levels, through some mechanism like the IMF Compensatory Finance Facility. In order to limit costs, it would be necessary to limit compensation to loans related to either IMF programmes or development banks.

Soros i

Source - The International Debt Problem: Prescription 22. 3.84

Concept

Soros sees a need for a fundamental change to the present "collective" system of lending, which he feels is vulnerable to collapse because of its inflexibility on interest rate levels. A new source of credit is needed, in addition to interest rate relief, since for the latter alone to be effective, the reduction in interest rates would bankrupt the banks. Soros proposes consolidating the existing debt and establishing an international agency for future lending, funded by a sort of insurance premium charged on the consolidated debt. IMF members would need to provide guarantees initially, but it is intended that the scheme would eventually be self-financing and the guarantees would not be invoked.

Mechanism

Existing debt, including short-term trade finance, would be consolidated into long-term bonds. These would yield interest at LIBOR, but a substantial part of the interest would be witheld and paid to the new agency - the International Loan Assurance (ILA) - as a kind of insurance premium to be used to ensure a continuing flow of credit. The ILA's capital base would be provided by this premium income derived from the bonds. The ILA, working in close association with the IMF, would be a self-financing institution. It is envisaged that it would sell its own obligations to the public, achieving the necessary creditworthiness through the use of guarantees from the industrialised nations for its premium income. This premium would vary according to the viability of the country in question and to the banks' ability to absorb the loss of interest income from that country. Although the guarantee coverage would diminish, ILA paper would continue to be considered as a moral obligation of the governments which established it.

The bonds would be redeemable not at par, but at a discount corresponding to the reduction in current income embodied by the premium paid to ILA. To moderate the impact on the banks, the bonds would have lengthy maturities, of say 25 years, and the

banks could write down the bonds to their redemption price during their lifetime. It is suggested that to counter the effect of banks carrying bonds in their balance sheets at a price substantially above the market value, central banks would have to agree to accept the bonds at their discount windows at book value. Discounting would be with recourse to the bondholders and as long as the banks could absorb a low annual average loss over the 25-year period, the central bank would itself suffer no loss. It is admitted that this would be a radical step for the central banks, but it is seen to be far less worrying that the current gap between the losses banks can absorb and the resource transfers the debtors are able - or willing - to sustain.

Soros ii

Source - Debt Reform Proposal: Summary May '84

Concept

Soros has refined his earlier ideas into a three-stage proposal which places a new body, the International Lending Agency (ILA) at the centre of an institutionalised system of lending. All outstanding loans - apart from trade credits and funds from specified international agencies - would be kept in place and be used as a source of funding for the ILA. The loans would be extended for an initial period (to be kept as short as possible, say 5 years) with interest rates pegged within a band of 10 to 12%. A premium charged on the extended loans would enable interst payments to be met and would avoid the need for additional provisions. Matching escrow accounts would be paid by the debtors backed by international guarantees. At the end of this period, it is envisaged that the ILA would be creditworthy without any guarantees and in the transitional stage these could be used to refinance the outstanding debt through long-term bonds of 8 to 12 years maturity. In the final stage, the insurance premium would be payable by the debtor countries and the ILA would be operating on a higher gearing.

Mechanism

The capital of the ILA would be derived from the premium accounts - annual payments by the holders of existing loans - and escrow accounts contributed by the debtors, applicable also to new loans.
The escrow accounts could be counted as part of the borrowers' reserves, but would also be part of the ILA's assets. The accounts would be invested in loans to other countries and thus give borrowers a direct interest in the performance of other indebted nations.
Premium and escrow account rates would be the same for every country.
The ILA would also borrow in the international markets and issue short-term instruments. International guarantees would back the ILA's commitments - it is suggested that the IMF would make a contingent allocation of SDRs, with the approval of Congress.
The ILA would be designed to be self-supporting. Aggregate lending limits would be established by the ILA, to ensure total debt remains within servicing capacity and the ILA would meet the aggregate limit if other sources fell short. It is envisaged that the ILA would deal mainly with highly indebted nations, which nevertheless have a viable long-term future as judged by the ILA. Other concessions by the lenders would be needed if the ILA were to lend to non-viable countries. The problem of fluctuating interest rates could be met by the establishment of an interest equalisation account to be debited (or credited) against the ILA's capital.

When the ILA was able to borrow in the markets without international guarantees and when the debtors were able to borrow at acceptable rates with an ILA guarantees, the transitional stage would begin. ILA-guaranteed long-term bonds would replace the existing debt, while premium and escrow account rates would be fixed on the basis of a particular borrower's performance. It is suggested that banks would pay an up-front lump payment after which all obligations would cease, but the banks' capital might need replenishing - an easier task than at present, as doubtful sovereign debt would have been removed from their balance sheets.

Keller

Source - The Latin American Debt Crisis, September 1983

Concept

Keller believes that the measures implemented to date have mistakenly been of a short-term nature and have only postponed the crisis, possibly to a stage where it is beyond salvage. A viable, long-term solution would have to envisage the rescheduling of the entire debt burden of the countries on a timescale that would allow both interest servicing and principal repayment from no more than 25-30% of conservatively estimated foreign exchange earnings. Such a time period would have to be at least 25 years and in some cases far longer.

