

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**THE CONVERSION OF PARIS CLUB DEBT:
PROCEDURES AND POTENTIAL**

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ABSTRACT

The Paris Club conversion clause was introduced in 1990 for lower-middle-income countries, and was extended in 1991 to severely indebted low income countries (SILICs). It provides the basic framework for conversion of Paris Club debt. At first sight it may appear that substantial amounts of debt can be cancelled through use of this clause. However, what can in fact be achieved is relatively limited, and except in the case of one debtor country – Egypt – the volume of Paris Club debt converted so far is not significant.

Each creditor country has its own methods and procedures for the conversion of Paris Club claims. The purpose of this report is to outline the practical steps which debtor countries need to take vis-à-vis their Paris Club creditors at the early stage of a debt conversion programme.

The report also discusses the extent to which non-governmental organizations (NGOs) from the selected creditor countries have experience of, or are interested in benefiting from, debt conversion transactions.

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INTRODUCTION

The Paris Club conversion clause was introduced in 1990 for lower-middle-income countries, and was extended in 1991 to severely indebted low income countries (SILICs). It provides the basic framework for conversion of Paris Club debt. At first sight it may appear that substantial amounts of debt can be cancelled through use of this clause. However, what can in fact be achieved is relatively limited, and except in the case of one debtor country - Egypt - the volume of Paris Club debt converted so far is not significant.

Each creditor country has its own methods and procedures for the conversion of Paris Club claims. In most creditor countries, the treatment of officially guaranteed commercial claims is different from that of official development assistance (ODA). While certain creditors seek actively to dispose of their officially guaranteed commercial claims for conversion, others are not willing (or legally able) to implement the conversion clause; a third category may be open to approaches from potential investors without seeking actively to dispose of their claims.

Some creditor countries cancel outright their Paris Club ODA claims on certain categories of debtors. In some cases, Paris Club claims (ODA and officially guaranteed commercial debt) have been incorporated into the creditor countries' development cooperation programmes and converted in the form of conditional debt cancellations.

The purpose of this report is to outline the practical steps which debtor countries need to take vis-à-vis their Paris Club creditors at the early stage of a debt conversion programme.

This report has benefited from discussions with representatives of a selected group of Paris Club creditor countries. Special emphasis has been given to the position of creditor countries vis-à-vis conversion of claims held on low-income debtor countries.

The report also discusses the extent to which non-governmental organizations (NGOs) from the selected creditor countries have experience of, or are interested in benefiting from, debt conversion transactions.

CHAPTER I CONVERSION OF PARIS CLUB DEBT

It is not the intention of this report to provide a fundamental economic analysis of debt conversion, or to discuss its macroeconomic implications, these having been extensively covered in other UNCTAD publications.¹ Its purpose is to indicate the practical steps involved, as well as the potential and limitations of Paris debt conversions.

It is important to emphasize, at the outset, that debt conversions serve to finance the *local cost component only* of the beneficiary projects.

A. The Paris Club debt conversion clause

In 1990, Paris Club creditors introduced a clause in Paris Club agreements for lower-middle income-countries (under Houston terms) whereby part of the consolidated debt can be reduced through debt conversions. This clause was extended in 1991 to poorer debtor countries, which benefit from concessional terms.

Box 1
Conditions for Paris Club debt conversions
(Debt covered: pre-cut-off date debt)

The conditions agreed by the Paris Club in 1991 were as follows:

- ODA
No limits on the amount that can be converted.
- Officially guaranteed commercial debt
Conversion within the limit of 10 per cent of total exposure or up to US\$ 10 or 20 million, whichever was higher, the minimum amount of US\$10 or 20 million being determined on a country-by-country basis.

In 1996 the limits for conversion of officially guaranteed commercial debt were increased to 20 per cent of total exposure and SDR (special drawing rights) 15 or 30 million.

Debt conversion is a voluntary option for both debtor and creditor Governments which is provided for in the multilateral Paris Club agreement.

In most cases Paris Club debt conversion for SILICs involves officially guaranteed commercial debt² since most of the creditor countries contacted indicated that Paris Club ODA is almost systematically cancelled for debtor countries in this category.

¹ For example, *Manual on the Conversion of Official Bilateral Debt*. Geneva, UNCTAD, 1995.

² France is an exception.

Each creditor country has its own approach to bilateral debt conversion and procedures vary considerably from one country to another.

For certain creditor countries, (e.g. Belgium and the United Kingdom) once the bilateral agreement has been signed, it is possible to sell claims for conversion. Other countries (e.g. France) require that a further specific agreement (“Accord Cadre” or Frame Agreement) be signed with the debtor country, setting out the conditions on which claims will be sold for conversion.

The United States does not generally implement the conversion clause.

In other cases, creditor countries (e.g. the Netherlands, Norway and, more recently, Italy) are willing to examine the possibility of selling Paris Club claims for conversion; however no such sales have actually taken place.

B. Different types of debt conversion

When analysing the possibilities for a debtor country to benefit from Paris Club debt conversion, it is important to distinguish between two different types of debt conversion.

(a) Traditional debt conversions

These which are tripartite transactions involving (i) the sale of a foreign currency claim on the debtor country by a creditor to an investor, at a discount, often via a financial intermediary; and (ii) the cancellation of the foreign currency claim by the investor in exchange for a local currency (or “in kind”) disbursement by the debtor country at a lower discount.

The purchase of the claim is negotiated for a specific debt conversion transaction for which approval has been given by the debtor country.

Traditional debt conversions were developed during the 1980s, initially using claims held by commercial creditors of sovereign debtors which were traded in the secondary market for sovereign debt.

(b) Conditional cancellation conversions

There are bilateral transactions negotiated between a debtor and a creditor country, involving the cancellation by an official creditor of a foreign currency debt obligation in exchange for a local currency counterpart fund to be invested in specified projects mutually agreed between the debtor and the creditor.

In certain cases, conditional cancellation conversions involve officially guaranteed commercial claims which have been sold, or donated in the context of a national debt reduction initiative (see Box 8, The Swiss Debt Reduction Facility) or subsequent to an agreement between a creditor country’s development cooperation agency and its export credit agencies (see Box 5, Conditional cancellation conversions - Belgium)

In other cases, *without any formal financial assignment of claims* (or even without a Paris Club agreement, as in the case of Tunisia), an official creditor can agree that a debt service

obligation will be considered as paid if the debtor country invests an agreed amount of local currency in a mutually agreed project (see Box 7, Conditional cancellation conversions - Netherlands).

C. Economic impact of debt conversion for the debtor country

When deciding whether to approve any type of debt conversion, be it commercial debt or Paris Club debt, a debtor Government should evaluate the macroeconomic impact of the transaction. The main issue that has to be addressed is how the local currency counterpart is to be funded by the debtor Government, and the budgetary and monetary impact of debt conversion.

Furthermore, the debtor country should be clear beforehand on the main objective of the debt conversion. Is it to achieve debt relief or to attract a particular category of investment (private investment, additional funding for social development or environmental protection, etc.)?

For countries that have adopted debt conversion programmes, these issues are covered in the context of the programme, often in the form of annual budgetary allocations. However, in countries that do not have a programme, which is the case of most SILICs, they must be addressed on a case-by-case basis.

The ideal situation is one where budgeted debt service for the year the conversion takes place is sufficient to cover the local currency payout. In this situation there is no negative budgetary or monetary impact.

This is, however, rarely the case with regard to the Paris Club debt of SILICs, rescheduled on concessional terms, with long grace periods, often including debt relief.

The local currency funding problem can be addressed in many different ways. If immediate disbursements of local currency are required, a specific budgetary allocation can be made to fund the conversion. If this proves difficult for the debtor country, other methods, such as disbursement over a period of time or payout “in kind” rather than in cash, can in certain cases be negotiated with the beneficiary of the conversion.

Traditional debt conversions normally require immediate disbursement of the local currency counterpart. It is easier for a phased-out disbursement schedule to be negotiated for conditional cancellation conversions which are concluded in the context of bilateral agreements between debtor and creditor countries. For example, the Swiss Debt Reduction Facility has a pragmatic approach to the problem and works hand in hand with the debtor country to agree on a disbursement schedule that will not result in budgetary and monetary pressures for that country.

D. Importance of studying conversions on a case-by-case basis

It is important that an in-depth study of the relative advantages and disadvantages of a proposed transaction be carried out before a decision positive or negative is taken by the debtor Government.

Paris Club debt, particularly for SILICs which have been through several Paris Club restructuring agreements, is often made up of a series of consolidations on different conditions, some of which may be more “expensive” in terms of debt service than others - and even in certain cases include debt on non-concessional conditions.

