



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 (HIPCs) in the 1990s
- Evian terms (2003):

	Liquidity Problem	Unsustainable Problem
Non-IDA Country	Classic Terms or <i>ad hoc</i> Houston Terms	No Standard Terms: on a case-by-case basis, the debt relief would be given in three stages
IDA Country	Naples Terms tailored to the country's financial situation	

- 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

Cosio-Pascal, Enrique, (2008), *The Emerging of a Multilateral Forum for Debt Restructuring: the Paris Club*, UNCTAD Discussion Papers No 192, Geneva, November 2008.

Cosio-Pascal, Enrique, (2010), “*Paris Club: Intergovernmental Relations in Debt Restructuring*”, in Herman, Barry; Ocampo, José Antonio, and Spiegel, Shari, Editors, *Overcoming Developing Country Debt Crisis (2010)*. The Initiative for Policy Dialogue Series, New York, Oxford University Press.

The End

Questions?