Development Discussion Papers

Orderly Workouts
for Cross-Border Private Debt

Steven Radelet

Development Discussion Paper No. 721
September 1999

© Copyright 1999 Steven Radelet
and President and Fellows of Harvard College

Harvard Institute for
International Development

HARVARD UNIVERSITY

HIID Development Discussion Paper no. 721

Orderly Workouts for Cross-Border Private Debt

Steven Radelet*

Abstract

This paper explores proposals for developing improved procedures and institutions to facilitate orderly workouts of international private sector debt. The paper addresses the following question: How can standstills and workout arrangements be designed that would help stop a panic and an overshooting of capital withdrawals from emerging markets, and, subsequently, would provide a framework to close insolvent firms and reorganize more viable enterprises?

The paper explores the dynamics of a financial panic, and then examines the basic logic behind both domestic bankruptcy regimes and international sovereign debt workout procedures (such as the Paris Club and the London Club). It examines a variety of proposals for international versions of the three basic components of a debt workout: a debt payments standstill, provisions for new finance, and the framework for restructuring. It concludes that international financial markets would be strengthened by a credible mechanism to invoke mandatory debt payment standstills in the rare circumstances when they are necessary. It further concludes that private sector creditors should play a much larger role in providing fresh funds to countries in distress. Somewhat paradoxically, a key ingredient to establishing the stable environment needed to encourage new private sector financing is an effective payments standstill mechanism. However, new private sector financing to countries in distress should be voluntary, not mandatory, and should not be backed by government guarantees.

JEL classification codes: F33, F34

Keywords: International Monetary Arrangements and Institutions; International Lending and Debt Problems

---

Steven Radelet is a Fellow at HIID and the Director of the Institute's Macroeconomics Program. He was resident advisor on macroeconomic policy to the Ministry of Finance in Indonesia from 1991-95.

---

*I am grateful to Matthew Cuchra for excellent research assistance, to Jeff Sachs for helpful discussions, and to Yilmaz Akyuz for comments on an earlier draft.

Orderly Workouts for Cross-Border Private Debt

1. Introduction

For at least a century, it has been widely recognized that completely open and unregulated financial markets are prone to panic. Wide-open financial markets have been accompanied by panics and manias since the introduction of banking systems several centuries ago (Kindleberger, 1996). The United States, of course, faced a long string of major domestic bank panics in the late 19th and early 20th centuries, and essentially all industrialized countries have faced similar crises at one time or another.

In the past several years, the emerging markets have taken their turn. In the 1990s, several emerging markets were hit by financial crises, including Argentina and Mexico in 1995; Indonesia, Korea, Malaysia, the Philippines, and Thailand in 1997; and Russia and Brazil in 1998. In each case, very large capital inflows suddenly stopped, and creditors (both foreign and domestic) rushed for the exits. The reversals were partly due to weaknesses in these economies that led to a change in perceptions about their creditworthiness. In each case, however, it is clear that markets overreacted both in their exuberance with the initial inflows (which often came in with little analysis or risk management) and in their haste with the subsequent outflows. The resulting economic contractions in these countries were much deeper than was either inevitable or necessary.

Early in the 20th century, industrialized countries began to respond to repeated financial sector crises by carefully and prudently regulating financial markets and by developing public-sector institutions to help prevent major crises. Today's industrial country financial markets are far from being completely free and open, with several key institutions helping to prevent or mitigate market failures. One critical institution is the lender-of-last resort (usually the central bank), which provides liquidity to financial institutions hit by sudden withdrawals, and which assures depositors (or creditors) that they need not rush for the exits. Closely related are supervisory and regulatory institutions (usually also housed at the central bank), which ensure that financial entities meet certain minimum operating conditions and that they are not involved in overly-risky activities. Deposit insurance systems give further comfort to depositors that might think of running. Finally, the industrialized countries developed well-defined and relatively transparent systems for managing bankruptcies, liquidations, and other forms of debt workouts. These bankruptcy systems help to prevent risky borrowing (by providing a credible threat to firms that they might be liquidated if they are poorly managed), stop panics from getting out of control (through debt standstills), and provide a framework for ultimate restructuring when necessary. They also try to ensure some equity in the sharing of the burden of bankruptcy between creditors and borrowers, recognizing that in most cases both sides bear some of the blame when loans go bad.

Of course, these institutions and procedures are far from perfect, and do not always ensure smooth operation of financial systems, as the United States found out with the Savings and Loans crisis in the 1980s. Generally, however, they have succeeded in preventing extreme panics and

crises in industrialized country domestic financial markets, and helped these markets operate more smoothly and efficiently. It is worth noting, for example, that the last major bank panic in the United States was in 1933, just before the creation of the Federal Deposit Insurance Corporation.

To a very large extent, parallel institutional arrangements do not exist in international financial markets, so these markets remain relatively prone to panic. Without a true international lender of last resort, international banking standards, international bankruptcy laws, and deposit insurance, international financial markets are as volatile as were financial markets in the industrial countries before these institutions were put in place. In the aftermath of the Asian financial crisis, the debate on redesigning the international financial architecture has touched on several of these institutional issues. This paper explores one segment of this debate: the possibility of developing improved procedures or institutions to facilitate orderly workouts of international private sector debt.

Our focus is not on individual cases of cross-border bankruptcies, which are best handled by developing stronger insolvency codes and more effective courts in emerging markets. Rather, we focus on systemic episodes where firms and banks across an economy are abruptly threatened with illiquidity and possible insolvency because of a sudden event that may be largely out of their control. The relevant case, of course, is a massive exchange rate depreciation resulting from a sudden shift in capital flows that undermines both well-run and poorly-run firms alike, weakens banks and interrupts the payments system, and threatens to plunge a country into deep recession. How can standstills and workout arrangements be designed that would help stop a panic and an overshooting of capital withdrawals from emerging markets, and, subsequently, provide a framework to close insolvent firms and reorganize more viable enterprises?

The next section of the paper briefly explores the dynamics of a financial panic. Section Three examines the basic logic behind domestic bankruptcy regimes and international sovereign debt workout procedures (mainly the Paris Club and the London Club), and reviews the few recent cases of workouts of private sector cross-border debt. Section Four is the heart of the paper, examining a variety of proposals for international versions of the three basic components of a workout procedure: a debt payments standstill, provisions for new finance, and the framework for restructuring. The final section offers some recommendations and conclusions.

2. Financial Crises in Emerging Markets

The hallmark of international financial crises is a sudden and rapid reversal of large-scale capital flows. An economy that had been the recipient of large inflows is suddenly faced with the cessation of these inflows, and demand for immediate repayment of outstanding loans. Firms and banks are pushed near to, or into default, a situation that is typically exacerbated by the large exchange rate depreciations that ultimately accompany such large swings of foreign capital.[1]

[1] Some countries, such as Brazil in 1998 and Thailand in 1996/97, can postpone depreciation for a period of time if they have sufficient foreign exchange reserves or receive new financing. If the capital outflows continue, however,

The Asian crisis economies were true to form. According to estimates by the Institute for International Finance, capital flows to the five most severely affected Asian countries (Indonesia, Korea, Malaysia, the Philippines, and Thailand) shifted from an *inflow* of $103 billion in 1996 to an *outflow* of $1 billion in 1997 (IIF, 1999a). This shift of $104 billion is the equivalent of about 9% of the pre-crisis GDP of these economies. Russia and Brazil faced similar reversals of investor sentiment.

The effects from such economy-wide reversals in capital flows and large exchange rate movements can be devastating. Large numbers of firms suddenly become illiquid and face the prospect of shutting down. Commercial bank capital can be quickly wiped out, threatening the operation of the payments system. Poorly-run firms and banks tend to be the most vulnerable, and many deserve to be merged or shut down. It is important to recognize, however, that even well-run firms and banks are threatened, not through any fault of their own, but because of large and unanticipated exchange rate movements and the collateral effects.

Creditor Panic

It is worth briefly exploring the circumstances under which such large reversals of capital flows can occur. The withdrawals can be sparked by rapid changes in international market conditions, such as the large swings in commodity prices and the sharp increases in dollar interest rates that brought about the 1980s debt crisis. Domestic economic mismanagement, or an abrupt change in economic policy or political leadership, can likewise ignite credit withdrawals, as with Mexico in 1994. In addition, and most importantly for this discussion, recent financial crises point to intrinsic instability in international financial markets as a key part of the problem.

The basic idea is that under certain conditions, international financial markets can become prone to self-fulfilling crises.[2] Individual creditors acting rationally in their own self interest can together generate sharp and fundamentally unnecessary panicked reversals of capital flows. Both creditors and borrowers find themselves collectively worse off as a result, even though each was acting rationally on an individual basis. Consider, for example, a solvent but illiquid borrower. Normally, because the borrower is solvent, it should be able to borrow fresh funds from the capital markets to relieve the liquidity problem. Since the firm is solvent, the creditors could reasonably anticipate that both the old and the new loans would be fully serviced. However, it is possible that creditors will be unwilling to provide fresh funds, not because of concerns over the fundamental strength of the borrower, but because they fear that *other* creditors may not provide sufficient new funds to the firm to ease the liquidity problem. Suppose the borrower requires credits so large that no single lender can provide all of the necessary funds. Each creditor

---

reserves will eventually be exhausted, and depreciation is inevitable. Note that the primary force behind the crisis is the reversal of capital flows, *not* the depreciation of the exchange rate as is often supposed.

