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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

MULTILATERAL DEBT RENEGOTIATIONS: 1956-1968

April 11, 1969

Economics Department
Prepared by: Patrick B. de Fontenay
This study is believed to be the only comprehensive survey of those renegotiations of the external debt of developing countries which took place within a multilateral framework between 1956 and 1968. It is a by-product of the regular review by Bank staff of member countries' external debt.

The study is limited to the institutional setting and the mechanics of debt rearrangements. It does not cover the economic circumstances that made debt relief necessary nor the impact of the rearrangements on the economies of the countries involved: it is hoped that further research in those areas can be carried out.

Most of the work on this study was done in the International Finance Division under the direction of Mr. John Hulley. The author wishes to acknowledge the significant contributions that were made by him, as well as by Mr. Attila Karamanoglu, Mr. Paolo Leon, Mr. James McGibbon, Mr. Guy Pfeffermann and Mr. Urbano Garcia Tobar, who have all been members of the Division. Helpful contributions, comments, and suggestions were also made by Mr. Andre Nespoulos-Neuville, Miss Fe Villafuerte and Mr. Cktay Yenal, of the Economics Department, as well as by Mr. Ernest Sturc, Mr. Charles Merwin and Mr. Azizali Mohammed of the International Monetary Fund. Mrs. Margaret Koilpillai handled efficiently the typing and distribution of the study and several earlier drafts.

Source material was obtained from various departments of the Bank and the International Monetary Fund. The author's participation in two of the debt renegotiations reviewed in the study also provided some of the information. The only published source is by the Organization for European Economic Cooperation, The Work of the Conference on Financial Assistance to Turkey and on Turkish Debts (Paris, 1959).

Andrew M. Kamarck
Director
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1/ Mr. de Fontenay is now in the Development Finance Studies Group.
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INTRODUCTION

This paper is a survey of the multilateral debt relief operations carried out during the period 1956-68. It deals with negotiations between one debtor country and a group of creditor countries leading to a rearrangement of the former's external debt, and it excludes all similar rearrangements negotiated bilaterally. A debt rearrangement may include one or more of the following: 1/

(a) A moratorium, i.e., a temporary suspension of debt service payments;

(b) debt refinancing, i.e., provision by the creditor countries of new credits to enable the debtor country to continue or resume transfer of debt service payments; 2/

(c) debt rescheduling, i.e., rephasing of payments of principal and interest on outstanding loans; 2/

(d) debt cancellation. 2/

Renegotiations of external debts are by no means a new development. Creditor and debtor countries have often found it mutually advantageous to avoid defaults and to negotiate instead some temporary relief arrangements. Multilateral debt rearrangements, however, have stemmed from post World War II efforts by the developed countries to coordinate their foreign assistance and by the developing countries to meet their external obligations. Both creditor and debtor countries have found advantages in multilateral negotiations, as opposed to bilateral arrangements. The debtor countries have been able to negotiate with all their creditors at the same time, thus avoiding uncertainties and delays. They have also been able to get the technical assistance of international organizations, which would not have been forthcoming otherwise. The main advantage to the creditor countries has been the assurance that the burden of the debt arrangements would be shared equitably among them.

A fairly well defined pattern for negotiation and agreement has emerged from past multilateral debt rearrangements. The pattern is by no means frozen; it has changed and is still changing. It is this pattern and its evolution which are the subject of the present study.

Part I of the study covers past debt rearrangements, bringing out the common characteristics of the procedures and results. Part II deals with the positions of governments and international financial institutions with respect to the main issues of the debt renegotiations and, in particular, with the role of the World Bank.

1/ The negotiations and agreements concerned are most properly described as debt renegotiations and rearrangements. However, throughout the study the usual, if somewhat inaccurate, terminology which refers to a debt rearrangement covering several debts as a "consolidation" has been adopted.

2/ For a further discussion of these terms, see pp.23-26.
PART I

MULTI LATERAL DEBT RENegotiations
1956-1968 1/

A - BACKGROUND OF THE RENEGOTIATIONS

1. Origins 2/

Debt renegotiations have been requested by countries which faced serious difficulties in obtaining the foreign exchange needed to service their external debt. The difficulties have, in some cases, resulted from too heavy an accumulation of short-term or medium-term credit, and/or a decline in export earnings. Other cases must be defined as structural problems: the size and terms of these countries' debts were not compatible with their capacity to repay, resulting in an excessive level of debt service over an extended period of time.

Debt renegotiations have frequently been part of a general stabilization program. An abatement of the pressure of debt servicing is necessary if the country is to remain solvent while the program is carried out; moreover, the stabilization effort satisfies the creditor countries that the country is striving "to put its house in order". 3/ In some cases, the negotiation of a stand-by agreement with the IMF was conducted prior to the consolidation operation.

Typically, the countries whose debts were consolidated had poor credit ratings because of uncertain economic or political prospects, a lack of reliability in export earnings, and low levels of external reserves. Nevertheless, they could rely on a certain amount of good will on the part of the international community because of their willingness to avoid default and to undertake economic and financial reforms or because of political changes which increased the confidence of creditor countries.

None of the countries whose debts were consolidated were in default in the sense that they definitely refused to pay their debts. Debt payments had been suspended unilaterally, however, by Turkey (1959), Ghana (1966), and Indonesia (1966) with the tacit assent of the creditor countries. While Argentina, Brazil, and Chile did not declare a moratorium on their debt

1/ Table 1 shows, in synoptic form, the debt consolidation operations reviewed here and some of the details of the agreements reached.

2/ A separate study is planned to concentrate on the economic aspects of debt renegotiations. It will attempt to explain the difficulties faced by the debtor countries, review the alternatives to debt renegotiations, and appraise the results of past debt rearrangements.

3/ The terms "creditor country" and "debtor country" should not be construed as referring necessarily to the relative position of the governments of the countries concerned but to the position of the residents as well.
service payments, they had accumulated sizeable arrears of service payments.

2. Negotiations

Creditor countries have repeatedly insisted that debt rearrangement must be regarded as an exceptional course of action and that no permanent machinery should be established to deal with renegotiation requests since the existence of such machinery could have the undesirable effect of stimulating demands for consolidation of external debts. Yet in spite of this case-by-case approach, the debt renegotiations conducted since the Argentine operation of 1956 have proceeded along similar lines, and the procedure has become fairly standardized.

The debtor country which wishes to approach its creditors to request a renegotiation of its debts, sometimes on the advice of one creditor country or of an international organization, usually has to contact each creditor country separately since there is no permanent organization of creditor countries. The major creditor countries outside the Sino-Soviet area, with the exception of Switzerland, are members of the Development Assistance Committee (DAC) set up by the Organization for Economic Cooperation and Development (OECD) in 1960, but so far the DAC has not served as a meeting place for debt renegotiation.

In some cases there exists an ad hoc group, bringing together most of a country's creditors. This is the case when a Consortium has been established to coordinate assistance to the country. The Turkish consolidation of 1965 took place under the auspices of the Consortium set up by the OECD in the early sixties. Similarly the debt relief granted to India in 1968 was negotiated within the Consortium set up in 1958 under the chairmanship of the World Bank. Brazil's creditors belonged to a group of countries cosigner to an agreement whereby Brazilian earnings from transactions with these countries would be pooled and the currencies of these countries held by Brazilians made freely transferable. The arrangement, known as "The Hague Club", came into effect on August 16, 1955, between Brazil and the United Kingdom, the Federal Republic of Germany and the Netherlands with Austria, Belgium, France, Italy and Luxembourg joining later. A similar agreement was signed between Argentina and Austria, Belgium, Luxembourg, Denmark, France, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom, setting up the "Paris Club". The agreement was put into effect on July 2, 1956. Finland, Germany, Italy and Japan joined the Club later. Although the return to external convertibility by most industrial countries removed the initial purpose of the "Clubs", they still provided the framework for the debt renegotiations involving Argentina and Brazil.

Countries seeking a consolidation of their external debts sometimes secure the help of a "sponsor", either a friendly creditor country or an international organization which will convene a meeting of the creditor
<table>
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<tr>
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<th>Maturities Subject to Consolidation</th>
<th>Type</th>
<th>Period</th>
<th>Principal</th>
<th>Interest</th>
<th>Size of Consolidation (Million)</th>
<th>Grace Period</th>
<th>Period of Repayment</th>
<th>Interest</th>
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<td>5 years</td>
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<tr>
<td>Brazil July 26, 1961</td>
<td>- do -</td>
<td>June 1961 - Dec. 1965</td>
<td>Yes</td>
<td>Yes</td>
<td>3%</td>
<td>5 years</td>
<td>3%</td>
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<tr>
<td>Argentina October 24, 1961</td>
<td>- do -</td>
<td>1963-1964</td>
<td>Yes</td>
<td>No</td>
<td>5%</td>
<td>8 years</td>
<td>2%</td>
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<td>Yes</td>
<td>5%</td>
<td>5 years</td>
<td>2%</td>
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<tr>
<td>Chile February 24, 1965</td>
<td>Suppliers' credits and government loans</td>
<td>1965-1966</td>
<td>Yes</td>
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<td>5 years</td>
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<td>Argentina June 26, 1965</td>
<td>Insured suppliers' credits and government loans</td>
<td>1965</td>
<td>Yes</td>
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<td>8 years</td>
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<td>1966</td>
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<td>India May 25, 1968</td>
<td>To be determined by bilateral agreements</td>
<td>April 1, 1968-Sept. 15, 1969</td>
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<td>Insured suppliers' credits</td>
<td>Jan. 1, 1967 - July 1, 1972</td>
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1/ Extended to ten years in 1961.
2/ Participating countries only.
3/ The remaining twenty percent due are repayable between July 1, 1967 and December 31, 1968.
4/ After deduction of the first $2 million.
5/ See Table 3.
6/ See Table 4.

