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Paris Club

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Liebenthal
Isenman

CONFIDENTIAL

DATE: December 28, 1990

TO: Mr. Moeen A. Qureshi

FROM: Per Ljung, Economic Adviser, EAS

EXTENSION: 81933

SUBJECT: Paris Club Meeting - December 11-12, 1990

Introduction

1. Because of slippages in the Fund programs, no debt consolidation took place during the December 11-12 meeting of the Paris Club. The major item on the agenda was the regular Tour d'Horizon. The methodology session dealt primarily with: (i) John Major's proposal regarding "Trinidad terms" for the IDA-only countries; and (ii) a Canadian proposal to base loan repayments on fixed annuities. At the meeting, the Swiss delegation also announced that its Parliament had approved a debt reduction facility for low income countries. In addition, a special session was devoted to the issue of debt and debt service relief for Egypt and Poland. I have reported separately on these discussions.[1]

Tour d'Horizon

2. The countries covered during this session were:

Africa:	Angola, Benin, Burkina Faso, Cameroon, Ethiopia, Nigeria and Tanzania
EMENA:	Bulgaria, Egypt, Jordan, Morocco, Poland, Syria, USSR, Yugoslavia
Latin America:	Argentina, Brazil, Costa Rica, Ecuador, Mexico, Nicaragua, Paraguay and Peru.

3. Few issues of any significance arose during the Tour d'Horizon. The only ones worth mentioning here are:

Bulgaria — It is likely that the Paris Club will reschedule Bulgaria's official debt soon after a Fund program has been approved (possibly as early as March);

Nicaragua — I explained that Nicaragua's per capita income level was well below the operational cut-off for IDA lending and that Bank staff was preparing a memorandum recommending that Nicaragua would become eligible for IDA lending after the arrears had been cleared. Given the country's heavy debt burden, Nicaragua was likely to be classified as "IDA-only." Thus, the Chairman concluded that Nicaragua probably would become eligible for Toronto terms.

1/ See my memorandum titled "Egypt and Poland--Recent Discussions in the Paris Club," dated December 28, 1990.

Paris
Club

Paraguay — Although Paraguay does not have a severe debt burden, its most recent per capita income is below the official IDA cut-off and most of its debt is owed to official creditors. Consequently, Paraguay is likely to be eligible for the extended maturities and the debt swaps under the new Paris Club scheme for lower middle income countries.

Developments among the Creditors

4. Switzerland. Last October, the Swiss Parliament approved a bill establishing a special debt reduction facility which will become operational on January 1, 1991. The beneficiaries of the facility will be the "poorer, highly indebted developing countries...primarily those countries where Switzerland already operates development cooperation programs." Eligibility will be established on a case by case basis, taking into account the following conditions: (i) the country must be engaged in a medium-term economic reform program (including appropriate social reforms) supported by the international financial institutions; (ii) the country must be operating a "debt management program"; (iii) the amount of debt relief has to have a material impact on the country's development prospects; (iv) when private creditors--banks or exporters--are involved, they must provide a significant contribution (through discounts); and (v) only debt associated with the purchase of civilian goods will be eligible for reduction under the facility.

5. The debt reduction facility will support three different kinds of measures:

* **Reduction or consolidation of commercial non-guaranteed debts.** The facility will--together with other bilateral or multilateral institutions--support buy-backs of commercial debt. In most cases this will be done under the umbrella of IDA's debt reduction facility.

* **Debt reduction in the context of publicly guaranteed loans.** This part of the facility will replace the Swiss Government's participation in Paris Club reschedulings on Toronto terms. The Swiss Government will take over the concerned loans/guarantees from the Swiss Export Guarantee Agency (EKG) and write-off either the full amount or a major share of the loans. Exporters and commercial banks will be able to sell their share of the loans to the Government at the discounted market value. On a case-by-case basis, the Swiss government might link the cancellation of debt to the--partial--provision of local funds by the debtor country for development projects, environmental protection etc.

* **Contribution to the settlement of arrears due to international financial institutions.**

6. An indicative sum of SF 100 million has been reserved for the debt reduction facility. It is estimated that actions under the three measures

described above will lead to debt reductions in the order of SF 400-600 million. One implication of this program is that Switzerland will no longer participate in the Paris Club's Toronto reschedulings for the IDA-only countries. Further details are provided in Annex 1.

7. The Netherlands. Until now, the Dutch Government has always selected Option B (extended maturities) under Toronto reschedulings. At the December session of the Club, the Dutch delegation announced that, in the future, it will select Option A (write-off of one-third of the rescheduled debt). In those recent cases where the Dutch Government has not yet signed the bilateral agreements, the new, more concessional treatment will be granted retroactively.

8. Germany. Some developing countries owe significant amounts to the former East German Government (for example: Nicaragua US$ 500 million; Ethiopia US$ 200-300 million). These loans were often part of barter arrangements and payments are made in the form of commodity deliveries. The Government of F.R.G. is grappling with how to treat this debt both in its bilateral relations with the debtors and in Paris Club reschedulings.

Methodology Issues

9. **Trinidad Terms**. The Club continued the discussions of John Major's Trinidad proposal for the low income countries. In general this meant a restatement of positions taken at the November meeting.[2] Although a couple of the G-7 delegations remain cool to the idea of further debt relief for the poorest countries, the support for a softening of the Toronto terms seems to be getting stronger. However, it is unlikely that the Paris Club creditors will agree on a one-time write-off of the debt. Virtually all of them stressed the need for "conditionality" and, thus, they preferred to continue the existing practice of only granting debt and/or debt service relief for the maturities falling due during the consolidation period.

10. The Dutch delegation made a proposal which most of the others found constructive: Rather than treating all "IDA-only" countries in a uniform fashion, debt indicators would be used for dividing them into three groups. The eligible debt of the most severely indebted countries would be reduced by, for example, 70 percent; the moderately indebted countries would have their debt reduced by, for example, 50 percent; and the least indebted, by 30 percent. The discussions regarding Trinidad terms are likely to continue for at least another five or six months since virtually all the creditors want to get the agreements for Egypt and Poland out of the way before they decide on more concessional terms for the poorest countries.