Mechanism

It is envisaged that where interest payments alone exceed the amount of foreign exchange allotted for debt servicing, part of it would be capitalised or possibly written off. The sacrifice involved on the part of the creditors needs to be seen as preferable to the present practice of "gambling on risks which cannot be assessed". The timescale involved would mean that the scheme would be implemented within the existing institutional framework, but Keller believes that the IMF, if it is to be the agent for negotiating long-term solutions with the debtor nations, will need to be more sympathetic to the debtors' priorities and to take a more realistic attitude towards their capacity for adjustment.

Southeast Bank (Oakley Cheney/J Antonio Villamil)

Source - Debt Rescheduling (internal memo) 3. 7. 83

Concept

Southeast Bank believe that US regional banks are seriously frustrated by the lack of information and consultation they receive from the steering groups on sovereign rescheduling. In addition they feel that attitudes towards different debtor nations on the part of the banks could allow for a more flexible, country-by-country approach instead of a blanket repetition of the previous year's agreement. In particular, Southeast Bank feel that in some cases many regionals would be content to capitalise interest, receive interest in local currency or participate in a deposit scheme for some part of the interest, provided such a scheme resulted in their not having to advance new money in the future.

In the case of Brazil, it is suggested that many US regionals would be willing to follow a policy of interest rate relief and capitalisation or deferral of interest in order to allow the debtor to expand its export base, rather than servicing interest payments. Southeast Bank believe such an approach would possibly avoid the need for additional new money next year, encourage more non-US dollar foreign currency lending and more trade finance.

Mechanism

The following programme is proposed for Brazil and while it is recognised that some other countries would benefit from the scheme, it is felt that such a move should be limited.

- Trade credit should continue to be priced at "market" rates.
- Any short-term debt which is not clearly trade related should be converted to term debt.
- All term debt should be priced at LIBOR + 1% or the reserve adjusted CD rate in 1985, without US Prime Options.
- Interest paid to the banks would be at a 5% rate and the difference between 5% and the accrual rate would be deposited in the Central Bank. These deferred interest deposits would earn interest at LIBOR + 2% - to be paid quarterly. After 5 years, any balance remaining would convert to a term loan with a two or three year maturity.
- Prinicpal on the deposit accounts would have to be paid on the basis of an agreed formula, such as an amount equal to 50% of any balance of payments surplus.
- Any new money required would be provided on a voluntary basis if necessary by governments and/or official agencies.

Provost

Source - letter in 'Financial Times' 11. 5.84

Concept

Mr Provost believes that there is a need for the international banks to recognise the reality that the debtor nations cannot service their interest payments and that the only way out would be through a moratorium. This would be achieved by the provision of interest free loans to borrowers deemed to be creditworthy, financed by interest free deposits placed with the central banks - a "liquidity" requirement of say 5 or 10 per cent of gross deposits. This will have the effect of widening the spreads between the banks' borrowing and lending rates, and ultimately achieve a fairer distribution of burden-sharing.

(RS(A2)

ECLA

Source: "Towards More Equitable Renegotiations"

Concepts

ECLA's solution is presented within a scenario that assumes GDP growth for Latin American nations of 5% per annum in 1984-6 which they believe will necessitate rescheduling all amortisation payments and an average 80% of interest liabilities. It is felt that any rescheduling package should at a minimum cover the years 1984-6, although ideally a policy of restructuring the entire stock of debt owed to banks should be pursued. ECLA believes that it is essential to avoid the traumatic annual rescheduling exercises and, ideally, a debt relief package providing a once-and-for-all rescheduling is required. Such a package would be deesigned to coincide with the IMF's extended adjustment programmes, providing a continuation of the security afforded by Fund conditionality.

Mechanism

ECLA believe that creditors should provide guarantees to refinance 80% of interest payments, which would be conditional on compliance with IMF adjustment programmes. A sliding scale of the amount of interest payments to be refinanced could be considered: say 90% in 1984, 80% in 1985 and 70% in 1986, to take into account the possibility of a continuing improvement in the world economy and lower world interest rates.

The repayment terms would be 10-12 years, with a 6 year grace period, although ideally ECLA would prefer 15 years (6 years grace), with margins at LIBOR + 1%, or that originally contracted, whichever is the lower, and no commissions. A scheme may be devised whereby payment of commission could be agreed in exchange for further reduction in interest payments. It is further suggested that "if and when the world economy returns to a degree of stability", interest rates could be stabilised at 2% per annum real, with the balance being capitalised.

Colchester

Source - Financial Times 3. 5.84

Concept

It is suggested that relief is needed for selected international borrowers from fluctuations in US interest rates, to be afforded by the IMF along the lines of its special facilities to compensate for the effects of oil and commodity price changes on developing countries. The facility could be funded through normal IMF channels, but it is suggested that it would be more farsighted to extend such interest relief in the form of an IMF grant, to be financed from either sales of IMF gold or through an issue of Special Drawing Rights.

Mechanism

On condition that a country is engaged in an IMF programme, it would receive from the IMF on an annual basis compensation equal to its net floating rate dollar debt (loans less deposits) multiplied by the number of percentage points by which Libor exceeds a base level - of say 10% - over the year. In this way the borrower would be compensated for the actual impact on it of any rise in Libor over the base rate.

It would be necessary to alter the IMF articles in order to permit a selective issue of SDRs, but the sum involved would be less than the generalised annual issue of SDRs which has been called for elsewhere. If Libor were to average 15% over a twelve-month period (which is unlikely), then the facility would need to pay out $7.5 bn; ie 5% of the $150 bn total of floating rate debt owed by the forty countries with IMF agreements, compared to a $12 bn annual issue suggested by some developing countries and others, including France.