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Paris Club - 93-04 (May 4-7, 1993 meeting)

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Document Date May 7, 1993	Document Type Report
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Correspondents / Participants

Subject / Title
Summaries of Paris Club meeting discussions

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OFFICE MEMORANDUM

PC

DATE: May 19, 1993

CONFIDENTIAL

TO: Mr. D.C. Rao, Acting Vice President, DEC

FROM: F. Desmond McCarthy, Economic Adviser, DPG

EXTENSION: 31362

SUBJECT: Back to Office Report: Paris Club - May 4 to 7, 1993

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MAR 28 2014

WBG ARCHIVES

Introduction

1. The principal business during the Paris Club's May meeting was the negotiation of new rescheduling agreements for Peru, Guyana and Burkina Faso. In addition, the Club held its normal tour d'horizon.

Peru Rescheduling

2. The Minister of Finance reviewed the situation in his country, outlining major economic initiatives, in spite of severe difficulties posed by terrorist groups and drug trafficking. The delegates were broadly sympathetic.

3. It is in this spirit that the representatives of the Creditor Participating Countries agreed to recommend to their respective Governments a major reorganization of the external debt of the Republic of Peru resulting from loans and guaranteed credits extended by Creditor Participating Countries to the Republic of Peru.

4. This reorganization applies to payments due on these debts. Repayment will be made by the Government of the Republic of Peru over a 20 year period as concerns the official development aid loans with the first payment to be made on February 15, 2005 (end of grace period) and over a 15 year period as concerns other credits with the first payment February 15, 2003. A special feature of the agreement is that 50% of the interest due on the consolidated amounts from January 1, 1993 to December 31, 1994 will be paid over 5 years, beginning September 30, 1996. On a voluntary basis, each creditor country may also undertake limited debt for nature, debt for aid, debt for equity swaps or other local currency debt swaps.

Guyana Rescheduling

5. The rescheduling agreement follows the enhanced Toronto terms which call for a reduction of the net present value of the amounts rescheduled up to 50% debt relief.

6. The delegates agreed to recommend to their respective Governments a major reorganization of the external debt of the Cooperative Republic of Guyana resulting from credits and loans extended or guaranteed by Participating Creditor Countries to the Cooperative Republic of Guyana.

7. This reorganization, which applies to payments due on these debts, will be effected by Participating Creditor Countries as follows:

- write-off of half of debt service obligations due under non-concessional loans and credits with the remaining half to be consolidated at market rates over a period of 23 years (including a grace period of 6 years);

or

- consolidate at concessional rates, so as to reduce by 50% in net present value the payments due on non-concessional loans and credits, with a repayment period of 23 years;

or

- consolidate at market rate, with a repayment period of 25 years (including a 16 year grace period).

The participating countries were Canada, Netherlands, France, United Kingdom, Germany and the United States. The main creditor, Trinidad and Tobago, was not at the meeting. The delegation from Guyana said that equivalent terms would be sought from Trinidad and Tobago.

Burkina Faso Rescheduling

8. The four participating creditor countries, Austria, Italy, France and the Netherlands, all congratulated the Government of Burkina Faso on their reform efforts. They also thanked the International Organizations for their presentations.

9. The rescheduling follows the "enhanced Toronto terms". A principal feature was that for credits and loans extended or guaranteed by Participating Creditor countries.

- write off one half of debt service obligations due on non-concessional loans and credits, with the remaining half to be consolidated at market rates over a period of 23 years (including a grace period of 6 years)

or

- consolidate at concessional rates, so as to reduce by 50% in net present value the payments due on non concessional loans and credits, with a repayment period of 23 years.

Tour d'Horizon

10. The tour d'horizon covered the following:

LAC	Brazil, Costa Rica, Ecuador, Nicaragua
MNA	Egypt, Iran
EAP	Philippines
ECA	Bulgaria, Russia, Slovenia
AFR	Tanzania

During the discussion of Egypt on the tour d'horizon, the German representative asked for some information on reports that France was

selling off some third world debt. The French representative replied that they were auctioning off some of their claims on Egypt. They had sold FF 500 million. They insisted on the resources being used for investment projects. The demand was very strong and was oversubscribed several times.