11. Blended Payments. During the October Paris Club meeting, the Canadian delegation proposed that the conventional rescheduling terms for middle income countries (10-year maturities including 5 years of grace) be replaced with constant annuities that "blended" repayment of principal and interest. There seems to be an emerging concensus in the Club that this would mean an improvement over the current practice. Acknowledging that

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2/ See Frank Lysy's memorandum on "Paris Club Meeting: November 12-15, 1990" dated December 14, 1990.

there is an implicit trade-off between maturity and grace period, most creditors noted that they would be willing to consider a scheme where a two-year grace period (when only moratorium interest would be paid) would be followed by a 13-year constant annuity. (This means that the repayment period would be extended from 10 years to 15 years.) Some creditors added that they might be willing to extend the maturity to 20 years if the debtor agreed to forego the grace period. Many creditors also argued that "blended" payments/annuities should be considered also for severely indebted lower middle income countries and for the IDA-only countries. Quite a number of practical problems remain to be sorted out and, thus, it is unlikely that a decision will be forthcoming within the next few months.

Future Meetings

12. Given the probability of further slippages in the Fund programs, the future work program for the Paris Club is highly uncertain. Nigeria is the only country which is likely to come for negotiations during the January 14-18 session. Four countries are potential candidates for the February session: Burkina Faso, Costa Rica, Egypt and Paraguay. The official debt of Bulgaria might be rescheduled in March. Cameroon and Poland might come in April. It should be noted, however, that this is a very optimistic scenario and major delays might occur.

13. Over the next couple of months, the Club will continue its internal discussions on debt and debt service relief for Egypt and Poland. At the October meeting of the joint Paris Club/Poland Working Group it was tentatively agreed that the group would meet again in January or February. However, the date has not yet been decided.

cc: (w/o attachments)
Messrs./Mss.
Stern; Thalwitz; Linn; Husain, Jaycox, Karaosmanoglu, Kashiwaya, Wapenhans; O'Brien, Yenal, P. Hasan, Selowsky; Grilli, Lysy; Okonjo-Iweala; Isenman, Corbo, I. Husain; Kavalsky, Stoutjesdijk, Kilby; Pfeffermann.
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Aguirre-Sacasa/Gorjestani (Angola)
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Choksi/Papageorgiou (Brazil)
Chopra/Voyadzis (Egypt, Jordan, Syria)
Denning/Messenger (Tanzania)
Dervis/Grais (Morocco)
Gillette/Kaps (Benin, Cameroon)
Lari/Nouvel (Bulgaria, Poland, U.S.S.R., Yugoslavia)
Lim/Iskander (Nigeria)
Madavo/Carter (Ethiopia)
Marshall/Sarbib (Burkina Faso)
Steckhan/Squire (Mexico)
Steckhan/Voljc (Costa Rica, Nicaragua)

PLjung:vl

(Draft)

Swiss Debt Reduction Facility

(Translation of an extract from a Message dated February 21, 1990 - approbation bill - from the Swiss Government to the Parliament; in the meantime the Swiss Parliament has approved the bill (the National Council in June 1990 and the Council of States in October 1990) and the Facility will become operational on January 1, 1991)

1. General Remarks

Until now the two main instruments available to the Swiss Government for supporting poorer, heavily indebted countries in the field of financial assistance with an impact on these countries' foreign currency debts comprised (a) balance of payments assistance and (b) debt rescheduling in the framework of the Paris Club, the latter on the basis of concessionary conditions in effect since 1988 (known as the Toronto Conditions). In addition, in 1981 the Swiss Government resorted to funds put aside for balance of payments assistance in order to pay the Swiss contribution of about Sfr. 6 million to the IMF Witteveen facility, which served to lower interest rate costs for loans to the poorer, oil-importing developing countries. Furthermore the balance of payments instrument allowed the Government in 1988 and 1989 to participate to the extent of a total of Sfr. 9.5 million in a joint effort with other donor countries under the aegis of the IMF to buy back Bolivian debts to international commercial banks (involving a discount of 89 percent on the face value and the waiver of interest which had remained unpaid for many years). At present discussions about similar arrangements in favour of two other poor, heavily indebted countries are in process.

Amongst bilateral donor countries, only very few other countries (Netherlands, Sweden) have so far participated in debt reduction measures similar to that for Bolivia, which shows that this form of development assistance cannot be undertaken without appreciating its risks. In this respect, the following three very sensitive questions must be put, each of which must be answered with specific reference to the case in hand:

- solidarity between the donor countries and their creditors: in order that debt reductions should be effective, there must be certainty that several donors and the main creditors participate in the arrangement and that each assumes its share of the burden;
- the danger that public funds may be used in an unjustifiable manner to cover the risks taken by private interests (banks and exporters): this danger may be met by ensuring that in no case are the credits in question to be redeemed at their face value but only with a large discount corresponding to the amount which is paid on the open market for similar debts;
- the moral hazard, or the question of ascertaining the extent to which such debt reduction would affect the future behaviour of the beneficiary countries: there is in fact only a very limited probability that in the near future the governments of the countries in question, mostly situated in Africa south of the Sahara, would be in a position to borrow large sums on a non-concessionary basis; on the one hand this would presuppose the agreement of any creditors, and on the other hand these

countries have been obliged during the last few years to take account of their indebtedness in a way which must have led them to change both their behaviour and their expectations.

- Another aspect which is of particular importance in this respect is the effect which such debt reduction measures may have on countries which have in the past avoided excessive indebtedness by more prudent policies. In this respect note should be taken of the fact that maintaining confidence and creditworthiness is more important than any advantages which may be obtained from debt reduction measures. This implies that resources available to countries pursuing more prudent policies in the framework of development cooperation programmes should never be reduced in favour of debt reduction measures taken in favour of other countries; thus, debt reduction measures should be financed by truly additional means.

Although the traditional Swiss Balance of Payments Facility has also provided a support for the above-mentioned efforts - thereby contributing to a reduction in both balance of payments problems and situations of indebtedness - its primary purpose is to finance essential current imports: recourse to traditional types of balance of payments assistance is linked to the purchase of goods which are of overwhelming importance for supplying the population in the event of economic crisis and for maintaining the production apparatus and which in consequence directly stimulate economic growth. However, it has been shown that in many developing countries indebtedness, together with present and future obligations stemming from debt servicing (interest and amortisation), have reached a level which may put in real danger, or even reduce to zero, all efforts made with a view to re-establishing real economic growth and of returning to the state of creditworthiness which is necessary to finance short-term commercial credits and to strengthen the confidence of domestic and foreign investors. In consequence, debt reduction is often an indispensable accompaniment for measures which may be taken in other development cooperation areas.