If Paris Club debt is to be converted, priority should be given by the debtor country to converting debts which have the highest interest rates, and/or where debt relief possibilities are not foreseen in the near future. The situation of claims held by creditors which may be “de minimis” in future negotiations, and therefore excluded from future debt relief, should also be borne in mind.

E. Relative advantages of conversions in favour of NGOs

For the many SILICs following Structural Adjustment Programmes the largest budget item is external debt service, and very few budgetary resources are available for areas such as social development, health care, poverty alleviation and environmental protection.

To the extent that the debt targeted for conversion is being serviced, debt conversion in favour of those underprivileged sectors allows the debtor country to save budget resources originally allocated to external debt service, and to reinject them into the local economy for social development or environmental protection.

Projects in these areas are often managed by NGOs which have the necessary foreign currency resources for purchasing the debt for conversion.

F. Different approaches of Paris Club creditors to debt conversion

Most of the creditor countries approached for the purpose of this report adopt a policy of outright cancellation of ODA and do not sell claims in this category for conversion.³

Officially guaranteed commercial debt is in most cases the responsibility of the creditor country’s export credit agency, for which the conversion clause provides opportunities to sell claims at a discount as part of a recovery operation.

In these circumstances, the creditor country is not involved in negotiations with the authorities of the debtor country about the condition of debt conversion. Such negotiations are between the debtor country and the beneficiary of the conversion. The creditor country’s involvement is limited to negotiations with the potential beneficiary on the conditions of purchase of its claims.

In order to comply with the Paris Club Agreement, all Paris Club creditors will require documentary evidence that their claim is being sold for a debt conversion. Some creditor countries impose criteria regarding the type of project funded with the claims they sell. These criteria vary from country to country, and may be more selective than the general provisions contained in the debtor country’s multilateral Paris Club agreement. Some creditor countries limit their involvement to receiving a copy of the debtor Government’s authorization for the conversion transaction, whereas others require more detailed information (type of project, use of funds, local currency payout level, etc).

³ France is an exception.

The degree of involvement normally depends on the degree of independence of the creditor country's export credit agency.

In certain cases ⁴ a creditor country will actively facilitate the conversion of Paris Club claims as part of its development aid programmes.

G. Role of debtor country in negotiation of conversions

The role of the debtor country in the negotiation of a debt conversion varies depending on whether the operation involves conversion of a Paris Club claim sold to a third party by a creditor Government or whether debt conversion is included in the bilateral development cooperation programme with the creditor country.

(a) Traditional debt conversions

The sale of a claim by an export credit agency to the beneficiary of a debt conversion constitutes a traditional debt conversion.

For conversions in this category, the debtor Government's role is as follows:

(i) Negotiation of the conditions of the debt conversion with the beneficiary, including:

- Authorization of the beneficiary projects;
- Indications about the use of funds resulting from the conversion;
- Restrictions on the use of funds resulting from the conversion;
- Level of local currency (or in kind) disbursement;
- Type of debt accepted for conversion;
- Restrictions (if any) on repatriation of dividends;
- Procedure for cancellation of the converted debt and making available the local currency (or in kind) disbursement;
- Reporting or supervisory procedures.

The above elements are set out in an agreement signed by the debtor Government and the beneficiary of the conversion.

⁴ Belgium and Switzerland.

Box 2
Round tripping

For the beneficiary, a debt conversion is tantamount to exchanging foreign currency against local currency at a preferential exchange rate.

Round tripping is a situation in which local currency funds resulting from a conversion are not used by the beneficiary as intended to cover its local currency costs in the debtor country but are used instead to purchase foreign currency which is re-transferred out of the debtor country with a profit.

Example:

Amount invested to purchase claims for conversion	:	US\$ 1 million
Local currency payout (multiplier 1.5)	:	c/v of US\$ 1.5 million
Amount of payout in local currency units (LCUs) at exchange rate US\$ 1 = LCU 10	:	LCU 15 million
Amount of US\$ purchased with proceeds of the conversion and transferred out of the debtor country	:	US\$ 1.5 million
Foreign exchange gain for beneficiary	:	US\$ 0.5 million

This is one of the main elements which has to be controlled by a debtor Government which authorizes debt conversion. The control process is particularly difficult in countries which have a convertible, or quasi-convertible, currency.

- (ii) Acceptance of the specific claims proposed by the beneficiary for conversion. The details of the claims proposed will be made available by the creditor with whom a purchase has been negotiated.
- (iii) Signature with the beneficiary, and in certain cases the creditor, of documentation cancelling the foreign currency debt obligation in exchange for disbursement of the local currency counterpart.

The above procedure will be set out in the formal debt conversion programme of those debtor countries that have adopted such a programme. In other cases, an ad hoc approach will be adopted.

In all cases, the debtor country has to put in place a control procedure to ensure that the local currency is used as intended in order to avoid round tripping (see box 2).

For conversions of this type, it is unlikely that the debtor country will be involved in negotiations with the creditor relating to purchase of the claims to be converted. However, it is important that the debtor Government be aware, when fixing the local currency payout level, of the approximate price level at which the debt to be converted is likely to be acquired. (see box 3 - Debt reduction impact depending on payout level).

(b) Conditional cancellation conversions

For conversions in this category, bilateral negotiations will take place between the debtor and creditor countries regarding the conditions on which the debt is to be converted.

Such conversions normally take the form of local currency counterpart funds, capitalized by the debtor country, the amount made available being a percentage of the debt converted as agreed with the creditor.

The counterpart funds are managed jointly by representatives of the debtor and creditor countries. For larger amounts, an independent legal entity with its own management and supervisory structures will be created. When the amounts involved do not justify the creation of an independent legal entity, the management of the counterpart funds may in certain cases be delegated to an executing agent.

Such funds are frequently used to fund development programmes in the debtor countries, often in cooperation with local or international NGOs.⁵

In a creditor country, conversions in this category are normally managed by the administration responsible for development cooperation.

For this type of conversion the control issues are covered in the structure set up to manage the counterpart funds, and the risks of round tripping are virtually non-existent.

H. Determination of selling price of Paris Club debt

(a) Traditional debt conversions

The only benchmark for pricing sovereign debt is the secondary market for commercial debt, where indicative quotations for most countries can be obtained. It is often argued that official debt should be worth more than commercial debt, but there is no secondary market for Paris Club debt⁶ (which is not freely negotiable and transferable).

Paris Club debt sold for traditional debt conversions is most of the time officially guaranteed commercial debt. The creditors, usually the export credit agencies of creditor countries, have their own methods of calculating the price at which claims can be sold, which in most cases are not market-driven. In the case of most SILICs such prices tend to be substantially higher than those quoted in the secondary market for commercial debt. There is no consultation between Paris Club creditors about the price at which claims on a given debtor country are sold.

Generally speaking, it is difficult to purchase Paris claims for conversion at a price level substantially below 25 per cent, even if secondary market quotations for certain debtor countries are at much lower levels.

⁵ See for example, *The Swiss Debt Reduction Facility: A State of the Art*. Bern, Swiss Coalition of Development Agencies, 1995.

⁶ Mistry, P. and Griffith-Jones, S. *Conversion of Official Bilateral Debt*, Geneva, UNCTAD 1991/1992.

(b) Conditional cancellation conversions

In certain cases, officially guaranteed commercial debt held by export credit agencies has been either (as in the case of Switzerland) donated to a dedicated debt reduction fund or (as in the case of Belgium) sold to the development cooperation agency.

In the case of Belgium, the purchase price was negotiated with the export credit agency.

It is intended that the claims so acquired may subsequently be converted using the conditional cancellation method, the local currency payout level being negotiated with the debtor country on a case-by-case basis.

I. Determination of local currency payout level

(a) Traditional debt conversions

Traditional debt conversions are “commercial” transactions, even for NGOs, the interest for the beneficiary being the financial leverage obtained via the conversion. This leverage results from the difference between the purchase price of the debt and the value at which the debt is converted into local currency (the payout level). It is estimated today that to prompt an NGO to conclude a traditional debt conversion in a SILIC, a “multiplier” of 1.3 to 1.5 will be necessary.

For the beneficiary of a debt conversion, it is not *the purchase price of the claim* which is in itself important, but *the differential between the purchase price and the local payout level*.

For example, if the beneficiary/investor applies the same margin of financial leverage between the purchase price and the local currency payout value, he would seek a local currency payout level of 65 to 75 per cent of face value, if he purchased the claim at a 50 per cent discount. He would seek a conversion rate of 13 to 15 per cent of face value if the debt is purchased at 10 per cent of face value.

