Hard questions about who pays for the Brady plan

Stephen Fidler at a European seminar listens to reactions to the latest US proposals on debt

E verybody says it's a great idea, as long as the other guy pays for it."

This was how one American banker summed up reaction to the US proposals on developing country debt at a high level aeminar in Amsterdam yesterday.

Organised by NMB Bank to coincide with the annual meeting here of the Inter-American Development Bank, the conference brought together some of the main protagonists in the debt issue in a public forum, for the first time since Mr Nicholas Brady, US Treasury Secretary, announced the new US proposals.

Mr David Mulford, the US Treasury official widely considered the main architect of the proposals, insisted they were not a blueprint. He provided some slight refinements on Mr Brady's speech, which envisaged "support" from the international financial institutions for voluntary debt reduction by banks. This could include, he said yesterday, IMF and World Bank "support for interest payments on a rolling basis for a limited period".

In some quarters, the Brady proposals are being criticised because it appears as if the Administration is saying nobody will nay

nobody will pay.
"One of the great benefits of these present ideas is that, in and of themselves, they do not

involve additional resources as being necessary for the international institutions at this time," Mr Mulford told journalists. "They involve a shift in the direction and use of resources towards debt reduction."

There were few dissenters from the assessment of Mr Jean Claude Trichet, Director of the French Treasury and chairman of the Paris Club of Western creditor nations, that the proposals marked "a turning point" in the debt crisis.

However, the first concrete sign that the Brady ideas could meet resistance came from Mr Onno Ruding, the Dutch Finance Minister and chairman of the interim committee of the IMF. "I want to put a special question mark at the provision of guarantees by the IMF or the World Bank," he said.

Indeed, while the US ideas were applied from all sides of the debate, it was clear that in many quarters the hard questions are now being asked.

Mr Eugene Rotberg, a former treasurer of the World Bank and now an executive vice president with Merrill Lynch on Wall Street, articulated many of these issues.

... Precisely who will take the risk, who puts up new money, and how much in resources will be available? Who takes losses and through what mechanisms, and how does this

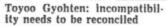


Jose Luis Machinea: questioned voluntary basis

affect the cash flow of the debtors? What will be the accounting impact on the lending institutions and how are the beneficiaries chosen? Will it be first come, first served, or will those in worst shape be the first to benefit? Or those in best shape?

When these are known, other questions raised widely at the seminar will be asked. What kind of impact will the plan have on incentives in debtor countries?

Perhaps most central of all:
is accelerated debt reduction
incompatible with new loans
from banks? The essential
problem here is that unless



debt reduction is huge it does not address the problem of the big resource flows from the debtor countries, amounting to \$30bn from Latin America last year. Mr Toyoo Gyohten, Japan's vice-minister for international finance, agreed that the "incompatibility between debt cancellation and the new credit needs to be reconciled".

That would happen only when creditor banks were convinced that the quality of their new credits and the remainder of their old credits were enhanced compared with the cancelled portion of their old credits.

Mr Gyohten and Mr Trichet



Onno Ruding: first signs of resistance

also attempted to reduce expectations that voluntary debt reduction by banks for middleincome countries might be followed by the same from the Paris Club.

According to Mr Trichet, the need for creditor governments to reduce debts was not proven, since official credit to middle-income countries made up a greater and greater share of the total and continued to be forthcoming, while commercial bank lending had dried up.

Others, including Mr Rotberg, were concerned that too great a role for the World Bank in the process might damage the institution's standing in the eyes of creditors.

There was also a conflict? views on the question of fligl capital. Mr Horst Schulmann r the Institute of Internation: Finance, the Washington base group that speaks for the banks, insisted that repetitioning flight capital was essent to resolving the debt crisis. A Jesus Silva Herzog, the form Mexican Finance Minister, sai he believed that only when the debt issue was solved would flight capital come home.

But only Mr Jose Luis Macinea, the president of the or tral bank of Argentina, que tioned the voluntary basis feet reduction. He aske whether in a voluntary framwork, banks would waive the sharing and negative pleds clauses of loan agreement that stand in the way of deliveduction. "If the approace continues to be based on small operations, the net transfer won't cease and the debte problem will remain largel unsolved."

There also remains a work that the US promise of review of the debt strategy and the subsequent Brady prosals, may have raised hope which cannot be fulfilled, especially in the short term, give the issues still to be resolve As Mr Mulford said of the deas: "They are not in place and not, strictly speaking usable at this moment."