The Paris Club

THE EMERGING OF A MULTILATERAL FORUM FOR DEBT RESTRUCTURING
AD HOC COMMITTEE ON A MULTILATERAL FRAMEWORK FOR SOVEREIGN RESTRUCTURING PROCESS
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What is the Paris Club?

- It is an informal forum serviced by the French Treasury
- Composed by major developed OECD countries
- At which the major creditors agree to take a common approach to restructuring the repayment on debtor country loans owed to each of the member countries
- Sometimes they agree to reduce the amount of outstanding debt itself
What is the origin of the Paris Club?

- After II World War there was a resumption of private foreign lending by major developed countries.
- The loans were primarily associated with export credits that were insured for risk of loss by the governments of the exporters.
- The governments of western developed economies directly extended large amounts of public credits, or insured private national private lenders, to developing countries.
Birth of the Paris Club

• Under this environment, some countries engaged in excessive borrowing by mid-1950s

• In 1956, some European countries met in Paris under the chairmanship of the French Treasury to restore orderly payments relations with Argentina

• This meeting dealt with the renegotiation of supplier and buyer credits

• This group came to be known as the “Paris Club” due to the meeting venue
Sensitive Cases and the Paris Club: Turkey

- Turkey in 1959: notable because included uninsured supplier and buyer credits, mostly involving US firms

- Turkey’s second Paris Club rescheduling, 1962, was notable as well:
  - It included previously rescheduled debt (1959) and balance-of-payments loans instead of direct debt relief
  - Turkey’s strategic military importance to NATO, without any doubt, was an important reason for those favourable treatments
Sensitive Cases and the Paris Club: Indonesia vs Ghana

- Both countries rescheduled after Sukarno and Nkrumah were overthrown in the early 1970s
- Indonesia, which indebtedness was military loans, received a more favourable treatment than Ghana, which indebtedness originated in the drop of cocoa prices
- The negotiator of Indonesia, Dr Hermann Abs, obtained a bisque clause for Indonesia on exceptionally basis
- Ghana received reasonably terms consistent with Ghana’s capacity to repay but that had a very high price in terms of the time, resources and good will of both creditors and debtor
Involvement of International Organizations

• By 1961, staff of the World Bank and the IMF were invited to attend the Paris Club as observers
• Much later, in 1978, UNCTAD started to attend the Paris Club on the same basis
• UNCTAD began to present the creditors with an analysis of the debtor situation taking into account medium and long-term economic development perspectives
• The contributions of these three institutions often went beyond these services, as they would provide unofficial suggestions helpful for both debtors and creditors
Paris Club Principles

- **Case-by-case** treatment of debtor countries
- **Consensus** decision-making by the members of the Paris Club
- **Conditionality** entailed in implementation of an economic adjustment programme put in place by each debtor country
- **Solidarity** among Paris Club members via the implementation of the Agreed Minute
- Request that the debtor country seek **comparability** of treatment for similar debts by creditors that do not belong to the Paris Club.
- In consequence the Paris Club treats **asymmetrically** the debtors!
The Paris Club Agreed Minute

- It is the agreement reached by the parties attending the meeting
- The Paris Club creditor countries themselves do not consider the Agreed Minute as legally binding
- This is a pragmatic approach taken by the creditor countries, i.e. it gives flexibility to each creditor to determine the technicalities of the rescheduling among Paris Club members
- It eliminates the risk of legal suits by the debtor countries as well as needing to have the Agreed Minute ratified by the creditor countries’ parliaments
- The Agreed Minute is confidential in nature and is kept as such by the creditor countries’ governments
The Paris Club Bilateral Negotiations

• The Agreed Minute guides the bilateral negotiations that result in legal agreements to alter the debt contracts
• Bilateral agreements can be lengthy and costly for the debtor country
• The bilateral agreement will cover different types of loans, therefore, with different financial conditions
• The complete negotiation of bilateral agreements may take as long as 3 to 4 years: extremely costly process for both debtors and creditors
Relevance of the Paris Club

- The Paris Club once an isolated one-off mechanism, became an established future with the crisis of the 1980s
- And the Heavily Indebted Poor Countries (HIPC) in the 1990s
- Evian terms (2003):

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<tr>
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<th>Liquidity Problem</th>
<th>Unsustainable Problem</th>
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<tr>
<td>Non-IDA Country</td>
<td>Classic Terms or ad hoc Houston Terms</td>
<td>No Standard Terms: on a case-by-case basis, the debt relief would be given in three stages</td>
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<tr>
<td>IDA Country</td>
<td>Naples Terms tailored to the country’s financial situation</td>
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- Evian terms gives, officially, a paramount role to the IMF
Special Cases

• Nicaragua: an unsuccessful non-Paris Club
• Cuba: a successful non-Paris Club
• Mexico: a costly Paris Club with subrogate private debt to the government
• The need for a bisque clause in function to the debtor’s capacity to repay
Further Reading


The End

Questions?