Swiss Debt Reduction Facility and Paris Club Debt

11. The Swiss delegate indicated that the Swiss parliament had approved a facility to finance debt buy-backs. It has an endowment of about US\$350 million. The first debt reduction agreement was signed with Bolivia on April 2, 1993. Further details are given in the attachments.

Next Steps

12. The next Paris Club meeting will be in June. Costa Rica, Ecuador and Benin are expected to be invited for negotiations.

Messrs./

Mmes. Karaosmanoglu; Sandstrom; Stern; Husain, Jaycox, Kaji, Koch-Weser, Thalwitz, Wood; Linn; Kashiwaya; Edwards, I. Husain, Thomas, Nankani, Selowsky, Squire; Ray, Lav; Birdsall, Gelb, Ahmed; Donovan, Nishimizu, Bhattacharya; Pfeffermann; Shakow. Wyss, Handwerger, Paris Office. Institutional ISC.

Messrs./Mmes.

Guerard (African Countries)
Lafourcade, Derbez, AF1
Colaco, Carter, AF2 (Tanzania)
Aguirre-Sacasa, Gorjestani, AF3
Lim, Salop, AF4
Marshall, Sarbib, Lewis, AF5 (Burkina Faso)
Denning, Patel, AF6
Hamilton, Kilby, SA1
Vergin, Khalilzadeh-Shirazi, SA2
Isenman, Penalver-Quesada, SA3
Madavo, Ikram, EA1 (Philippines)
Burki, Pearce, EA2
Haug, Shilling, EA3
Wiehen, Levy, EC1 (Bulgaria)
Dervis, Noel, EC2 (Slovenia)
Cheetham, Huang, Yurukoglu, Toft, EC3 (Russia)
Kavalsky, Kanaan, Grais, EC4
Kholi, Ayub, MN1
Chopra, Voyadzis, MN2 (Egypt, Iran, Jordan)
Steckhan, Papageorgiou, LA1 (Brazil, Peru)
Segura, de Ferranti, LA2C1 (Costa Rica)
Segura, Lacey, LA2C2 (Nicaragua)
Abe, de Tray, LA3C1 (Dominican Republic)
Abe, Delvoie, LA3C2 (Guyana, Antigua & Barbuda)
Loh, Dowsett-Coirolo, LA4 (Ecuador)

Attachment

McCarthy:df

Ministry of Public Economy
Federal Office of Foreign Economic Affairs
Development Policy Service

The Swiss Debt Reduction Facility and Paris Club Debt

1. The debt reduction facility

Origin and brief description: In the summer of 1989, several Swiss NGOs formed an alliance to launch an 'external debt reduction campaign' for the benefit of severely indebted low-income countries. Four percent of the Swiss population (250'000 people) signed a petition calling for the creation of a program to finance debt buy-backs and other measures under a facility to be funded by new and additional ODA resources. The credit necessary to finance operations was approved by Parliament in May, 1991. The Facility has an endowment of Sfr 500 mn (about US\$ 350 mn), to be spent over a period of five to seven years. In the context of discussions leading to the establishment of the Facility, the notion of 'creative debt relief' was developed to characterize an approach whereby external debt was to be written off against the creation, by the beneficiary government, of a counterpart fund destined to finance development projects. In this way, the macroeconomic benefits from debt reduction were to be passed on to the micro level, i.e. the population segments on which the development projects were going to be targeted.

Objective and key conditions: The objective of the Facility is to support highly indebted low-income countries with a strong policy reform record in their efforts to obtain debt and debt service relief. It is expected that at least US\$ 1.8 bn of debt will be retired under the Facility. Only recognized claims of a nonmilitary nature are taken into account. The debt relief granted to eligible countries amounts to 100%. The pre-conditions for a country to benefit from debt relief under the Facility include on-track relations with the international financial institutions, acceptable conditions of governance, and the existence of an adequate debt management system. The conversion factor of external debt into domestic obligations is governed by developmental and absorption considerations (noninflationary debt conversion), as well as other factors. Special attention is paid to the budgetary constraints of beneficiary countries which call for relatively low conversion rates.

