

The Paris Club and the Poorer Countries

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I Introduction

The number of debt reschedulings in the Paris Club, by all countries has increased very dramatically since 1981; in the 1976-80 period on average only two countries a year rescheduled their debt in the Paris Club; in the period 1981-83,⁽¹⁾ on average seven countries a year rescheduled in the Paris Club.

During the 1976-83 period, the majority of Paris Club debt reschedulings (21 out of 31, that is almost 70%) involved low-income African countries. In fact, during several years (1976, 1977, 1979, 1980) it was only low income African countries which were rescheduling in the Paris Club; since 1981, when debt crises became more generalized and spread both to middle income African and particularly to Latin American countries, those countries also increasingly began to reschedule in the Paris Club.

The magnitude and the increase of the debt crises in low-income African countries is not fully reflected in the number of debt reschedulings within the framework of the Paris Club. In fact there were a number of low-income African countries (Gambia, Guinea, Mali, Tanzania, Benin, Chad, Guinea-Bissau and Mauritania) which were listed by the IMF⁽³⁾ as having payments arrears, or government defaults in 1983, but which had not renegotiated their official multilateral debt between 1975 and late 1983.

The increased frequency of debt crises and of debt reschedulings undoubtedly reflect a number of problems within the international economy and in the management of national economies. It seems necessary to highlight that the emphasis on debt and its' reschedulings in the early eighties is closely linked to the decline in new financial inflows into developing countries, which have contributed significantly to a decline in net inflows of capital as well as in net transfers of international financial flows. In particular net flows to low-income African countries through public and publicly guaranteed debt, which had risen systematically and substantially since the early seventies and until 1980, declined quite significantly in 1981 (by 25%) and in 1982 (by 35%); the 1982 level was below the 1977 nominal level net transfers to low-income Africa also declined very dramatically, by 30% in nominal terms, during 1981 and by around 35% in 1982.⁽⁴⁾

If new inflows into developing countries would tend to recover the dynamism which they had in previous years, the seriousness of the debt crisis and the frequency of debt reschedulings would obviously diminish. Therefore, even though this paper will focus on debt and its' rescheduling in the framework of the Paris Club, it will necessarily discuss the intimately linked issue of new flows, as well as the possibility of relating more closely the institutional discussion of debt problems with that on new flows.

The next section (II) of the paper will describe the Paris Club, explaining its' nature and describing its modus operandi. Section III will discuss in more depth the different and crucial roles that the IMF plays in the Paris Club rescheduling process. It will also make reference to the growing advisory role of private banks in the debt management of low-income African countries. Section IV will examine briefly the amounts and terms of the

negotiations, stressing recent changes and making special reference where possible to low-income African countries. The final section (V) will summarise the main limitations of the debt rescheduling exercises within the Paris Club framework and make some proposals to increase "debt-rescheduling effectiveness".

II Institutional arrangements

Between 1956 and October 1983, there have been seventy official multilateral debt renegotiations, of which 37 occurred between 1975 and 1983.⁽⁵⁾ Most of these debt renegotiations took place under the auspices of the Paris Club. Practically all official debt rescheduling exercises by low-income African countries have occurred within the framework of the Paris Club.

Some Asian countries (that is India, Pakistan and Bangladesh) have carried out official debt renegotiations within the framework of an aid consortium under the chairmanship of the World Bank, while Turkey's debts were renegotiated at meetings of the OECD Consultative Aid Group. The fundamental difference between Paris Club debt renegotiations and those conducted under the auspices of aid consortia is that the former are exclusively focussed on debt relief whereas the latter only determine the proportion of due payments subject to rescheduling of countries' future foreign exchange needs; in the aid consortia, the creditors also become lenders as they commit themselves to finance a future resource gap, linked to the country's development plans.

The Paris Club is the forum within which debtor countries negotiate the restructuring of public sector debt with their main creditor governments; the debts restructured in this forum consist of loans from the creditor governments and private export credits, guaranteed or insured by export credit agencies in the creditor countries.

Although it has been functioning since 1956 and has met on a large number of occasions and rescheduled a vast amount of debt, the Paris Club is an entirely ad hoc and informal forum, which has no legal statutes nor even any written set of procedures or rules. Although no handbook describing the functioning of the Paris Club exists, a number of procedures have evolved throughout the years, which are to a large extent based on precedent.

The informality of the Paris Club arrangements could be potentially advantageous to developing countries in that it could allow - if so desired by the creditor Governments - for major changes in the procedures and particularly the terms of their operations to be implemented easily and quickly; here an interesting difference seems to arise with international financial institutions such as the IMF or the World Bank where suggested major changes in their operations are sometimes far more difficult to implement because of restrictions within their Articles of Agreement. On the other hand the extreme informality of Paris Club procedures implies that there are no written rules nor even records kept of the proceedings; as a result the information on the terms granted in previous reschedulings, as well as on the bargaining process, is more easily available to the creditor countries' representatives which attend all the meetings (and in particular to the French Treasury which chairs them) than to the debtor countries' representatives,

whose detailed knowledge of previous negotiations in the Paris Club and their outcome can only be obtained indirectly (via the official international institutions which participate regularly as observers in the Paris Club, such as the IMF, the World Bank or UNCTAD or via merchant banks advising them who have participated or have knowledge of previous negotiations or by information from other developing countries' Governments). Furthermore, even for creditor Governments, the lack of a technical Secretariat and of systematic written analysis of features such as the terms granted in the Paris Club, as well as the extent to which developing countries have fulfilled their Paris Club commitments, would seem to constrain somewhat their ability to take informed decisions.

Even though there are no written rules, debt renegotiations in the framework of the Paris Club follow a fairly standard procedure.