Source: World Bank
countries, usually act as chairman for the meeting, and help the debtor present its case. The 1959 Conference on Turkish debts was held under the auspices of the Organization for European Economic Cooperation (OECD). In 1966 the International Monetary Fund arranged to bring Ghana and her external creditors together at the request of the Government of Ghana and of leading creditor countries. Brazil asked the Secretary General of the OECD in 1964 to sponsor a renegotiation of Brazilian debts. The reply was that Brazil should deal directly with The Hague Club countries, with the addition of the U.S. and Japan, but that the Secretary General had discussed Brazil's request with the principal creditors and was "assured that arrangements will be worked out to begin at an early date their consideration of the Brazilian debt problem..." 1/ Chile asked the Bank to sponsor a renegotiation of its external debts, but several creditor countries took the position that it would not be proper for the Bank to do so, and the Bank did not pursue the matter (see Part II).

The Peruvian renegotiation of 1968 is a special case. Peru asked the United Kingdom Government to convene a meeting of government representatives from eight creditor countries to discuss a rearrangement of her external debt, but the meeting was chaired by the Peruvian Minister of Finance. Arrangements had previously been made with private U.S. and Canadian banks to refinance payments due on suppliers' credits from the two countries, which were not represented at the London meeting.

Multilateral debt consolidations are carried out at meetings of representatives of the governments of creditor and debtor countries. A distinction should be drawn between countries attending the meetings and countries participating in the final agreements. The former are observers; the latter, called "participating countries" (usually the major creditors) are the signatories of the agreement. International organizations attend the meetings as observers. France, Germany, Italy and the United Kingdom were represented at all the meetings. 2/ (see Table 2).

Except for the case of the 1959 Turkish settlement, which was a full-fledged international conference leading to a properly drafted and signed document leaving little to be settled by bilateral agreement, debt renegotiations have been fairly informal. Governments are represented by officials from their Finance or Economic Ministries, sometimes accompanied by representatives from the Foreign Affairs Ministries and the export credit institutions. 3/

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2/ France did not attend the final meeting of the 1967 Ghanaian debt renegotiation, however.
3/ In the case of Japan, the delegation is sometimes chaired by the Ministry of Foreign Affairs.
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1/ Did not attend final meeting.
2/ Japan did not attend meeting but entered into a similar agreement three months later.
0 = Participating in Final Agreement.
+ = Attending Meeting, without participating in final agreement.
- = Not attending.
The first phase of the meetings, usually prepared by "roving missions" of experts from the debtor country, is the presentation by the debtor country of a report on its economic situation, its indebtedness, and a proposal for consolidation. The second stage is the determination of a common position by the creditor countries. The final stage is the negotiation of the creditors' proposal with the debtor country, ending with the drafting of an "Agreed Minute" which records the agreement reached. 1/

The length of the negotiations varies. In the case of Ghana (1966), for example, the first meeting to hear Ghana's case took place on June 1-2, 1966. Creditor countries met twice, on October 21-26 and November 21-23, without Ghana. The final bargaining with the Ghanaian representatives took place on December 6-9, and an "Agreed Minute" was drafted. In the case of Indonesia (1966), a first informal meeting of nine creditor countries took place in Tokyo on July 19, 1966. A formal multilateral conference was called for September 19-20 also in Tokyo, and the Indonesian Government was invited to attend. The final meeting took place in Paris on December 19-20. The Chilean consolidation of 1965 and the 1968 Peruvian and Ghanaian exercises required two meetings each. The Argentine and Brazilian exercises of 1964 and 1965 each required three series of meetings (between March 16 and July 1, 1964, for Brazil, and May 31 and June 26, 1965, for Argentina).

B - THE MULTILATERAL AGREEMENTS

The "Agreed Minute" which records the agreement reached by the parties to the negotiation is not a legally binding document. The representatives of the participating countries agree only to recommend to their governments that the terms of the agreement reached be embodied in bilateral agreements to be concluded between the governments of the participating countries and the government of the debtor country. The "Agreed Minute" usually specifies:

- the types of debt to be consolidated,
- the consolidation period,
- the percentage of principal and, when applicable, interest to be consolidated,
- the terms of the consolidation,
- the commitments of the debtor.

1. Coverage of the Consolidation

(a) Types of Debts Subject to Consolidation

The credits to which the consolidation applies are listed in the bilateral agreements entered into by the debtor country and each

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1/ For the Indian debt renegotiation of 1968, the Chairman's Report of Proceedings of the Consortium served as Agreed Minute.
Table 3

Debts Subject to Consolidation

**Argentina, 1956**
Medium-term commercial debts of the public and private sectors.

**Turkey, 1959**
"Debts owed by residents of Turkey to residents of countries participating in the arrangements... provided that (i) the debt arises out of goods or services supplied before 5th August, 1958..."

**Brazil, 1961**
"Medium-term commercial credits."

**Argentina, 1962**
"Commercial suppliers' credits ... under which payments are due over a period of more than six months."

**Brazil, 1964**
"Commercial suppliers' credits ... under which payments are due over a period of more than six months," including those credits already consolidated in 1961.

**Chile, 1965**
"Guaranteed suppliers' credits ... under which payments are due over a period of more than six months..." and governmental loans listed in an annex to the "Agreed Minute" (most of which related to purchases of goods and services in the participating countries).

**Turkey, 1965**
1. European Fund credits.
2. Inter-governmental loans.
3. Consolidated commercial debts from the 1959 Agreement.

**Argentina, 1965**
"Commercial credits guaranteed by the public authorities of the creditor countries and ... Government credits granted for specific purposes."

**Ghana, 1966, 1968**
Suppliers' credits "granted or insured by the Governments or the competent institutions of the creditor countries ... with a maturity exceeding one year but not exceeding twelve years".

**Indonesia, 1966, 1967, 1968**
"Credits of more than 180 days extended or insured by the authorities of the participating countries" ...

**India, 1968**
Not determined in multilateral agreement.

**Peru, 1968**
"... the Peruvian Government's own debts and those enjoying its guarantee to creditors in those countries under contracts for the supply of goods already contracted for as at 30th June, 1968 under which payments are due in instalments over a period of more than one year and not more than twelve years..."

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Source: "Agreed Minutes".
"participating country". The debt renegotiation provides an opportunity to establish a complete inventory of the external debt situation of the debtor country: this is usually a large and complicated exercise involving exchange of information between the export credit insurance agencies, the agency in the debtor country in charge of guaranteeing, authorizing or registering the credits, if such an agency exists, and in some cases international institutions acting as experts in helping to collate and reconcile the necessary data.

In most cases the debts subject to consolidation are those resulting from suppliers' credits (see Table 3). In addition, loans extended by the government of the creditor country to that of the debtor country are often included in the consolidation. "Cash credits" are excluded, and this is usually taken as meaning debts with maturities of less than 180 days, although, in the case of Ghana, maturities of less than one year were also excluded. The only exception was the Turkish consolidation of 1965 which covered only inter-governmental loans extended within the 1958/59 OEEC stabilization program, credits from the European Fund, and commercial debts already consolidated in 1959 and consequently converted into debts of the Turkish Government. The Indian consolidation of 1968 is also exceptional in the sense that the amounts to be consolidated by each participating country were determined first, and each country was left free to decide which credits it chose to consolidate up to the agreed amount.

In recent years the multilateral agreements have applied only to suppliers' credits insured by the authorized institutions of export credit insurance in the "participating countries", and to certain inter-governmental loans. The terms used are "credits and loans granted or insured by the governments or the competent institutions of the creditor countries" (Agreed Minute of Debt Renegotiation for Ghana). In the case of Ghana (1966) the coverage of the consolidation was further defined as "credits or loans provided by the government of, or persons or corporations resident in the creditor countries to the Ghana Government or to persons or corporations resident in Ghana...and arising under or relating to contracts for the supply of goods or services or both from outside Ghana..." The last part of the sentence is frequently used in order to limit the coverage to bona fide suppliers' credits.

Debts which had already been consolidated were explicitly excluded from the coverage of the 1962 and 1965 consolidations for Argentina, but they were included in the 1964 consolidation of Brazil's debts and in the Turkish case of 1965. Debts to the international financial institutions and financial credits such as bank loans are not normally included in the consolidation. The "Agreed Minute" also indicates whether interest due on the consolidated debts is included or not in the consolidation.
(b) Consolidation Period

Both the "Agreed Minute" and the bilateral agreements define the maturities to be consolidated. These sometimes include arrears, in which case the phrase used is "debts due or falling due before (date)" or "between (date) and (date)". In addition, the agreements usually stipulate that the maturities eligible for consolidation must relate to contracts that came into force, or were concluded, before a cut-off date. For example, in the 1967 Indonesian consolidation it was agreed to "reschedule or refinance amounts of debt service falling due in 1968 for contracts which had entered into force prior to July 1, 1966..." In the case of the 1959 Turkish consolidation, the debts had to arise from goods and services supplied before August 5, 1958.