For the debtor country, the lower the local currency payout level, the higher will be the debt reduction impact resulting from the conversion. The minimum level of payout accepted by the beneficiary of the conversion will depend to a large extent on the price at which he has purchased the claim. In general, the higher the discount (and the lower the price) on the claim, the lower the local currency payout.

Box 3
Debt reduction impact depending on payout level

	Case no.1	Case no. 2
Purchase price	10%	50%
Multiplier agreed with the investor	1.5	1.5
Local currency payout level	15%	75%
Face value of debt converted	US\$ 6.66 million	US\$ 1.33 million
Local currency disbursement	c/v US\$ 1 million	US\$ 1 million
Cost for investor	US\$ 0.66 million	US\$ 0.66 million

In each case, the cost for the investor is the same and, the amount of local currency disbursed is the same but in case no.1 the debt reduction impact is increased.

Case no. 1 is more advantageous for the debtor Government.

It is therefore in the interest of the debtor country, before agreeing on the payout level, to be aware of the price which the beneficiary of the conversion is likely to pay. The differential between the payout level and the purchase price, without being excessive, should be sufficient to provide an incentive for the beneficiary to make the conversion.⁷

When converting Paris Club debt, determination of the payout level can be even more difficult for the debtor country, as prices may differ from creditor to creditor.

(b) Conditional cancellation conversions

The local currency payout level is negotiated between the debtor and creditor countries and is not necessarily linked to the price at which the claims were acquired by the administration responsible for the conversion.

In most cases there is no “financial leverage” requirement for the creditor Government, the payout level being based on the economic possibilities of the individual debtor country. For example, the Swiss Debt Reduction Facility has agreed, for the poorest countries, to local currency payout levels below the acquisition price of the claims converted. The Belgian scheme required a local currency payout level in excess of the price paid to Ducroire in a country where this was economically feasible. Both the Swiss and Belgian schemes have cases of cancellation with no local financial counterpart.

⁷ See *Structuring and negotiating conversion transactions*, chapter 5 of *Manual on the Conversion of Official Bilateral Debt*, Geneva, UNCTAD 1995.

The advantages of this system compared with the traditional debt conversion system are evident. However, it has been adopted by only a limited number of Paris Club creditors.

J. Accounting issues related to the conversion of Paris Club debt

As mentioned earlier, Paris Club debt eligible for conversion may be composed of outstanding amounts which carry a wide range of different interest and principal repayment conditions. The eligible debt may also have benefited from debt reduction.

For a debtor country, the maximum immediate debt relief impact will be achieved through converting debt which carries the higher interest rates and is at the stage of principal repayment.

The least immediate debt relief impact will be achieved through converting debt which benefits from a grace period for principal repayments or from concessional interest rates, and/or which has benefited (or is likely to benefit) from debt relief.

As regards this latter category, Paris Club procedures provide that if debt which has benefited from debt reduction is to be sold for conversion, ***it should be removed from the consolidation prior to conversion***, i.e. its pre-debt reduction value is reinstated before application of the discount at which it is to be sold. This is necessary in order to maintain comparability of treatment between creditors, some of whom may have granted debt service reduction, which maintains the face value of the debt, while others have granted principal reduction.

This may cause problems for the debtor country, particularly in the case of debt in respect of which the principal reduction option has been taken, since the outstanding amount of principal will be readjusted to its original level before application of the discount at which it is to be sold (see box 4).

It should not, however, be inferred from the above that traditional conversions of Paris Club debt in SILICs are never advantageous for the debtor countries which have benefited from debt reduction measures.

The example in box 4 does not take into consideration the fact that debt reduction measures for most SILICs apply to ***debt service flows on a net present value basis during a reference period corresponding to that of an International Monetary Fund (IMF) Enhanced Structural Adjustment Facility (ASAF) programme - or a similar programme - the duration of which is usually at least three years***. The full impact of the principal reduction measures is therefore not felt immediately.

Paris Club creditors may also hold claims which are eligible for conversion but which have not yet benefited from debt reduction, and/or are not likely to do so in the foreseeable future. Paris Club debt eligible for conversion may also include outstandings on non-concessional terms. The debt reduction impact of converting such claims is likely to be more interesting for the debtor country and worth examining.

For this reason, when examining the possibility of converting Paris Club debt, it is important that the debtor country identify at as early a stage as possible the specific debt which it would be in a position to convert so that this element can be included in the purchase offer submitted to the export credit agency by the beneficiary of the conversion.

Box 4

Debt reduction impact when converting debt benefiting from debt relief under Naples terms.

As an example, imagine that the United Kingdom which accepts the principal reduction option, offers to sell a claim of £1 million on a country benefiting from a 67 per cent principal reduction to an investor, who obtains a local payout level of 30 per cent.

If the claim offered by the creditor for conversion has benefited from debt reduction, the £1 million claim sold would be the £1 million outstanding *prior to application of the principal reduction*.

However, following the principal reduction operation, the debtor country will have replaced the original debt of £1 million by a new debt of £333,000.

If no debt conversion takes place, the debtor has to repay £333,000 over an extended period of time at market interest rates. If conversion takes place, the debtor has to pay £300,000 immediately.

At first sight this may not appear attractive for the debtor country.

Nevertheless, the debt conversion alternative provides additional debt reduction beyond the 67 per cent already obtained, and in net present value terms is cheaper for the debtor country.

On a cash flow basis, however, the reduction option involves a much smaller immediate disbursement.

Given the extremely tight cash position of most SILICs, it may be difficult for the debtor country to accept the conversion alternative for debt benefiting from debt reduction, despite its other advantages.

In addition, for debtor countries which benefit from ever-increasing debt reduction measures on the part of the Paris Club, there could be possibilities for the £333,000 of outstanding principal to be further reduced. This makes it even more difficult for the debtor country to justify converting debt which is likely to benefit from future cancellation.

The above problems have been cited as reasons for the non-completion of debt conversions using Paris Club debt in two SILICs.

CHAPTER II CREDITOR COUNTRY APPROACHES TO PARIS CLUB DEBT CONVERSION

This chapter provides detailed information on the approaches of selected Paris Club creditors to the conversion of Paris Club claims. It outlines the procedures involved in purchasing claims for conversion, and evaluates the potential for conversion of claims.

A Paris Club creditor can be involved in conversion of its claims in two different ways:

- (i) By selling its claims to third parties (traditional debt conversion);
- (ii) By cancelling its own claims in exchange for provision by the debtor country of a financial or an in-kind counterpart structure (conditional cancellation conversions).

In certain cases development aid funds, or specially dedicated funds, can be used to acquire officially guaranteed commercial claims which are subsequently converted using the conditional cancellation method.

There is no agreement between individual creditors about the methods adopted to sell claims for conversion, the selling price, amounts to be converted in a given period of time, etc.

Only one creditor country (France) indicated that it will sell ODA claims for conversion. With regard to the other countries, the information provided concerns the sale of officially guaranteed claims.

This chapter also briefly addresses the possibilities for NGOs to be involved in debt conversion. In this respect, a distinction should be made between NGOs *operating in the debtor country* and those which *fund operations of local NGOs*. Traditional debt conversions can be appropriate for both categories, but those operating in the debtor country can also benefit from conditional cancellation conversions.

BELGIUM

PART 1 BELGIAN GOVERNMENT APPROACH TO CONVERSION OF PARIS CLUB CLAIMS

A. Background

Belgium has agreed to implement the Paris Club conversion clause in its bilateral agreements with the debtor country, and sales of officially guaranteed commercial claims for conversion have been made. ODA claims benefit from outright cancellation.

(a) Who is responsible for Paris Club claims?

ODA claims are within the sphere of competence of the Treasury. The tendency in Belgium is for concessional ODA claims to be progressively cancelled.

Officially guaranteed commercial claims come under the responsibility of the Belgian export credit agency, Ducroire. Ducroire is a public insurance company, but is fully responsible for the payment and recovery of its claims without the intervention of the Treasury.

(b) Debt reduction option chosen by Belgium

When debt reduction options were initially introduced by the Paris Club, Belgium systematically opted for the commercial option (i.e. long-term restructuring without debt relief).

Since 1991, Belgium has applied debt reductions, and the interest rate reduction option has been chosen. Belgium has not yet applied the principal reduction option.

(c) What sales of claims have been made to date?

ODA claims: No sales since they are progressively cancelled.

Officially guaranteed commercial claims: Ducroire is a pioneer among Paris Club export credit agency creditors that have sold claims since 1984. No list of claims sold is published by Ducroire. This information is available only to the Chairman of the Paris Club, or has to be obtained from the debtor countries concerned.