The Paris Club meetings are only convened at the request of the debtor countries. (However, creditor Governments do use the opportunity of these meetings to review informally the situation of some debtor countries that have previously rescheduled in the Paris Club or are likely to do so in the near future).

A common criticism that has frequently been made of the Paris Club negotiations is that creditors have agreed to a meeting only after the external payments position has deteriorated to the point where payments arrears have already emerged and the outright suspension of all debt-service payments seem eminent, as creditor Governments seem reluctant to create a precedent for other debtors by showing willingness to enter debt renegotiations or provide debt relief (see, for example, C. Hardy, *op.cit*). At the same time, many debtor countries have often sought to postpone their

initial request to the Paris Club for debt rescheduling as long as possible, often accumulating substantial arrears before making such a request; this is partly because debt renegotiations have become in recent years conditional on the country previously reaching agreement with the IMF and 'developing countries' Governments have on the whole been reluctant to enter negotiations with the Fund, unless their balance of payments has been really critical. A further reason, not mentioned in the literature, why developing countries may postpone as much as possible to request a Paris Club meeting, is that a debt rescheduling may be seen by lenders - particularly private ones - to reflect a decline of the country's creditworthiness, thus making it more difficult and/or more expensive to raise new money in the private capital markets and the export credit guarantee agencies.⁽⁶⁾

The Paris Club welcomes the participation of all official creditors with claims on the country seeking debt relief. In practice, the different Clubs of Paris have been made up of OECD Governments with large claims on the debtors, although some other Governments have occasionally participated. In addition to the debtor and participating creditors, the rescheduling meetings are also attended by observers from a number of international institutions, including the IMF, and usually the World Bank and UNCTAD.

Paris Club meetings themselves are very brief and matters are resolved quickly (most rescheduling operations last only about a day and a half). However, it has become standard practice (to which there have been no exceptions since 1977) that as a precondition for the consideration by official creditors of a request for debt relief by a Fund member country, the debtor country must have reached agreement with the IMF involving the use of the Fund's resources in the upper credit tranches. As is well known, the process of reaching such agreements is often difficult and extended (we will refer in more detail to

the role of the Fund below).

The first part of the Paris Club meetings, is attended by all the parties concerned. In a number of Paris Clubs, representatives of private banks acting as advisors to the developing country Government enter the meeting as part of the developing country delegation. The representatives of the debtor country's Government make a statement for the record explaining the origins of its' problems, the adjustment measures being taken and the terms of the relief being sought. In some recent cases, the debtor country has also included a detailed presentation of their development plans and the financing needs which they will generate. The IMF representative makes a presentation for the record reporting on the country's short-term situation and in particular the adjustment programme, within the context of the upper credit tranche financing agreement previously reached with the Fund. It is interesting to note that representatives of the IMF attending Paris Club meetings are often not specialists in the country whose situation is being discussed, nor have they formed part of the mission which negotiated the Fund's credit agreement with the country; this seems rather surprising given that the progress report presented by the Fund has great influence on the creditor Governments' attitude to debt relief (the practical but somewhat insufficient explanation is that it is easier for Fund staff based in Paris to attend rather than to fly over staff from Washington). The World Bank representatives then make a presentation for the record which mainly is focussed on providing information on the country's outstanding debt and reporting on its proposed loans and credits over the coming years. Sometimes the statements and supporting documents provided by the World Bank give special attention to the financing of long-term investment and associated resource transfers.

In recent years UNCTAD has also usually made a presentation stressing the long-term development programmes and financing needs of the debtor country; this is sometimes accompanied by technical notes on this subject provided by UNCTAD. There then follows a period of questions posed by representatives, mainly focussed on its' commitment to repay the debt.

Some of the information provided to creditors is not, as a rule, distributed to observers. This has made it impossible for one of the observers (UNCTAD) to evaluate fully the adequacy of the documentation for the analysis undertaken in the Paris Club.⁽⁷⁾

In the second part of the proceedings, the representatives of the debtor Governments (including their private bank advisors, if any are attending the meeting) leave the meeting, but remain in the building. Representatives of the creditor Governments discuss amongst themselves proposals for the terms of the debt relief; these are presented on an informal basis by the Chairman of the Paris Club to the debtor country representatives, who conveyed to the creditor Governments their reactions. Most of the negotiations occur on this informal basis.

In the third part of the proceedings, all the participants meet in a plenary session where the general terms of the rescheduling agreement are announced; the Agreed Minutes are then signed by the representatives of debtor and creditor countries. The Agreed Minutes are not published.

The Agreed Minutes specify the maturity of the debt to be consolidated, the terms of the consolidation i.e. the period in which payments to be rescheduled must fall due (called the "consolidation period"), whether interest as well as principal is to be consolidated, the amounts to be rescheduled as a proportion of total repayments and the repayment schedule for the consolidated debt; if payments in arrears are consolidated, the schedule is also specified. The Agreed Minutes sometimes provide for an extension of the consolidation period, subject to the fulfilment by the debtor country of specified conditions; in other cases, the Minutes may only express the creditors' willingness to consider a future meeting to reschedule payments falling due beyond the consolidation period.

While the proceedings of the Paris Club are speedy, they by no means imply the end of the renegotiating process, as the agreements reached are not legally binding. Their function merely determines a number of features (though not all) of the debt rescheduling which are to be included in the bilateral agreements which the debtor country must reach with each of the creditor countries, and which are legally binding. The problem is that considerable time often elapses between the Paris Club agreement and the signing of the bilateral agreements. As a result, the entire debt rescheduling process - from the moment the interest to reschedule is expressed to the signing of the last bilateral agreement - may take from 12 to 18 months.⁽⁸⁾ If there are successive debt reschedulings, as became very frequent in the early eighties⁽⁹⁾ the process may be an uninterrupted one, with the last bilateral agreement arising from one rescheduling agreement being signed only a few weeks or even days before a Paris Club meeting to consider a subsequent rescheduling.