[2] Diamond and Dybvig (1983) develop the basic theory behind this model in the context of explaining bank runs. They show how rational depositors can suddenly withdraw their deposits, not because they believe the bank is unsound but because they believe other depositors are withdrawing their funds and they fear there will not be enough to go around. In the end, most depositors cannot be fully repaid, and so everyone is made worse off. Chang and Velasco (1998) develop a similar model for emerging markets.

recognizes that if the other creditors do not make new loans, the firm will not be able to meet its debt service obligations. Thus, any creditor that lends new funds on its own risks losses on both its old and new loans. Therefore, each creditor will be unwilling to make a new loan if it believes that other creditors will not lend as well, and in fact would begin to demand repayment of existing loans. A creditor "grab race" ensues in which each creditor tries to be the first in line to be repaid or to seize assets. The borrower, even though it was solvent, ultimately will default on its loans and face possible bankruptcy proceedings.

In international capital markets, entire economies can become susceptible to a similar kind of "grab race" (Radelet and Sachs, 1998a; Chang and Velasco, 1998). Economies are especially vulnerable when borrowers (be they firms, banks, or the government) build up aggregate short-term foreign exchange liabilities in excess of available liquid foreign exchange assets. In this case, international lenders know that there is not enough foreign exchange available to repay everyone, but they are willing to continue lending as long as they believe that other creditors will do the same. However, if something happens to make them believe that other creditors will withdraw their credits, they will rush to be the first to demand repayment, since they do not want to be the last in line to be repaid.

In each of the recent severe crises in emerging markets -- Mexico (1994), Argentina (1995), Thailand (1997), Indonesia (1997), Korea (1997), Russia (1998), and Brazil (1998) -- aggregate short-term foreign exchange obligations exceeded liquid foreign exchange assets, setting the stage for panicked withdrawals by foreign creditors. Although information on total foreign exchange liabilities and assets is not available, in each of the crisis economies short-term debts owed to foreign commercial banks far exceeded the foreign exchange reserves of the central bank (Radelet and Sachs, 1998a). This situation posed no problems as long as confidence in Asia remained high and the banks believed that everyone else would continue lending. However, once confidence shifted following the float of the Thai baht in July 1997, the rush for the exits was on. The more the exchange rates depreciated, the more the creditors demanded to be repaid, which itself put additional pressure on the Asian currencies, and accelerated the process of withdrawals. Creditors knew that there was not enough foreign exchange to pay everyone, and no one wanted to be last in line. Sure enough, those who got out of Asia early were more-or-less paid in full, while those who waited suffered large losses. The result was widespread liquidity problems among Asian banks and firms, which undermined the capital base of the banks and pushed many firms to the edge of bankruptcy. With no mechanisms in place to deal with these problems, the panicked withdrawals could not be effectively stopped. The workouts that followed were disorderly and far from optimal, at great and unnecessary cost to the creditors, the debtors, and the Asian economies.

3. Current Debt Restructuring Procedures

In considering the design of workout procedures for cross-border private debt, there are two main parallels from which to draw: domestic bankruptcy procedures dealing with individual private firms, and workout mechanisms for cross-border sovereign debt (mainly the Paris Club and the London Club).

Bankruptcy Proceedings

We begin with the basic procedures used in the case of a firm facing financial distress.[3] Bankruptcy procedures, at their core, establish a collective forum both to sort out the rights of creditors and debtors and to address the "collective action" problem of individual creditors acting rationally to the detriment of creditors (and the debtor) as a group. Bankruptcy procedures temporarily hold the assets of the firm in a common pool. A primary objective is the maintenance of the value of the firm's assets (which is ultimately in the interest of the creditors as a group), rather than concerns about individual creditor rights (Jackson, 1986). At the same time, bankruptcy procedures should not be so lenient that debtors can easily walk away from their obligations. Thus, ideally, the goal of maximizing the value of the firms' assets should be balanced against the objective of encouraging adherence to the ex-ante terms of the debt contract, as much as possible (Eichengreen and Portes, 1995). Although bankruptcy proceedings differ in important ways across countries, most have four key elements in common:

- an arbitrator or administrator, usually a court or tribunal;
- provisions for a standstill on payments to prevent a creditor "grab race;"
- provisions for the possibility of the firm borrowing new money to continue operations during the standstill; and
- a workout arrangement (following a period of time for information gathering and negotiation) consisting of some combination of a rollover/ extension of existing loans, a reorganization of the firm and/or the debt contracts, or a closure of the firm.

The arbitrator/administrator acts as umpire, supervisor, and facilitator during the restructuring process, and when necessary imposes a binding settlement on the competing claims of the creditor and debtor. Essentially, the arbitrator supervises a legal framework in which a settlement between the debtor and creditor can be negotiated. In most cases, a bankruptcy court or a judicial tribunal plays this role. A key point is that in domestic bankruptcy proceedings, the debtor and the lenders all fall under a single judicial authority, giving the court the legal power to impose a settlement on all parties involved. The arbitrator must be neutral, able to balance the competing claims of both sides, and free from political or other influence that could give an unfair advantage to one of the competing parties. The arbitrator specifically, and bankruptcy law more generally, would not be necessary in a world of perfect information where all parties could forecast all future contingencies (Cornelli and Felli, 1995). The market failure of the lack of complete information is what leads to imperfectly specified contracts and the inability of the two sides to negotiate an agreeable solution outside the courts. The arbitrator helps induce the two parties to share relevant information and reach a final settlement.

One of the critical powers of the arbitrator is the authority to impose a standstill (called the "automatic stay" in section 362 of the U.S. bankruptcy code) on debt service payments for a specified period of time. The core role of this provision is to stop actions by individual (or

[3] For other analyses that draw the parallel between domestic bankruptcy procedures and internaional debt workouts, see Eichengreen (1999), Radelet and Sachs (1998b), UNCTAD (1998), Sachs (1995), Eichengreen and Portes (1995), Williamson 1992, Raffer, 1990, and Cohen 1989.

groups of) creditors acting in their individual self-interest that could lead to a creditor grab race and undermine the common good of all the parties involved (Jackson, 1986; UNCTAD, 1998). The standstill provides the time necessary for a more rational workout process. *Note that the standstill is mandatory, imposed by the court, and is not left as a voluntary choice of the creditors* (since the market, left to its own, could devolve into a grab race). Note further that during the standstill, no distinction is made between "good" firms and "bad" firms -- both good and bad firms receive the initial protection, except in a few extreme cases in which the judge refuses to grant temporary protection. The standstill provides the time necessary to distinguish between viable and unviable firms, and choose the appropriate course of action. However, standstills should not be so long as to allow unviable firms to avoid liquidation. The length of the standstill period varies widely across countries. Bankruptcy codes in the United Kingdom and Germany provide for a three month moratorium, whereas in the United States the court has wide discretion over the length of the stay, which can extend for several years (Franks, 1995).

The principle of maintaining the value of the firm suggests that in some cases, it may be in the collective interest of the creditors to allow the firm to continue operations during the standstill period, provided it can generate positive cash flow. Thus, bankruptcy codes generally contain an arrangement that allows firms to tap private capital markets for interim financing (in the US Bankruptcy code, this is the so-called debtor in possession financing provision, found in Section 364). The general idea is to enable the debtor to tap the private capital markets by granting *priority* to the new loans in the repayment queue. Creditors may be willing to grant new loans, to the extent they believe the firm is solvent, as long as the new claims are senior to most existing claims. This provision helps the firm avoid a premature cessation of operations, thus helping to preserve its value as a going concern. *Unlike the standstill, the provision of new financing is voluntary*: creditors can choose whether or not to provide funds, with presumably the better firms receiving funds, but not the weaker firms.

The ultimate workout arrangement can vary widely. There are at least three broad cases. First, a firm that is solvent but illiquid should be able to ultimately resume full debt service payments without a writedown or reorganization. The primary need for these firms is temporary protection and access to new financing to alleviate the liquidity crunch. Second, insolvent firms may be able to return to solvency after financial and/or managerial reorganization. Management is often replaced, and the ownership structure of the firm may change, sometimes during the standstill period. In this case, a return to solvency typically requires debt relief, certainly in the form of rollovers during the standstill, and probably debt reduction and/or debt-to-equity conversions. A key problem is to get the creditors to agree to the form of the restructuring. Bankruptcy proceedings make provisions to guard against the possibility of a minority group of creditors holding up the agreement, usually by allowing for the approval of the reorganization with a majority, rather than unanimous approval of the creditors. In the U.S. code, approval is required by a simple majority of creditors by number, and by two-thirds by value in all classes of creditors (Franks, 1995). The court has the authority to "cram down" the provisions of the agreement to dissenting creditors. The third case is of an insolvent firm that has no hope of returning to a positive cash flow. In this case, the firm should be shut down, with remaining assets distributed to the creditors in priority order.

Sovereign Debt Restructuring Arrangements

Restructuring procedures for sovereign foreign debt are not as formalized as those for domestic bankruptcy. Nevertheless, operating procedures are in place for sovereign debt owed to other governments (through the Paris Club) and to commercial banks (though the London Club). The Paris Club and London Club coordinate their actions with each other and with the IMF. Together their operations can be thought of as a rough equivalent of domestic bankruptcy proceedings, with the presence of an arbitrator, a standstill period, provisions for new finance, and workout arrangements.