A comparison of the lengths of the periods covered by the consolidation, as given in Table 1, is not a good measure of the relief granted to the debtor country because of arrears which may be greater than the sum of the other debts. In the 1959 Turkish consolidation arrears amounted to approximately $258 million, compared with $185 million of other debts.

The longest period covered by a consolidation operation was 5½ years in the case of the 1959 Turkish consolidation; the next longest was 4½ years for the 1964 Brazilian renegotiation. Most other consolidations covered periods of one to two years. These, however, include the recent cases of Ghana (1966), Indonesia, and India where the creditor countries agreed to hold further meetings to examine the possibility of extending the period covered by the consolidation. 1/ As a result, the 1967 and 1968 renegotiations of Indonesia's debts involved merely an extension of the consolidation period agreed upon in 1966, since in all cases the debts admitted to consolidation related to contracts which were in force before the same date, July 1, 1966, and the terms of the consolidation were the same.

(c) Percentage of Amounts due Subject to Consolidation

The "Agreed Minute" gives the percentage of amortization payments and interest payments (if included) relating to the debt

1/ "A further meeting of the Governments...will be held before the end of 1967. It will consider the state of the balance of payments and foreign debt of Indonesia, due account being taken of the consolidation granted. It will assess in a spirit of understanding the possibility of further relief for future maturities". (Agreed Minute relating to Indonesian Debt Consolidation, December 20, 1966). "The Chairman stated that the United Kingdom Government would convene a further meeting at the request of the Ghana Government or of any creditor country". (Agreed Minute on the Repayment of the Medium-term Debt of the Government of Ghana and others resident in Ghana, December 9, 1966).
maturities. This percentage has varied from 50 to 100 percent. In the case of the 1961 debt renegotiation with Brazil, the average percentage was about 75 percent but the actual percentages were the following:

<table>
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<tr>
<th>Maturities falling due in</th>
<th>Percentage</th>
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<tr>
<td>1961</td>
<td>80%</td>
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<td>1961-63</td>
<td>70%</td>
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<td>1964</td>
<td>50%</td>
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<td>1965</td>
<td>35%</td>
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In 1964 Brazil's creditors agreed to a 70% consolidation, and in the terms of the new agreement the debt relief for the debts already consolidated and due in 1964 and 1965 was raised by 20% and 35% respectively to 70%.

2. Terms of the Consolidation

(a) Repayment Arrangements

The period of repayment provided for in the "Agreed Minute" has varied from three to twelve years if one excludes the 1965 European Fund credits to Turkey. Repayments are seldom on a straight line basis; amortization payments are usually smaller in earlier years and larger later. A grace period is generally allowed.

The most complicated repayment arrangements to date have been those for Ghana. Eighty percent of the principal and interest due during the period, June 1, 1966 - December 31, 1968 ("the consolidation period"), plus the amount in arrears as of June 1, 1966, was to be paid after a 2½-year grace period over the eight fiscal years beginning July 1, 1971 and ending June 30, 1979. Repayments were to be made on a rising scale, from 2.7% of the total payments in fiscal year 1971/72 to 16.6% in fiscal year 1978/79. The 20% down-payment of principal and interest payable during the consolidation period was to be paid in rising installments during the 18 months, July 1, 1967 - December 31, 1968. Thus 100% of payments in fiscal year 1966/67 were deferred.

(b) Interest Rate

The interest rate to be charged on the consolidated debts is seldom determined by the "Agreed Minute". It is usually provided that the rate of interest on deferred payments "is to be determined in the bilateral agreements", to be concluded between the debtor country and each "participating" country. This means that commercial or "market" rates are to be charged.

1/ Repayment terms for the 1968 consolidation of India's external debt were not uniform. Some of the refinancing credits had maturities up to 25 years.
In the two recent cases of Ghana (1966) and Indonesia (1966), an additional provision favored by the United Kingdom was introduced: namely, that the rate of interest agreed upon would be determined "having regard to the cost of borrowing in the creditor country concerned". 1/ The "Agreed Minute" further provided, in the case of Ghana, that although "each creditor country will use its best endeavors to keep the average rate it charges as low as possible, ...the debt rearrangement must be distinguished from aid and could not be provided at concessionary rates". 2/

In the case of Indonesia (1966), a working party of the creditor countries, at a meeting following the rearrangement, agreed that the moratorium rate of interest "should be fixed at 3% or, at a maximum, 4% per annum", and that "this should not be required to be paid during the grace period and, when paid, should not be compounded". 3/ This means that although interest payments are not made during the grace period, interest charges accrue on a non-compounded basis.

The Agreement on the 1965 Turkish consolidation provided that no interest would be charged during the grace period granted on the deferred 1958/59 stabilization credits. It was further stipulated that the interest rate on the 1960 credit by the German Government to Turkey, which was included in the consolidation, would be reduced from 5.75% to 3% with effect from January 1, 1965. Finally, with respect to the commercial debts already consolidated in 1959, the "Agreed Minute" provided that "bearing in mind that the present interest rate on these debts is 3%, any interest charged on the outstanding amounts during the period of grace should be as low as possible".

3. Commitments of the Debtor Country

In addition to the obligations assumed by the government of the debtor country for carrying out the consolidation agreement, the debtor country commits itself to additional obligations, often referred to as "undertakings". Except for points unrelated to the debt renegotiation, such as assurances about nondiscrimination in shipping or promises to relax laws governing private investment, that are attached as "riders" to the agreement, the undertakings are measures which the debtor country intends to implement in order to prevent a recurrence of the debt crisis.

1/ This was intended, in the case of the U.K., to offset the cost to the export credit insurance agency (E.C.G.D.) of borrowing the rescheduled amounts, as the premiums paid by the private suppliers do not cover that cost.


The measures include broad policy statements as well as precise commitments on the level of new suppliers' credits authorized. 1/

The debtor country's obligations are not always included in the "Agreed Minute". In some cases they are stated in a separate document. In other cases they are to be found elsewhere, such as in a stand-by arrangement with the IMF, as in the case of Ghana, 2/ or in the discussions held by the Consortium on the country's development program, as in the case of Turkey (1965) or India (1968). The undertakings most commonly agreed upon concern the payment of arrears and new medium-term borrowing.

Creditor countries have insisted on measures for clearing arrears through nondiscriminating repayment and for preventing their accumulation. Argentina pledged that, as of December 31, 1965, the amount of arrears would not be allowed to exceed $70 million and would be liquidated by April 30,1966. Chile committed herself to take measures giving importers access to the forward exchange market, since creditor countries considered that delays in payments arose mainly because imports had been permitted without provision for importers to have access to the exchange market. Ghana stated her intention to continue the implementation of a special scheme for clearing arrears, which had already been introduced.

Restrictions on medium-term borrowing are often spelled out in precise terms. In Ghana's case (1966), new external borrowing with a maturity of

1/ On December 14, 1966, the Government of Indonesia transmitted to the creditor countries a statement giving the following policy objectives:

"(a) A balanced budget.
(b) Credit control and restriction on a selective basis.
(c) Increase in output, in particular through removal of price controls.
(d) Improvement of transport and communications.
(e) Re-establishment of balance of payments equilibrium through
   - the adoption of a realistic exchange rate and a simpler exchange control system...
   - the control and surveillance by the Central Bank of all foreign exchange transactions...
   - A strict limitation on the use of bilateral payment agreements and bank agreements and the elimination of discriminating practices.
   - The maintenance of a balance between, on the one hand all commercial or financial commitments... and on the other hand, foreign exchange reserves, in order to avoid in particular a new accumulation of arrears.
   - Priority is to be given to imports necessary for a return to a normal economic activity.

(f) In carrying out the program, the Government of Indonesia intends to continue requesting, as needed, the advice and assistance of the IMF."

2/ Although the stand-by preceded the debt negotiations.
one to twelve years was already limited under the provisions of a one-year stand-by with the IMF. The Ghanaian Government stated at the consolidation meeting that it was contemplating requesting another stand-by and would be prepared to include in it provisions relating to Ghana's foreign borrowing policy.

Chile undertook that:

"the new suppliers' credits for the public sector, authorized after February 28, 1965, with a term greater than 180 days and less than eight years will not at any time before January 1, 1967, exceed actual repayments made by Chile after February 28, 1965, net of any refinancing obtained on such payments. The same norms will apply to private suppliers' credits authorized after February 28, 1965, with a term greater than 180 days and less than five years. In addition, for private credits with a term of more than five years and less than eight years, new authorizations during the period mentioned above will be limited to the amount of repayments inclusive of refinancing on such credits". 1/

At the 1964 meeting for renegotiation of the Brazilian debt, the Brazilian Government stated that new authorizations for imports of capital goods with financing of more than 180 days and less than eight years would not, at any time before January 1, 1966, increase the total outstanding commitments, including any refinancing of such credits, beyond the level of May 31, 1964.

In 1965 Argentina gave assurances that new authorizations for suppliers' credits to the public sector with maturities of more than 180 days and less than eight years and to the private sector with maturities of more than 180 days and less than five years would be limited to amounts not exceeding the cumulative amounts of the respective net amortizations (i.e. amortizations minus refinancing), and that new authorizations for suppliers' credits to the private sector with maturities of at least five years and not more than eight years would be limited to the cumulative amount of gross amortizations (i.e. amortizations including the part refinanced).