The lengthiness of the process of reaching bilateral agreements with creditor

countries arises from particular difficulties which seem to be fairly pervasive. These include the interest rate to be applied by each creditor, the currency of payment to be used and the reconciliation of debtor and creditor figures on the actual amounts to be rescheduled. On the issue of the interest rate to be charged, there is considerable divergence among creditors and - for some creditors - practice has varied from one debtor country to another; in some countries different interest rates apply to different categories of debt. Creditor countries have not reached agreement amongst themselves on upper limits for interest rates, on proportions of the subsidy element or even whether to use fixed or floating interest rates. Recently, there has been a shift towards more market related interest rates, as the proportion of subsidy has been gradually reduced.⁽¹⁰⁾ The problem of reconciliation of figures arises even in the case of debtor countries with sophisticated debt registration systems, but are naturally much more difficult for countries with limited debt registration systems, as are a large proportion of the low-income African ones.

A further problem raised increasingly by debtor countries (for example at the March 26th, 1984 meeting of the UNCTAD Trade and Development Board) is that restoration of "cover" is not automatic upon signing the bilateral agreements, which entails a high cost to them.

III The role of the IMF in Paris Club debt reschedulings
the advisory role of private banks

a) The crucial role of the IMF

The International Monetary fund plays a key role in the Paris Club rescheduling process, clearly very much underestimated by its official role as "observer" at the meetings. In cases involving countries members of the IMF, a condition for Paris Club rescheduling has come to be that debtor countries reach previously an agreement with the Fund involving the use of the Fund's resources in the upper credit tranches. There have been no exceptions in this practice since 1977.⁽¹¹⁾ (The situation was marginally different in the early seventies when for example Chile, in 1972, rescheduled its official debt in the Paris Club without entering into a stand-by agreement with the IMF, but instead made a declaration of intent to the creditors on measures to be taken to reduce the pressure on the balance of payments and to improve debt management which reflected the result of IMF studies and recommendations. It has recently been reported⁽¹²⁾ that Argentina would raise the possibility of rescheduling in the Paris Club, without previous agreement with the IMF).

Because an upper credit tranche agreement with the IMF, is a pre-condition for a Paris Club meeting, IMF conditionality and practices are clearly central to the rescheduling process, and have a profound influence on both its' procedures and outcome.

It has often been said⁽¹³⁾ that Fund conditionality is primarily suited for reducing the magnitude of payments imbalances arising from excess demand. It therefore has been argued that the Fund approach is inadequate for helping overcome the debt problems of many developing countries, and particularly the

low-income ones, as their more structural nature may often require a medium-term programme to increase productive capacity in order to expand exports or to reduce dependence on imports. As such a transformation of a country's production structure normally implies additional investment with a high import content, it may require a medium-term financial programme to support the adjustment, with disbursements spread over a number of years and repayments linked to the maturity of the investments financed (because investments would be concentrated in the tradeable goods sector, they would however have much shorter pay-off periods than investments in infrastructure). This would require financial support over a much longer period than is presently available from the IMF. The large amount of countries, particularly low-income ones, forced to successively reschedule their official debt seems to confirm the validity of the conclusion in the recent UNCTAD document⁽¹⁴⁾ that "the absence of suitable medium-term balance of payments adjustment programmes supported by the IMF, with a more appropriate - yet no less rigorous - type of conditionality, renders it highly unlikely that debt rescheduling can adequately restore a country's capacity to service its debt in the long-term."

A closely related, more specific, issue arising from the link between Paris Club reschedulings and IMF programmes is the fact the consolidation periods of the rescheduling tend to be very brief, and very often cover only 12 months so as to fit in with the framework of the IMF standby. The briefness of the consolidation period has been a key factor in the frequency of "back-to-back" reschedulings, which are costly for all the parties involved, imply that the developing country is prone to repeatedly lose its' export credit insurance cover and that excessive emphasis has to be placed within the developing country on debt crisis management, often at the sacrifice of the more fundamental concern with development, particularly as there is in most cases

no coordinated effort during the rescheduling exercises to increase the supply of additional finance in support of a medium-term investment programme. Such costs are significant for developing countries generally, but are particularly large for small, low-income countries with a shortage of skilled personnel.

There has been in recent years recognition for a very limited number of countries that the debt problem requires a more long-term solution. In the case of one low-income country, Sudan, a special meeting of a consultative group was held with the purpose of providing an integrated framework for analysis of the country's problems⁽¹⁵⁾; explicit recognition was accorded to the need for investment to increase the supply of tradeable goods. The details of a three year investment programme were reviewed, and donors provided indications of the amount of financial support they encouraged to extend. When the Paris Club met a short time later, the creditors agreed upon terms which were more favourable than in the case of other countries that had rescheduled recently; to a certain extent, this more favourable rescheduling may have been influenced by the findings of the consultative group.

Furthermore, in two recent cases the IMF took the initiative in encouraging a donor group meeting, which almost coincided with the Paris Club meeting, to obtain pledges of emergency balance of payments assistance. The Fund used this procedure because the country's programme under the agreement with the Fund did not appear likely to be met, taking into account prevailing levels of official capital flows and the debt relief likely to be agreed in the Paris Club.