The Paris Club is a forum for creditor governments to restructure the debts owed to them by debtor governments. The specific creditor governments vary by case, but are all are members of the OECD. The Paris Club maintains a permanent secretariat in Paris, and operates with a set of standard conventions and policies (Vitale, 1995; Sevigny, 1990). The IMF plays something akin to the role of the arbitrator in Paris Club negotiations, although there are important differences. Countries do not approach the Paris Club for rescheduling without the support of the IMF. Indeed, the Paris Club requires that debtor countries conclude an agreement with the IMF before a formal restructuring can proceed. The IMF acts in some sense as a referee, and plays the important role of supplying each side with the relevant information needed to restructure the debt. The IMF program in a debtor country can be thought of as an approved "reorganization plan," since it details the policy and institutional changes that are seen as necessary to return the debtor to sound economic footing (Eichengreen and Portes, 1995). Of course, the IMF does not play the exact same role as a bankruptcy court. The IMF is clearly not as neutral as a court, since the creditor countries have much larger voting power than do the debtor countries within the IMF (UNCTAD, 1998). Moreover, the IMF does not have the legal authority to impose a binding agreement on either the creditors or the debtors.

Like bankruptcy procedures, the Paris Club has provisions for a standstill on at least some debt service payments during a specified time period (called the consolidation period). Only payments falling due during this period (rather than the entire stock of debt) are eligible for rescheduling. Payments on short-term debt (with maturities of less than one year) and previously rescheduled debt are generally not eligible. Similar to the way in which a bankruptcy standstill helps stop a panic and preserve the value of a firm, the Paris Club standstill supports the economic prospects of a debtor country by taking immediate pressure off of the exchange rate (or, in a fixed exchange rate system, it takes the pressure off of foreign exchange reserves) and mitigates the extent to which the debtor country must make dramatic adjustments to reduce absorption.

The Paris Club itself does not generally provide new senior financing during the consolidation period. However, the IMF, unlike a bankruptcy court, provides immediate financing to the debtor, almost always supplemented by additional funds from the World Bank, one of the regional development banks, and some of the same governments that are members of the Paris Club. These new funds provide the debtor government and the economy as a whole with a certain amount of liquidity to purchase imports and meet other foreign currency obligations.

The precise terms of the Paris Club restructurings differ depending on the economic situation and bargaining power of the debtor. Historically, most cases involved a rollover of debt, rather than any write-down. Since 1988, however, debts have been written down, sometimes substantially, for eligible low-income debtor countries. Although the Paris Club itself does not include all of a country's creditors, the terms of the agreement specify that the debtor is expected to seek similar treatment from all of its creditors, including commercial banks and other private creditors (but not multilateral agencies). Unlike bankruptcy proceedings, the Paris Club requires unanimous consent of all the creditors, and therefore does not make provisions for a "cramdown" on dissident creditors.

The London Club provides a mechanism for sovereign debtors to restructure their debts owed to commercial banks. Since there are many more creditor commercial banks than their are creditor governments, the London Club typically consists of a larger and more variable group of creditors than does the Paris Club. The London Club usually specifies a creditor committee of about 15 banks to negotiate with the debtor (Eichengreen and Portes, 1995). As with the Paris Club, and IMF agreement is a prerequisite for negotiation. The IMF facilitates flows of information between the debtor and the creditors and provides the foundation for determining how much and when a country might be expected to pay.

Members of the London Club can play a role in providing fresh financing for debtor countries undergoing an adjustment program. For example, foreign commercial banks providing financing (sometimes following heavy arm-twisting from industrial country governments) to distressed Latin American governments during the early stages of the 1980s crisis and later during the Baker Plan. Occasionally, members of the London Club might provide new financing ("bridge" financing) while a country is negotiating with the IMF to allow the country to discharge overdue debt payments to the IMF and/or World Bank.

The London Club differs from the Paris Club in that the ultimate agreement needs approval of banks holding 90-95% of total exposure, rather than the unanimous agreement required in the Paris Club. Unlike a typical bankruptcy procedure, their is no legal authority that can "cram down" the agreement on dissident creditors, or arbitrate a deadlocked negotiation. Since there are so many creditor banks to deal with (each with their own group of lawyers) and since a small minority can hold out and delay the process, London Club reschedulings can drag out over a period of years (Eichengreen and Portes, 1995). Terms of the ultimate agreement can vary widely from a rollover to a significant write-down, as was the case with some of the Brady Plan restructurings in the aftermath of the Latin American debt crisis.

Note that sovereign debt owed to the IMF and the World Bank is not rescheduled. Thus, not all creditors are subject to a standstill. Moreover, unlike domestic bankruptcy procedures were fresh financing is not used for debt service (since all creditors are subject to the standstill), in sovereign cases some new financing is used to repay the most senior creditors.

Private Debt Workouts

Currently there are no institutions to deal with private sector cross-border workouts that parallel those for domestic bankruptcy or sovereign debts. Cross-border insolvencies differ from domestic cases in at least two important ways. First, there is no clear legal jurisdiction that has ultimate authority over creditors and debtors. Moreover, in many emerging markets legal institutions and bankruptcy laws are very weak and ineffective. Second, cross-border cases are vulnerable to particular kinds of systemic shocks (like large exchange rate depreciations) that have less effect in a purely domestic context. With the Paris Club and London Club, there is some experience in cross border cases, but private cross-border cases differ from sovereign cases in at least two important ways. First, in systemic private cases, there are many debtors and many creditors, whereas in sovereign cases there is one debtor and generally far fewer creditors. Thus, organizing debt workouts is more complicated in the private case. Second, in the sovereign case, there is little concern about the government getting involved in the workout, since the government is the debtor. Private cases raise the issue of the proper role of the government in imposing solutions, guaranteeing new debt contracts, or otherwise effectively nationalizing private sector liabilities. The case for public sector involvement is stronger when the debtors are banks, since the payments system may be threatened; it is weakest for purely private sector non-financial debtors.

There are some recent examples of workouts of private sector cross-border debt, although they tend to be ad-hoc rather than orderly workouts. Perhaps the most relevant example is the rollover of Korean commercial bank debt in early 1998. After Korea's first program with the IMF (signed on December 3, 1997) failed to stem the flight from the won and calm markets, Korea found itself on the brink of default in mid-December. The U.S. government, rather than continuing to hope that market confidence would return through a traditional IMF program, dramatically changed tack and decided to press the foreign commercial banks to roll over their short-term credits to Korean banks. On December 24th, a new IMF program for Korea was announced, together with the rollover initiative and new immediate financing. The first step was an immediate standstill on debt servicing, pending a formal agreement. Within just a matter of weeks, an agreement was reached between the Korean commercial bank debtors, the foreign bank creditors, and the Korean government on a complete rollover of $22 billion in debts falling due in the first quarter of 1998, converting these short-term debts into claims with maturities between 1 and 3 years.

Although the rollover was not mandatory in the legal sense, the Treasury used its authority to pressure the creditors into what the creditors called a "quasi-voluntary" rollover (Institute for International Finance, 1999). In a sharp departure from traditional bankruptcy proceedings, the debts effectively became nationalized via a guarantee by the Korean government, even though the debts involved private sector debtor banks. Notably, on the strength of the rollover, the Korean government was able to quickly return to the international financial markets, floating a strongly oversubscribed bond issue for $4 billion in early April 1998.[4] There is little question

[4] The government issued $1 billion in five-year notes (priced at 345 basis points over comparable US securities) and $3 billion in ten-year notes (with a spread of 355 basis points). The government had originally planned to issue a total of $3 billion in bonds, but increased it to $4 billion as customer orders topped $12 billion.

that the rollover was critical to Korea's relatively rapid turnaround. The foreign creditors actually came out better *after* the rollover than before: there was no writedown, the new loans carried higher interest rates than the original loans, and they carried a Korean government guarantee. Korea had certain advantages favoring a rollover that other debtors may not have: its political importance brought strong pressure from the Unites States to get a deal done, and there were a relatively small number of creditor banks. Korea's rollover was not a true orderly workout, since it was done through informal and uncertain mechanisms that were not in place during the most intense phase of the panic of December 1997. Nevertheless, the experience shows that workouts, while perhaps not perfect in all the details, can be successful.

In June 1998, Indonesian commercial banks restructured $9 billion in short-term debts into new loans of maturity between 1-4 years, all guaranteed by the Indonesian Central Bank. The restructuring, while generally seen as successful as far as it went, came way too late (eight months after the first IMF program) to help stave off the Indonesian panic. In Thailand, the first 16 financial institutions suspended in mid-1997 defaulted on $2 billion in loans, and an additional $2 billion owed by 40 other financial institutions was exchanged for five year notes (at 5 percent interest) guaranteed by the government. These amounts were also too small to stop the panic in Thailand.

Examples of successful corporate debt workouts are harder to find. Mexico (1983), the Philippines (1983), and Indonesia (1998) established frameworks for corporate debt restructurings. Each mechanisms focussed on the final restructuring phase -- they did not include provisions for a standstill or fresh financing. In each case, firms were eligible to participate only *after* they had reached a restructuring agreement with there creditors. Essentially, the plans established a mechanism which locked in the exchange rate (in either nominal or real terms) so that the government took on the risk of subsequent further exchange rate depreciations. Mexico's FICORCA[5] system also gave the firms some front-end cash flow relief for their peso payments. While FICORCA is generally seen as at least partially successful, Indonesia's system has had no participants (by early 1999), partly because it offered firms no real cash flow relief, and partly because the rupiah had already depreciated so much by the time the system was established that firms simply could not make their payments.

4. Proposals for Orderly Workouts

Several recent analyses of various aspects of the architecture of international financial markets at least touch on proposals for workouts for private sector cross border claims. These proposals have been forward by academics (e.g., Eichengreen, 1999; Radelet and Sachs, 1998a and 1998b; Litan, et. al., 1998; Buiter and Silbert, 1998; Calomiris, 1998; Sachs 1995), private organizations (e.g., Institute of International Finance, 1999b, which represents commercial banks), and government groups (e.g., G-22, 1998a-c; UNCTAD, 1998; G-10, 1995). (The reports of the Working Groups of the G-22 are especially notable, since they include substantial input from representatives of emerging market countries).