The commitments Argentina made in 1965 have been the most extensive to date. In addition to quantitative limitations on new medium-term borrowing and precise assurances on the elimination of arrears, Argentina undertook to see to it that the net foreign reserve position of the monetary authorities would not be permitted to fall below the level of December 31, 1965. A "memorandum of understanding", attached to the "Agreed Minute", gave precise definitions of the concepts used and

indicated how net foreign assets, arrears, and effective amortizations should be computed. Argentina had to send monthly information to the participating creditor governments, either directly or through the IMF on:

(a) The net foreign assets of the monetary authorities.

(b) The level of arrears.

(c) The new authorizations of suppliers' credits, the payment of existing suppliers' credits, and the receipt and payment of refinancing credits.

The debtor country is generally requested to provide information to the IMF on its external indebtedness, its arrears, the bilateral agreements concluded, and any other items provided for in the "Agreed Minute", either monthly (Argentina, Brazil, Chile) or semi-annually (Ghana, Indonesia).

Another important undertaking of the debtor country is to "grant each participating country treatment no less favorable than that accorded to any other creditor country for the consolidation of debts on comparable terms" (Chile, 1965). This clause, which prevents discrimination in favor of a creditor, is found with approximately similar phrasing in almost all multilateral agreements. Sometimes, the most-favored nation (M.F.N.) clause is limited to the participating countries (Brazil, 1964) but more often it extends to all creditors. In practice this distinction is important only when some large creditors are not participating in the renegotiations. This was the case for Ghana, Indonesia and India which owed large amounts to the Soviet Union and to Eastern European countries.

The M.F.N. clause seems to have been interpreted more strictly in recent years; it used to apply only to debts comparable in terms and amounts to those that had been consolidated. In the Ghana (1966) negotiations, the smaller creditors argued that they should not come under the M.F.N. clause because of the size of their credits (this is

1/ Brazil also undertook to "enter into negotiations as soon as possible with other important creditors of Brazil with a view to obtaining an adjustment of their debts comparable with that envisaged above for the participating countries".

2/ In the case of India, payments to large creditors outside the Consortium were to be made in local currency, and as such, were not strictly comparable with the convertible-currency area creditors. Consortium countries, however, requested that India endeavor to obtain some relief from her "rupee-area" creditors.
sometimes referred to as a "de minimis principle"), but they were turned down by the Conference. In fact, the participating countries made it clear that they interpreted the M.F.N. clause as applying not only to non-participating countries but also to individual creditors such as those holding non-guaranteed credits not covered by the Agreement. At the second Ghana Debt Conference (1968), however, the creditors and the Ghana Government agreed, "for technical and administrative reasons", to exclude credits and loans "when the unrescheduled amounts due after 31 December, 1968 to persons or corporations resident in a creditor country totalled less than US$35,000". It had been demonstrated that the administrative costs involved in the rescheduling of very small claims were excessive in relation to the benefits accruing to Ghana from their rescheduling.

In the 1968 negotiations with the Peruvian Government, a novel way was found to exclude smaller claims while respecting the M.F.N. clause. The Peruvian authorities agreed to pay up to $2 million to each country and requested that debts in excess of that amount be refinanced. As a result, the smaller creditor countries were excluded from the coverage of the renegotiations. The $2 million cut-off point, however, applied to individual countries and not to individual credits and the Agreed Minute did not specify how the $2 million payments were to be allocated among individual creditors.

Exceptions to the principle of equal treatment of all creditor countries are sometimes introduced by the "Agreed Minute". The "Paris Act" of 1956 on the consolidation of Argentine debts, specified that repayment of debts to the Netherlands be spread over five years and to Germany over ten years, instead of the standard nine years. The 1959 "Agreement on Commercial Debts Owed by Residents of Turkey" specified that the annual transfers made by Turkey on the consolidated debts be apportioned among the creditor countries according to their debts outstanding, but that an amount equal to 2% of the transfers be set aside to settle the claims of residents of Luxembourg, Norway, Portugal, and, in the case of the third annual transfer, of Denmark, until all claims held by residents of those countries were settled. Italy was allowed to postpone her participation in the 1961 consolidation of Brazilian debts until January 1, 1962. Up to that date Italian creditors were to be paid out of the non-consolidated payments made by Brazil to all her creditors. On January 1, 1962 Italy had to repay the other participating countries for her share of the consolidation for 1961.

Some debts are also excluded from the consolidation because of their distinctive nature. Japan, for example, argued successfully that Indonesia's debts which were guaranteed by the Japanese war reparation payments should not be renegotiated.


2/ This raised no problem since the consolidation was implemented through the granting of refinancing credits.
4. Burden Sharing by the Creditor Countries

The principle of equality of treatment of all creditors has not been adopted without protest. Some creditor countries felt that the largest creditors, or those whose loans had the hardest terms, bore a greater responsibility for the debtor country's predicament and should shoulder more than their "fair" share in the consolidation costs.

However, until the 1968 Indian consolidation, and with the exceptions provided by the multilateral agreements as mentioned in the preceding section, the burden of the consolidation was shared by all creditors on a proportional basis.

The Indian consolidation is the first case where participating countries have adopted a burden-sharing formula different from the traditional proportional allocation. 1/ Studies by the Bank Staff had shown that under reasonable assumptions as to the amounts and terms of future assistance, some creditor countries would become net capital importers from India by 1971-76. 2/ Those countries which would still contribute positive amounts of net aid during that period could argue that they, in effect, would finance the repayments to the other lenders.

The Bank Staff had set forth four formulae for allocating the burden of the proposed consolidation among India's creditors. Formula A called for a reduction in payments due to creditors when debt service during the Indian Fourth and Fifth Plans (1966/67 to 1975/76) as a percentage of existing debt exceeded the average for all Consortium members. This meant a greater burden for those countries which had lent on short maturities and high interest rates. According to Formulae B and C, debt service up to the pre-consolidation average (of service payments as a percentage of outstanding debt) would have been reduced by 5 and 10 percent respectively, the remainder of the adjustment being borne proportionately. Finally, Formula D was a purely proportional allocation.

Formulae A, B and C were vigorously opposed by some countries which argued that they were tantamount to a retroactive harmonization of lending terms while they were not even ready to agree on harmonizing the terms of future lending to India. The formula finally adopted was half-way between the proposed Formulae B and C. Although some countries did not subscribe to it and accepted only the consolidation of smaller amounts,

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1/ For some countries, however, the proposed formula in fact yielded results similar to a strictly proportional allocation.
2/ Taking principal and interest payments to be made by India together.
the burden-sharing was very different from what would have resulted from a proportional allocation.

Another novel feature of the Indian exercise was the initial insistence on a certain minimum qualitative standard in the type of debt relief granted by the Consortium members. It has already been mentioned that, with the exception of the Indonesian consolidation, and, to some extent, that of the 1965 Turkish case, the interest rate on consolidated debts was determined by the bilateral agreements. Participating countries had also been free to choose which technique they would follow to implement the agreements. 1/ As a result, creditor countries could, and on occasions, did consolidate service payments due to them on very hard terms without violating the multilateral agreements.

The Bank Staff proposal for the Indian renegotiation noted that debt cancellation would be by far the best technique in terms of quality and suggested that the minimum terms which would meet the purpose of the exercise would be a 10-year interest-free postponement of service payments. Later in the negotiations, it was suggested that for those countries which were not legally or technically equipped for granting a postponement without an interest rate, a certain element of debt cancellation ought to be present, so that their total contribution would not be below that of the agreed minimum. For comparison purposes, the terms of the relief granted by each creditor country could be reduced to a simple formula such as its grant element. 2/

As a possible compromise, it was also suggested that those countries which could not meet the minimum quality requirement should consolidate an amount larger than their share under the agreed burden sharing. It would be a simple arithmetical exercise to compute the additional amount to be consolidated in order to make a contribution equivalent to an interest-free postponement. 3/

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1/ See Section 06.
2/ The grant element of a loan is the difference between the present value of the repayment streams of amortization and interest payments, discounted at the opportunity cost of capital, and the present value of the disbursements, expressed as a percentage of the face value of the loan.
3/ Assuming the opportunity cost of capital to be 8% p.a., a 10-year interest-free loan repayable in a lump sum would have a "grant element" of 54%. A refinancing credit of 12-year maturity, including 3-year grace, at 4% would have a grant element of 22%. Accordingly the amount of refinancing on the above terms equivalent to a, say, $30 million interest-free postponement for 10 years would be $75 million.
This attempt at defining a minimum standard for the creditors' contributions to the consolidation was not altogether successful. The suggested minimum terms, i.e. a 10-year interest-free postponement, were not accepted by all Consortium members. The IBRD compensated for its relatively hard terms by consolidating a substantially larger amount than that resulting from the burden-sharing agreement, but its example was not followed by the other creditors who had offered terms harder than those suggested.

C - THE BILATERAL AGREEMENTS

As already indicated, the "Agreed Minute" is on an ad referendum basis, i.e. it consists only of recommendations, made to the governments of the participating countries, that need to be implemented with bilateral agreements between the debtor country and each participating country.

While following the pattern set by the "Agreed Minute", the bilateral agreements exhibit great variation from country to country. For one thing, the terms of the multilateral agreement are not always followed precisely; for example, if the "Agreed Minute" provided for consolidation of 70% of principal payments on suppliers' credits, a country will feel entitled to consolidate 65% of principal and interest, or will exclude certain credits and reschedule a higher percentage of other debts. The terms of the "Agreed Minute" do not prevent a country from being more generous than the others: they also allow for differences in the provisions for repayment (e.g. quarterly or semi-annual payments) and in interest rates. The procedures followed for the implementation of the consolidation agreement also vary from country to country (rescheduling or refinancing) and, for the same creditor country, from case to case. 1/

The main feature of the bilateral agreements between the "participating countries" and the debtor country are the following:

- Date of agreement.
- Signatories.
- Coverage of the consolidation.
- Interest rate.
- Repayment provisions.
- Provisions for implementation of the consolidation.