Instruments: The following instruments are applied under the Facility:

- debt buy-backs (officially guaranteed Swiss export credits [Paris Club debt] and commercial, non-guaranteed debt [bank debt]);
- contributions to the clearing of arrears and, where appropriate, the financing of obligations toward the international financial institutions (IMF, World Bank, regional development banks);
- complementary measures (fresh money in conjunction with debt relief and fresh money for countries having avoided excessive indebtedness and/or a breakdown in their external creditor relations).

Buy-back principles: Private creditors are required to bear a significant share of the cost (i.e. large discount on face value); bank debt buy-backs should seek to cover a large part of total bank debt (case for internationally coordinated debt reduction).

Country eligibility (in principle): Enhanced Toronto-countries, recipients of Swiss ODA who have rescheduled in the Paris Club, and LLDCs (in total about 45 countries).

2. Actions related to Paris Club debt

In March, 1992, the 'tail end' or franchise of officially guaranteed debt from Swiss exporters was bought back under the Debt Reduction Facility. Ninety-five percent of the exporters who held claims on 22 mostly African countries¹⁾ participated in the buy-back which amounted to US\$ 215 mn (existing outstanding debt). Country-specific prices were offered; the weighted average price was 19% which compares with a secondary market price of 15% for commercial, non-guaranteed debt paper. The cost of the buy-back operation, therefore, was US\$ 42 mn. The total volume of debt to be written off, including the part of the Swiss export risk guarantee agency amounting to US\$ 555 mn, is approximately US\$ 770 mn. In 1993 a second buy-back will be operated, focussing in particular on Egyptian debt.

3. Debt reduction negotiations with Bolivia

Whereas activities under the Facility focussed on buy-back operations in 1992 (in addition to the operation relating to Paris Club debt described in the preceding point, selected bank debt buy-backs were carried out), 1993 will be marked by the beginning of bilateral debt reduction negotiations. The first debt reduction agreement was signed with Bolivia on April 2, 1993. Others are expected to follow.

The main elements of the debt reduction agreement with Bolivia are:

- Debt stock reduced: US\$ 38 mn (100%).
- Counterpart fund: Bolivia transferred US\$ 4 mn in local currency to an interest bearing account with a Bolivian commercial bank (this amount represents 11% of the debt written off). The external debt in question was cancelled after the counterpart fund had been deposited in full.
- Utilization of the counterpart fund: The fund will be used to finance development projects in the following sectors: Conservation of natural resources, and micro enterprise and handicraft promotion (support to trade associations and credit programs). The selection and approval of projects to be financed under the counterpart fund is the responsibility of a special committee on which the following entities are represented: the Ministry of Planning and Coordination of Bolivia, the Swiss Development Cooperation office in La Paz, a national organization of NGOs,

1) Bolivia, Cameroon, Central African Republic, Congo, Côte d'Ivoire, Ecuador, Guinea, Guinea-Bissau, Honduras, Jordan, Madagascar, Mali, Nicaragua, Peru, Philippines, Senegal, Sierra Leone, Sudan, Tansania, Togo, Zaire, Zambia

the Bolivian Federation of Small and Medium-Size Industries, and the National Environment Fund.

Contacts for further information:

Marco Ferroni phone (41 31) 61 22 69
Roger Denzer phone (41 31) 61 26 39

Fax: (41 31) 21 53 72
Telex: 911 340 eda-ch

Annex: Bilateral debt reduction agreement between Switzerland and Bolivia (main text)

Berne, 1 May 1993

AGREEMENT

BETWEEN

THE SWISS CONFEDERATION

AND

THE REPUBLIC OF BOLIVIA

ON THE REDUCTION OF EXTERNAL DEBT

AND THE CREATION OF A COUNTERPART FUND

The Swiss Confederation and the Republic of Bolivia (referred to below as the "Contracting Parties"),

Having regard to the friendly relations between the two countries,

Desiring to strengthen these relations,

Recognizing the external debt problem of the Republic of Bolivia and aiming to contribute to the solution of this problem,

Have agreed as follows:

Article 1

Objective and Means

The objective of this Agreement is to promote the economic and social development of the Republic of Bolivia (referred to below as "Bolivia"). This shall be achieved by an external debt reduction (referred to below as "External Debt Reduction") granted by the Swiss Confederation (referred to below as "Switzerland") against establishment of a fund in local currency for the purpose of financing specified development projects and/or programmes (referred to below as "Counterpart Fund").