2. Prerequisites for measures to be taken in the field of debt reduction

In order to envisage a Swiss contribution to debt reduction measures on a case by case basis, the following essential conditions must be fulfilled:

- the case in question must be one of the poorer, highly indebted developing countries; we are thinking primarily in terms of those countries where Switzerland already operates development cooperation programmes;

- the beneficiary country must be engaged in a medium-term economic reform programme supported as a rule by international financing institutions (IMF, World Bank or one of the regional development banks); any debt reduction measures which are outside the framework of general economic and development policies and which in addition do not include the necessary social adjustment dimension will succeed in combating the symptoms of indebtedness only and will have no effect in the longer term:

- the country in question must be operating a debt management programme which includes a plan for comprehensive debt relief and consolidation at a number of different levels (Club of Paris and other creditors);

- the volume of debt which is to be reduced (through buy-backs) or settled (for example, by conversion into long-term bonds) as a result of the Swiss contribution and the help of other donors must, in the case of multilateral action, be sufficiently large to improve significantly the growth and development prospects of the country concerned;

- in cases of buy-backs in the framework of debt consolidation or other similar measures, the private creditor (bank or exporter) must also be required to provide a contribution proportionate to the risk incurred; this would take the form of a reduction in real terms of the face value of the original debt (discount);

- the selection and the implementation of debt reduction actions will be carried out case by case and must be limited to civilian goods.

3. Measures planned

As in all areas relating to development cooperation, debt reduction must be firmly based on practical needs and the opportunities available to the various developing countries concerned, as well as on the possible effectiveness of assistance programmes, whose volumes will always be extremely limited in comparison with total real needs. This is why it is never possible in practice to enumerate in advance all the operations which will have to be undertaken. Allowance must be made for a degree of flexibility which will make it possible to take new ideas into consideration wherever the need may arise.

Taking into account the present state of discussions on indebtedness, we intend to support the following three measures on the basis of this new facility:

I Contributions to the reduction or consolidation of commercial non-guaranteed debts

These would have a discount similar to that available on the secondary market and would be in the framework of a programme including other donor countries or institutions (cases similar to the Bolivian plan).

The proportion of commercial debts in the total debt of any poorer developing country is likely to be fairly low (between 10% and 30%). However, in view of the fact that the conditions of these debts are of a non-concessionary nature, their service makes up a contractual charge which is relatively burdensome. And in view of the fairly small amounts involved and the very limited negotiating powers of these countries there very rarely exists an effective institutionalised mechanism for rescheduling debts in such cases. Many poorer countries are in a position to meet their contractual payment obligations only sporadically. As a result, interest arrears are constantly being added to the original debt. This situation brings additional costs which lead - in the form of higher risk premiums required for financing - to higher prices for essential imports. In addition, the very existence of debts and interest arrears has an extremely negative influence on the general investment expectations of domestic and foreign savers.

The total non-guaranteed commercial debt volume of the poorer, highly indebted countries is estimated at between two and three billion US dollars. The discount which is paid on such debts on the secondary market - however small this may be - is situated somewhere between 50 and 95 percent. As has been seen in previous cases, it is essential that such debt reduction programmes should be preceded by negotiations between creditors and debtors - during which amongst other matters the height of the discount and the methods of proceeding should be agreed upon. The debtor country in question will be responsible for such operations and will carry them out. The IDA, which at the end of 1989 provided a facility of 100 million US dollars for debt reduction programmes of this kind, is ready to cooperate with the IMF in providing the necessary technical assistance to the countries concerned by such programmes and in taking responsibility for their administration.

II Debt reduction in the context of publicly guaranteed loans

This measure has the purpose of cancelling old debts of the poorer, highly indebted developing countries stemming from Swiss exports originally guaranteed by the ERG (Export Risk Guarantee Agency) and in the meantime rescheduled in the framework of the Club of Paris. Loans made to countries which, on the basis of the prescribed criteria and the funds available, may be candidates for such relief amount to about Sfr. 300 million to 400 million. Even though debt service payments on these loans may have been made only sporadically, and perhaps not at all by some countries, they still represent an actual or potential burden which limits the development opportunities of such countries.

In order to bring about conditions which would permit the Swiss Government to waive, either in whole or in part, publicly guaranteed loans made to developing countries, the following procedure has been worked out:

- the ERG will assign its share in the loans to the Swiss Government, which, in exchange, will cancel the corresponding advances made to the ERG; thus no expenditure from the development budget will be involved;
- franchises of exporters and banks, which correspond to an average of one third of the loans, will be redeemed through the new facility on a voluntary basis at their discounted market value.

Those exporters and banks which do not accept the offer made through the facility will have to assume the country risk for the outstanding portion of their franchise.

The countries concerned under the above two measures may benefit from debt relief as to either the whole or part of the redeemed loans. In each specific case we shall also examine the extent to which it may appear helpful to link the cancellation of the debt to the partial provision of local funds (the equivalent in local currency) in order to support specific development cooperation measures or in order that the country concerned may take over the provision of specific obligations (for example, in the field of environmental protection). Though we are aware of the risks involved in the creation of local counterpart funds, we do not exclude in principle the establishment of simple commitments which may appear promising and which require the use of such funds.

III Contributions to the settlement of arrears due to international financing institutions

These would be within the framework of debt reduction programmes supported by other donor countries (the so-called fifth window).

Debtor countries which are in arrears with respect to such institutions (IMF, World Bank, regional development banks) are not eligible to receive new multilateral credits nor in many cases bilateral credits linked to the latter. In consequence, such concerted programmes represent a form of aid which can be of very great significance.

4. Financing

An indicative sum of Sfr. 100 million has been reserved for this facility. With this sum actions under the three measures described above should lead to debt reductions in the general order of Sfr. 400 million to 600 million, taking into account a high discount rate on the secondary market. In respect of measures in the field of consolidated ERG debts, the amount held by the ERG (Sfr. 200 million to 300 million) will be financed by the cancellation of the advances made by the Swiss Government.

We consider that in present circumstances assistance of this kind is necessary, and we shall make according efforts to persuade other donor countries to carry out an increased number of similar programmes. Thus the indebtedness of many of the poorer developing countries could be readjusted during the next four years so that the success of their own efforts in the economic and social fields, as well as in development assistance in other areas, will not be prejudiced.