1/ However, see Section B4 in Part I on attempts to reduce differences between countries in the terms and procedures of the consolidation.
1. Date of Agreement

Several months may elapse between the conclusion of the multilateral agreement and the date when the bilateral agreements come into force. In some cases the multilateral agreement will include a provision to the effect that participating countries endeavor to conclude their bilateral agreements with the debtor country before a given date. The 1959 agreement on the consolidation of Turkish commercial debts was unique in that it included, as an appendix, a protocol of provisional application the signing of which was optional, whereby the signatories agreed to apply the provisions of the multilateral agreement "as if the said Agreement had come into force as from the date of its signature".

The effect of delays in concluding bilateral agreements on the country's external payments situation is not clear. When payments have been suspended as in the cases of Turkey (1959), Ghana (1966) and Indonesia (1966) and when resumption of transfers is dependent upon signature of the bilateral agreements, the debtor country will obviously not suffer directly from the delays. When no moratorium has been decided upon, the bilateral agreements generally provide that when payments due have been made in full, the portion of the payments that would have been consolidated is either refunded to the debtor country or credited to future payments not subject to consolidation. The debtor country can then use its reserves or arrange for short-term bank loans until the bilateral agreements have come into force. The latter option may, however, involve some costs.

The longest delays seem to have taken place after the 1956 Argentine consolidation; the date of the multilateral agreements (the "Paris Act") was May 30, 1956, and most bilateral agreements were signed November 25, 1957. Japan, which had reached an agreement with Argentina on the same basis as the "Paris Act" on September 8, 1956, signed her bilateral agreement on June 12, 1958. 1/

2. Signatories

Depending on the case, the bilateral agreements will take the form of a formal agreement, a simple exchange of letters or notes, or a loan agreement. On the creditor country's side, the signatory to the bilateral agreement is either the Government or the export credit insurance agency. On the debtor country's side, the signatory is either the Government or

1/ The bilateral agreement between Italy and Indonesia following the multilateral agreement of December 20, 1966 was signed only on July 17, 1968. The Japanese bilateral agreement with Ghana was also signed more than eighteen months after the multilateral agreement of 1966.
the Central Bank. Where a government is a signatory, it usually delegates to the Central Bank or, in the case of a creditor country, to the export credit agency the responsibility for implementing the agreement. There may be more than one agreement per country if several types of credits are subject to consolidation. In the Chilean case, Eximbank and US AID concluded separate agreements covering the credits coming under their respective jurisdictions. In the case of Indonesia (1966), Germany entered into four different agreements: one was for suppliers' credits, each government designating an agency to be charged with the implementation of the agreement (a consortium consisting of Hermes-Kreditversicherungs and Deutsche Revisions- und-Treuhand, the two export credit insurance agencies, for Germany; Bank Negara Indonesia, the Indonesian Central Bank, for Indonesia); the second agreement took the form of an exchange of notes between the two governments and relates to suppliers' credits guaranteed by the Senate of Bremen; the third agreement, between Kreditanstalt fur Wiederaufbau and Bank Negara Indonesia, covered loans made by the former; the fourth agreement covered the provision of fresh aid to refinance 10% of the payments due. 1/

In some cases there is first a general agreement, usually between the two governments, defining the general lines of the consolidation, and then a financial agreement between the agencies charged with the implementation of the agreement.

3. Consolidation Coverage

While a country cannot offer terms less generous than those of the multilateral agreement without running against the nondiscriminatory treatment clause, it can offer terms that will be equivalent to those of the multilateral agreement, without being identical. For example, in the case of Chile (1965), where the principle of a 70% consolidation of principal payments on suppliers' credits and certain government loans had been agreed upon, Denmark consolidated 65% of the principal and interest payments, and the U.S. and Canada consolidated only certain long-term loans for percentages in excess of 70% so as to get an amount of consolidation equal to 70% of the principal payments on all debts eligible for consolidation. Some countries went beyond the terms of the "Agreed Minute": Germany consolidated 70% of the principal and interest, and Japan, 100% of the principal.

4. Interest Rate

As can be seen from Table 4, there is a wide range in the interest rates charged on the amounts consolidated. The interest rate agreed upon is based sometimes on the rate charged on the consolidated debts (procedure followed by Eximbank, in the case of Brazil, 1964, and Chile, 1965), or on the cost of borrowing by the government (as in the case of the United Kingdom, meaning the discount rate of the Bank of England, plus 1/4 of

1/ See footnote 1, page 23.
Table 4
Rates of Interest Per Annum Charged on Amounts Consolidated by Creditor Countries

<table>
<thead>
<tr>
<th></th>
<th>Argentina 1965</th>
<th>Brazil 1964</th>
<th>Chile 1965</th>
<th>Ghana 2/1966</th>
<th>Indonesia 1966</th>
<th>India 1968</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>6.5%</td>
<td>3.8%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Germany</td>
<td>7%</td>
<td>5.5%</td>
<td>6.5%</td>
<td>5.5%</td>
<td>4% 5/</td>
<td>2.5% 6/</td>
</tr>
<tr>
<td>Italy</td>
<td>8.5%</td>
<td>8.5% 2/</td>
<td>8.5%</td>
<td>4/</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Japan</td>
<td>5.75%</td>
<td>5.75%</td>
<td>5.75%</td>
<td>5.25%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5.75%</td>
<td>n.a.</td>
<td>5%</td>
<td>4.5%</td>
<td>4%</td>
<td>0</td>
</tr>
<tr>
<td>UK</td>
<td>1/</td>
<td>1/</td>
<td>1/</td>
<td>6 5/8%</td>
<td>4%</td>
<td>0</td>
</tr>
<tr>
<td>US</td>
<td>5.5%</td>
<td>5.5%</td>
<td>4-5.75%</td>
<td>6%</td>
<td>3%</td>
<td>0</td>
</tr>
<tr>
<td>Australia</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5.5%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Belgium</td>
<td>-</td>
<td>-</td>
<td>5.5%</td>
<td>6.5%</td>
<td>-</td>
<td>3%</td>
</tr>
<tr>
<td>Canada</td>
<td>-</td>
<td>-</td>
<td>6%</td>
<td>-</td>
<td>-</td>
<td>4% 6/</td>
</tr>
<tr>
<td>Denmark</td>
<td>-</td>
<td>-</td>
<td>6.5%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Israel</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5.5%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Norway</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5.5%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Spain</td>
<td>-</td>
<td>-</td>
<td>3.5%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5%</td>
<td>5%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

1/ "The cost of borrowing by the Government of the UK" (normally the discount rate of the Bank of England plus 0.25%).
2/ "5% above the official discount rate of the Bank of Italy but not less than 8.5%".
3/ Rates given generally apply only where original contracts do not specify the interest rate on arrears.
4/ Moratorium interest rate payable to Italian creditors: 6.5%. Interest rate on refinancing credits is confidential.
5/ 3% on loans by Kreditanstalt.
6/ Weighted average.

one percent), or on the rate charged for new loans of this type (Eximbank in the case of Argentina, 1965, for example), or on the rate for arrears written in the original contract. The bilateral agreement also determines the payment arrangements for the interest charges.

In some cases there may be two different interest rates charged. One is the moratorium interest to be paid to the individual creditors, after a maturity has fallen due; the other is the interest rate charged on the refinancing loan granted to the debtor country. The moratorium interest paid to creditors may be set by the original loan contract or by the bilateral agreement.

5. Repayment Provisions

Within the framework provided by the "Agreed Minute", the bilateral agreement also determines the repayment schedule, the amortization procedure, and whether installments will be paid on a semi-annual or quarterly basis.

6. Financial Implementation of the Consolidation

The "Agreed Minute" generally leaves it to the bilateral agreements to arrange the details of the procedure according to which the consolidation is put into effect. 1/ There are three broad types of possible arrangements:

(a) Rescheduling.
(b) Refinancing.
(c) Cancellation.

(a) Rescheduling

In the strict sense rescheduling means that payment of a debt is made according to a new schedule. The creditor and debtor are unchanged, and the debt also remains the same. "Rescheduling proper" is the procedure usually followed when only one loan is to be consolidated. Rescheduling can be implemented simply by amending the repayment provisions in the original loan agreement.