[5] Fideicomiso Para la Cobertura de Riesgo Cambiaros.

Crisis Prevention

Clearly, the most attractive way to deal with financial crises and panics is to take strong steps to prevent them from breaking out in the first place. A thorough analysis of crisis prevention, however, would take us far afield from the focus of this paper on orderly workouts. Instead, we briefly note two of the most important steps towards prevention.

First, emerging markets with underdeveloped domestic financial systems should strongly consider taking steps to limit inflows of short-term capital. The best way to avoid panicked withdrawals of short-term lines of credit is to avoid building up these kinds of liabilities in the first place. The basic rationale for controls on short-term debt is as follows. Most emerging market countries will require many years to develop the regulatory, supervisory, and private sector institutions to make financial markets function relatively smoothly. Partly as a result, these countries are vulnerable to large inflows of short-term, volatile capital. Therefore, during the interim period when financial institutions are being developed, these countries should take step to mitigate the risks from large short-tem exposure. Modest controls on inflows can be introduced during periods of large capital inflows, and eased either when inflows subside (as Chile recently did) or as financial systems develop more fully. Chile's experience with modest controls in the early 1990s showed promising results; Malaysia's more limited experiment in 1994 and 1995 is another relevant example (Eichengreen, 1999; G-22, 1998; Eichengreen and Mussa, 1998; Helleiner, 1998; McKinnon and Pill, 1996).

Second, pegged exchange rates, especially if not fully backed by foreign exchange reserves, invite trouble. Some advocates of fixed exchange rates have pointed out that when the Asian crisis countries suddenly adopted flexible rates in mid-1997, the bottom dropped out of their currency markets. But that misses the crucial point. Had the Asian countries adopted more flexible exchange rate systems in the early 1990s, before the period of large capital inflows they would have built up far less short-term debt. Volatile exchange rates tend to deter short-run capital flows, but have much less impact on longer term capital. In a world of highly mobile capital, apparently the best options for emerging markets are either flexible exchange rates (suitable for most countries) or very rigid systems like currency boards (in a few cases, such as small, open, resource poor economies, or for limited periods following a hyperinflation) (Eichengreen, 1999; Sachs, 1998).

Moving beyond prevention and turning to workouts, there are three general issues for consideration: temporary payments standstills, mechanisms for new finance, and restructuring.

Temporary Payments Standstill

The key to stopping a full-fledged creditor panic is the temporary payments standstill (UNCTAD, 1998). As in domestic insolvency cases, the standstill is designed to halt creditors from racing to strip a firm of its assets to the benefit of a few creditors, but to the detriment of creditors as a group, the debtor, and the economy as a whole. In the international context, the standstill plays a larger role. *A standstill helps relieve the intense pressure on the exchange rate from a systemic*

creditor panic, thus mitigating the possibility of a substantial overshooting of the exchange rate and minimizing the corresponding damage to bank capital and corporate balance sheets. With a successful standstill and less exchange rate overshooting, the subsequent dimensions of the workout process (providing new finance and ultimate restructuring where necessary) become much easier. In addition, an effective standstill mechanism is likely to contribute to crisis prevention, since the threat to use it will probably dampen short-term capital inflows in the first place (UNCTAD, 1998).

There is widespread agreement on the general notion of the desirability of some kind of a standstill mechanism that can be employed during the extreme circumstances of an international financial panic. As with domestic bankruptcy, a standstill is generally warranted even when the debtor bears some (or even a large portion) of the fault for the loans going bad. The standstill period is not the time to discriminate between "good" firms and "bad" firms, but rather is designed to provide the time necessary so that those kinds of judgements can take place more accurately. There are, however, wide differences of opinion on the appropriate design of the standstill mechanism, the circumstances under which it should be employed, and who would have the authority to trigger it.

Voluntary Standstills

The G-22 Working Group emphasizes its view that in most cases, traditional IMF programs and the accompanying financial support will normally be sufficient to avert a payments crisis (G-22, 1998a). In slightly more difficult cases, it advocates making available extraordinary IMF financing through drawings from the IMF's Supplemental Reserve Facility. Creditor banks agree with this view, arguing that policy adjustment programs together with large official financial support are much more appropriate than standstills and reschedulings (IIF, 1999b).

However, the G-22 Working Group recognizes that in certain extreme cases, an interruption of normal debt servicing by either the government or the private sector, accompanied by an orderly, cooperative restructuring may be the best course of action in the context of a payments crisis. They conclude that

> "A government should consider initiating a temporary suspension of debt payments only when it is clear that, even with appropriately strong policy adjustments, the country will experience a severe fiscal, financial or balance of payments crisis and the government *or a substantial portion of the private sector* will be unable to meet its contractual obligations in full and on time. In such circumstances, the initiation of an orderly, cooperative, and comprehensive workout, while inherently costly, could best serve the collective interest of the debtor, its creditors, and the international community" (emphasis added) (p. 28).

The G-22 recommends that governments avoid unilateral actions, and instead favors voluntary cooperation whenever possible. The Group argues that unilateral actions run the risk of damaging a county's reputation in financial markets, adversely effecting a country's market access, or generating litigation against the debtors. Moreover, if one emerging market suspends

debt service payments, there is a risk that creditors would react by quickly withdrawing their credits from *other* similar markets, thus spreading the crisis. The G-22 suggests that creditors are most likely to agree voluntarily to a standstill (or rollover) when the scope of the liabilities included is relatively narrow, the time frame is relatively short, and when the IMF and key creditor governments signal their support, either verbally or through new lending. The Group argues that although the scope of the suspensions should be as narrow as possible, "no category of debt should be granted an automatic exemption from the suspension if it is contributing substantially to the payments crisis" (p. 31).

The IIF Working Group, representing commercial banks, argues strongly that any private sector participation must be voluntary, and rejects any kind of mandatory participation (IIF, 1999b). Curiously, however, in the same report, the group praises the Korean rollover as having been a "relatively good one" (p. 65), even as it refers to the arrangement as "quasi-voluntary." It does not specifically endorse or reject standstills *per se*, arguing instead that crises should be dealt with on a case-by-case basis, and recognizing that voluntary rollovers may be appropriate in some circumstances. The Group argues that whatever form the voluntary private sector participation takes, it should involve higher spreads and (probably) public guarantees on the relevant debt instruments (p. 8). It concludes that mandatory standstills would be counterproductive because they would delay a country's restoration of market access.

Of course, if voluntary approaches actually worked well in practice, there would be no need for standard bankruptcy proceedings and imposed standstill arrangements. The damage from a creditor panic occurs precisely because of problems in coordinating the creditors. Individual creditors generally will not voluntarily rollover their credits if left on their own, at least in most circumstances.

In the absence of an international court with the power to impose a standstill (a proposal discussed later), analysts have looked for mechanisms that could automatically trigger a standstill. The most common suggestion is the introduction of clauses into bond contracts aimed at inducing better coordination amongst creditors (Eichengreen, 1999; G-22, 1998; G-10, 1996, Eichengreen and Portes 1995). The G-22 Working Group recommends the inclusion of three such clauses in *sovereign* debt contracts, and suggests consideration of (while avoiding explicitly recommending) including such clauses in *private* debt contracts. The three key collective action clauses are (1) collective representation clauses, aimed at coordinating the actions of creditors and facilitating communication among the creditors and between the creditors and debtors; (2) majority action clauses, allowing a majority of creditors to change the payment terms of a debt contract, without the unanimous consent of all creditors, and (3) sharing clauses specifying that creditors will divide proportionally with all other creditors any and all payments received from the debtor. The 1996 G-10 report added non-acceleration clauses to the list, which would preclude creditors from voting to accelerate repayment of outstanding debt, an action that effectively turns long-term debts into short-term obligations. Eichengreen (1999) suggests a fifth clause: a minimum voting threshold for creditors to bring lawsuits, requiring at least 10 percent of creditors to agree to take action against the debtor. This would avoid the possibility of a lone creditor taking legal action against the debtor, which could threaten a rollover or rescheduling agreed to by everyone else.

The IIF agrees that it may be useful to include clauses in bonds that allow for qualified majority rescheduling (IIF, 1999b, p. 77). It argues, however, that any sort of officially mandated inclusion of these clauses would be counterproductive "in the view of most market participants."

An important consideration is how such clauses would affect the cost of borrowing. The IIF concludes that bond issuers would have to expect to pay more for the inclusion of such clauses. The G-22 argues that the price effects are ambiguous. Creditors might perceive the inclusion of such clauses as increasing the probability of default, leading to a higher price as the IIF suggests. However, these clauses also reduce the uncertainty about the debt workout process and partially protect against the large downside risk of a creditor being stuck at the end of the line in a panic and therefore receiving nothing. This latter assurance should help reduce the price.

Most likely, these clauses would increase the cost of borrowing. After all, such clauses are effectively a form of insurance for both creditors and debtors, and like most insurance, will come at a small cost. And, as with all insurance, while this mechanism is in the collective interest of creditors and debtors, each individual creditor and debtor may resist paying for the insurance. However, as Fischer (1999) notes, a higher price on debt instruments with these clauses simply reflects a more appropriate pricing of risk. Moreover, raising the cost of borrowing may help limit counties from "overborrowing" in international capital markets in the way that most of the crisis countries did in the early 1990s.[6] *To the extent that the problem in the crisis countries has been too much foreign borrowing, measures that increase the cost of borrowing may be appropriate, even if they raise the cost of investment*. A slightly higher price would also favorably change the maturity mix of borrowing. The price penalty is likely to be highest on short-term debt, since potentially the entire amount would be subject to rollover, whereas only a portion of a longer-term maturity (the amounts falling due during the roll-over period) would be affected. Thus, such clauses may raise the price of short-term debt relative to long term debt, increasing their attractiveness.