Article 2

External Debt Policy

- 2.1 Switzerland and Bolivia agree that sound, long term oriented macroeconomic and sectoral policies and adequate external debt management are necessary for sustainable development. Adherence to these principles is a pre-condition for the granting of External Debt Reduction under this Agreement.
- 2.2 The External Debt Reduction is granted in recognition of Bolivia's satisfactory relations with the multilateral financial institutions and its on-track status with relevant economic reforms.
- 2.3 Bolivia shall implement and maintain an external debt policy aimed at reducing contractual and effective external debt service to sustainable levels by means of appropriate market based and/or negotiated approaches. The measures undertaken by Bolivia in the framework of the external debt policy shall aim at normalizing creditor relations in order to establish adequate trade and capital movements. Bolivia shall maintain a sound debt data and liability management programme.
- 2.4 Bolivia shall follow a policy of prudent contraction of new external debt, maximizing among other aspects recourse to non debt creating finance and concessional flows with the highest possible grant element. Bolivia shall use new loans and grants for

priority projects and programmes with maximum economic and social return on investment.

- 2.5 Bolivia shall utilize the medium and long term savings created by the External Debt Reduction to finance economic and social development projects and programmes.

Article 3

Eligible External Debt

- 3.1 The debt to be released under this Agreement (referred to below as "External Debt") is re-scheduled and non-rescheduled non-Official Development Assistance debt originating from commercial transactions insured by the Swiss Export Risk Guarantee Agency. It is specified in the Annex which forms an integral part of this Agreement.
- 3.2 The External Debt does not exceed 53,2 million Sfr. (fifty three million two hundred thousand Swiss francs) on the date mentioned in para. 4.2.
- 3.3 All other present and future debt owed to official and/or private Swiss creditors remains untouched by this Agreement.

Article 4

Conversion of External Debt

- 4.1 On entry into force of this Agreement 52,4 million Sfr. (fifty two million four hundred thousand Swiss francs) shall be converted into a debt in local currency calculated on the basis of the official exchange rate in Bolivia on the date mentioned in para. 4.2; the External Debt outstanding shall be extinguished in full by this conversion. The amount in local currency shall be the equivalent of 11% (eleven per cent) of the External Debt.
- 4.2 The amount owed in local currency shall be paid by Bolivia in one tranche and not later than April 2, 1993.

Article 5

Creation of Counterpart Fund

- 5.1 Switzerland shall open an interest bearing local currency account with a local commercial bank for the use of the Committee identified in para. 6.3.2 (referred to below as the "Account"). Bolivia shall deposit into the Account the tranche referred

to under para. 4.2. Signatures of both Contracting Parties shall be required for expenditures.

5.2 Satisfactory proof of deposit of the tranche shall be submitted to Switzerland.

Article 6

Utilization of the Counterpart Fund

6.1 The Counterpart Fund shall be used exclusively to finance development projects and/or programmes and official bank charges for the administration of the Account.

6.2 The development projects and/or programmes shall cover the following sectors in Bolivia:

- Use and conservation of natural resources
- Micro-enterprise and handicraft promotion (support to associations and credit programmes)

The Counterpart Fund shall be allocated equitably between governmental and non-governmental organisations and the private sector.

6.3.1 Governmental institutions and non-governmental organisations shall be invited to submit projects and/or programmes to be financed from the Counterpart Fund; proposals shall be submitted to the Committee identified in para. 6.3.2.

6.3.2 The selection and approval of projects and/or programmes to be financed from the Counterpart Fund shall be the responsibility of a special committee (referred to below as the "Committee") to be established for this purpose and to consist of one representative each of the Ministry of Planning and Coordination of Bolivia, the Swiss Development Cooperation office in Bolivia (COTESU), the "Coordinadora de Redes de Instituciones Privadas de Desarrollo Social", the "Federacion Boliviana de la Pequeña y Mediana Industria" (FEBOPI), and the "Fondo Nacional del Medio Ambiente" (FONAMA). The decisions of the Committee shall be made by consensus of all members.