When several debts are involved, some of them owed by private debtors, the above procedure is usually not feasible. As will be discussed in the next section, the consolidation does not alter the terms of the original

1/ The Agreed Minute for Indonesia's 1966 debt rearrangement offered the additional option of providing fresh official assistance up to 10% of the amounts to be rescheduled or refinanced.
Table 5

Procedures Followed by Creditor Countries to Implement the Consolidation Agreements

<table>
<thead>
<tr>
<th></th>
<th>Argentina 1965</th>
<th>Brazil 1964</th>
<th>Chile 1965</th>
<th>Ghana 1966</th>
<th>Indonesia 1966</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>RF</td>
<td>RF</td>
<td>RF</td>
<td>RS</td>
<td>RS</td>
</tr>
<tr>
<td>Germany</td>
<td>RS</td>
<td>RS</td>
<td>RS</td>
<td>RS</td>
<td>RS²</td>
</tr>
<tr>
<td>Italy</td>
<td>RF</td>
<td>RF</td>
<td>RF</td>
<td>RF</td>
<td>³</td>
</tr>
<tr>
<td>Japan</td>
<td>RF</td>
<td>RF</td>
<td>RF</td>
<td>RS</td>
<td>RF</td>
</tr>
<tr>
<td>Netherlands</td>
<td>RS</td>
<td>n.a.</td>
<td>RS</td>
<td>RS</td>
<td>RS</td>
</tr>
<tr>
<td>U.K.</td>
<td>RF</td>
<td>RF</td>
<td>RF</td>
<td>RS</td>
<td>RS</td>
</tr>
<tr>
<td>U.S. (Eximbank)</td>
<td>RS</td>
<td>RS</td>
<td>¹</td>
<td>RS</td>
<td>RS</td>
</tr>
<tr>
<td>Australia</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>RS</td>
<td>-</td>
</tr>
<tr>
<td>Belgium</td>
<td>-</td>
<td>-</td>
<td>RS</td>
<td>RS</td>
<td>-</td>
</tr>
<tr>
<td>Canada</td>
<td>-</td>
<td>-</td>
<td>RS</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Denmark</td>
<td>-</td>
<td>-</td>
<td>RF</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Israel</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>RS</td>
<td>-</td>
</tr>
<tr>
<td>Norway</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>RS</td>
<td>-</td>
</tr>
<tr>
<td>Spain</td>
<td>-</td>
<td>-</td>
<td>RS</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Switzerland</td>
<td>RF</td>
<td>RF</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>RS</td>
<td>-</td>
</tr>
</tbody>
</table>

RF = Refinancing.
RS = Rescheduling.

¹/ RS for credits guaranteed by the Chilean Government or any of its agencies; RF for all others.
²/ For suppliers' credits, RS for 90% of maturities due and 10% in new aid.
³/ Rescheduling for insured quotas of credits; refinancing for uninsured quotas and some uninsured credits.

contract between private debtors and creditors: the rescheduling applies only to the transfer of foreign exchange. What happens in most cases is that an official agency steps in as intermediary on the debtor side, and usually also on the creditor side. Payments are made on schedule by the private debtor to the agency in the debtor country (usually the central bank) and the agency transfers the non-consolidated portion of the debt immediately to the creditors or, more often, to the official agency in the creditor country (usually the export credit insurance agency). Transfer of the consolidated portion of the debt is then deferred and paid according to the new schedule agreed upon in the multilateral and bilateral agreements.

Although this second type of procedure is a form of rescheduling, since payments on the consolidated debts are deferred, it differs from what we called "rescheduling proper" in the sense that a new debt (of the debtor country's central bank to the creditor country's export credit insurance agency, for instance) replaces the original debt, which is one of the characteristics of refinancing.

(b) Refinancing

Refinancing consists in contracting a new loan in order to pay off existing debts. The new loan is made either by the creditor country's government or by its export credit insurance agency. Unlike a rescheduling the original debts are paid on schedule. In practice there are two types of refinancing, depending on the conditions for disbursements of the new loan. In one, the debtor country draws on the new loan to make its payments; in the other the debtor country pays its debts out of its foreign exchange balances (or short-term bank loans) and then receives a refund from the creditor country for the consolidated portion of the debt paid. The latter procedure is obviously "harder" than the former. It is also the most frequent: in the case of Chile (1965), all countries following the refinancing procedure made disbursements only upon evidence of payment of the relevant maturities.

(c) Cancellation

Cancellation of debts has been an exceptional procedure used only by a few countries in the 1965 Turkish and 1968 Indian consolidations in the form of interest rebates. In addition to a reluctance on the part of creditor countries to give up their claims entirely, in some countries there are legal obstacles to debt cancellation.

Table 5 compares the procedure followed in recent cases of debt consolidation. Creditor countries usually followed the same procedure
throughout, France and the United Kingdom being exceptions. The choice between refinancing and rescheduling depends on the creditor country's attitude toward the consolidation (refinancing often implies a "harder" line than rescheduling) and on special considerations. Refinancing may involve a budgetary charge which a country would prefer to avoid; it may raise problems insofar as it is tantamount to a new loan, some countries may find it difficult, for example, to grant new untied aid; finally, if service payments have not been suspended by the debtor country, there is no ground for intervention by the creditor country's export credit insurance agency, and unless loans other than export credits can be rescheduled the only procedure available is refinancing.

D  FINANCIAL IMPACT OF THE REARRANGEMENTS

1. Impact on the Individual Creditors and Debtors

The individual creditors and debtors, (e.g. the exporters and importers) are not normally affected by the consolidation. The problem which leads to the debt renegotiation is one of foreign exchange not directly related to the financial soundness of the individual debtor. In the multilateral and bilateral agreements there is usually a clause providing that "neither the Agreed Minute nor the bilateral agreements would affect the rights and obligations of creditors, debtors and guarantors, except those of the Government concerned". The individual debtor is still committed to making the scheduled payments in local currency either to his bank or to a special account opened at his country's central bank. The individual creditor's situation is different because of the foreign exchange difficulties: even though his loan may have been paid in local currency, the conversion into his own currency cannot be effected. In some cases (Turkey, 1959; Ghana, 1966) an option is given to the creditor to receive his payment in local currency to be used in the debtor's country.

Refusal by or inability of the debtor's government to transfer the foreign exchange corresponding to one of his nationals' debt is considered a non-commercial risk and is usually insured by an official agency in the exporter's country. Uninsured credits are not usually protected, and creditors may suffer delays and, possibly, losses. He may also have to renegotiate his debt with the debtor's government. Insured credits are protected up to the insurance coverage, which is normally less than the full amount of the loan. The creditor is then paid by the export credit insurance agency up to the insured quota of his credit. The uninsured quota of the credit is usually treated as an uninsured credit.

1/ See Section D2 and D3 on the financial impact of the consolidation on the creditor government's budget.
As already indicated, a consolidation agreement between governments is not binding on the individual creditors. This raises no problem when the creditors would not be affected by the agreement anyway, as in the case of a refinancing which enables the debtor country to meet payments on schedule. When the implementation of the agreement has a financial impact on the individual creditors, e.g. by providing for a rescheduling of the uninsured quota of the credits, the individual creditors have to assent to the agreement. In order to avoid such a complicated procedure, some credit insurance agencies have introduced in their policies for certain countries a clause whereby the exporter agrees in advance to the terms of any debt consolidation arranged by his government.

When the consolidation covers a percentage of the suppliers' credit equal to or less than the percentage of the credit that is insured, the non-consolidated part of the debt (the "down-payment") may be applied to the non-insured part of the credit, so that the individual creditor receives full payment. This relatively simple procedure is not always feasible, however; in some exporting countries, when either because of delays or because of the terms of the agreement itself, the down-payment is received after a claim has been paid by the credit insurance agency, the amount received, like all payments made by the debtor country, is divided between the creditor and the insurance agency according to the shares of the insured and uninsured quotas in the total credit.

2. Impact on the Export Credit Insurance Agencies and on Government Finances

As already indicated, a "transfer moratorium", i.e. the inability of a creditor to convert the proceeds of his loan into his own currency, is considered a non-commercial risk generally insured by an official agency, or by a private agency on behalf of the government, in the creditor's country. 1/ The export credit insurance agency does not, however, always intervene in the consolidation. In particular, when the consolidation is implemented by refinancing, the new loans can be used to make payments on schedule, so that intervention by the export credit insurance agency is unnecessary.

In all industrial countries, export credit insurance for non-commercial risks is provided by, or on account of, the government. Whether or not consolidation agreements have a short-term direct financial impact on the government budget, however, depends on the institutional arrangements between the insurance agency and the government, and on the existence of reserves from which possible claims can be paid. In Germany, for example,

the insurer is a private company, Hermes Kreditversicherungs A/G (Hermes), in conjunction with Deutsche Revisions und Treuhand, an auditing and trust company. Both act as agents for the federal government. Funds are allocated annually in the federal budget to cover administrative costs and indemnity claims, and all premiums go to the federal budget. In the United Kingdom, where insurance is provided directly by the government, all outlays come from the budget and all surpluses accrue to the Treasury; no reserves are accumulated, except notionally. In other cases, the export credit insurance agency operates with a certain degree of financial autonomy; this is true even where it is a public company as in Belgium or in the U.S.

The Export-Import Bank of Washington (Eximbank), for example, is an independent agency of the federal government with capital of $1 billion subscribed by the U.S. Government. It has authority to borrow from the U.S. Treasury up to a current ceiling of $6 billion, and it may obtain additional resources by selling Certificates of Participation in portions of the Bank's loan portfolio. As of June 30, 1968, Eximbank had accumulated a reserve for contingencies and defaults in excess of $1.1 billion. The size of the reserve would normally insulate the U.S. Treasury from the financial impact of a consolidation.1/

At any rate, the distinction between insurance systems that are funded and those that are not should not be important over a long period. Although the premiums paid by exporters for protection against non-commercial risks cannot be determined on a precise actuarial basis, export credit insurance schemes are expected to be self-supporting, otherwise, they would be tantamount to an export subsidy. In the short-run, however, the absence of reserves may put a strain on the budget if the size and/or the number of consolidations in a given year is large.