It can be seen thus that the IMF plays a key analytical role not only in influencing the amount of debt relief to be granted to countries, but also in determining the need for additional financial resources. To a certain extent,

the agreement with the Fund pre-empts any major analytical role that could be undertaken by the Paris Club. The Fund has often - in its' design of a country's adjustment programme - to anticipate a successful rescheduling of official and officially guaranteed debt so that the country's external accounts can balance during the period of the programme. As a result, it has often occurred that in the course of the Paris Club meeting, creditor countries accepted as a parameter the residual balance of payments gap calculated by Fund staff, which was then divided by the creditors' estimate of debt service payments due to them, so as to arrive at the proportion of them to be consolidated, in their counter-proposal to the debtor country. It is mainly for this reason that the UNCTAD document quoted above refers to the possibility of describing these Paris Club rescheduling as "co-financing" of Fund programmes.

As the link between IMF programmes and Paris Club debt reschedulings has become so close, it could also be argued that the IMF has de facto become the main technical secretariat for the Paris Club!

Finally, it should be pointed out that the role of the IMF is very crucial at all stages of the Paris Club. As has been mentioned, since 1977 Paris Club agreements involving Fund members were all linked to arrangements with the IMF and in all of them mention was made of the importance that creditor countries attached to the implementation of Fund programmes; in fact during the 1981-83 period in most of the Paris Club Agreed Minutes it was specified that the continued validity of the agreement was made dependent on a country's maintaining a satisfactory agreement with the Fund; in three of those agreements, its' continued validity was made dependent on the country being able to make drawings from the Fund; this approach has since been abandoned. Furthermore, in those recent cases where a provision of conditional future

rescheduling was included, the conditions generally included the adoption of a Fund supported programme or continued eligibility to draw under a Fund programme. "Goodwill clauses" (expressing the intent of creditor countries to convene another meeting to consider the possibility of restructuring future debt-service payments) have been used with far greater frequency since 1981; in all the cases where a "goodwill clause" was included, a condition for its implementation was that the country conclude a new arrangement with the IMF, subject to upper credit tranche conditionality.

b) The role of the private banks

Private banks have been advising developing country Governments for over ten years on a variety of financial issues, with particular emphasis on debt recording, management and rescheduling. Most of the advisory activity has been concentrated in Africa; however banks have also advised some small Latin American countries (e.g. Costa Rica and Honduras) and some large Asian ones, like Indonesia and Turkey.

It is difficult to obtain detailed and, above all, systematic information on the advisory role of private banks. Private bankers are on the whole reluctant to offer detailed information on the subject, as this may be useful to their competitors; furthermore, some developing country Governments are not willing that the bank reveals even the fact that it is advising that country (in contrast with other developing countries' Governments which are keen to reveal that they have private bankers' advice).

Although exact figures of charges are not available, it is evident that the fees are extremely high; in some cases these fees are financed out of the aid budget, of the industrial country where the bank is based. There does not

seem to be a very clear policy on the use of aid to finance these fees.

The services provided by banks to developing countries' Governments cover a wide range of activities. An apparently mundane, but actually very crucial, area is assistance for setting up debt recording and monitoring systems; this is particularly important in the case of many African countries, where there are serious omissions and inconsistencies in their debt recording systems. The number of African central banks with a coherent recording system and up-to-date debt and debt service records is small - as shown by the discovery of "new" debts when rescheduling is under negotiation and/or debt crisis erupts. The number with coherent forward projections - especially ones including new borrowings during the period covered by the projection - is even smaller.⁽¹⁶⁾ Less widely known is the fact that private banks have extended their advisory role to helping particular developing countries design their adjustment programme for the purpose of negotiating with the IMF, have been involved in different capacities in the negotiations between the Fund and the developing country on a Fund credit, and are in several cases acting as advisors to Governments prior to and during Paris Club reschedulings (in several cases, representatives of these banks attend the Paris Club meetings, as "members" of the developing countries' delegation).

The involvement of industrial countries' private banks in developing countries' debt management seems to some observers to imply an unnecessarily high cost and to involve an additional potentially undesirable external influence on national policy-making. It seems necessary to stress, however, that the widespread use of advice by private bankers reflects a need, whether real or perceived, by developing country Governments for their services.

There are a variety of factors which seem to contribute to explain the

relatively widespread use of private bankers' advice. A first set of factors is related to the excessive and apparently increasing complexities of the debt rescheduling process itself. We are referring for example to the negotiation of complex bilateral agreements with individual creditors and to the fact that in many cases, debt reschedulings are so frequent (generating problems such as the renegotiation of previously renegotiated debt). The complexity of the rescheduling as well as its' frequency creates continuous rescheduling activity in which new situations are permanently arising, where knowledge of precedent is of great importance. This relates to a second set of factors which contribute to greater use of private bank advice. The lack of detailed, timely information published or easily available on the results of recent similar debt renegotiations makes it attractive to have advisors which have either participated in them or have detailed knowledge of them.⁽¹⁷⁾ This is particularly important in the Paris Club, as there are no set of rules, the agreements are heavily influenced by precedent (and therefore detailed knowledge of precedent is perceived as an important bargaining instrument). A third set of factors is particularly relevant to small low income countries, for example, in Sub-Saharan Africa. The general lack of skilled manpower in these countries, and the relatively low priority the whole given to training personnel in the fields of macro-economics and external finance imply that an insufficient number of nationals are available to carry out complex and almost continuous negotiations; furthermore, there seems to be insufficient international support in providing detailed information in these matters as well as concrete back-up for negotiations, even though such support has increased in recent years. For example, at the request of four countries, the UNCTAD Secretariat has executed UNDP financed projects whose aim had been to assist the countries involved to improve their national debt management by establishing an appropriate accounting base and/or computerising their debt records. The possibility of advice - on data recording - from

central banks with their own system effectively functioning has also been insufficiently explored.

IV The scope and terms of Paris Club reschedulings (18)

To a great extent, the scope and terms of debt relief granted by the Paris Club in the early eighties (1980-83) were similar to those granted during the second half of the seventies (1975-80) even though some evidence of systematic change can be detected.