Eichengreen (1999) argues that these clauses are unlikely to be introduced voluntarily without specific legislation and regulation. Otherwise, the first country to introduce them might be perceived as signaling its own lack of confidence in its capacity to fully service its debts. He suggests that the IMF urge all of its member countries to make the inclusion of such clauses a requirement for issuing international bonds on the domestic market. He further proposes that the IMF could provide additional inducement by lending at more favorable rates to countries that require such provision in their own contracts and those of commercial banks and corporations in their country (Eichengreen, 1999, p. 113). To that might be added that the World Bank and the regional development banks could also be encouraged to lend to such countries at more favorable rates. Of course, these institutions lend in much larger amounts than the IMF, especially outside of crisis situations.

These clauses, as suggested, leave it to the creditor to trigger the standstill by a majority vote. This still leaves the question of facilitating the necessary communication amongst the creditors,

---

[6] For an insightful analysis of the "overborrowing syndrome" in Asia written *before* the crises, see McKinnon and Pill (1996).

and between the debtor country and the creditors, to invoke the clauses. One way to do so would be to establish standing representative creditor committees (Eichengreen, 1999; Sachs and Radelet, 1998; Eichengreen and Portes, 1995). Standing creditor committees would facilitate communication between the debtors and creditors, make it easier to quickly commence negotiations with creditors early in the crisis, and ease the process of triggering the collective action clauses described above. Such committees are unlikely to appear on their own (else they would already exist), so suasion and pressure may be necessary from the IMF and creditor country government to put them in place (Eichengreen, 1999).

Mandatory Standstills

In the absence of collective action clauses, many analysts (but not all, with the IIF the major exception) argue that a purely voluntary approach will not always work. In what is perhaps the most striking feature of the G-22 report, the Working Group holds out the possibility of (while staying clear of explicitly recommending) *a mandatory payments suspension in certain circumstances*. A voluntary approach will not work, it argues, if the government does not have sufficient bargaining power to obtain sustainable terms, if certain creditors refuse to participate (hoping to free-ride on the restructuring of others), or if the negotiations in a purely voluntary approach take too much time. It offers that mandatory debt suspensions could come in several forms, such as (1) suspension of government debt service payments, (2) restrictions on outward payments by commercial banks, or (3) with respect to private sector debt payments, the use of capital and exchange controls. It stresses that the latter should be undertaken only in very exceptional circumstances and only in conjunction with an IMF program. The risks to a country in imposing temporary capital controls would be reduced if the move was supported by the international community, rather than taken alone. Thus, when capital controls are seen as the least bad option facing a country, the G-22 suggests that the international community could provide credibility by signaling its support and by supplying limited and conditional financial assistance, even in the context of suspended debt payments (i.e., the IMF could "lend into arrears," discussed more in the next section).

One implication (not spelled out by the G-22) is that a government's announcement that it was suspending debt service payments would be interpreted as an exchange control as covered in the IMF's Articles of Agreement (Sachs, 1995; Eichengreen and Portes, 1995; UNCTAD 1998). Article VIII (2) (b) states that "exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member." The question is whether or not this clause (and specifically the term "exchange contract") can be interpreted broadly enough to include a suspension on debt service payments as a form of exchange controls (see UNCTAD, 1998 for a discussion). Eichengreen and Portes (1995) conclude that this was not the original intent of the clause or the interpretation of various courts, but they hold out the possibility that the IMF Executive Board could give the clause a new definitive interpretation that would include a standstill. Explicitly amending the Articles of Agreement would also be possible. In this spirit, the Canadian Government has suggested that IMF members agree to legislate an "Emergency Standstill Clause" that would apply to all cross-border financial transactions (Canada, Department of Finance, 1998). However, either amending

the IMF articles of agreement, or pushing for legislation that would have to be passed by most of its member governments, is highly unlikely.

In both the voluntary and mandatory cases, the G-22 approach relies heavily on the IMF to play at least part of the role of the arbitrator/administrator in standard insolvency proceedings: that of the referee who can verify when a standstill is warranted. Of course, the IMF (and the broader international community it represents) does not have the ultimate legal authority of a bankruptcy court, but its judgement would be critical in providing support to a suspension of payments. There is no question that the backing of the IMF and the broader international community would be critical in easing concerns about the motives of the debtor country and in helping reach a standstill, as was so clearly the case in the Korean rollover in early 1998. Nevertheless, the reliance on the IMF raises at least two issues. First, the IMF in its current form is not a truly neutral body in the sense of a bankruptcy court, since voting power in the Executive Board lies heavily with the creditor countries. Thus, politically favored countries are likely to receive different treatment than countries that are perceived to be less strategically important. Second, at present the IMF's analytical strengths and core objectives lie in traditional fiscal, monetary, and exchange rate policies, not bank or corporate finance, so it may not be in the best position to judge when a standstill is the best course of action. It is possible that at least the second of these weaknesses can be corrected. In the end, even with these drawbacks, the IMF is probably the best-positioned institution to take on this role.

Willem Buiter and Anne Sibert (1998) have proposed a different kind of clause to be included in debt contracts that would put much more power in the hands of the borrower. They propose that *all* foreign currency lending ("private or sovereign, long or short, marketable or non-marketable, including overdrafts and credit lines") be required to include what they call a *universal debt roll-over option with a penalty* (UDROP). The borrower would be able to exercise the option automatically, at its own discretion, to roll over the debt for a specified period (3 to 6 months) at a penalty rate. The option could be exercised a second time at a higher penalty rate. They argue that this clause would have to be included in all debt contracts, and not just by request, otherwise a request for the option would signal that a borrower had inside information about its impaired ability to service the debt. They emphasize that the debtor be allowed to unilaterally trigger the clause at any time. They argue that debtors would only do so in extraordinary circumstances, because otherwise it would quickly lose all market access. They argue against waiting for the support of an IMF program, which they believe takes too much time to put in place. They conclude that UDROP would raise the cost of borrowing by differing amounts depending on the market perception of the risks of a particular country actually triggering the mechanism, and for the safest countries, may not raise the cost at all.

The advantages of this mechanism are that it can be triggered quickly, and that it does not require negotiations with the IMF or other governments (although the support of the international community would clearly be helpful). It avoids the potential problems of other schemes that rely on the neutrality and judgement of the IMF. The biggest problem with the scheme is to figure out a way to mandate that the relevant clause be included in all debt contracts. The authors propose doing so via an agreement amongst members of the Bank for International Settlements that would make foreign currency debt contracts without the rollover option unenforceable in

participating countries' courts. They do not assess the likelihood that BIS members would agree to this proposal. Realistically, it seems extremely unlikely that countries of the creditor banks would agree to this kind of scheme.

The Shadow Financial Regulatory Committee (an informal private group made up mainly of academics that meets at the American Enterprise Institute) goes beyond a rollover in its proposal, instead advocating a mechanism that would allow for an automatic across-the-board debt *reduction* if a rollover cannot be achieved. The group recommends that borrower countries enact legislation that would allow the country, when it is receiving IMF assistance, to elect to impose a minimum automatic reduction of the principle of all foreign currency loans extended to banks in their countries (Litan, et. al., 1998). These "haircuts" on the creditors would be imposed only if and when the creditors either withdraw or fail to rollover their claims before the IMF loans are paid back. Creditors would not be allowed to charge penalty rates on extended loans. They propose that the IMF make the enactment of such legislation one of the conditions for all countries receiving its assistance. Countries that do not enact such legislation either would be ineligible for IMF assistance or would be made to pay a substantially higher penalty rate for such assistance. This mechanism would increase the cost of credit for borrowing banks, which in turn would discourage them from taking on excessive risks. The authors also foresee that it would encourage governments to strengthen their banking systems and therefore lower the premium which foreign creditors would attach to such loans in their country.

The idea behind this proposal is that it would provide a stick that would get creditors to be more willing to negotiate a rollover so they would not be faced with the possibility of actually triggering the writedown. In some sense it sees an even stronger role for the IMF than does the G-22 proposal, since the IMF would require member countries to adopt the appropriate legislation for the scheme. However, given the voting power within the IMF, it is hard to believe it would require countries to impose a scheme that mandated a haircut on creditors. Moreover, it is possible that a mandatory haircut could induce creditors to panic even *faster* than is the case now, since they would want to flee as soon as there was any sign that the debtor country was considering triggering the haircut. The authors narrowly apply it to banks, apparently seeing debt owed by banks as the key to financial crises because of the inherent threat to the payments system. Bank debt is also much easier to deal with then corporate debt, simply because there are fewer commercial banks than corporations. Beyond this, however, it is not clear why the mechanism should be applied to one class of creditors and not others. Triggering this mechanism for debt owed by banks, for example, could set off a withdrawal of credits from other debtors in the country (e.g., corporations), which would simply displace the focus of the panic (while perhaps to some extent safeguarding the payments system). Moreover, since this would increase the cost of borrowing for banks, but not for corporations, more debt would be channeled through corporations.

Indonesia's recent experience in this regard is telling. In 1991, facing a growing current account deficit, Indonesia imposed quantitative limits on the amount of borrowing allowed by commercial banks. It worked in the narrow sense, in that the banks did not build up significant debt exposure, but one consequence was that domestic corporations borrowed directly overseas in larger quantities. This is a key reason why Indonesian corporations had much heavier foreign

exposures than their counterparts in Korea and Thailand (which borrowed through their local banks), and Indonesian banks were much less exposed. However, when the financial panic hit, it was much more difficult to deal with the diverse body of corporate borrowers in Indonesia than the narrower group of commercial bank borrowers in the other countries. This episode is indicative of the kind of unforeseen problems that can develop in schemes focussed on just one type of creditor.