The creditor country's government budget, of course, supports the financial charge of a consolidation directly when the consolidation is implemented through a refinancing. Rescheduling, however, does not

1/ By comparison, the rescheduling of credits to Indonesia granted or insured by Eximbank, due or falling due between July 1, 1966 and December 31, 1967, amounted to $31.8 million. (See Export-Import Bank of Washington, Fiscal 1967 Report, Washington, 1967, p.17).
involve a budgetary charge in the sense of requiring a special appropriation. Legislative approval is not usually needed. 1/

As far as the debtor country's government is concerned, it benefits from the consolidation by receiving what are in effect financial medium-term or long-term credits. In addition it benefits from the local currency payments made by the individual debtors, or from the counterpart of the refinancing loans, which can be used as budgetary resources when the consolidation agreement does not forbid it.

3. Impact on Third Parties

Third parties are creditors in countries not participating in the consolidation agreement and creditors holding non-guaranteed (non-insured) claims when the consolidation is limited to guaranteed (insured) credits. 2/

Third parties are affected by the consolidation agreement to the extent that the most-favored nation clause which prevents the debtor country from granting more favorable terms to non-participants is applicable to them. 3/

The treatment of non-guaranteed (non-insured) debts varies from case to case. In May 1967, for example, the Indonesian Government introduced a special scheme for the settlement of non-guaranteed claims. Under this provision, the Indonesian Government proposed to convert 50% of the maturities into special rupiah accounts which could be used for investment in Indonesia. In some cases creditor countries have brought uninsured credits under the consolidation coverage with the consent of the debtor country by listing such credits in the bilateral agreements.

1/ Loan repayments normally accrue to the general budget and are not available for relending. In the United States, however, the loan programs of the Agency for International Development (AID) were set up as revolving funds, and service payments on loans made under these programs are available for use under the same programs, "when so specified in appropriation Acts". Since service payments are taken into account, at least in theory, in the decision by Congress to grant fresh funds, a debt postponement will reduce the total amount of funds available for lending unless it had been decided before the budget preparation and deducted from expected receipts. While service payments on AID loans are presently very small, they are expected to grow rapidly.

2/ Although a distinction should be made between loans insured by an agency of the lending country's government and loans guaranteed by the government or an official agency of the borrowing country, most documents use the terms "insured" and "guaranteed" to refer to the former. They also mention the "insurance guarantee" granted by the export credit insurance agencies.

3/ For a discussion of this point, see above Section B3.
Special mention should be made of the Eastern bloc countries. These countries held a large percentage of Ghana's, India's and Indonesia's external debts. They accounted for 21% of Ghana's outstanding suppliers' credits as of December 31, 1965 (principal only), and 57% of Indonesia's external debt as of June 30, 1966 (principal payments on debts over 180 days). In the latter case, most of the debts (almost 44% of Indonesia's debt) were related to military assistance. These countries have not participated in multilateral debt rearrangements (the U.S.S.R. was invited to the December 1966 meeting on Indonesia's external debt, but refused), but they have renegotiated their credits bilaterally on terms sometimes more generous than those granted by Western creditors. Interest rates charged are low (2 - 4% for Ghana and Indonesia), long-term debt is included in the rearrangement, and payments are not normally made in convertible currencies but out of the credit balances of bilateral trade agreements.

As an example, the agreement concluded between the U.S.S.R. and Indonesia in November 1966 rescheduled all outstanding maturities on medium- and long-term debt, together with the payment of interest ($856.3 million). Repayment is to be made gradually over a 13-year period (1969-81). The moratorium interest is 2.2%. No interest is charged on moratorium interest. A maximum of 50% of total payment each year is to be applied to the payment of interest. The short-term debt ($14 million) is payable over a 3-year period: 4/9 in 1967, 4/9 in 1968, and 1/9 in 1969. Subsequently, the first payments on both the long-term and the short-term debt were deferred by one year.

1/ Excluding Yugoslavia and North Korea.
PART II

POSITIONS OF GOVERNMENTS AND
INTERNATIONAL FINANCIAL INSTITUTIONS WITH
RESPECT TO DEBT REARRANGEMENTS

A - POSITIONS OF GOVERNMENTS

Since there is no permanent machinery to examine requests for debt renegotiations, no formal common policy has been adopted by governments. Governments have, however, in various forums reached a common position on the problem. One such occasion was the first United Nations Conference on Trade and Development (UNCTAD) which met in Geneva in 1964. A recommendation introduced by some developing countries read as follows:

"The Conference,
Taking note of the problem of servicing of external debt for many developing countries and keeping in view their external capital requirements, in future, Recommends that:
1. Competent United Nations bodies and/or other international financial institutions should stand ready, at the request of any developing country, to review, in co-operation with the creditor countries concerned, the external indebtedness of the developing country concerned, where appropriate, with a view to securing agreement, if necessary, on the re-scheduling or consolidation of debt, with appropriate periods of grace and amortization and reasonable rates of interest;..." 1/

The recommendation was adopted by a vote of 61 to 2, with 54 abstentions. The U.S. and Panama voted against the resolution; all other industrial countries (except the socialist countries) abstained.

The same issue was raised in 1968 at the Second Session of UNCTAD in New Delhi (UNCTAD II). At a preparatory ministerial meeting in October 1967, the representatives of the so-called Group of 77 (developing countries) issued a "program of action", to be known as the Charter of Algiers, which included the following paragraph:

"Problems of External Indebtedness: Suitable measures should be adopted for alleviating the debt-servicing burdens of developing countries by consolidation of their external debts into long-term obligations on low rates of interest. In case of imminent difficulties, speedy arrangements should be made for refinancing and rescheduling of loans on "soft" terms and conditions". 1/

Item 12 on the Agenda of UNCTAD II dealing with "Growth, development finance and aid", included an item (b iv) on "alleviating the problems of external indebtedness" which was discussed by the Third Committee of the Conference. A resolution entitled "Improving the terms of aid and alleviating problems of external indebtedness" was adopted without opposition (seven Socialist countries abstained). Its paragraph 15 reads as follows:

"Finally, where difficulties do arise, countries concerned should stand ready to deal reasonably with them within the framework of an appropriate forum, in cooperation with the international institutions concerned. They should bear in mind that some developing countries are carrying an excessively heavy burden of long term debt, having regard to their need to sustain an adequate rate of economic growth and that suitable measures should be adopted in appropriate cases to alleviate this burden. In other cases, situations of crisis may arise and arrangements to refinance or reschedule on appropriate terms and conditions may be required. Present institutional arrangements for dealing with such problems may require review when the analysis of the problems has proceeded further and the arrangements for forecasting situations have been further developed". 2/

The creditor countries have also expressed their position on debt renegotiations in the Development Assistance Committee of the OECD. Their main point has been that "debt consolidation must be regarded as an exceptional course of action, because of the principle of maintaining legal contracts. Moreover, consolidation is only one form of meeting external financial problems, and alternative courses of action are possible". 3/

As already indicated in the case of Ghana (1966), creditor countries have expressed their view that debt relief should not be considered as a

form of aid and could not be granted on concessionary terms. The DAC
document quoted above is explicit on this point: "... in order to avoid
the use of consolidation requested by less developed countries as a
technique for extracting additional development assistance, there should
be some distinction between solving temporary balance of payments and
debt servicing difficulties on the one hand, and long-term development
financing on the other". This principle, in the cases of Turkey (1959),
Ghana and Indonesia led to separate international conferences to examine
these countries' requests for aid and for debt renegotiation.

The creditor countries also feel that "it is necessary to avoid
the establishment of a standing institution for debt consolidations,
since this might give an impression of regularity and permanence to this
type of financial exercise which should rather be viewed as extraordinary
and exceptional. A permanent institution could have the undesirable effect
of stimulating demand for consolidation by debtor countries and could,
moreover, have a tendency to justify its existence by multiplying consoli­
dations".

Creditor countries' attitudes often vary from one consolidation
exercise to another, depending on their relations with the debtor country
and on the circumstances of the renegotiations. The atmosphere of the
meetings depends to a large extent on the type of situation with which
the creditors are confronted. In cases of newly established governments
presenting "inherited debts", for example, creditor countries have shown
greater understanding. Thus, in the cases of Ghana and Indonesia, terms
much more favorable than those initially suggested were agreed upon, and
further examination of the borrowing countries' debt problem within the
next two years was proposed.

Aside from the particular circumstances prevailing at the time of
the request for a consolidation, three major elements appear to influence
the creditors' attitudes:

(a) the creditor's stake in the debtor country (size of the debt
in absolute terms relative to the other creditors' debts;
economic and political ties with the debtor country); 1/

(b) the general perspective of the creditor: whether he is
concerned with the borrowing country's development or with
the dangers of creating a precedent for other debtor countries;

(c) the domestic economic situation and balance of payments position
of the creditor country at the time of the negotiations.