As was the case in earlier periods, "elligible" debt for Paris Club rescheduling was restricted to large officially insured suppliers' credits and government loans. This excluded from consideration all unguaranteed trade credits, commercial bank loans and loans from multilateral financial institutions. This restriction did not present particular difficulties in the past, but as the composition of the debt of developing countries changed since the mid-seventies, it has limited quite severely the amount of debt relief that can be provided within the Paris Club framework. Of particular relevance within the context of low-income African countries is the exclusion of short term commercial credit arrears, even though it is not evident that such arrears could be easily negotiated within the Paris Club arrangements.

As was the case in earlier periods, during 1981-3, the agreements also generally excluded official or officially guaranteed debt with a maturity of less than one year. In the early eighties there were several exceptions to this principle either covering arrears on principal, as well as interest on short-term debt or rescheduling short-term debt falling due during the consolidation period.

Most agreements in the 1981-83 period included payments of both principal and interest; there was in this area an increase in consistency compared with the mid seventies when interest payments were often excluded.

Official creditors have continued to be very reluctant in rescheduling previously consolidated debt; however, during 1981-83, there were three cases which rescheduled all debt, whether previously rescheduled or not.

The length of the consolidation period in the early eighties ranged from one to two and one-third years, much as it had during 1975-80. It seems surprising that the average consolidation period during the early eighties (1.18 years) was on average actually four months shorter than that for the previous period (1.55 years). More flexibility was however shown in some cases; in a recent case, creditors departed from precedent by agreeing to reschedule debt service payments falling due in a future period so that the combined consolidation period would coincide with an EFF arrangement with the Fund.

As had been the case earlier, debt service payments eligible for consolidation in the Paris Club were divided into two portions: a larger one, usually either 85% or 90% and the remainder (see Table 1). The total average maturity for the larger portion remained practically unchanged in the early eighties if compared with the 1975-80 period; however, on three occasions (Sudan, 1983 and 1984, and Madagascar, 1984), the maturity period (ranging from 11 and a half to 16 years) was considerably longer than had been customary in the earlier period (see Table 1). Furthermore, the average grace period in 1981-83 was longer than in the earlier period, while the repayment periods were shortened (see Table 1); this pushed debt repayments further into the future than had previously occurred, but will contribute to increased bunching of payments

Table 1

Summary Table of Creditor meetings in Paris.

Country	Date	Consolidation Period	Percentage Consolidated	Grace Period	Repayment Period	Arrears	Repayment on other reorganisation	Good will clause
Peru	11/1978	2 ys *	90%	3 ys	5 ys	no	no	no
Togo	06/1979	1 y 9 ms	80%	2 ys 8 ms	6 ys	yes	no	no
Sudan	11/1979	1 y 9 ms	85%	3 ys 3 ms	6 ys 6 ms	yes	no	no
Zaire	12/1979	1 y 6 ms	90%	5 ys	5 ys 6 ms	yes	on previous	yes
Sierra Leone	02/1980	2 ys *	90%	5 ys 6 ms	6 ys	yes	as scheduled	yes
Nicaragua 1/	11/1980							
Liberia	12/1980	1 y 6 ms	90%	4 ys 9 ms	4 ys 6 ms	no	no	no
Pakistan	01/1981	1 y 6 ms	90%	-	-	no	no	yes
Togo	02/1981	2 ys *	85%	4 ys	5 ys	no	as schedule	yes
Madagascar	04/1981	1 y 6 ms	85%	5 ys 3 ms	4 ys 6 ms	yes	no	yes
Cent. Afr. Rep	06/1981	1 y	85%	5 ys	4 ys 6 ms	yes	no	yes
Zaire	07/1981	2 ys	90%	5 ys	5 ys 6 ms	yes	on previous	no
Senegal	10/1981	1 y	85%	5 ys	4 ys 6 ms	no	no	yes
Uganda	11/1981	1 y	90%	5 ys 6 ms	4 ys 6 ms	yes	no	yes
Liberia	12/1981	9 ms	90%	4ys 10.5ms	4 ys 6 ms	no	no	no
Sudan	03/1982	1 y 6 ms	90%	6 ys	5 ys	yes	no	yes
Romania	06/1982	1 y	80%	3 ys 6 ms	3 ys	yes	no	-
Madagascar	07/1982	1 y	85%	4 ys 9 ms	4 ys 6 ms	yes	no	yes
Malawi	09/1982	1 y	85%	4 ys 6 ms	4 ys 6 ms	no	no	yes
Senegal	11/1982	1 y	85%	5 ys 3 ms	4 ys 6 ms	no	no	no
Uganda	12/1982	1 y	90%	5 ys 6 ms	4 ys 6 ms	no	no	yes
Costa Rica	01/1983	1 y 6 ms	85%	4 ys 9 ms	4 ys 6 ms	yes	no	yes
Sudan	02/1983	1 y	100%	6 ys 6 ms	9 ys 6 ms	yes	on previous	yes
Cuba	03/1983	1 y 4 ms	95% of princ.	2 ys 10 ms	4 ys 6 ms	no	no	yes
Togo	04/1983	1 y	90%	5 ys	4 ys 6 ms	yes	on previous	yes
Zambia	05/1983	1 y	90%	5 ys	4 ys 6 ms	yes	no	yes
Romania	05/1983	1 ys	70% of princ.	3 ys 6 ms	3 ys	yes	-	-
Mexico	06/1983	6 ms	90%	3 ys	2 ys 6 ms	yes	no	yes
Cent. Afr. Rep	07/1983	1 y	90%	4 ys	4 ys 6 ms	yes	no	yes
Peru	07/1983	1 y	90%	3 ys	4 ys 6 ms	no	no	yes
Ecuador	07/1983	1 y	85%	3 ys	4 ys 6 ms	no	no	yes
Morocco	10/1983	1 y 4 ms	85%	3 ys 9 ms	3 ys 6 ms	yes	no	yes
Malawi	10/1983	1 y	85%	3 ys 6 ms	4 ys	yes	no	no
Niger	11/1983	1 y	90%	4 ys 7 ms	4 ys	no	no	yes
Brazil	11/1983	1 y 5 ms	85%	4ys 10 ms	4 ys	yes	no	no
Liberia	12/1983	1 y	90%	5 ys	4 ys 6 ms	no	no	yes
Madagascar	1/1984	1 y 6 ms	90%	6ys 3 ms	5 ys 6 ms	yes	on previous	yes
Sierra Leone	2/1984	1y	90%	6 ys	4 ys	no	on previous	yes
Ivory Coast	5/1984	1 y 1 ms	100% 50% **	5ys 1 ms	4 ys 6 ms	yes	no	yes
Sudan	5/1984	1y	100%	8 yrs	8 ys 6 ms	no	on previous	yes