(Questions and comments regarding this facility and its implementation should be directed to:

Federal Office for Foreign Economic Affairs
Development Policy Service
Financing Section II
CH - 3003 B e r n e / Switzerland

Phone: 0041-91-61 22 40
Fax : 0041-91-61 23 30)

PARIS CLUB

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 24, 1990 **CONFIDENTIAL**

TO: Mr. Edward Jaycox, Acting Senior Vice President, Operations

FROM: Per Ljung, Economic Adviser, EAS

EXTENSION: 81933

SUBJECT: **Paris Club Meeting: October 10-12, 1990**

Introduction

1. Primarily due to slippages in the Fund's processing schedules, no debt rescheduling took place during the October meeting. Although the Fund monitored program for Panama had been approved in September, the government had requested that the Paris Club negotiations be delayed until November. Thus, the main item on the agenda was the meeting of the Joint Poland-Paris Club Working Group. I have reported separately on this meeting.1/ The Club held its regular Tour d'Horizon. A two-hour meeting was also held with Mr. Faquih, Vice Minister of Finance for Saudi Arabia and President of the Saudi Monetary Fund. There were no "methodology" discussions.

Tour d'Horizon

2. Included in the Tour d'Horizon were: Argentina, Benin, Bolivia, Brazil, Bulgaria, Burkina Faso, Cameroon, Costa Rica, Dominican Republic, Ecuador, Egypt, Gabon, Guinea Bissau, Iraq, Jamaica, Jordan, Nigeria, Panama, Peru, Philippines, Tanzania, Uganda, U.S.S.R., Venezuela, Yemen and Yugoslavia. A couple of items merit mention here:

* Egypt. Following the understandings reached during the Annual Meeting, the Fund and the Secretariat proposed a two staged approach to Egypt's debt: (i) in November--based on an interim Fund program-- the Paris Club would reschedule Egypt's arrears plus, perhaps, payments due until the end of the year; and (ii) after a stand-by had been approved early next year, all payments due during the SBA period would be rescheduled. However, this idea encountered some strong opposition. Thus, it was decided that the delegations would consult with their authorities and report back to the Secretariat. (Today, there is still no consensus among the creditors on the two staged approach but discussions are continuing.) The internal Paris Club discussions on Poland and Egypt showed that most creditors agree that these two countries should be treated in a similar fashion. Thus, if one of the countries is awarded an exceptional treatment by the Club, the other is likely to enjoy the same terms and conditions.

* Nigeria. Because of the uncertainties about future oil prices, the Fund proposed a two-staged approach also for Nigeria.

1/ See my memorandum to Mr. Jaycox, dated October 18, 1990, on "Poland and the Paris Club."

However, this idea was turned down and the Club agreed to explore the possible use of a recapture clause through which payments to the Club could be linked to future oil prices. The Secretariat reported that the Soviet Union had expressed an interest in participating--as a creditor--in the forthcoming Nigeria negotiations. Both these issues would be discussed further at the November meeting.

* Peru. Since the Fund might approve a rights accumulation agreement early next year, the Club decided to have an in depth discussion of Peru's arrears at the November session.

* The Soviet Union. The Secretariat had made its first compilation of the Soviet debt service to official creditors. Although there were some gap in the data, the arrears on MLT debt were surprisingly small (US$33 million). The scheduled debt service payments for 1991 were around US$2 billion. Thus, the creditors seemed to agree that a Soviet approach to the London Club was likelier than an approach to the Paris Club.

* Uganda. The continued deterioration of Uganda's balance of payment situation was of great concern. The possible need for a "Zambian" solution2/ was briefly discussed. However, before proceeding with an exceptional rescheduling, the creditors are likely to want some clear signs of strong support from the donor community.

* Yugoslavia. As I have reported earlier, the Club has refused to reschedule Yugoslavia's debt but has given the government until the end of June 1991 to settle all arrears. The government recently presented a counterproposal which would give it until the end of 1992 to pay the arrears. This proposal was turned down.

Saudi Arabia

3. At the request of the Government of Saudi Arabia, the Club arranged a special session with Mr. Faquih, Vice Minister of Finance and President of the Saudi Monetary Fund. The Saudi Government was clearly interested in joining the Paris Club as a creditor. The key issue was how the loans from the Saudi Development Fund would be treated in a Paris Club rescheduling. The Vice Minister explained that the Saudi Development Fund was an independent financial institution. The Government had provided its basic capital to which the Fund added resources through market borrowings. Thus, the Fund's ability to continue lending money would be jeopardized if it participated in debt rescheduling. Thus, the Saudi Government felt that the Fund required the same protected status as the World Bank and the regional development banks.

2/ The "Zambian solution" involved a (i) consolidation and rescheduling of arrears on pre cut-off date debt and previously rescheduled debt; (ii) deferment of arrears on post cut-off date debt; and (iii) deferment of 70 percent of moratorium interest.

4. The Paris Club creditors questioned this analogy. They noted that the bulk of their own development assistance was provided in the form of grants (as was the case with Saudi Arabia). In addition, however, many of the creditors had development institutions (KfW, Caisse Centrale etc.) with structures similar to the Saudi Development Fund. Furthermore, they had their own export credit or credit guarantee agencies that were independent financial institutions. In Paris Club reschedulings, debt owed to these institutions was included. Several of the Paris Club members were quite explicit in voicing their opinion that the "protected" nature of the loans from the Saudi Development Fund was inconsistent with Paris Club rules. Consequently, they were cool to the idea of Saudi Arabia joining the Club.

Trinidad Terms and Other Methodology Issues

5. As noted earlier, there was no methodology session during the October meeting. However, the U.K. delegation handed out a paper that elaborated on John Major's Trinidad proposal. As you recall, the Trinidad proposal comprised a number of different elements:

(i) to tackle the total stock of debt in a single, long term operation...not just reschedule one year's maturities at a time;

(ii) to reduce the stock of eligible debt by two thirds;

(iii) to extend repayment periods to 25 years;

(iv) to capitalize interest occurring in the first 5 years; and

(v) to devise repayment profiles that allow a steadily increasing payment of total principal and interest as the export capacity of the debtor country grows.

6. The British paper demonstrated graphically how the proposed Trinidad terms compared with successive reschedulings using the three Toronto options. Given the proposed generous debt write-off, the Trinidad scheme would result in significant lower debt service during the first twenty years after the debt consolidation process started. An interesting part of the paper was its elaboration on point (v) above. Here the paper proposed that the payments would be "graduated," i.e., they would grow at a predetermined rate (say 5 percent) each year to reflect expected export growth. This implied that during the early years, payments would not cover all the interest charges. The balance of the interest charges would be capitalized. Under the current Toronto scheme, the repayment burden increases rapidly between the eighth and the fifteenth year after the first rescheduling and declines thereafter. Under the proposed graduated schedule, the payments would grow steadily--but relatively slowly--over time. Thus, the "payment shock" which occurs when the grace period expires is avoided.

7. How to avoid this payment shock was also the topic of a paper prepared by the Canadian delegation. This paper proposed the introduction of constant annuities. Combined with an extension of the repayment period

(from say 10 years to 20 years), this could result in annual payments only slightly above the interest payments presently due during the grace period. The Canadian proposal was primarily concerned with middle-income countries.

8. Encouraged by the Houston Summit and the September meetings of the Interime and Development Committees, the Paris Club is likely to devote considerable attention to both proposals over the coming year. Since it might be difficult for the Club to reach consensus on the stock of debt approach and the higher grant element in the Trinidad proposal, the Club might initially focus its attention on the more technical issues like repayment schedules (for both low and middle income countries).

<u>Future Meetings</u>

9. Panama is the only country on the agenda for a November (12-16) rescheduling. Nigeria is the most likely candidate for the December session. At the November meeting, the Club is also expected to resume its internal discussions on Egypt and Poland. The methodology discussions are likely to cover the British and Canadian papers.

cc: (w/o) attachments)
Messrs. Qureshi (o/r); Stern; Thalwitz; Linn; Husain, Jaycox, Karaosmanoglu, Kashiwaya, Wapenhans; O'Brien, Yenal, P. Hasan, Selowsky; Dubey, Grilli; Okonjo-Iweala; Isenman, Corbo, I. Husain; Kavalsky, Stoutjesdik, Kilby, Pfeffermann.
Lafourcade, Trzeciak, Paris Office

cc: (with attachments):
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Bottlelier/Bery (Argentina, Ecuador, Peru)
Choksi/Papageorgiou (Brazil)
Chopra/Makharita (Saudi Arabia)
Chopra/Voyadzis (Egypt, Iraq, Jordan, Yemen)
Denning/Messenger (Tanzania)
Gillette/Kaps (Benin, Cameroon, Gabon)
Kaji/Ikram (Philippines)
Lari/Nouvel (Bulgaria, U.S.S.R., Yugoslavia)
Lim/Iskander (Guinea Bissau, Nigeria)
Loh/Flood (Dominican Republic, Jamaica)
Loh/Page (Bolivia, Venezuela)
Madavo/Carter (Uganda)
Marshall/Sarbib (Burkina Faso)
Steckhan/Voljc (Costa Rica, Panama)
Bock and Shilling (BTO + Attachments)

PLjung:vl

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

CC: RL
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RECEIVED
90 SEP 17 AM 11:45
PRDDR

DATE: September 13, 1990

TO: Mr. Moeen A. Qureshi
(THRU: Mr. Enzo Grilli, EG Director, EAS)

FROM: Per Ljung, Economic Adviser, EAS

EXTENSION: 81933

SUBJECT: New Paris Club Scheme for the Treatment of Heavily Indebted Lower Middle Income Countries

Introduction

1. On September 11, 1990, after about a year of internal discussions, the Paris Club decided to introduce more concessional terms for the rescheduling of official debt owed by heavily indebted lower middle income countries. The main element is an extension of grace and repayment periods. Thus, the scheme does not involve any debt or debt service reduction. The terms are similar to those granted recently--on an ad hoc basis--to Cote d'Ivoire and Poland. The decision formalized eligibility criteria and introduced one significant innovation: the Paris Club's Agreed Minute will allow debt swaps on a limited scale.

2. On the same day, Morocco became the first country to benefit from the new terms. It is expected that during the remainder of the Paris Club's September session, the following three countries will obtain similar concessional treatment: Congo, El Salvador and Honduras.

3. This memorandum briefly outlines the country eligibility criteria and the rescheduling terms.

Eligibility Criteria

4. Most importantly, the scheme would be available only to lower middle income countries, i.e., countries that have a 1989 per capita income of US$2,335 or less, and, thus, are eligible for 17 or 20 year IBRD terms. The Paris Club will determine on a case-by-case basis which countries will be granted the new terms, taking into account the strength of the country's adjustment program and its performance under previous Paris Club agreements. Primarily, however, the Paris Club will use three formal criteria: (i) poverty; (ii) high relative weight of the Paris Club in external debt; and (iii) heavy debt and debt service burden.

5. In principle, a lower middle income country should meet two of the following three criteria:

(i) a per capita income below the IDA eligibility threshold of US$1,135 (in 1989);

(ii) a ratio of bilateral (Paris Club) debt to commercial bank debt exceeding 1.5;

(iii) a heavy debt and debt service burden as indicated by exceeding two of the following three thresholds:

* a debt to GNP ratio exceeding 50%;
* a debt to exports ratio exceeding 275%; and/or
* a scheduled debt service exceeding 30% of exports.

6. Applying the above criteria--but excluding countries that have not indicated any interest in a Paris Club rescheduling (for example, Algeria, India, Indonesia, Pakistan and Turkey), results in the following list of countries that might benefit from the new treatment:

Cameroon	Jamaica
Congo	Jordan
Cote d'Ivoire	Morocco
Dominican Republic	Nicaragua
Ecuador	Nigeria
Egypt	Philippines
El Salvador	Peru
Honduras	Poland

Terms and Conditions

7. Repayment and Grace Periods. Normally, the Paris Club limits the repayment period to 10 years and the grace period to 5 years. During the past 12 months, however, the Paris Club has granted Cote d'Ivoire and Poland 14-year repayment periods, including 8 years of grace. The new terms are similar but slightly more concessional. The repayment periods will be differentiated depending on the type of loan. The grace periods will be set on a case-by-case basis, subject to the following ceilings:

* Commercial credits:
  - A repayment period of 15 years and
  - a maximum grace period of 8 years;

* ODA loans:
  - A repayment period of 20 years and
  - a maximum grace period of 10 years.

8. Debt Swaps. The most significant innovation in the new scheme for lower middle income countries is the provision for various types of debt conversions (defined as "debt for nature, debt for aid, debt for equity or other local currency debt swaps"). These debt swaps are "voluntary," i.e., the debtor and creditor country will jointly decide if such swaps will be included in the subsequent bilateral agreement. The Paris Club is concerned that such swaps might violate the Club's sacred principle of comparable treatment (by being a back-door way of writing off or forgiving debt). Thus, in each Paris Club agreement, the amount of commercial debt that a creditor can convert will be limited. This limit will be set on a case-by-case basis. In the Morocco agreement, the limit was expressed as follows: "...up to 10% of outstanding claims or up to an amount of US$10 million, whichever is higher." It is likely that the "10% of outstanding claims" will become a standard formulation, but the dollar ceiling is likely to be lower for smaller and poorer countries. No limit will be set on the amount of ODA debt that can be converted.