(d) How is the price calculated?

Ducroire has an in-house evaluation method for its claims, the parameters of which have not been disclosed.

This in-house evaluation will determine the minimum price at which Ducroire can sell its claim; in the case of SILICs, the minimum price is rarely at secondary market levels (if quotations exist).

Ducroire is not in a position to officially provide an across-the-board minimum sales price indication, but it seems that Ducroire finds it difficult to sell any claim at a price below 20-25 per cent of its nominal value.

(e) *What information should be submitted to Ducroire by a potential purchaser of claims?*

The only information required is evidence of the debtor Government's authorization to convert the claims purchased. The level of local currency payout does not necessarily have to be disclosed to Ducroire.

(f) *Does the Belgian Government impose criteria regarding the type of projects to be funded by conversion of the assigned claims?*

Claims available for conversion are those held by Ducroire. Since Ducroire has full responsibility for its financial equilibrium, it benefits from substantial freedom of action and the Belgian Government does not impose any specific criteria regarding the nature of the beneficiary project. The only condition is that it be consistent with the provisions of the Paris Club agreement on conversion.

(g) *Does Ducroire require that a financial intermediary be involved in the purchase of a claim?*

No, as long as the purchaser can provide satisfactory proof that the funds necessary for purchasing the claim are available. Ducroire in certain cases deals directly with the beneficiaries.

(h) *Have any claims been sold for NGO projects?*

Yes, in most cases through financial intermediaries.

(i) *Is the sale of claims for conversion restricted to Belgian entities?*

There is no such restriction. Ducroire has sold to purchasers from different parts of the world.

(j) *Have any sales been concluded of claims on countries which have benefited from debt reduction?*

Ducroire has sold claims which have benefited from debt reduction measures. In such cases the claim sold is removed from the consolidation prior to application of the discount (which in such cases is at least equal to that provided under Naples terms).

N.B. Belgium adopts the *interest reduction* option when granting debt relief.

(k) *Are any political considerations taken into account when selling claims for conversion?*

Ducroire is not bound by political considerations when negotiating the sale of a claim.

Should the AGCD route (see box 5) be envisaged, the possibility of proceeding will depend on the normal conditions of the development cooperation relationship between Belgium and the debtor country.

Box 5
Conditional cancellation conversions - Belgium

Belgium has developed a scheme whereby Ducroire's claims on certain countries are sold to AGCD, the Belgian agency for development cooperation.

AGCD negotiates the treatment of the assigned claims in the context of its development cooperation programmes. For example, particularly in Latin America and Central Africa, such claims have been converted using the "conditional cancellation technique". Conditional cancellation involves the cancellation of a claim in exchange for the debtor Government's making available a financial counterpart fund in local currency, normally for a percentage of the nominal value. This percentage may be equal to or in excess of the price paid by AGCD for the claims.

B. Procedures

(a) Procedures for selling claims

Ducroire does not actively market its claims but is open to proposals from entities which could eventually purchase claims for conversion.

There is no formal procedure as regards purchasing a claim from Ducroire. Sales are negotiated on an ad hoc basis, as and when opportunities arise. There is no stipulated minimum amount, but common sense will determine whether the time and effort involved in processing the assignment of a claim are justified for a small amount.

Once agreement is reached on the price, Ducroire will submit to the debtor Government either directly or via the beneficiary the details of the specific claim it proposes to sell for conversion.

When the proposed claims are accepted by the debtor Government for conversion in the context of the authorization granted to the beneficiary, Ducroire will assign the claim to the beneficiary or its financial intermediary for conversion.

(b) Documentation

Documentation for the assignment of claims is a standard document, ("Cession de Créance"), governed by Belgian law. Documentation is prepared by Ducroire.

C. Contacts in creditor country for conversion of claims

In Belgium, sales of officially guaranteed commercial claims for conversion are carried out on a "commercial" basis by Ducroire.

Contacts between the debtor country and Ducroire are generally not needed. The approach to Ducroire will in most cases be made either directly by the potential beneficiary of the conversion or by its financial intermediary.

Contacts at Ducroire: Mr. Jean-Louis Hick
 Mr. Luc Bruggeman
 Office Nationale du Ducroire
 Square de Meeûs 40
 B-1040 Brussels
 Tel.: 32 2 509 42 11
 Fax: 32 2 509 44 65

As regards the case of officially guaranteed commercial claims assigned by Ducroire to AGCD (see box 5) it was indicated that debtor countries that would be interested in benefiting from the conditional cancellation possibility could approach AGCD via the local Belgian embassy.

D. Conclusion

There are currently no possibilities for conversion of Paris Club ODA debt, since the Belgian Government has opted in most cases for outright cancellation.

As regards officially guaranteed commercial debt, two alternatives exist: (i) conversion of claims purchased from Ducroire by a third party, and (ii) negotiation with AGCD of conditional cancellation of the claims purchased from Ducroire by AGCD and utilized in the context of Belgium's development cooperation programme.

Alternative (i) involves negotiations on conversion between the potential beneficiary and the debtor country, and on the purchase of claims between the potential beneficiary and Ducroire.

Alternative (ii) involves negotiation between the debtor country and AGCD.

PART 2 BELGIAN NGOs AND DEBT CONVERSION

A. Experience of Belgian NGOs

There are two umbrella organizations in Belgium: NCOS, which groups Flemish-speaking NGOs; and Centre National de Coopération au Développement (CNCD), which groups French- and German-speaking NGOs.

Belgian NGOs have little experience of debt conversion, and tend to be wary of the technique. Neither NCOS nor CNCD knows of any Belgian NGOs having purchased debt for conversion. Nor have NGOs been involved as beneficiaries of conditional cancellation conversions. NCOS indicated that NGOs' interest in becoming involved in debt conversion will depend on interest expressed by a particular debtor country or by the Belgian development cooperation authorities, which provide funding for NGO programmes in debtor countries.

B. Conclusion

The possibility of Belgian NGOs concluding debt conversions is remote at the present time. However, future initiatives by debtor countries where Belgian NGOs are active and a cooperation relationship exists could be channelled via the two umbrella organizations.

C. Contacts

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NCOS
Rue de la Linière 11
Brussels
Tel.: 32 2 539 26 20

Mr. Gérard Karlshausen
Centre National de Coopération
au Développement
Quai du Commerce 9
B - 1000 Brussels
Tel.: 32 2 218 47 27
Fax: 32 2 217 60 78

FRANCE

PART 1 FRENCH GOVERNMENT APPROACH TO CONVERSION OF PARIS CLUB CLAIMS

A. Background

France negotiates implementation of the Paris Club conversion clause with debtor countries willing to implement debt conversion. The conditions of implementation are set out in an Accord Cadre (Frame Agreement) signed with the debtor country. All types of claims have been converted. Some ODA claims have benefited from outright cancellation.

(a) Who is responsible for Paris Club claims?

The French Treasury has overall responsibility for Paris Club claims, including officially guaranteed claims managed by the French export credit agency, (COFACE).

(b) Debt reduction option chosen by France

France adopts either the principal reduction option or the debt service reduction option. It never adopts the non-concessional option.

(c) What sales of claims have been made to date?

France has sold claims on a number of countries, particularly Egypt and Morocco. In Morocco, the cancellation of FF 400 million of French claims made an important contribution to the development of the private sector.

Both ODA and officially guaranteed commercial claims have been sold for conversion.

(d) How is the price calculated?

To sell claims, the French Treasury uses a formal tender system which determines the final sales price. The price takes into account the financial characteristics of the claims involved (concessional or non-concessional terms).

(e) What information should be submitted to the French authorities by a potential purchaser of claims?

The French authorities need to receive confirmation of the availability of funds to purchase the claims tendered for, as well as a copy of the document authorizing the conversion issued by the authorities of the debtor country.

(f) Does the French Government impose criteria regarding the type of projects to be funded by conversion of the assigned claims?

In general, France will sell Paris Club claims for conversion into capital investments (excluding current budgetary expenditure) in all types of sectors.

Box 6
Conditional cancellation conversions concluded by France

In addition to selling claims to third parties for conversion, France has concluded a number of conditional cancellation conversions using all types of claims.