1/ No agreement was reached.

* Second year conditional on IMF agreement.

** First percentage relates to principal, second to interest.

Note: Grace period starts at the beginning of the consolidation period.

Source: UNCTAD Secretariat, based on Agreed Minutes

during the repayment period. The treatment of the remainder, regarded as a down payment, varied substantially from one case to another.

It is noteworthy that the repayment terms for rescheduled arrears were for the whole 1975-83 period considerably more stringent than for rescheduled current payments; for example, half of the amount of the arrears covered by the restructurings were to be repaid within four years, -whereas the repayment of rescheduled current payments was longer, with half of the total repayment not due until six years after consolidation. Furthermore, the repayment terms for rescheduled arrears were more varied than for rescheduled current payments.

In all the agreements reached during the 1981-83, interest rates were left to be determined bilaterally. There is a wide variety of practice in defining monetarim interest rates, by different creditor countries.

A number of undertakings that were common in agreements reached in the 1975-80 period became standard in the early eighties. For example, in the latter period, almost all the agreements included an undertaking by the debtor country to renegotiate private debt, especially with banks, on comparable terms.

In examining the magnitude of the debt relief, it is useful to say that, as the recent IMF Discussion Paper emphasises,⁽¹⁸⁾ the Paris Club has "reflected the creditors' view that debt relief should not be provided as a vehicle for concessional development finance but should be designed to assist the debtor bridge temporary foreign exchange difficulties". This approach is on the whole clearly reflected in the terms granted in the Paris Club, as outlined above, and in the fact that debt relief is often a very significant percent of the current year's export earnings or current account deficit,⁽¹⁹⁾ but is a relatively insignificant proportion of the stock of total external debt or the medium term foreign exchange needs of the countries rescheduling.

V Increasing "debt-rescheduling effectiveness"

In evaluating the effectiveness of existing Paris Club procedures and their impact on developing countries, it seems useful to distinguish two levels: 1) significant changes in the parameters of the Paris Club and 2) small changes through which rescheduling procedures could be improved without a major change in their parameters.

It seems important to stress that there are absolutely no legal or institutional arrangements which regulate Paris Club operations. Therefore, a change in its' terms of reference, its procedures and the actual amount of relief offered depends only on the political willingness of the creditor countries, (this is a formal but potentially important point, not really made in the literature).

1) Significant changes in the parameters of the Paris Club

There has been a long debate between debtor and credit countries, as well as between international institutions involved on the nature of a desirable debt-rescheduling process.⁽²⁰⁾ Perhaps the most fundamental points that the Group of 77 have made is that the sharp distinction between debt relief and development assistance should be dropped and that the amount and terms of the debt relief take account of the medium-term development problems of the debtor.

As a result of discussions between industrial and developing countries, a resolution on "Detailed features for future operations relating to the debt problems of interested developing countries" was adopted by consensus at the Trade and Development Board of UNCTAD in September 1980; this resolution

includes the objectives of international action and a very broad operational framework within which such action should take place.

The objectives contained in the agreed detailed features provide that international action on debt problems of developing countries "a) should be expeditious and timely; b) should enhance the development prospects of the debtor country, bearing in mind its' socio-economic priorities and the internationally agreed objectives for the development of developing countries; c) should aim at restoring the debtor country's capacity to service its' debt in both the short-term and the long-term, and should recognise the developing country's own efforts to strengthen its' underlying balance of payments situation and d) should protect the interests of debtors and creditors equitably in the context of international economic co-operation".

The approval of these broad objectives and of a similarly general operational framework seems to have had relatively little impact on the actual procedures and terms of the Paris Club operations.

The climate for accepting at least some major changes in debt rescheduling procedures and terms currently seems however more favourable, largely as a result of the widespread debt crises, their negative impact on developing countries' economies and their actual, as well as potential, detrimental effect on industrial countries' economics. The leaders of the seven major industrial countries' Governments endorsed in principle at the London Economic Summit one important change in the rescheduling process, when they stated that they agreed to ... "In cases where debtor countries are themselves making successful efforts to improve their position, encouraging more extended multi-year rescheduling of commercial debts and standing ready where appropriate to negotiate similarly in respect of debts to governments and

government agencies". (my underlining)

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The factors that seem to make the adoption of important changes in the parameters of debt rescheduling more likely for low-income countries are the following:

a) Debt crises have in the early eighties become extremely widespread (as well as increasingly repeating themselves in some countries). It is increasingly recognised that to an important extent the problems of servicing the external debt of so many developing countries reflects profound changes in the world economy and in particular in the functioning of the international financial system, even though mistaken national policies have often contributed to accentuate the problem. As a result, changes in debt rescheduling practices - as well as other possible changes in the international financial system - seem to be necessary to help overcome the severe economic problems facing developing countries.