Distribution:

Messrs. Stern; Thalwitz; Linn; Husain, Jaycox, Karaosmanoglu, Kashiwaya, Wapenhans, Wood; Selowsky, O'Brien, Yenal, P. Hasan; Bock, Okonjo-Iweala; Sandstrom; Isenman, Rao, Corbo, I. Husain; Kavalsky, (Ms.) Opper, Kilby; Pfeffermann; La Fourcade, Trzeciak; Gillette/Kaps, Madavo/Muhsin, Aguirre-Sacasa/Gorjestani, Lim/Iskander, Marshall/Sarbib, Denning/Messenger; Asanuma/Clift, Kaji/Ikram, Burki/Pearce, Vergin/Khalilzadeh-Shirazi, Cheetham/Bhattacharya; Wiehen/Penalver-Quesada, Dervis/Grais, Chopra/Voyadzis, Lari/Nouvel; Choksi/Papageorgiou, Steckhan/Squire/Voljc, Loh/Page/Flood, Bottelier/Bery.

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THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

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DATE: October 3, 1990

TO: Mr. Moeen A. Qureshi

FROM: Per Ljung, Economic Adviser, EAS

EXTENSION: 81933

SUBJECT: Paris Club Meeting--September 11-18, 1990

Introduction

1. The principal business of the September meeting was the adoption--on September 11--of a new concessional scheme for heavily indebted lower middle income countries. During the week that followed four countries (Congo, El Salvador, Honduras and Morocco) were granted reschedulings on these new terms. Rescheduling agreements on Toronto terms were negotiated for Guyana and Niger. In addition, the Paris Club held its regular Tour d'Horizon.

2. This was the first Paris Club session after the eruption of the Gulf crisis. Thus, the Club's deliberations were influenced by the uncertainty about future oil prices and other potential costs to the debtor countries. The Fund programs--that provided the rescheduling assumptions--were all based on oil prices in the range of US$16 to US$21 per barrel. The creditors--and the IMF representatives--acknowledged that these assumptions were unrealistic. However, rather than reworking the Fund's balance of payment projections, the Club decided to do some simple sensitivity analyses and to grant somewhat more liberal terms than were implied by the Fund's projections.

New Treatment for Heavily Indebted Lower Middle Income Countries1/

3. The main element of the new scheme is an extension of grace and repayment periods. Thus, the scheme does not involve any debt or debt service reduction. One significant innovation was introduced: The Paris Club's Agreed Minute will allow debt swaps on a limited scale.

4. The scheme is available only to lower middle income countries, i.e., those that have a 1989 per income of US$2,335 or less (calculated according to the World Bank Atlas methodology). The Club will determine, on a case-by-case basis, which countries will be granted the new terms, taking into account the strength of the country's adjustment program and its performance under previous Paris Club agreements. Primarily, however, the Club will use three formal criteria to define eligibility: (i) poverty; (ii) high relative weight of the Paris Club in external debt; and (iii) heavy debt and debt service burden.

1/ For further details see my memorandum to you dated September 13, 1990 and and titled "New Paris Club Scheme for the Treatment of Heavily Indebted Lower Middle Income Countries."

5. Normally, the Paris Club limits the repayment period to 10 years and the grace period to 5 years. Under the new scheme, the repayment periods will be differentiated depending on the type of loan. The grace periods will be set on a case-by-case basis, subject to the following ceilings.

* Commercial credits: - A repayment period of 15 years and
  - a maximum grace period of 8 years;

* ODA loans: - A repayment period of 20 years and
  - a maximum grace period of 10 years.

6. The most significant innovation in the new scheme is the provision for various types of debt conversions (defined as "debt for nature, debt for aid, debt for equity and other local currency debt swaps"). The limits on the amount of commercial debt that can be converted will be set on a case-by-case basis. In the first four agreements, the ceiling was defined as follows: "...up to 10% of outstanding claims or up to an amount of US$10 million, whichever is higher." It is likely that the "10% of outstanding claims" will become a standard formulation, but the dollar ceiling might be set lower for smaller and poorer countries. No limits will be set on the amount of ODA debt and government-to-government loans that can be converted.

Congo Rescheduling

7. Rescheduled were 100% of debt service (excluding late interest) due between September 1, 1990 and May 31, 1992 on debt contracted before January 1, 1986 and previously rescheduled debt (PRD) under the 1986 Paris Club agreement. These payments were rescheduled over 15 years with a grace period of 6 years. All arrears on pre cut-off date debt and PRD were rescheduled over 10 years with 5 years of grace. Since virtually no payments were due on ODA loans, these were not rescheduled. The limit on debt swaps to be applied in the subsequent bilateral agreements was set at 10% of outstanding commercial debt or US$10 million, whichever is higher. No ceiling was established for ODA and other intergovernment loans.

8. Given the length of the consolidation period (21 months) the agreement was staged: the second stage (October 1, 1991 - May 31, 1992) will become effective only if the Fund Board completes the second review under the SBA before September 30, 1997. The Congolese authorities had requested that arrears on short term debt would be rescheduled, which the Club--as a matter of principle--refused. However, the Congo was given up to March 31, 1991 to settle these arrears. Given the Congo's poor payment performance in the past, the Club required that the government would make monthly payments of SDR 5.5 million into a special account.

El Salvador Rescheduling

9. This was the first Paris Club rescheduling for El Salvador. Thus, the cut-off date was set at September 1, 1990. Rescheduled were all arrears (excluding late interest) and all payments due from September 1, 1990 to September 30, 1991. Since El Salvador was classified as a heavily indebted lower middle income country, the repayment period for ODA loans

was set at 20 years with 10 years of grace. Commercial loans will be repaid over 15 years with 8 years of grace. The ceiling on conversion of commercial debt under the forthcoming bilateral agreements was set at 10% of outstanding debt or US$10 million, whichever was higher. No ceiling was established for ODA and other intergovernment loans.

Honduras Rescheduling

10. This was also the first Paris Club rescheduling for Honduras. June 1, 1990 was chosen as the cut-off date to exclude, from the rescheduling, the bilateral loans that had been provided to help Honduras settle its arrears to the multinational organizations. Rescheduled were all arrears (including late interest) as of August 31, 1990 and all payments due during the consolidation period (September 1, 1990 - July 31, 1991). ODA loans were rescheduled over a 20-year period with 10 years of grace. The current payments due on commercial loans were rescheduled over 15 years with 8 years of grace. Arrears on commercial loans will be repaid over 15 years with 5 years of grace. The limits on debt conversions were the same as for Congo and El Salvador.

11. Arrears on short term debt will be settled not later than September 30, 1991. Since this date is later than the end of the consolidation period (July 31, 1991), this opened up the possibility for a further postponement of the settlement of arrears on short term debt. Between February and July 1991, Honduras will make monthly payments of SDR 2.8 million into a special account.

Morocco Rescheduling

12. All payments due on debt contracted before May 1, 1983 and previously rescheduled debt (PRD) under the 1983, 1985 and 1987 Paris Club agreements were consolidated and rescheduled. Debt reorganized under the 1988 agreement was not covered. The consolidation period for pre cut-off date debt and for PRD under the 1983 and 1985 agreements was from January 1, 1990 to March 31, 1991. However, the consolidation period for debt rescheduled in 1987 was limited to calendar year 1990. The repayment periods were 20 years for ODA loans and 15 years for commercial credits. Maximum grace periods were granted: i.e., 10 years for ODA loans and 8 years for commercial credits. The limits on debt swaps were the same as for Congo.

Guyana Rescheduling

Guyana became the second country outside Sub-Saharan Africa to be granted Toronto terms. Covered were all debt contracted before December 31, 1988 and the debt rescheduled in 1989. All arrears, as of August 31, 1990, were capitalized and rescheduled. The 35-month consolidation period (September 1, 1990 - July 31, 1993) roughly coincided with the period covered by the Fund's ESAF arrangement. Given the length of the consolidation period, the effectiveness of the agreement was staged: the second phase (August 1, 1991 - July 31, 1992) will become effective if the Fund Board approves the second annual ESAF arrangement before July 31, 1991; the third phase (after August 1, 1992) will become effective if the third annual ESAF arrangement is approved before July 31, 1992.

14. France selected Toronto Option A (cancellation of one-third of the rescheduled debt); Germany, the Netherlands and the U.S., Option B (extended maturities); Canada, Denmark, Japan, Norway and the U.K., Option C (interest rate reduction). All ODA loans were rescheduled over 25 years with 14 years of grace. Guyana will establish a special account and make monthly deposits of SDR 150,000 during the remainder of 1990 and 1991 and SDR 300,000 during 1992 and 1993.

Niger Rescheduling

15. Reorganized were all remaining pre cut-off date (July 1, 1983) debt and the debt rescheduled in 1983, 1984, 1985, 1986 and April 1988. The debt service covered by the December 1988 Paris Club agreement was not included. A 28-month consolidation period (September 1, 1990 - December 31, 1992) was agreed. All arrears (including late interest) and debt service due during the consolidation period were rescheduled. The agreement will remain in effect after October 31, 1991 if the Fund Board approves the third annual ESAF arrangement before the end of December, 1991. Standard Toronto terms were granted with France selecting Option A (cancellation of one-third of the debt); Spain and the U.S., Option B (extended maturities); and the U.K., Option C (interest rate reduction). ODA loans were rescheduled over 25 years with 14 years of grace.

Tour d'Horizon

16. The Tour d'Horizon covered the following 22 countries: Argentina, Benin, Brazil, Bulgaria, Cameroon, Costa Rica, Cote d'Ivoire, Egypt, Iraq, Jordan, Mauritania, Myanmar, Nigeria, Panama, Philippines, Poland, The Soviet Union, Tanzania, Uganda, Venezuela, Vietnam, and Yugoslavia. Given the heavy schedule during the September session, the treatment of each country was rather brief. Few issues of any significance were raised. Two items merit mention here:

* The Soviet Union: the Paris Club members noted the rapid increase in arrears on both guaranteed and non-guaranteed debt. There were serious speculation among the creditors (including the acting Chairman) that the Soviet Union might soon seek reschedulings with the London and/or Paris Clubs;

* Uganda: the rapid deterioration in Uganda's balance of payment situation and the country's failure to service virtually all of its bilateral debt were of great concern. The creditors talked about the need for a "Zambian solution." However, most noted that it was up to the donor community to take action before the Paris Club could grant an exceptional rescheduling.

Future Paris Club Meetings

17. The main item on the agenda for the October 8-12 Paris Club session is the second meeting of the Joint Working Group on Poland. Because of slippages in the Fund's processing schedules, it is unlikely that any country will be invited for an October rescheduling. The most likely candidates for the November meeting are Mauritania and Panama; Benin and Brazil are other possibilities. During the fall, the Paris Club is also likely to start reviewing the Toronto terms for low income countries.

cc: (w/o) attachments)

Messrs./ Stern; Thalwitz; Linn; Husain, Jaycox, Karaosmanoglu, Kashiwaya,
Mss. Wapenhans; O'Brien, Yenal, P. Hasan, Selowsky; Dubey, Grilli;
Okonjo-Iweala; Isenman, Corbo, I. Husain; Stoutjesdijk, Kavalsky,
Kilby; Pfeffermann; Shakow.
La Fourcade, Trzeciak.

cc: (with attachments):
Messrs./
Mss. Bottelier/Bery (Argentina)
Choksi/Papageorgiou (Brazil)
Gillette/Kaps (Benin, Cameroon, Congo, Cote d'Ivoire)
Steckhan/Voljc (Costa Rica, El Salvador, Honduras, Panama)
Loh/Flood/Page (Guyana; Venezuela)
Chopra/Voyadzis (Egypt, Iraq, Jordan)
Marshall/Sarbib (Mauritania, Niger)
Dervis/Grais (Morocco)
Kaji/Ikram (Myanmar, Philippines, Vietnam)
Denning/Messenger (Tanzania)
Lim/Iskander (Nigeria)
Lari/Nouvel (Bulgaria, Poland, The Soviet Union, Yugoslavia)
Madavo/Carter (Uganda)
Bock; Shilling (BTO+Attachments)

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THE WORLD BANK

ROUTING SLIP	DATE 9-28

FROM THE SENIOR VICE PRESIDENT,
POLICY, RESEARCH AND EXTERNAL AFFAIRS

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Rao	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
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	COMMENT		PER OUR CONVERSATION
	FOR ACTION		PER YOUR REQUEST
X	INFORMATION		PREPARE REPLY
	INITIAL		RECOMMENDATION
	NOTE AND FILE		SIGNATURE

REMARKS

FROM: Wilfried P. Thalwitz

sads\w46935

Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

19 September 1990

B Conable Esq
President.
World Bank
1919 H Street
NW
WASHINGTON DC 20433

Trinidad Terms

cc Mr. Lim
Mr. Tsuma
Mr. Rao

Dear Barber,

You will recall the encouragement given to the Paris Club in the Houston Summit declaration to review the treatment of debt of the poorest countries. I think that the time has now come for a fresh initiative on this subject.