- **Following the Libreville Summit in October 1992, a debt conversion fund of FF 4 billion was created for the benefit of Cameroon, Congo, Côte d'Ivoire and Gabon. The purpose of the fund is the financing of public development projects in local currency by the debtor Government in exchange for the cancellation of equivalent amounts of foreign currency debt.**
- **France was one of the first partners in the Polish Ecofund with an amount of FF 250 million, thereby contributing to the implementation of the Polish Government's general policy on environmental improvement.**
- **In exceptional circumstances, France implemented in 1992 a conversion mechanism for FF 20 million of French claims for projects to rehabilitate areas destroyed by the eruption of Mount Pinatubo in the Philippines. This mechanism was based on the terms of the Paris Club agreement of June 1991.**
- **In 1996, France cancelled FF 400 million of claims on Morocco in exchange for public development projects to be carried out in the Northern provinces of the country (Rif), particularly in the agricultural, water and transport sectors.**
- **In 1994, France cancelled FF 25 million of claims on Jordan. In exchange, Jordan undertook to finance public education projects for the same amount.**

(g) Does the French Government require that a financial intermediary be involved in the purchase of a claim?

Bids to purchase claims must always be made through a financial intermediary, which is responsible for making the offer and guaranteeing the availability of the funds necessary for purchasing the claims.

(h) Have any claims been sold for NGO projects?

Very small amounts.

(i) Is the sale of claims for conversion restricted to French entities?

No such restriction exists, but claims are always sold through a financial intermediary.

(j) *Have any sales been concluded of claims on countries which have benefited from debt reduction?*

Yes.

(k) *Are any political or economic considerations taken into account when selling claims for conversion?*

Such considerations exist. Claims are always sold through calls for tender launched at the initiative of the French authorities.

B. Procedures

(a) *Negotiation procedure for purchase of claims*

For traditional debt conversions

As a general rule, sales of French Paris Club claims are made through formal tender offers, following signature of an Accord Cadre between France and the debtor Government. The Accord Cadre specifies (i) the types of beneficiary projects, (ii) the eligible claims and (iii) the total amount of claims available for conversion.

(i). The French Treasury addresses a call for tender to the international financial community, requesting that offers be submitted on behalf of clients. The call for tender may also be published in the local press. It is recommended that, prior to the call for tender, the debtor Government publishes a circular specifying the procedures and the conditions for granting debt conversion approvals.

The call for tender indicates:

- The type of claims eligible for purchase;
- The total amount of the claims to be sold;
- The type of eligible beneficiary projects (in certain cases);
- The deadline for submitting an offer (when such a deadline exists);
- The minimum amount which may be tendered for.

The financial intermediary has to indicate in his offer:

- The amount of the claim required and the proposed purchase price;
- The approval of the debtor country for the beneficiary project to benefit from a debt conversion, including the payout level;
- An undertaking to make available the funds necessary for purchasing the claim in the event of a successful bid.

(ii). The French Treasury notifies successful bidders of the amount of their allocation within a predetermined time after the submission of their offers.

(iii) The successful bidders have a predetermined period of time (normally three to six months) within which the conversion must be completed.

(b) Documentation

This is the standard French law assignment documentation between COFACE or the French Treasury and the successful bidders. It is prepared by the French authorities.

The French authorities provide the debtor country with notification of the date on which the assignment is effective, which is normally the date of cancellation of the claims and disbursement of the local currency counterpart funds.

C. Contacts in creditor country for conversion of claims

The French Treasury is the main contact with regard to the purchase of claims.

Before any conversions of French claims take place, discussions are held between the French Treasury and the debtor country wishing to benefit from the conversion clauses about the type of projects which will be eligible. The results of these discussions are formalized in an Accord Cadre (Frame Agreement) between France and the debtor country. It is only when the Accord Cadre has been signed that the French Treasury will permit claims to be sold.

Contacts at the French
Treasury:

Mr. Jérôme Walter
Ministère de l'Economie et des Finances
Direction du Trésor
139 rue de Bercy
75572 Paris Cedex 12
Tel.: 33 1 44 87 73 35
Fax: 33 1 40 04 16 91

PART 2 FRENCH NGOs AND DEBT CONVERSION

A. Experience of French NGOs

Although most French NGOs are in general not interested in debt conversion, a certain number, including some with limited resources, have benefited from debt conversions thanks to the work of an organization called Association pour la Conversion de Dette pour le Développement et pour l'Environnement – (ACDE).

ACDE informs the NGO community of debt conversion possibilities as well as negotiating approval for the conversion with the debtor Government and purchase of the claim from the creditor.

By grouping the requirements of several NGOs for a specific debtor country, ACDE is in a position to attain the critical mass which is often necessary in order to make a bid to purchase claims.

Another important role of ACDE is to act as a “buffer” between the NGO community and the creditors from whom the claims are purchased for conversion.

ACDE permits NGOs which have neither the time nor the competence to study debt conversion possibilities to have access to the technique of debt conversion.

B. Contacts

Ms. Anne-Sophie Bourgoin
ACDE, Paris

Tel.: 33 1 44 72 95 26

ITALY

PART 1

ITALIAN GOVERNMENT APPROACH TO CONVERSION OF PARIS CLUB CLAIMS

A. Background

Until the end of 1996, conversion of Paris Club claims was not legally possible for the Italian authorities. Legislation paving the way for Italy to convert claims was adopted in 1998 and the decree implementing the legislation was issued in early 1999.

(a) Debt reduction option chosen by Italy

Italy generally chooses the interest rate reduction option.

(b) What sales of claims have been made to date?

No sales of claims have been made to date, neither has the Ministry of Treasury received any request from potential purchasers. However, following the adoption of the new legislation, the conversion clause has been formally accepted by Italy in its bilateral agreements.

No formal procedures are in place but the Ministry of Treasury is open to discussing the sale of claims for conversion with potential purchasers on a case-by-case basis.

B. Contacts in creditor country regarding conversion of claims

Dr. Fabrizio Costa/Ms. Rosa Gallo

Ministry of Treasury

Tel.: 39 6 47 61 38 43/47 61 39 22

Fax: 39 6 47 61 398 32

NETHERLANDS

PART 1 DUTCH GOVERNMENT APPROACH TO CONVERSION OF PARIS CLUB CLAIMS

A. Background

The Netherlands accepts the principle of converting commercial Paris Club claims, but to date no sales of claims for conversion have been made. ODA claims on SILICs tend to benefit from outright cancellation. ODA claims on other categories of debtor countries are in some cases converted using the conditional cancellation method.

(a) Who is responsible for Paris Club claims?

The Dutch Ministry of Foreign Affairs is in charge of ODA debt. The tendency in the Netherlands is for concessional ODA claims on SILICs to be cancelled rather than sold for conversion.

Officially guaranteed commercial claims are the responsibility of the Ministry of Finance, which works in close cooperation with the Dutch export credit agency (NCM) and the Dutch Central Bank.

(b) Debt reduction option chosen by the Netherlands

The Netherlands generally adopts the principal reduction option in Paris Club agreements.

(c) What sales of claims have been made to date?

ODA claims: There has been no sale of ODA claims, which for SILICs are progressively cancelled.

Officially guaranteed commercial claims: No sale of claims for conversion has taken place to date, since according to the Ministry of Finance the proposals received have not been at a sufficiently high price level to meet its requirements.

(d) How is the price calculated?

The Ministry of Finance estimates the value of the outstanding debt stock and future interest payments for the country in question taking into account *the risk of the debtor country not meeting its future obligations and the level of debt reduction already granted*. These are important factors in the price determination process.

The estimated value of the outstanding claim is compared with the amount that would be obtained if the claim was sold and the sales price invested.

The sales price should be such that the comparison is in favour of a sale.

The level of secondary market debt price quotations for the country concerned is looked at but not taken into account in the calculation. There is as yet no fixed method for calculating

the sales price. The Dutch authorities are currently working on a formula to serve as the basis for calculation of the sales price.

(e) What information should be submitted to NCM and the Ministry of Finance by a potential purchaser of claims?

The proposal should include the following:

- The price offered for the claim as well as confirmation of the availability of the necessary funds and the manner in which they will be delivered to the Dutch authorities;
- The level of the local currency payout negotiated with the debtor country and the terms and conditions of disbursement;
- The nature of the project to be financed by the debt conversion in the debtor country;
- A statement from the debtor country that it wishes to conclude the debt conversion.

(f) Does the Dutch Government impose criteria regarding the type of projects to be funded by conversion of the assigned claims?

The Dutch Government follows Paris Club guidelines and does not impose any additional specific criteria. The Ministry of Finance has no fixed ideas about the kind of project.

However, the project has to be reliable and the Dutch authorities require a clear indication that there will be no fraud or round tripping (see box 2)

(g) Does the Dutch Government require that a financial intermediary be involved in the purchase of a claim?

No, as long as the purchaser can provide satisfactory proof that the necessary funds are available to pay the purchase price.

The financial intermediary should be reliable; therefore, the Dutch Government prefers a well-known financial institution or advisory firm.

(h) Have any claims been sold for NGO projects?

No officially guaranteed commercial claims have been sold as yet, but NGO projects are eligible under the Paris Club guidelines.

The Dutch authorities would prefer to work with well-known and reliable NGOs, either Dutch or foreign.

Box 7
Conditional cancellation conversions - Netherlands

The Ministry of Development Cooperation has concluded conditional cancellation conversions of ODA debt not restructured in the Paris Club, the examples mentioned being Costa Rica and Tunisia.*

In the case of Costa Rica, the Netherlands cancelled all its claims not consolidated in the Paris Club in exchange for the Costa Rican Government investing local currency in a citrus fruit production development.

For Tunisia, the Environment Section of the Ministry has an agreement whereby contractual debt servicing is considered to have taken place when Tunisia invests the local currency equivalent of amounts due in previously agreed environmental projects.

However, since 1 January 1997 only interest and contractual repayments may be converted, as it is no longer possible to cancel principal amounts which have not yet matured. As a result, the amounts of ODA that may be converted are smaller than before.

*It should be noted that Tunisia has never restructured its external debt.

(i) *Is the sale of claims for conversion restricted to Dutch entities?*

There is no such restriction.

(j) *Have any sales been concluded of claims on countries which have benefited from debt reduction?*

There have been no sales at all so far. However, since the Netherlands adopts the principal reduction option for debt relief, it is likely that difficulties would be encountered by debtor Governments when accepting claims for conversion (see box 4). The Dutch Finance Ministry would be willing to give only a very small additional discount on the debt of countries which have benefited from a principal reduction.

(k) *Are any political or economic considerations taken into account when selling claims for conversion?*

Before selling a claim for conversion the Dutch authorities may make an assessment as to whether the conversion is permitted in the context of the debtor country's IMF programme.

(l) *Is there any likelihood of a transfer of officially guaranteed commercial claims to the Ministry of Development Cooperation for conditional cancellation? (cf. Belgian and Swiss initiatives)?*

No indication was received that such action is envisaged. However, in some cases (e.g. Madagascar) the Dutch Government purchased commercial debt which was converted for development activities.

B. Procedures

(a) *Negotiation procedure for purchase of claims*

For traditional conversions

A proposal in the form described in A. (v) above should be sent to NCM. It can be submitted by the investor, an intermediary or the debtor country. If it is submitted by the investor or an intermediary, a statement from the debtor country confirming its willingness to conclude the conversion should be included.

NCM, which is normally in charge of the price calculations, will examine the proposal first and, if it finds it interesting, will submit it with comments and advice to the Dutch Central Bank. The Central Bank also analyses the proposal and adds its own comments, and the proposal is then transmitted to the Ministry of Finance.

The three entities then discuss the proposal, the final decision being taken by the Ministry of Finance on a purely commercial basis.

It is not possible to determine the time-frame involved in the negotiations since no proposal has as yet been accepted.

(b) *Documentation*

No precedents exist to date.

C. Contacts in creditor country for conversion of claims

It is unlikely that there will be contacts between the debtor country and the Dutch authorities regarding the purchase of officially guaranteed claims. The approach to the Dutch authorities will in most cases be made either directly by the potential beneficiary of the conversion or by his financial intermediary.

Ministry of Finance: Ms. Alida van Ee
Tel.: 31 70 342 71 81
Fax: 31 70 342 79 09
Ms. Jeanne de Loos
Tel.: 31 70 342 71 01
Mr. Rens de Leur
Tel.: 31 70 342 71 05

Ministry of Foreign Affairs: Mr. P.R. Janus
Tel.: 31 70 348 61 00

D. Conclusion

There is no Paris Club ODA debt of SILICs left for conversion since it is almost systematically cancelled as part of the Netherlands' debt relief measures granted to countries in that category. As regards other categories of debtor country, the Dutch Government is in favour of debt conversion (using the conditional cancellation method) if it has no negative economic or institutional effects and has additional benefits for the country in question over other, less complicated, forms of debt relief.

The Dutch Government has not yet sold Paris Club claims for conversion but is interested in studying possibilities on a case-by-case basis.

PART 2 DUTCH NGOs AND DEBT CONVERSION

A. Experience of Dutch NGOs

There is no overall umbrella organization representing Dutch NGOs, although there are grouping organizations, one of which is NGO EU Netwerk. According to the latter's spokesman most Dutch NGOs are not familiar with debt conversion, although a few have concluded transactions.

Contacts with certain individual organizations indicated that those that were familiar with the concept were not particularly interested in taking the initiative to develop it. The reasons given were that the amounts involved in their projects are too small, and that debt conversions are too complicated and time-consuming.

One of the NGOs contacted, NOVIB, is in favour of debt conversion and has worked on two transactions (in Mexico and the Philippines) but both of them unfortunately never materialized. NOVIB is nevertheless willing to consider further debt conversion possibilities.

The Netherlands Committee for UNICEF, which pioneered debt conversions for UNICEF, has carried out a number of debt conversions in Africa, Latin America and Asia. According to its Executive Director, the leverage obtained from debt conversions has declined substantially over the years and the leverage that can be expected nowadays is often too low to justify the extra work involved. In addition, UNICEF's headquarters decided in early 1997 to stop debt conversion.

B. Conclusion

Certain of the larger NGOs in the Netherlands would be willing to consider a debt conversion if a concrete global proposal was presented to them. However, they seem reluctant to take the initiative.

C. Contacts

ECCO

Ms. Margot Kluton
3700 RD Zeist
Tel.: 31 30 692 78 11

The Netherlands Committee for UNICEF

Mr. Slotweg
The Hague
Tel.: 31 70 333 93 33

BILANS

Mr. Overga (in charge of Africa)
Ms. Meeuws
Oegstgeest
Tel.: 31 71 515 91 59
31 71 515 93 67 (Ms. Meeuws)
31 71 515 93 39 (Mr. Overga)

NOVIB

Mr. Jan Klugkist
Amaliastraat 7
2514 The Hague
Tel.: 31 70 342 16 21

NORWAY

PART 1 NORWEGIAN GOVERNMENT APPROACH TO CONVERSION OF PARIS CLUB CLAIMS

A. Background

The concept of conversion of Paris Club claims is accepted by the Norwegian authorities but to date no claim has been sold for conversion.

(a) Who is responsible for Paris Club claims?

The Royal Ministry of Foreign Affairs is responsible for Paris Club claims.

According to the Royal Ministry of Foreign Affairs, the Norwegian export credit agency does not have any delegation of responsibility permitting the negotiation of sales of its Paris Club claims independently.

(b) Debt reduction option chosen by Norway

Norway normally chooses the principal reduction option.

(c) What sales of claims have been made to date?

No Norwegian Paris Club claims have been converted to date.

Norway has no specific policy on debt conversion but has developed a global debt relief strategy which consists *inter alia* in supporting the Heavily Indebted Poor Countries (HIPC) Initiative facility and providing debt relief beyond that granted under the Paris Club.

B. Contacts in creditor country for conversion of claims

Mr. Trond Linberg
Representative of Norway at the Paris Club
Mr. Frederik Steen
Desk Officer
Royal Ministry of Foreign Affairs
Oslo
Tel.: 47 22 24 39 75 (Mr. Linberg)
Tel.: 47 22 24 36 80 (Mr. Steen)
Fax: 47 22 22 24 37 90

SWITZERLAND

PART 1 SWISS GOVERNMENT APPROACH TO CONVERSION OF PARIS CLUB CLAIMS

A. Background

Switzerland has agreed to implement the Paris Club conversion clause in its bilateral agreements, but has implemented a debt reduction initiative which goes beyond that agreed by the Paris Club. Conversion of Swiss Paris Club debt is carried out in the context of the Swiss Debt Reduction Facility.

(a) Who is responsible for sales of Paris Club claims?

The Federal Office for Foreign Economic Affairs has overall responsibility for Paris Club claims, including officially guaranteed commercial claims managed by the Swiss export credit agency, (ERG).

(b) Debt reduction option chosen by Switzerland

Switzerland adopts the interest rate reduction option. It was indicated that as of February 1997 the interest rate applied is 0.1%, which is the floor rate accepted under the Paris Club agreements.

(c) What sales of claims have been made to date?

No Paris Club ODA claims are available for conversion since they were all cancelled in 1977.

As regards officially guaranteed commercial claims, it is necessary to distinguish here between sales of claims to third parties for conversions for which approval has been obtained from the debtor Government and across-the-board purchase of claims by the Swiss Debt Reduction Facility from which 27 of the world's most indebted countries, most of which are in Africa, have benefited.