6.3.3 The supervision of approved projects and/or programmes under implementation shall be the responsibility of sub-committees, to be appointed for this purpose by the Committee.

6.3.4 The Committee shall be governed by rules and regulations to be worked out by its members and approved by the Contracting Parties not later than 30 (thirty) days after entry into force of this Agreement.

6.4 The development projects and/or programmes financed under the Counterpart Fund and executed by Swiss non-governmental organisations shall be carried out under the

regime of the Agreement on Technical and Scientific Cooperation between Switzerland and Bolivia, dated November 30, 1973, on the condition that the said non-governmental organisations have signed the Framework Agreement of Basic Cooperation with Bolivia.

Article 7

Consultations and Inspection

- 7.1 The Contracting Parties shall cooperate to ensure that the objective of this Agreement will be achieved. As and when the need arises, the Contracting Parties shall, at the request of either Party, exchange views and inform each other through their representatives about progress regarding the performance of their respective obligations and the operations implemented under this Agreement. The Contracting Parties shall promptly inform each other of any condition or development which interferes, or threatens to interfere, with the accomplishment of the purposes of this Agreement.
- 7.2 The Committee shall submit to Switzerland annual audits of the Counterpart Fund and project and/or programme expenditure.
- 7.3 Switzerland is authorized to inspect the implementation of this Agreement at any time.

Article 8

Reporting

- 8.1 Within three months from the date of deposit of the tranche referred to under para. 4.2, Bolivia shall submit a written report to Switzerland. This report shall include an analysis of the impact of the reduction of External Debt under this Agreement on the government budget and the balance of payments over a period of five years counting from the year this Agreement entered into force.
- 8.2 Within nine months of full disbursement of the Counterpart Fund, the Committee shall submit a written evaluation report to Switzerland on the results of the projects and/or programmes financed under the Counterpart Fund.

Article 9

Amendments

Amendments to this Agreement shall be effected by exchange of letters.

Article 10

Entry into Force

This Agreement shall become effective upon payment by Bolivia of the tranche referred to under para. 4.2.

Article 11

Cancellation

- 11.1 If either Contracting Party willfully and persistently fails to comply with any clause of this Agreement and does not remedy the situation within one month following the other Contracting Party's written request to do so, the latter shall be allowed to cancel the Agreement by means of written notification.
- 11.2 Should this Agreement be cancelled, Switzerland will resume its role as a creditor country which it has played prior to the entry into force of this Agreement. The External Debt will have to be serviced as if this Agreement had never been concluded; the payments in foreign currency which would have been due during the time this Agreement was in force shall be effected immediately on the date cancellation is notified. The Counterpart Fund shall be reimbursed to Bolivia.

Article 12

Authorities

The following Authorities are responsible for the implementation of this Agreement:

- (a) For Switzerland (with regard to External Debt Reduction and Creation of the Counterpart Fund):

Federal Office of Foreign Economic Affairs (FOFEA) of the Federal Department of Public Economy
Bundeshaus Ost

3003 Bern, Switzerland

Phone: 31 61 4261
Fax: 31 21 5372
Telex: 911 340 EDA-CH for BAWI

(b) For Switzerland (with regard to Utilization of the Counterpart Fund):

Swiss Development Cooperation (SDC) of the Federal Department of Foreign Affairs
Eigerstrasse 73

3003 Bern, Switzerland

Phone: 31 61 3403
Fax: 31 45 5721
Telex: 911 340 EDA-CH for DEH

(c) For Bolivia (with regard to External Debt Reduction and Creation of the Counterpart Fund):

Ministerio de Finanzas
Subsecretaria del Tesoro y Credito Publico

La Paz, Bolivia

Phone: 37 31 35
Fax: 35 19 12
Telex: 2617 Finanzas B V

(d) For Bolivia (with regard to Utilization of the Counterpart Fund):

Ministerio de Planeamiento y Coordinacion
Subsecretaria de Inversiones Publicas y Cooperacion Internacional

La Paz, Bolivia

Phone: 37 20 63
Fax: 39 28 91
Telex: 2180 Bv Mincord

Done at Berne, on April 2, 1993 in two original copies in English.


For Switzerland:


For Bolivia:

