2.2 Government-to-Government Debt

Since the beginning of the debt crisis, the number of Paris Club agreements between creditors and developing country debtors has increased dramatically from 5 in 1982 to an average of 16 annually between 1983 and 1992.[11] The Paris Club has gone beyond its usual debt-restructuring operations by offering debt-reduction packages to low-income official debtors, beginning in 1988 with the Toronto Terms and extended with the Enhanced Toronto Terms (ETT), beginning in December 1991.[12] ETT packages reduce the present value of debt service on non-aid bilateral debt by 50% over a finite consolidation period. The ETT also provide for a reduction in the stock of debt after a fixed period of time (usually three years), as long as both the rescheduling agreement and a concurrent IMF programme are followed.[13] As of October 1993, a total of 16 countries, with US $4.5 billion in eligible debt, had reached agreements with the Paris Club under the ETT.[14] In addition, a significant rescheduling (but no reductions) of official development assistance (ODA) claims has occurred through this mechanism.

The Paris Club does not offer debt-forgiveness to lower-middle-income

Buyback operations are being prepared for Albania, Nicaragua, Sao Tome and Principe, Sierra Leone, Tanzania and Zambia. See World Bank (1993c), Vol. 1, pp. 38-40, and Table A2.5, p. 93.

[11]OECD (1994), Chart IV-4, p. 73.

[12]Although somewhat of a misnomer, the ETT are commonly referred to as the Trinidad Terms, named as such following the Commonwealth Finance Ministers' Conference in September 1990 in Trinidad. The actual Trinidad Terms, as originally outlined, have never been applied in practice. See World Bank (1993a), p. 9, and below, p. 22.

[13]This "goodwill clause," however, has never been applied in practice. Under the ETT, ODA debt is rescheduled for 30 years, including 12 years grace. Non-ODA is rescheduled under a menu of options which include: (1) the write-off of 50% of the debt service (principal and interest) due during the consolidation period, rescheduling the remaining debt service over 23 years at market interest rates with six years grace; (2) rescheduling debt over 23 years with no grace period, but with a reduction in the market rate of interest equal to the equivalent of a 50% reduction in the present value of the debt service; and (3) rescheduling the debt over 25 years at market interest rates, including a 16-year grace period. The final option is the same as option one of the original Toronto Terms and has been used by only a few Paris Club creditors, including the United States. See World Bank (1993c). Vol. 1, p. 88.

[14]World Bank (1993c), Vol. 1, pp. 88-9. The 16 countries that have come to Paris Club agreements under the ETT are: Benin (two agreements), Bolivia, Guinea, Honduras, Mali, Nicaragua, Sierra Leone, Tanzania, Togo, Uganda, Zambia, Ethiopia, Mauritania, Mozambique, Guyana and Burkina Faso. The Paris Club continues to discuss a stock-of-debt reduction approach which would cover all outstanding debt, compared with the present practice of addressing only debt service payments which come due during a finite consolidation period. According to the IMF, in some cases, the debt-stock reduction will have to go well beyond the current 50% reduction in debt stock (technically available under the ETT, but never implemented) to be effective and similar terms will also be needed from other creditors, along with new financing and appropriate macroeconomic adjustment policies. See International Monetary Fund (1993), p. 73.