An International Debt Restructuring Agency

Some have gone further in the mandatory approach, suggesting variations on establishing a quasi-legal International Debt Restructuring Agency (Cohen, 1989; Raffer, 1990; Williamson, 1992; Greenwood and Mercer, 1995). Williamson (1992) recommends including clauses in future loan contracts specifying that this agency could revise the terms of the loan in the event of unforeseen contingencies. These clauses would presumably allow the agency to impose a simple rollover, or even a debt reduction. The agency could have a range of powers, perhaps including the authority to enact a standstill on creditors, to "cram down" on dissenting creditors revised terms agreed between the debtor and a majority of the creditors, or to award debt relief in arbitration even over the objections of a majority of creditors (Williamson, 1992).

Almost all commentators have concluded that establishing an international body with these legal authorities is simply not realistic (G-22, 1998a; Eichengreen and Portes, 1995; G-10, 1996). It is hard to believe that the governments of the creditor countries would be willing to cede any legal authority for debt contracts to an international tribunal. Even if they were willing to do so in principle, they would have great difficulty in agreeing on the specifics, since each of the major creditor countries has important differences in their own domestic insolvency laws.

Sachs (1995) advocates that the IMF take on some (but not all) of the roles of a bankruptcy court, rather than establishing a new bankruptcy agency. Writing explicitly about sovereign, rather than private debt, he suggests that the IMF could have the authority to impose a temporary standstill on debt servicing, perhaps through Article VIII (2) (b), as discussed previously. Moreover, he suggests that the IMF may not need to lend new money at all, but instead could supervise the extension of new senior private sector loans, and play the role of coordinator among the creditors.

An alternative proposal calls for debtor countries to be able to unilaterally impose a debt standstill via capital controls, and then submit its decision to an independent international panel that would determine whether the standstill is justified according to Article VIII (2) (b) (UNCTAD, 1998). This proposal is designed to avoid the potential problem of relying on the judgement of the IMF board, whose voting power lies heavily with the creditor countries. However, the panel's ruling would need to have legal force in international courts, leading to some of the same problems noted above. Moreover, the time lag needed between a country's decision and the ruling of the panel would be problematic. Moreover, it is not clear what the penalty to a country would be if it imposed the standstill and the panel later ruled that the standstill was not justified.

Fresh Financing

The second major component of any workout process is the ability of at least some debtors to obtain new finance in order to remain in operation and maintain the value of the firm, or in the case of a country, to avoid an unnecessary economic contraction. In domestic bankruptcy, debtors which gain the approval of the bankruptcy court can go to the markets and at least try to obtain new loans, which become senior to the old loans. In international situations, most analysts see the IMF and OECD governments continuing to be the main channel for new finance, augmented to varying degrees by private sector finance. The IMF also plays the role of "approving" a debtor to go to the markets for new finance, in the form of agreeing with the debtor country on an adjustment program.[7]

IMF and Other Official Finance

As stated earlier, the G-22 Working Group concluded that traditional IMF programs and the attendant financing package will be sufficient to ward off a crisis, at least in most cases. However, a major problem with IMF financing is that it is provided in tranches over an extended period of time, and is highly conditional. As a result, IMF funds are generally inadequate to relieve an intense liquidity crisis, both because they are disbursed slowly and because there is always doubt that the next tranche will arrive.[8] There are at least three ways that IMF funds could be made available more quickly to crisis countries. First, the borrowing country could draw on the Supplemental Reserve Facility, which was approved by the IMF Board in December 1997 at the outset of the Asian crises. Along the same basic lines, the United States proposed (in October 1998) the establishment of additional contingent financing facilities within the IMF that could be disbursed more quickly and with less conditionality than traditional IMF loans, in effect the same approach that was used to bail out Mexico in early 1995. Second, the IMF could "lend into arrears" (that is, disburse new funds to a debtor country that is in arrears to its private creditors) in a broader set of circumstances. In the early 1980s, the IMF had a strict policy of not lending into arrears, which ultimately limited its ability to provide new money. This put great pressure on the borrower to come to some accommodation with its creditors, else it would not be able to receive new funds. The IMF first began to allow for the possibility of lending into arrears on commercial bank debt in 1989 in the context of Brady Plan restructurings. In September 1998 the IMF Executive Board agreed that the IMF could consider lending in arrears in a broader set of circumstances than previously considered, including arrears on bonds and other non-bank credits. The G-22, the G-7, and others supported this step. Not surprisingly, commercial banks are opposed to this policy shift, seeing it as a form of mandatory "binding in" of the private sector, which they argue would be ultimately counterproductive in facilitating capital flows (IIF, 1999b).

---

[7] The IMF can thus "approve" a government to seek new funding, or in some sense an economy as a whole, but of course not individual private creditors.

[8] For example, despite international pledges in 1997 of $17 billion, $40 billion, and $57 billion for Thailand, Indonesia, and Korea, respectively that made impressive headlines, by the end of December 1997 Thailand had received just $7 billion, and by the end of March 1998 Indonesia and Korea had received just $3 billion and $13 billion, respectively (Radelet and Sachs, 1998a).

Third, the IMF could disburse more of its pledged funds at the beginning of the program, with fewer conditions attached, at least for certain countries. The basic idea is that certain countries that meet a variety of policy conditionalities in normal circumstances (e.g., on banking standards, fiscal policy, and a range of other issues) would "pre-qualify" for rapid IMF disbursements in the event of a crisis (Fischer, 1999; Radelet and Sachs, 1999; Williamson, 1998). Just as commercial banks must first meet a variety of standards to operate, and thus be eligible for lender-of-last-resort financing from the central bank, the idea is that countries who are judged to have appropriate policies should be able to get low-condition financing more quickly. Calomiris (1998) goes much further, suggesting that countries must meet such conditions to be eligible for membership in the IMF. This latter version seems unrealistic, both because it is hard to believe that so many countries would be excluded from IMF membership, and that the international community would stand by if an excluded country was experiencing a crisis with potential systemic implications. But the more limited proposal of allowing pre-qualified countries to receive funds more quickly has merit.

Relying heavily on the IMF for fresh financing raises several issues. First, the IMF alone cannot disburse enough funds quickly enough to forestall a full-blown crisis, even with these proposed changes. Unlike a true lender of last resort, everyone knows there are ultimate limits on how much the IMF can feasibly lend, and these amounts increasingly seem small relative to private sector capital flows. Second, if the funds are provided in an attempt to support unsustainable or unwise policies (such as the defense of Brazil's overvalued currency, or the abrupt and clumsy closure of Indonesia's banks), they will not stop the creditor withdrawals.

A third problem is that official funding ultimately converts private sector debts to public sector debts, in effect nationalizing some of the debt (UNCTAD, 1998; Radelet and Sachs 1998b). This issues was especially relevant for Asia, where most foreign debts were owed by the private sector (but less so in Brazil where most debts were public sector). In a typical situation, the IMF lends funds to a county's central bank, which sells the foreign exchange into the market where it is used to retire private sector debts. Total foreign debt is not reduced, but is shifted from private sector to public sector debt. Effectively, IMF money is used to repay foreign creditors, bailing them out of the crisis. *The key to avoiding this problem is the payments standstill.* With a standstill in place, new financing (from either the IMF or other creditors) will not be used to repay foreign debts, and instead will be available for current account transactions or to replenish reserves, and thus is similar to debtor-in-possession financing in domestic bankruptcy proceedings.

On balance, these proposals on IMF disbursements all seem to be small steps in the right direction to make some funds available more quickly to crisis countries. Even together, however, they will not go far in generating substantial amounts of new finance, or in solving the problem of stopping a creditor panic.

In short, it has become clear that with the substantial rise in private sector capital flows into emerging markets in the 1990s, the IMF and other official creditors simply do not have deep enough pockets, nor are they willing to lend freely enough, to ward off a creditor panic. IMF funds are likely to continue to play a central role but will be insufficient on their own. The IMF's

Interim Committee acknowledged the need to "involve private creditors at an early stage, in order to achieve equitable burden sharing via-a-vis the official sector and to limit moral hazard."[9] These issues have led to growing calls to "bail in" private sector creditors during a crisis.

Private Finance

The earlier proposals on standstills and rollovers are one way to involve the private sector. There are fewer explicit proposals on how to encourage private creditors to actually provide new funding. New private financing could be provided to the government, individual banks and firms, or both. One possibility is for the central bank to arrange with private creditors for contingent financing facilities in which it would pay a commitment fee to a consortium of international banks for the right to draw pre-determined amounts from the facility as needed. Argentina recently arranged such a facility with 13 commercial banks that provides $13 billion in standby credits, and Mexico has an arrangement with 31 commercial banks for $2.5 billion (Eichengreen, 1999). Indonesia's central bank has had facilities ranging from $500 million to $1.5 billion since the late 1980s, and it drew $1.5 billion in two tranches in early 1998. Commercial banks favor expanding these facilities, although they argue that after Mexico unexpectedly drew down its facility in late 1998, more aggressive pricing might be necessary (IIF, 1999b). Contingent facilities would make a certain amount of new financing available, and might also make the creditor banks more amenable to restructuring their other loans. These types of facilities can be helpful, but clearly on their own cannot be of the scale necessary to forestall a panic. Moreover, it is not absolutely clear the extent to which these facilities would provide true additional financing. Creditors that have committed to provide these resources might be more likely to withdraw other lines of credit in order to limit their overall exposure to a country.