The only country for which sales of claims to third parties has taken place is Egypt.

For the countries eligible for the Debt Reduction Facility, all officially guaranteed commercial claims have been purchased by the Debt Reduction Facility (see box 8).

(d) How is the price calculated?

For both *sales of claims to third parties* (in the case of Egypt) and *purchase of claims by the Debt Reduction Facility*, Switzerland works on the basis of secondary market prices for commercial debt.

(e) ***What information should be submitted to the authorities by a potential purchaser of claims?***

A copy of the document authorizing the conversion issued by the authorities of the debtor country.

Box 8
The Swiss Debt Reduction Facility⁸

This Facility is one of a series of measures adopted by the Swiss Government in 1991 to reduce the debt of SILICs which go beyond measures agreed within the Paris Club. Forty-five countries are potentially eligible under the Facility, which operates in three phases.

Phase 1

In 1992 and 1993, virtually all of Switzerland's Paris Club officially guaranteed commercial claims on beneficiary countries was purchased by the Facility. The portion of claims held by the Swiss export credit agency (ERG), was donated, following an arrangement between ERG and the Swiss Treasury. The non-covered portions held by exporters and commercial banks were purchased at market prices.

Phase 2

Having acquired the claims, the Swiss authorities progressively negotiate with each individual debtor country the conditions of cancellation of the claims. In most cases, the claims held by the Facility will be converted, using the conditional cancellation conversion technique, into a local currency counterpart fund.

The use of the counterpart fund is negotiated between the Swiss authorities and the debtor country and varies from country to country, the main objective being that the counterpart funds contribute to local development.

Phase 3

Once agreement has been reached on the conditions, the counterpart fund is established and the claims held by the Facility are cancelled. From that time on, the management of the counterpart fund is handled by a management structure which usually includes representatives from Switzerland, the debtor countries and local and international NGOs.

For certain countries where the amount of claims held by the Facility does not justify the establishment of a counterpart fund, a less formal structure for managing counterpart funds may be adopted, in the form of a local management agent. Finally, in cases where it is considered that the debtor country's economy will have difficulty in redeeming counterpart funds, or where the debt volume to be cancelled is limited in size, outright cancellation may be granted.

There is precedent for of a non-financial counterpart being negotiated in the form of an undertaking by a debtor country to implement the necessary legal framework for creating a nature reserve.

⁸ See *The Swiss Debt Reduction Facility: A State of the Art*. Berne, Swiss Coalition of Development Agencies, 1995.

B. Procedures

The possibilities of converting Swiss Paris Club claims are currently limited to those offered under the Debt Reduction Facility, and exist only when and agreement has been reached on the terms on which the claims held by the Debt Reduction Facility can be cancelled in exchange for the establishment of a local currency counterpart fund.

Once the fund is operational, and its objectives have been determined, projects are submitted to its management committee for approval. The type of projects benefiting from the fund, the nature of the funding (loan or grant) and the specific approval procedures will vary from country to country. To benefit from the support of the counterpart funds, projects must contribute to the sustainable development of the debtor country. Such projects are frequently managed by NGOs.

Negotiation procedure for debt cancellation by the Debt Reduction Facility

Switzerland will enter into negotiations with a debtor country in this respect only if its economic policy reform stance and conditions of governance are deemed acceptable. Cancellation will take place if agreement can be reached during negotiations with respect to the local currency disbursement level and the general orientation of development projects and programmes to be financed by the counterpart fund.

The level of local currency disbursement into the counterpart fund is not necessarily related to the price at which the claims were purchased (it can be higher, lower or equal to that price), but is adapted to the economic possibilities of the debtor country. Similarly, the disbursement of the local currency into the counterpart fund may take place in one portion or over a period of time, depending on the budgetary possibilities of the debtor country.

C. Contacts in creditor country for conversion of claims

(a) For purchase and subsequent cancellation of Paris Club debt:

Mr. Heinz Kaufmann
Chief, Balance of Payments Operations
and Debt Reduction
Federal Office of Foreign Economic Affairs
Berne
Tel.: 41 31 324 08 68
Fax: 41 31 324 09 62

(b) For the management of counterpart funds:

Mr. Serge Chapatte
Head of Division
Swiss Development Cooperation
Eigerstrasse 80,
3003 Berne
Tel.: 41 31 322 34 76
Fax: 41 31 322 35 05

Mr. Alfred Gugler/Mr. Richard Helbling
Swiss Coalition of Development Organizations
Monbijoustrasse 31
CH-3001 Berne
Tel.: 41 31 381 17 14
Fax: 41 31 381 17 18

D. Conclusion

There are no possibilities of purchasing Paris Club ODA claims for conversion since they are practically systematically cancelled for SILICs.

Also, it is not possible to purchase officially guaranteed commercial claims, since these have been fully purchased by the Swiss Debt Reduction Facility, and in most cases will be cancelled in exchange for local currency counterpart funds.

PART 2 SWISS NGOs AND DEBT CONVERSION

A. Experience of Swiss NGOs

Swiss Coalition of Development Organizations

The Swiss Coalition of Development Organizations (SCDO) is an association of five major Swiss NGOs. Swiss NGOs have lobbied actively for many years in favour of debt relief for highly indebted countries and were instrumental in the adoption by the Swiss Government of the Swiss Debt Reduction Facility in 1991.

SCDO created a Debt for Development Unit following the establishment of the Debt Reduction Facility. SCDO acts as consultant to the Swiss Government in its negotiations with beneficiary debtor countries regarding the cancellation of claims purchased by the Debt Reduction Facility and the establishment with and management of the local counterpart funds.

Two large international NGOs with experience of debt conversion are based in Switzerland

World Wide Fund for Nature

The World Wide Fund for Nature (WWF International) has used traditional debt conversions to fund projects since the end of the 1989, and transactions have been completed in African countries (Zambia and Madagascar) as well as in Latin America and the Philippines. Both WWF Switzerland (the European headquarters of the organization) and WWF USA have been involved, most of the transactions being carried out by the latter.

In most cases the transactions involved the purchase of commercial debt, while in other cases grants from bilateral donors were used to fund the commercial debt purchase. For example, both the United States Agency for International Development (US AID) and the Dutch Government have provided grants to WWF International which have been used to purchase commercial debt for conversion in Madagascar. The most recent transaction of this type (a

debt conversion involving the purchase of London Club debt of Madagascar with grant funds from the Dutch Government) was concluded at the end of 1996.

The main problem confronting WWF International has been the maintenance of the value of the local currency disbursed under the conversion, which in most cases is not spent immediately.

WWF International is most interested in the conditional cancellation conversion technique and would be interested in being approached if opportunities exist in countries where the organization is active.

World Conservation Union

The World Conservation Union (IUCN) is an organization that brings together representatives of States, government agencies and NGOs, which work to conserve the integrity and diversity of nature and to ensure that natural resources are used in an equitable and ecologically sustainable manner.

IUCN is not involved in debt conversion itself, but promotes the concept of conditional cancellation conversions, resulting in the establishment of trust funds which contribute to the sustainable development of highly indebted countries. A guide to debt conversion for NGOs was recently published jointly with the European NGO Network on Debt and Development (EURODAD) and the Swiss Coalition of Development Organizations.⁹

B. Conclusion

The involvement of Swiss NGOs in Paris Club debt conversion is likely to be very much tied to the Swiss Debt Reduction Facility.

C. Contacts

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⁹ Kaiser, J. and Lambert, A. *Debt Swaps for Sustainable Development*, IUCN/SCDO/EURODAD 1996.

UNITED KINGDOM

PART 1 UNITED KINGDOM GOVERNMENT APPROACH TO CONVERSION OF PARIS CLUB CLAIMS

A. Background

The United Kingdom has agreed to implement the Paris Club conversion clause and sales of officially guaranteed commercial claims for conversion have been made. ODA claims are not converted, but some have benefited from outright cancellation.

(a) Who is responsible for Paris Club claims?

Her Majesty's Treasury has lead responsibility for Paris Club claims, but the Foreign and Commonwealth Office and the Export Credit Guarantees Department (ECGD) are very much involved. The practice of the United Kingdom's Department for International Development (DFID) is to progressively cancel its concessional ODA loans to the poorest countries.

Officially guaranteed commercial claims are the responsibility of ECGD, which is a separate government department. The conversion scheme is agreed with the Treasury, but ECGD takes the final decision about selling a claim within specified delegated authorities.

(b) Debt reduction option chosen by the United Kingdom

The United Kingdom generally adopts the principal reduction option.