b) There is an increased perception that changes in debt rescheduling procedures - as well as other changes in the international financial system - may not only be desirable from the point of view of the developing country borrowers, but may also be in the ultimate interests of the industrial country lenders, as more appropriate procedures will diminish the risk of open default - with their very negative impact on these countries' financial systems - and enhance the possibility of future profitable business activity with developing countries.

c) It has become evident that in the eighties, private banking loans cannot be expected to provide a major source to finance Balance of Payments' deficits, even for middle income countries, as they did in the seventies;

there is no alternative obvious source of major expansion of new flows to developing countries operating at the moment. Net transfers to developing countries have been declining, and have in some periods and for some developing countries even become negative. Higher debt relief - both for low and middle income countries - acquires particular importance if and while new sources of external finance do not arise, to avoid very low levels or even negative levels of net transfers.

d) The management of the debt crises in the early eighties has provided additional lessons and precedents. In the case of many of the more successful private bank reschedulings during the early eighties (e.g. Brazilian and Mexican ones) debt renegotiation has been linked with negotiation for new loans. In the case of one low-income country with a debt problem of several years' standing, a consultative group meeting was held before the Paris Club, with the purpose of providing an integrated framework for analysing the country's debt problems; this contributed to more fruitful Paris Club negotiations and to more favourable terms agreed than in the case of other low-income countries. These exercises in the early eighties would seem to confirm the value of putting debt rescheduling in a broader development framework, and possibly linking it to discussions of new flows. The link between debt relief and new flows had previously been rather successfully established in the aid consortia for India and Pakistan.

Given these recent changes in the economic environment and the gradual change in creditor countries' perceptions, it would seem that some or all of the following measures have a broader base of support than in the past. Although linked, each of these measures could be easily adopted separately; if several of them were adopted, they would imply a significant change in the parameters of Paris Club reschedulings.

i) Particularly for low-income countries, it would seem appropriate to discuss their emerging debt problems initially in the broader context of a donor group, aid consortium or consultative group. After a comprehensive analysis of the country's problems and future prospects, such a multilateral forum could define the necessary action programme, which would include recommendation regarding the amount of rescheduling required, but could also make reference to new financial flows. Creditors meeting in the Paris Club could carry out their discussions within the broader framework of the analysis and recommendation of this multilateral forum, and could discuss in other or the same forums commitments to new funds. (21)

ii) Such a comprehensive analysis, which lays greater stress on development prospects and programmes of the debtor country, would seem to imply a greater role for the World Bank and/or UNCTAD than is currently the case. It has been suggested⁽²²⁾ that the discussion of the country's adjustment programme could be carried out jointly by the World Bank and the IMF, with the debtor country concerned.

iii) There are a variety of proposals relating to the role of the IMF in the Paris Club debt rescheduling process, which seem in different degrees to

propose a limitation to the Fund's currently overbearing influence on these proceedings. Perhaps the most radical proposal in certain respects is that of Chandra Hardy, which suggests that "debtors should not be required to conclude stabilisation agreements with the Fund prior to seeking debt relief, ... but should ... instead present to its' creditors a programme that would enable the debtor country to maintain a minimum rate of per capita income growth while implementing policies to stabilise its' external payments position".

If creditors continue to insist on prior adjustment arrangements with international financial institutions, more modest alternative proposals (to modify IMF conditionality and/or to enhance the role of the World Bank and possibly UNCTAD in the definition of the adjustment and development programme) could be implemented.

iv) There is increasing agreement, amongst all parties involved, of the desirability of multi-year rescheduling, both of commercial and government debts. (As mentioned above, this has had even some official endorsement from the leaders of the seven major industrial countries). This approach has also received quite strong support from the official international financial institutions. For example, in the recent World Bank publication, Debt and the Developing Countries, January 1984, it is said that "the prospects for adjustment with growth would be enhanced if creditor nations and bankers could support medium-term restructuring plans - perhaps to periods of up to five years - from the start".

The expansion of the consolidation period implied by such an approach would make it rather inconsistent with a yearly IMF stand-by (though it could be linked to future stand-by agreements, as has occurred already in some cases of longer consolidation periods, even though this seems an unsatisfactory

arrangement). It would seem more logical to link a multi-year rescheduling of official debt to a medium-term financial programme. One possibility, if existing arrangements are to be used, would be linkage to the EFF; other more innovative proposals⁽²³⁾ would link multi-year debt rescheduling with a new medium-term IMF Facility⁽²⁴⁾ or even a World Bank programme loan.

v) A modification of the "short-leash" approach implicit in lengthening consolidation periods could be complemented, particularly for low-income countries, by an extension of maturity and grace periods. As discussed above, there has already been a trend to somewhat increase grace periods, and in a limited amount of cases to significantly expand the maturity period. Therefore some precedent already exists for changes in this direction.

vi) Paris Club reschedulings should include a general statement that, as a result of the total rescheduling process - including the bilateral agreements - the present discounted value of the debt service should not be increased⁽²⁵⁾. If not made for all debtor countries, such a statement or rule should at least be made explicit for all low-income countries.

2) Small changes in Paris Club reschedulings

Even without major changes in the parameters of Paris Club reschedulings, there are a number of small modifications that could be made to existing procedures, which would make them more agile and would make the task of debt crisis management easier to handle for all parties involved.