The G-22 calls for an enhanced private sector role through some combination of "providing new credits, extending the maturities or rolling over existing credits, otherwise restructuring payments, and perhaps even, in certain extreme cases, debt reduction" (p. 27). The report stays clear of specific recommendations on precisely defining this private sector role, instead suggesting that this should be worked out between the creditors and the debtor government. It does, however, suggest the possibility of creating a privately-funded standing facility that would be available to provide credits in the event of a crisis or payments suspension. These new credits could be given some effective senior status over existing credits (as an extra inducement to creditors) by an IMF decision that it would not lend to countries that fell into arrears on these loans.

The IIF concludes that private participation in either rollovers or providing new money may be feasible on a case-by-case basis. It concludes that a combination of risk mitigation (i.e., government or multi-lateral guarantees), "credible conditionality on policy reform, and spreads above pre-crisis levels would seem to offer the best chance for mobilizing private sector financing on a voluntary basis in the face of a crisis" (IIF, 1999b, p. 73).

[9]Communique of the IMF Interim Committee, April 17, 1998, section 3(e).

Whereas the case for some kind of mandatory mechanism for a payments standstill is strong, the case for mandating the private sector to provide new financing is much weaker. Private creditors are not required to provide new money in traditional bankruptcy cases. They have the option to do so in cases where the borrower has been approved by the court and where the creditors believe the borrower is solvent. Creditors receive the extra incentive of supra-seniority (and usually higher interest rates) on the new loans. Fischer (1999) cautions that any requirement for mandatory private sector financing could be inadvertently destabilizing, since creditors might rush for the door even more quickly at the mere hint of a crisis so they would not be around to be expected to contribute new financing. Instead, he suggests that private creditors be given some inducement to lend voluntarily, perhaps by the IMF agreeing not to "lend into arrears" on these new loans, or by making these new loans exempt from future standstills.

The willingness of private creditors to voluntarily lend new money probably depends to some degree on the effectiveness of the initial standstill mechanism. Once the panic stops and some calm and predictability returns to the market, private creditors may be willing to lend to both the government and individual debtors that are deemed to be creditworthy. As described earlier, the Korean government was able to float a new bond issue within months of its commercial bank debt rollover and the corresponding end of the panic. Tellingly, Korea's standstill and rollover enabled it to regain access to international capital markets much more quickly than any of the other crisis countries, which were subject to more prolonged panics.

Should the government provide guarantees on new loans to private sector debtors, or for that matter, on debts rolled over during the initial standstill? The argument in favor of guarantees is that it would encourage private creditors to extend more loans more quickly and at lower interest rates than without guarantees. This is undoubtedly true, as far as it goes. Korea's initial rollover on debts owed by its commercial banks came with complete government guarantees, which helped facilitate a fast negotiation. The IIF concludes that public sector guarantees (either from the local government or through multi-lateral organizations) are probably necessary to secure private sector participation. The obvious problem with guarantees is that they effectively turn private sector debt into public sector contingent liabilities, creating substantial distributional and moral hazard problems (UNCTAD, 1998; G-22, 1998; Radelet and Sachs, 1998b). The G-22 is circumspect about government guarantees, leaving open the possibility of using them in some circumstances without specifically recommending their use. The Group highlights the dangers of guarantees, and suggests that they be used sparingly and be as limited as possible in scope. The Shadow Financial Regulatory Committee states that it is strongly against government guarantees on any portion of bank liabilities. It further argues that if they are extended to foreign loans, they should be limited to the amount of principle minus the mandatory "haircut" that the group proposed, as discussed earlier (Litan, et. al, 1998).

For new financing to private firms, the case for guarantees is very weak. For new loans to banks, the case is a little stronger, since there is a public interest in ensuring that at least some banks remain operational. However, the costs of guarantees on bank liabilities can be huge, as Korea, Thailand, and Indonesia have found. Moreover, they can distort future lending decisions. In Asia, effectively all foreign lending to banks in the crisis countries will be fully repaid due to these guarantees, while many loans to private firms will be written down or written off. As a

result, in the future, foreign creditors are likely to be more than happy to lend heavily to banks in emerging markets, but less willing to lend to firms. All else being equal, then, it would be preferable to have the debtor banks pay a higher interest rate on new loans than to provide a government guarantee. *With an effective standstill mechanism in place, accompanied by new IMF and other official financing and appropriate policy changes, government guarantees on new private financing should not be necessary*.

Restructuring

The third major component of bankruptcy proceedings is corporate and financial restructuring. At the economy-wide level, restructuring generally takes place through the implementation of appropriate adjustment policies in cooperation with the IMF. Thus, the IMF plays at least four key roles in the workout process: signaling the appropriateness of a debt servicing standstill, providing some new financing, facilitating communication and negotiation between the creditors and debtors, and structuring the policy reforms needed to put the economy back on track.

As with domestic bankruptcy, in a systemic crisis the combination of a standstill and fresh financing may be sufficient for some banks and corporations to continue operations without further restructuring. At the other extreme, the weakest banks and firms with no hope of regaining solvency should be closed. In the intermediate cases, more substantial corporate, managerial, or financial restructuring may be needed to return firms to solvency. This may include more significant refinancing or rescheduling of loans, writing down loans, or debt- equity swaps. The basic framework for corporate restructuring should be strong bankruptcy and other related laws and court institutions in the debtor countries. The G-22, for example, strongly recommends that debtor countries establish the appropriate legal codes and supporting institutions for insolvency proceedings.

Domestic insolvency regimes are seen, in the first instance, as contributing to crisis *prevention* by providing a predictable legal framework that includes the credible threat to debtors of removal of management, reorganization, and liquidation. These regimes therefore provide appropriate incentives for prudent corporate behavior. They are also an important part of crisis *resolution,* since they establish a framework for eventual restructuring or liquidation, in line with the principles outlined earlier. Moreover, appropriate insolvency laws help facilitate out-of-court settlements. *However, in most emerging market countries, introducing the appropriate legislation and developing the strong supporting institutional base to make bankruptcy regimes operate effectively will take many years.*

The G-22 recognizes that even with good systems in place, in some cases systemic crises could overwhelm bankruptcy courts simply because of the speed with which they hit and the number of cases involved. In these circumstances, it recommends that governments facilitate the process of debtor-creditor negotiations and possible out-of-court settlements through the establishment of creditor committees, removing existing legal and regulatory obstacles to restructuring (e.g., tax penalties), and possibly establishing a mechanism for exchange rate insurance to protect against further extreme depreciations. The international community could play an indirect role in such a mechanism by facilitating contacts, channeling information, and exerting some moral suasion on

both sides of the negotiation. Such procedures were followed with some success with Mexico's FICOCRA system in the early 1980s, as discussed earlier. They met with less success in Indonesia, partly because of the sheer volume of claims involved, but primarily because the exchange rate had depreciated much further in Indonesia, making workouts much more difficult.

In some circumstances where and economy and the court system are overwhelmed by a systemic crisis, governments may have to explore somewhat more dramatic measures, such as across-the-board debt-equity swaps and other mechanisms to wipe out the debt overhang of otherwise profitable firms. One solution in the Asian context, especially where domestic banks have borrowed from abroad and then on-lent to corporations, would be to convert existing corporate debt into equity, so that the domestic bank creditors would become part owners of the firms (Radelet and Sachs, 1998b). The reduction of debt would ease the borrowing firms' cash flow burdens, enabling them to re-enter the loan markets for working capital and long-term loans. As part of the procedure the existing owners could receive an option to repurchase the shares from the banks at some premium over current market prices, thereby maintaining incentives to improve the performance of the firm. The banks would be required to sell off these shares in a limited period of time, perhaps two years.

Although this would provide some relief for corporations, it would add to the financial burdens of domestic banks, which would presumably already be under tremendous strain from the crisis. Some banks would have to be closed or merged, and other more promising banks would require a capital injection. In some cases (like in Asia), the private sector (either domestic or foreign) cannot be reasonably expected to inject sufficient capital quickly enough. This leaves the government the only realistic option to inject new capital into the subset of promising banks. The new capital would presumably be in the form of bank equity, which would give the regulatory agencies special control and supervision over the banks. The injection of new capital would allow the banks to begin lending again. Over time, the government would sell off its shares in the banks, to foreign and domestic investors, including the current owners. The restructuring of Korea's banks and corporations have been roughly consistent with these proposals, albeit on an ad-hoc basis.

5. Conclusions and Recommendations

The basic objective in designing mechanisms for orderly workouts of cross-border debt should be to limit the damage to bank capital, corporate balance sheets, and economic activity from the massive credit withdrawals and overshooting of the exchange rate that accompany an international creditor panic. Workout options should not be made too attractive or too easy to activate by borrowers, since the original loan contracts should be honored as much as possible. But when a country is threatened by systemic default, a well-designed workout mechanism can help limit the collective losses of the creditors and debtors and speed the stabilization process.