(c) What sales of claims have been made to date?

ODA claims: There have been no sales, although most claims on the poorest countries have been cancelled.

Officially guaranteed claims: ECGD has sold £89 million of officially guaranteed commercial claims since the inception of debt conversion for Paris Club claims.

The following countries were mentioned: Egypt, Mozambique, Nigeria, and the United Republic of Tanzania.

(d) How is the price calculated?

ECGD can sell debt only when it represents value for money, i.e. when the price offered to ECGD at least matches the likely rate of return through Paris Club arrangements. This is calculated on the basis of a number of factors, including the debtor's payment record with ECGD. The floor price is never disclosed to potential purchasers.

(a) *What information should be submitted to ECGD, by a potential purchaser of claims?*

All potential purchasers are required to complete the ECGD debt purchase application form when submitting their proposals. Detailed information is required on the beneficiary project, the payout level negotiated with the debtor country and funding sources. A copy of the debtor Government's authorization for the conversion is also required.

(f) *Does the United Kingdom Government impose criteria regarding the type of projects to be funded by conversion of the assigned claims?*

Applications will be assessed first to determine whether they are value for money for ECGD. If this is the case, ECGD will also take account of the merits of, and benefits derived from, the proposed projects which the debt will be used to finance.

(g) *Does ECGD require that a financial intermediary be involved in the purchase of a claim?*

No, as long as the purchaser can provide satisfactory proof that the funds necessary for paying the purchase price are available. ECGD in certain cases deals directly with investors.

(h) *Have any claims been sold for NGO projects?*

Yes, in the United Republic of Tanzania, where ECGD's Debt Conversion Scheme has been used to finance a medical research project and an agricultural rehabilitation programme.

(i) *Is the sale of claims for conversion restricted to United Kingdom entities?*

There is no such restriction. ECGD has sold to purchasers from different parts of the world.

(j) *Have any sales been concluded of claims on countries which have benefited from debt reduction?*

Yes, claims on Egypt, Mozambique and the United Republic of Tanzania (debt service reduction option). However, on two occasions the possibility of selling claims on countries which had benefited from the principal reduction option was not translated into reality. In both cases the reason was the "top up" operation which removes the claim to be sold from the consolidation and brings it back to its initial value.

N.B. This problem is particularly acute when the creditor country adopts the principal reduction option. The impact of converting such claims based on the pre-reduction principal value can be difficult to justify for the debtor country. The problem will be aggravated as further debt reduction measures are granted (see Box 4).

(k) *Are any political considerations taken into account when selling claims for conversion?*

When assessing applications, ECGD will consider the extent to which projects are consistent with the Government's objectives and policies.

- (l) *Is there any likelihood of a transfer of officially guaranteed commercial claims to the United Kingdom's development cooperation bodies for conditional cancellation? (cf. the Belgian and Swiss initiatives)*

No initiatives involving conditional cancellation of Paris Club claims are foreseen in the United Kingdom.

B. Procedures

- (a) *Negotiation procedure for debt purchase*

Upon receipt of an application form, ECGD will assess the price offered against its floor price (see A(iv)). It may then initiate a market testing exercise, depending on the amount of debt applied for and the level of demand for the debt. The time-frame for completing a debt conversion will be two to three months, depending on whether a market testing exercise is involved.

- (b) *Documentation for the debt purchase*

Documentation for the assignment of claims is a standard assignment agreement governed by English law, prepared by ECGD.

A separate document confirming the sale of the claim to the purchaser may be issued by ECGD prior to release of the local currency generated by the conversion transaction.

Before the assignment documentation is signed, ECGD will submit to the debtor Government for agreement the details of the specific claim it proposes to sell for conversion.

C. Contacts in creditor country for conversion of claims

The United Kingdom does not sell Paris Club ODA claims for conversion, nor are conversions in the form of conditional cancellations foreseen. Sales of officially guaranteed commercial claims are carried out by ECGD, which is in no way involved in negotiation of the beneficiary transaction, on a commercial basis.

The approach to ECGD will in most cases be made either directly by the potential beneficiary of the conversion or by his financial intermediary.

Contacts at ECGD:

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D. Conclusion

The United Kingdom's policy is to cancel Paris Club ODA concessional debts of the poorest countries. No possibilities currently exist, or are foreseen, for conversion of ODA debt either through sales of claims or conditional cancellations.

However, as has been shown above, there are possibilities of purchasing officially guaranteed commercial claims for conversion. The United Kingdom has implemented the conversion clause, claims have been sold for conversion, and the willingness to do more exists.

PART 2 UNITED KINGDOM NGOs AND DEBT CONVERSION

A. Experience of United Kingdom NGOs

The reaction of most United Kingdom NGOs contacted was either that they had never studied debt conversions, or that if they had looked into the possibilities nothing had been achieved since matters were too complicated. One NGO which had some experience quoted examples of lengthy discussions with financial intermediaries leading to nothing, conversions which had been concluded but where depreciation of the local currency counterpart funds wiped out the leverage, and other generally negative aspects.

With regard to NGOs being involved in programmes funded from counterpart funds resulting from conditional cancellation conversions, the NGOs contacted were not aware that such possibilities existed and would be interested in obtaining more information.

CARE UK and Christian Aid expressed interest in studying conversion possibilities if a comprehensive proposal was submitted to them.

B. Contacts

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UNITED STATES

PART 1 UNITED STATES GOVERNMENT APPROACH TO CONVERSION OF PARIS CLUB CLAIMS

A. Background

This section is presented in a condensed form compared with the other countries included in the report since debt conversion possibilities using United States claims are limited to countries in Latin America and the Caribbean.

United States legal authority for the conversion of Paris debt is currently limited to countries in Latin America and the Caribbean. Between 1990 and 1994, the United States granted substantial debt relief to certain Latin American and Caribbean countries under its Enterprise of the Americas Initiative (EAI).¹⁰ This programme allows the reduction of eligible debt owed to the United States Agency for International Development (USAID). Interest payments on the remaining debt are directed to a local currency fund which supports NGO-implemented environmental and child survival projects.

In 1996, the United States Congress approved a buyback and debt conversion programme for Latin America and the Caribbean which built on the existing EAI legislation. The programme allows eligible countries to buy back USAID debt or engage in debt conversions with a third party. Under the buyback option, the participating country repurchases USAID debt at a discount and commits itself to paying the equivalent of 40 per cent of the repurchase or 40 per cent of the discount, whichever is less, into a local currency fund which supports NGO-implemented environmental and child survival projects. The conversion option allows the country to engage in debt-for-nature, debt-for-development and debt-for-equity conversions with an eligible third party.

The economic conditions for participation include having an IMF programme or a World Bank programme, as appropriate, major investment reforms in conjunction with an Inter-American Development Bank loan and having satisfactory arrangements with commercial bank lenders.

The political criteria include having a democratic Government and a satisfactory record in the areas of human rights, international terrorism and cooperation with the United States on narcotics matters.

United States debt relief programmes must be authorized by law. Corresponding appropriations, if necessary for underwriting the cost of debt relief, must be approved by Congress in the annual budget. This could constrain United States participation in Paris Club stock reductions. In practice, however, this requirement has had only a limited effect on United States participation in the Paris Club.

¹⁰ See Recent trends in official bilateral debt conversion, chapter 4 of the *Manual on Conversion of Official Bilateral Debt*. Geneva, UNCTAD, 1995.

The Department of State and the Treasury have overall responsibility for Paris Club negotiations.

B. Contacts

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**PART 2
UNITED STATES NGOs AND DEBT CONVERSION**

A. Experience of United States. NGOs

It is United States NGOs that have the most experience of debt conversion, and examples of their involvement can be found in most countries where debt conversion has taken place. Debt conversion has been used in particular for environmental and child survival projects. United States NGOs tend to be much larger than their European counterparts and often have substantially greater financial and human resources. This gives them the advantage of being in a position to devote time to work on these rather complex transactions. Another advantage is that they are in a position to invest sufficient funds in a debt purchase to make the transaction not only feasible but also financially worthwhile.

Among United States NGOs with experience of debt conversion are WWF USA, Conservation International, CARE, Africare and the Nature Conservancy.

In some cases, certain NGOs (e.g. WWF USA) have obtained grants from US AID for purchasing commercial debt for conversion in SILICs. In addition, United States NGOs benefit from funding under the conditional cancellation schemes of the EAI, and are involved in discussions with the World Bank on implementation of the HIPC Debt Initiative.

B. Conclusion

United States NGOs are potentially the most likely to be involved in debt conversion transactions since they have both the experience and the financial resources.