Toronto Terms were a helpful first step towards alleviating these countries debt burden but it has become clear that greater concessionality is required to bring their debt service obligations into line with their realistic prospects of repayment. I have therefore today announced proposals in my speech to the Commonwealth Finance Ministers for official creditors to grant a greater degree of debt relief to the poorest and most heavily indebted countries.

The main element is a proposal to write-off two-thirds of the stock of official debt at the outset. Repayments of the remaining one-third would be capitalised and paid off over a period of 25 years. Interest would be charged at a commercial rate on the remainder, but there would be a five year postponement in the start of these interest payments. These deferred payments would be capitalised and paid off over the remaining 20 years once debt servicing restarted. The postponement would give a further breathing space to allow resources to be devoted to repayments to the International Financial Institutions. Although commercial bank debt is not a major component of the debt burden for most of these countries, I have also called upon commercial creditors to grant similar relief. I propose the same eligibility criteria for these reliefs as apply for Toronto Terms.

I look forward to discussing these proposals with you at our forthcoming meetings.

Yours Sincerely
John M.

JOHN MAJOR

CHANCELLOR'S SPEECH TO COMMONWEALTH FINANCE MINISTERS: EXTRACT ON <u>TRINIDAD TERMS</u>

At the Development Committee three years ago, my predecessor made some proposals about the official debt of the poorest, most highly indebted countries. These were welcomed by Commonwealth Finance Ministers in Barbados and subsequently endorsed by the Toronto Summit, and put into operation by the Paris Club. At the time, they were a breakthrough in the treatment of official bilateral debt. So far, 19 countries have received some benefit from these new terms. But I am now convinced that we need to do more to bridge the long term financing gap faced by some of the very poorest debtors. And we need to offer strengthened incentives to avoid default and continue the reform process. But we must continue to tailor the assistance and channel it where it is most needed, continuing the existing case-by-case approach.

2. The recent Houston Summit, which I attended, invited the Paris Club to review the implementation of the existing options which have been applied to the poorest and most heavily indebted countries. Today I want to put forward four new proposals on behalf of the United Kingdom.

3. Toronto Terms, as they are known, are applied progressively, each time that an eligible country applies to the Paris Club to reschedule a fresh tranche of its debt. Reductions in principal or in interest apply only to that tranche, and not to the whole stock of its debt. So the benefit only builds up slowly as successive tranches of debt are rescheduled. The initial cash flow saving is small in relation to the total interest burden. And the debtor continues to face uncertainty about future reschedulings.

4. My first proposal is therefore that when the Paris Club deals with one of the eligible countries it should tackle the 1) total stock of debt in a single, long term operation; it should not just reschedule one year's maturities at a time.

5. I also believe that there are some highly indebted countries to whom we must give larger concessions than they currently receive in the Toronto package. That package reduces the burden of the rescheduled debt by up to one-third, with a menu of possible instruments to produce the cut. My second proposal is that we should now double the 2) size of the relief, to two thirds. I also propose that all governments should agree to give this relief in the form of a write-down of the total stock of eligible debt, so that both the interest burden and the debt overhang are reduced.

3)

possible
will enhance reduction
total cost/flow
reduction

6. I also believe we should give cash flow relief in the early years. My third proposal is therefore that we should capitalise much, or on occasion all, of the interest occurring in the first five years, and we should devise a repayment profile thereafter which phases in a steadily increasing total payment of principal and interest as the export capacity of the debtor country's economy grows.

4)

7. Finally, my fourth proposal is that, when dealing with the total stock of debt, we should lengthen the repayment periods, from the fourteen years currently allowed for a single tranche of debt. I suggest 25 years, although the exact length of the repayment period could, if needed, be adjusted so as to maintain a steady path for scheduled repayments in the face of fluctuations in market interest rates.

would be

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8. I do not suggest any specific changes in the present approach to eligibility. The Paris Club very sensibly adopts a pragmatic approach to this issue, dealing with countries on a case-by-case basis. It has so far confined Toronto Terms to countries which are both heavily indebted and very poor: the poverty criterion is generally taken to include the IDA-only countries. The list is no longer confined to Sub-Saharan Africa, and now, for example, includes Guyana. It remains essential, of course, that eligible countries

should have adopted an adjustment programme which has the full support of the IMF, and that they have met their obligations under earlier agreements. It would be quite wrong to give a debtor country an incentive to delay payment in the hope of securing new and softer terms.

9. What I am proposing, then, is that for these countries

<u>first</u>, the whole stock of eligible Paris Club debt should be rescheduled in one go;

<u>second</u>, the debt relief given should be doubled, to two thirds;

<u>third</u>, interest should be capitalised, with no payments being required during the first five years;

<u>fourth</u>, repayment periods in such packages should be lengthened to twenty-five years.

10. Few of these countries have substantial debts to the commercial banks - indeed, that is why official debt relief is so important for them. But I would look for a comparable response from the banks on the claims they hold.

11. Giving this additional debt relief will not solve the problems of these countries: that will require above all that the countries themselves implement durable economic reforms. But my proposals would make a significant contribution. The paper by the Secretariat on 'Financial Flows to Developing Countries' highlights

> "the critical importance for bilateral creditors to go beyond the Toronto terms in relieving ... the interest burden facing low income countries. ... Creditor countries need to give serious consideration to a further reduction in interest rates on rescheduled debts ... [and] consider novel ways in which the more immediate debt service burden is further reduced by, for instance, announcing a moratorium on interest payments for the next few years ... or charging interest on a rising scale".

12. My proposals do precisely that, and I hope that all Finance Ministers here will give them a strong endorsement, both in our communique from this meeting and as we move on to Washington for the IMF and World Bank meetings. These proposals are not ones the United Kingdom can implement unilaterally: they will require the agreement of all the creditor governments in the Paris Club, which traditionally operates by consensus. A strong and clear message of support

from this meeting will be an important element in persuading other Governments to accept what I will, for now, call Trinidad terms.