In the absence of a true lender of last resort, the key to stopping a panic is an effective standstill mechanism. A well-designed standstill mechanism can help ease the intense pressure on the exchange rate, calm the markets, set the stage for obtaining fresh financing, and help establish

some of the stability for successful restructuring. Voluntary standstills and rollovers should be encouraged, but they should be supported by a credible mechanism to invoke a mandatory standstill when necessary, backed by the IMF. Fresh finance should be obtained from both official sources (the IMF, World Bank, and bilateral agencies) and private creditors. Fresh finance from the private sector should be provided on a voluntary basis. The ultimate restructurings of private firms and banks should take place as much as possible through well-designed bankruptcy regimes, supported by frameworks to facilitate reorganization where bankruptcy institutions remain weak or where they are overwhelmed by the sheer magnitude of the crisis. More specifically, the most promising avenues for strengthening the procedures for orderly workouts of private sector debt include the following:

1. Standstill Arrangements

- The international community generally, and the IMF specifically, should encourage all member countries to enact legislation that requires that specific collective action clauses be included in all international bonds issued in the domestic market. The IMF should consider requiring its member countries to enact legislation mandating the inclusion of such clauses in bond contracts. The BIS could also help encourage the introduction of these clauses. The key clauses include provisions for collective action, majority action, payments sharing, non-acceleration, and minimum thresholds for lawsuits. It should be recognized, however, that it will take many years for the use of these clauses to become widespread.
- The international community generally, and the IMF and the BIS specifically, should encourage member countries to establish standing creditor committees which include the major public sector and private sector creditors. These committees should help facilitate communication between the debtors and the creditors and, in the event of an imminent default, can accelerate the process of negotiating and implementing standstills and rollovers.
- Given the problems of international law, a true mandatory standstill mechanism is probably not feasible. Partial mandatory standstills can be implemented, with the support of the IMF, on debt service payments owed by the government and by commercial banks. However, in certain extreme cases, the IMF should be prepared to support a country's temporary imposition of broader capital controls and exchange restrictions that would temporarily suspend all foreign currency debt service payments. The more credible the threat to use such mandatory controls, the easier it should be to reach agreement with creditors on a voluntary payments standstill.

2. Fresh Financing

- The IMF should establish a facility whereby countries can "pre-qualify" for fast-disbursing, low conditionality disbursements. Eligibility should be based on the strength of a country's economic policies and institutions, not its strategic and political importance. Countries that do not pre-qualify would remain eligible for existing IMF facilities.
- The international community generally, and the IMF and the BIS specifically, should encourage emerging market governments and private creditors to further develop contingent financing facilities. Although meant primarily for government borrowers,

drawing such facilities would help private debtors by easing overall liquidity constraints and taking some pressure off of the exchange rate. Commercial banks, especially state-owned banks, and private corporations could also be encouraged to explore the use of these facilities.

- Government guarantees should not be provided on new financing provided by private sector creditors to private sector debtors.

3. Insolvency regimes

- The international community generally, and the IMF specifically, should encourage the development of effective bankruptcy laws and related creditor-debtor laws. The IMF should be encouraged to require the introduction of such legislation in member countries over an appropriate period of time. It should be recognized, however, that it will take many years to develop effective insolvency regimes in most emerging markets.
- The IMF should develop guidelines for effective mechanisms for systemic restructuring outside of formal insolvency regimes which, amongst other things, provides for creditor-debtor communication, exchange rate insurance, and the possibility of across-the-board debt/equity swaps and public recapitalization of distressed but viable commercial banks.

References

Buiter, Willem H. and Anne C. Sibert. 1998. "UDROP or You Drop: A Small contribution to the New International Financial Architecture." Unpublished paper (November).

Canada, Department of Finance. 1998. "Canada's Six Point Plan to Restore Confidence and Sustain Growth." Available at http://www.fin.gc.ca/ncwsc98/data/98-094cl.html (September 30).

Calomiris, Charles. 1998. "Blueprints for a New Global Financial Architecture." Unpublished paper, Columbia University Business School, September 23, 1998.

Chang, Roberto and Andres Velasco. 1998. "Financial Crises in Emerging Markets: A Cannonical Model." NBER Working Paper no. 6606 (June), Cambridge, MA: NBER.

Cohen, Benjamin. 1989. "Developing Country Debt: A Middle Way." Princeton Essays in International Finance no. 173.

Cooper, Richard, and Jeffrey Sachs. 1985. "Borrowing Abroad: The Debtor's Perspective," in Gordon Smith and John Cuddington (eds.), International Debt and the Developing Countries, World Bank Symposium, 1985.

Cornelli, Francesca and Leonardo Felli. 1995. "The Theory of Bankruptcy and Mechanism Design." In Barry Eichengreen and Richard Portes, Crisis? What Crisis? Orderly Workouts for Sovereign Debtors. Center for Economic Policy Research, London.

Diamond, Douglas and Phillip Dybvig. 1983. "Bank Runs, Liquidity, and Deposit Insurance." Journal of Political Economy, vol. 91, pp. 401-419.

Eichengreen, Barry. 1999. Toward a New International Financial Architecture: A Practical Post-Asia Agenda. Institute for International Economics (February).

Eichengreen, Barry and Michael Mussa. 1998. "Capital Account Liberalization: Theoretical and Practical Aspects." Occasional Paper no. 172 (October), IMF, Washington D.C.

Eichengreen, Barry and Richard Portes. 1995. Crisis? What Crisis? Orderly Workouts for Sovereign Debtors. Center for Economic Policy Research, London.

Fischer, Stanley. 1999. "On the Need for an International Lender of Last Resort." Paper presented at the annual meetings of the American Economics Association, January 3, 1999. Available at the IMF website (http://www.imf.org/external/np/speeches/1999/010399.HTM).

Franks, Julian. 1995. "Some Issues in Sovereign Debt and Distressed Organizations." In Barry Eichengreen and Richard Portes, Crisis? What Crisis? Orderly Workouts for Sovereign Debtors. Center for Economic Policy Research, London.

Furman, Jason and Joseph Stiglitz. 1998. "Economic Crises: Evidence and Insights from East Asia." Brookings Papers on Economic Activity, 1998:2, forthcoming.

Goldstein, Morris. 1997. "The Case for an International Banking Standard." Institute for International Economics (April).

Greenwood, Christopher and Hugh Mercer. 1995. "Considerations of International Law." In Barry Eichengreen and Richard Portes, Crisis? What Crisis? Orderly Workouts for Sovereign Debtors. Center for Economic Policy Research, London.

Group of 10 (G-10). 1996. "Resolving Sovereign Liquidity Crises." (Washington: G-10)

Group of 22 (G-22). 1998a. "Report of the Working Group on International Financial Crises." Available from the World Bank website (http://www.worldbank.org/html/extdr/ifa-reports/index.htm).

Group of 22 (G-22). 1998b. "Report of the Working Group on Transparency and Accountability." Available from the World Bank website (http://www.worldbank.org/html/extdr/ifa-reports/index.htm).

Group of 22 (G-22). 1998c. "Report of the Working Group on Strengthening Financial Systems." Available from the World Bank website (http://www.worldbank.org/html/extdr/ifa-reports/index.htm).

Helleiner, Gerald (ed). 1998. Capital Account Regimes and the Developing Countries (New York: St. Martin's Press).

Institute of International Finance. 1999a. "Capital Flows to Emerging Market Economies," January 27, 1999.

Institute of International Finance. 1999b. "Report of the Working Group on Financial Crises in Emerging Markets," (January).

Jackson, Thomas. 1986. The Logic and Limits of Bankruptcy Law (Cambridge, MA: Harvard University Press).

Kindleberger, Charles P. 1996. Manias, Panics, and Crashes: A History of Financial Crises, Third Edition, (New York: John Wiley and Sons).

Litan, Robert, Richard Herring, and others. 1998. "Statement of the Shadow Financial Regulatory Committee on International Monetary Fund Assistance and International Crises." American Enterprise Institute (May 4). Available at www.aei.org/shdw/shdw145.htm.

McKinnon, Ronald I. and Huw Pill. 1996. "Credible Liberalizations and International Capital Flows: The 'Overborrowing Syndrome,'" in Takatoshi Ito and Anne O. Krueger (eds), Financial Deregulation and Integration in East Asia, National Bureau of Economic Research East Asia Seminar on Economics Volume 5 (Chicago, University of Chicago Press).

Radelet, Steven and Jeffrey Sachs. 1999. "What Have We Learned, So Far, From the Asian Financial Crisis?" Paper presented at the American Economics Association meetings (January).

Radelet, Steven and Jeffrey Sachs. 1998a. "The East Asian Financial Crisis: Diagnosis, Remedies, Prospects." Brookings Papers on Economic Activity, 1998:1, pp. 1-74.

Radelet, Steven and Jeffrey Sachs. 1998b. "Towards a New Strategy for Asian Recovery." Singapore Straits Times, July 24, 1998.

Raffer, K. 1990. "Applying Chapter 9 Insolvency to International Debt: An Economic Efficient Solution with a Human Face." *World Development* 18-2.

Sachs, Jeffrey. 1998. "Creditor Panics: Causes and Remedies." Unpublished paper available at the HIID website (http://www.hiid.harvard.edu).

Sachs, Jeffrey. 1995. "Do We Need an International Lender of Last Resort?" Frank D. Graham Lecture, Princeton University (April).

Sachs, Jeffrey. 1984. "Theoretical Issues in International Borrowing." Princeton Studies in International Finance, no. 54 (Princeton: Princeton University Press).

Sachs, Jeffrey and Steven Radelet. 1998. "Next Stop: Brazil." New York Times (October 14)

Sivigny, D. 1990. The Paris Club: An Inside View (Ottawa: North-South Institute).

UNCTAD. 1998. Trade and Development Report, 1998 (United Nations: New York).

Vitale, Giovanni. 1995. "Multilateral Sovereign Debt Restructuring: The Paris Club and the London Club." In Barry Eichengreen and Richard Portes, Crisis? What Crisis? Orderly Workouts for Soveriegn Debtors. Center for Economic Policy Research, London.

Williamson, John. 1998. "A New Facility for the IMF?" In Gerald Helliener (ed), Capital Account Regimes and the Developing Countries (New York: St. Martin's Press).

Williamson, John. 1992. In Jan Joost Teunissen (ed.), Fragile Finance: Rethinking the International Monetary System. The Hauge: Forum on Debt and Development.