As regards the procedures themselves, it would seem useful to attempt to expedite the bilateral negotiations which follows and give validity to the agreements reached in multilateral forums. In particular, attention should be

given to clarifying the practices and procedures followed by creditor countries in determining the interest rate on rescheduled debt; this implies the possibility that more specific uniform criteria could be evolved for interest rates to be charged, either by all creditors for each developing country that reschedules or to establish common rules for the way each creditor treats different debtor countries. In individual negotiations, it would seem simpler if the issue of interest rate could also be settled mainly or totally at the Paris Club meeting itself. (26)

A second area to speed up the bilateral agreements would be to improve the flow of information between creditor countries and the debtor country with regard to individual loan transactions that benefit from government guarantees. A pre-requisite would be to significantly update and fill in the gaps of records on current debt and the installation of debt recording/monitoring systems in debtor countries. It would seem that this is an area in which many low-income African central banks may need emergency technical assistance, as in the training of personnel to operate the new systems once installed.

Information should also be significantly improved on the Paris Club procedures and the outcome of the operations themselves, by making them both more timely and more detailed than current publications on the matter. A periodic publication (e.g. every 3 or 6 months) could be compiled, which would give details of the terms (including, if possible interest rates) agreed on a country-by-country basis. Such a publication could be easily elaborated by technical staff linked to the Paris Club itself or by one of the international institutions which attend as "observers" and which already publish some material in this field, though not as detailed and frequent as would seem to be required. It would seem valuable if greater transparency was applied also

to interest rates charged (as details about them are currently not revealed). Finally, debtor countries have stressed the need for greater clarity as to what procedures a debtor country could follow to accelerate the restoration of export credit facilities.

A greater transparency of the operations may tend to limit the advisory role which merchant banks need to play (though not eliminating it).

The Governments of developing countries themselves should attempt increasingly to pool together in a systematic way information on their individual reschedulings; in this respect, Latin American countries seem to be taking the lead, but this type of activity could be easily extended - particularly to areas like Sub-Saharan Africa - where a large number of countries have similar debt problems and are undergoing similar reschedulings.

References

- (1) The figures under-estimate the 1981-83 average as the 1983 total only includes debt renegotiations up to October 21st, 1983.
- (2) Data based on International Monetary Fund. Recent Multilateral Debt Restructurings with Official and Bank Creditors. Occasional Paper no.25. Washington. December 1983.
- (3) IMF 1983. Annual Report on Exchange Arrangements and Exchange Restrictions. Washington DC.
- (4) Data based on World Bank. World Debt Tables First Supplement. External Debt of Developing Countries. April 1984.
- (5) Data for 1956-81, from C.S. Hardy. Rescheduling developing-country debt, 1956-81: lessons and recommendations. Overseas Development Council and for 1981-October 1983, from IMF, op.cit in (2).
- (6) This point was made in an interview with a merchant banker, with long experience in advising developing countries on their debt management and renegotiation.
- (7) In accordance with resolution 222 XXI of the Trade and Development Board, the UNCTAD Secretariat has been requested to carry out periodic reviews of the implementation of the guidelines approved in that resolution related to developing countries' debt problems. The recent review issued on January 26th, 1984, document TD/B/1980, which was discussed in the Trade and Development Board meeting of the 26th March 1984, provides valuable information on the rescheduling process.
- (8) Estimate based on UNCTAD Secretariat document, quoted in footnote (7).
- (9) There were many more instances of debt negotiations involving the same country (10 of them) in the 1981-83 period, compared with only one in the previous, 1975-80 period. Source: UNCTAD, op.cit.
- (10) Based on information from interview with private banker.
- (11) Source: IMF, op.cit.
- (12) Financial Times, June 18th, 1984.
- (13) For examples of this types of analysis in the context of the debt problem, see Hardy, op.cit, UNCTAD, op.cit. The point is more generally elaborated for example in UNDP/UNCTAD Low income countries and the international monetary system, Report to the Group of 24, prepared by a Group of Experts. UNCTAD/MFD/TA/25, January 1983 and G.K. Helleiner "The IMF and Africa" Canadian Journal of African Studies. March 1983.
- (14) UNCTAD, op.cit.
- (15) See. "The Problems of Debt Surveillance; the Sudan". Paper presented to Seminar on External Debt Problems of African Countries in the 1980's 12-23 September 1983, Tunis, Tunisia.
- (16) For a more detailed discussion of these issues, see S. Griffith-Jones

and R. Green African External Debt and Development: A Review and Analysis 1984.

- (17) This was a factor mentioned in interviews with bankers.
- (18) This section draws heavily on UNCTAD, op.cit and IMF, op.cit, which provide a very useful if not complete source of information. As mentioned above, the IMF documents refers to the period till October 1983. Table 1 in the text includes renegotiations from November 1978 up to May 1984, with details by country.
- (19) IMF, op.cit.
- (20) In about 40% of the agreements in the 1981-83 period, debt relief represented more than 20% of exports in the year of the rescheduling; debt relief represented more than 50% of the current account deficit in over one third of all debt restructurings, and exceeded it in one fifth.
- (21) For a brief, but very useful overview of this debate, see Hardy C, op.cit.
- (22) This type of approach reflects UNCTAD's position; it is interesting that during interviews with some private bankers, with experience in Paris Club debt reschedulings, they suggested a similar approach.
- (23) For example, in Hardy, C op.cit and UNCTAD, op.cit.
- (24) See, for example, UNCTAD, op.cit.
- (25) See, for example, the proposal of "a special window" emergency facility to be established by the Fund to provide additional resources to low-income countries facing severe adjustment problems, made in UNDP/UNCTAD, op.cit.
- (26) This point is made, for example in Hardy C, op.cit. and in Griffith-Jones S, and Green, R, op.cit.
- (27) A problem may be that a number of creditor countries are bound by legislation as to the method of setting interest rates. See; T. Klein Renegotiating Developing Country Debt. BCEAO Seminar on Debt Management.