1/ See Table 6 on the relative size of the major creditor countries'
outstanding credits. It should be noted, however, that the creditor
countries' attitudes depend more on the amount of insured credits than
on that of total outstanding credits, including uninsured.
Table 6
Shares of External Debt held by Major Creditors
(Principal only)

<table>
<thead>
<tr>
<th>Major Creditors</th>
<th>Debtors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Brazil1</td>
</tr>
<tr>
<td>France</td>
<td>5.8</td>
</tr>
<tr>
<td>Germany</td>
<td>5.8</td>
</tr>
<tr>
<td>Italy</td>
<td>5.8</td>
</tr>
<tr>
<td>Japan</td>
<td>6.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>n.a.</td>
</tr>
<tr>
<td>U.K.</td>
<td>1.5</td>
</tr>
<tr>
<td>U.S.</td>
<td>51.1</td>
</tr>
</tbody>
</table>

1/ Medium- and long-term debt as of December 31, 1963 (Conference document).
2/ Total external debt (excluding debt payable in escudos) as of December 31, 1964 (CORFO).
3/ Total external debt as of June 30, 1964 (OECD).
4/ Suppliers' credits as of December 31, 1965 (IMF).
5/ External debt (over 180 days) as of June 30, 1966 (IMF).
6/ External debt as of April 1, 1966 (IBRD).
B - POSITIONS OF INTERNATIONAL FINANCIAL INSTITUTIONS

The DAC document on debt consolidation already quoted states that: "The creditor countries should so arrange the consolidation as to take due account of the special role and nature of the IBRD and the IMF. It is questionable, however, whether preferential treatment should also be granted to the regional financial institutions". 1/

1. The IBRD

(a) The World Bank as a Lender: With the exception of the Indian exercise, IBRD loans have not been included in any of the debt consolidations reviewed here. 2/ In the case of Brazil (1964), however, the Bank made two new loans to Brazil with the explicit purpose of offsetting the maturities due on earlier loans. The President's Report on the new loans gave the following explanations:

"I informed the Executive Directors on October 22, 1964 that the Government of Brazil, as part of a general rescheduling of its external debt, had requested the Bank to reschedule a portion of the payments on its loans to Brazil, and that while I felt that the Bank should lend its support to such a general rescheduling, it would be undesirable for the Bank to reschedule the payments on its own loans. Accordingly, I informed the Government of Brazil that, subject to approval by the Executive Directors, the Bank would be prepared to lend to Brazil for suitable projects in the amount necessary to offset the net repayments of principal (i.e. gross repayments minus projected disbursements) on the Bank's existing loans to Brazil over the period 1965 through 1970. Net repayments to the Bank from Brazil during this period aggregate $80.2 million (gross repayments of $81.5 million minus further disbursements of $1.3 million on presently outstanding loans).

Pursuant to this arrangement, the Government requested the Bank to lend $79.5 million for two hydroelectric projects: FURNAS' Estreito, and USELPA's Xavantes plants. The proposed loans would be disbursed between 1965 and 1970 and would maintain the Bank's net investment in Brazil for this period at its present level of approximately $185 million". 3/

1/ DAC, "Economic and Institutional Problems of Debt Consolidation". op. cit
2/ The Bank has agreed to reschedule only two loans, Loan 141-HA to Haiti, and Loan 171/172 to Chile. In a number of other cases, there have been changes in the closing date and the amortization schedule (see e.g., Loan 244 to Chile) but no postponement of maturity.
The question of rescheduling IBRD loans has come up on several occasions during debt consolidation negotiations. During the 1965 Chilean negotiations the question was raised as to whether or not credits of international organizations should be rescheduled. The Chairman of the meeting stated that it had been agreed in the past that credits of international organizations would not be rescheduled and that he did not see any reason to proceed differently in the case of Chile. He recalled, however, that the question of the Bank's rescheduling had been raised in the case of Brazil. The Bank's observer pointed out that Brazil's repayments to the Bank exceeded the Bank's disbursements; this was not the case for Chile.

During the Ghana meeting of 1966 some creditors demanded that all debts, including those owed to IBRD, be rescheduled. The IBRD representative outlined the Bank's general position, noting that, if the debt agreement permitted it, the Bank hoped to be able to resume its operations in Ghana; he thought it appropriate, however, to explain why the particular complexity of the Volta financing plan and guarantee arrangements made a renegotiation impracticable. Long-term debts were, at any rate, excluded from the final settlement.

The Bank's involvement in the renegotiation of India's external debt is a special case. The debt relief operation was undertaken within the framework of the Consortium set up in 1958 to coordinate assistance to India. The Bank is Chairman of the Consortium. As already indicated the debt relief was treated as part of the Consortium assistance to India, and as such the Bank was expected to contribute its share.

The possibility of action to deal with India's growing burden of debt service had been raised with the Bank by the Government of India as early as September 1964 during the Annual Meetings of Governors in Tokyo. In February 1967 the Government of India formally requested the Bank to explore the possibility of a moratorium on Consortium debt service payments during the Indian fiscal year beginning April 1, 1967. The request was discussed at a Consortium meeting in April 1967, and the Bank recommended that Consortium members agree to the moratorium "in whatever form would be appropriate and possible for each of them", while consultations were continuing on the broad subject of the long-term debt servicing problem. At the same time the Bank announced that, subject to approval by the Executive Directors, it would be willing to participate fully in the proposed moratorium.

In July 1967 the Bank circulated a proposal for debt relief which suggested reducing debt service for 1968/69 to 1975/76 inclusive by $80 million a year, either by postponement for at least ten years interest free or, preferably, by outright cancellation. The paper also called for new aid free of interest for the first two years and 3% thereafter, with 30-year maturities including ten-year grace periods.
On July 25, 1967, the Bank's Executive Directors had authorized the deposit by the Bank with the Reserve Bank of India, for a period ending not later than March 31, 1968, of amounts equivalent to the principal payments received by the Bank during the period April 1, 1967 - March 31, 1968. The amounts so deposited were not to exceed $50 million. Several other members of the Consortium (Australia, Canada, Germany, Japan and the United Kingdom), had also taken steps to refinance or reschedule payments during the 1967/68 Indian fiscal year.

The Bank's proposal was discussed at the September 1967 meetings of the Consortium when it was also announced that Mr. Guillaume Guindey, former Director General of the Bank for International Settlements and now Chairman of the Board of Directors of the French Caisse Centrale de Cooperation Economique, had agreed to assist the Bank in working out the details of a settlement to be agreed upon within the Consortium. Mr. Guindey visited the various members of the Consortium and discussed possible action with the appropriate officials. In January 1968 he submitted his report proposing debt relief action for a total of $300 million for three years and indicating what would be each country's share.

The Guindey report was discussed at the March 1968 Consortium meeting, but complete agreement could not be reached. On March 31 the Executive Directors authorized the renewal of the deposit with the Reserve Bank of India. Withdrawals would be made from time to time and the full amount would be withdrawn not later than March 31, 1971. Finally, at another meeting on May 23-24, the Consortium decided on a first round of consolidation for 1968-69 amounting to $100 million and agreed to consider favorably a similar amount of debt relief for each of the following two years (subject to reservations concerning improvement in the terms offered by certain countries). The Bank also announced that, in addition to rescheduling $15 million in 1968/69, it was rescheduling a similar amount for the Indian fiscal year 1967/68 as its part of Consortium debt relief action for that year. Austria, Canada, Germany, Japan and the U.K. had contributed together an amount of about $50 million during the same year. The Bank's $15-million contribution constitutes about 23% of the total, which is the same as the Bank Group's percentage share of recent aid pledged in the Consortium.

(b) The Bank as a Development Institution: Several debtor countries have requested the Bank's leadership in convening and heading meetings on debt rescheduling. In 1963 Argentina asked the Bank whether it would sponsor such a negotiation. Chile also approached the Bank officially to ask whether it would take the lead in a multilateral renegotiation of Chile's external debt in 1964. However, some creditor countries were opposed to Bank-sponsored renegotiations, and the Bank did not see fit to go beyond its participation as an observer.

Several creditor countries have suggested that the Bank play a role in debt renegotiation, such as providing technical information to the creditor countries, notably on export projections. The Bank was also asked in 1966 about the possibility of its overseeing Ghana's undertakings after the end of the standby agreement with the IMF.
The Bank's position vis-a-vis its participation in debt renegotiations was discussed for the first time in 1962 in connection with the Argentine consolidation. It was then agreed that the Bank should not consider participating, even as an observer, unless (i) it was sure that both the Argentine Government and the European creditor countries wished the Bank to play a key role, and (ii) it had a basis for formulating some judgment as to what it would like to see emerge from the discussions.

The future of the Bank's participation in debt consolidations was also discussed by Bank representatives and a number of delegates during the Chilean exercise of 1965. The Bank, the Fund and Chile had cooperated in working out proposals. It was agreed that this procedure would not necessarily be a precedent and that "the question of the Bank's role in debt rescheduling and in the control of future indebtedness would remain an open matter to be considered on the occasion of future reschedulings". It was also agreed that if debtors and creditors were to get the full benefit of Bank and Fund assistance, these organizations would have to participate in the discussions from the beginning. Bank and Fund presence at the preliminary meetings of the creditors, when the creditors' position begins to be defined, would be essential. In accordance with these principles, the Bank was invited to attend the Argentine negotiations of 1965 from their initial stage. It was also represented at all stages of the subsequent debt renegotiations, with the exception of the 1968 Peruvian case where the Bank did not attend the creditors' meeting of July 1968.

The Bank's contribution to the debt meetings, besides the provision of technical information and advice, has often been to request participants to look beyond the purely financial aspect of a debt rearrangement: the settlement should not make the rehabilitation process unfeasible; it should contribute to a restoration of confidence and a resumption of normal capital movements; it should be set in the perspective of the countries' long-term capital requirements and foreign exchange earning capabilities. The DAC report asserted that "the participation of the IBRD will be more important in the future when structural debt problems are under consideration". 1/

2. The IMF

Properly speaking, the Fund is not a lender in the same way as is a commercial or development bank. Member countries who wish to use the Fund's resources purchase the currencies they need by paying a corresponding amount of their own currency. The transaction is in the form of an exchange of currency against currency (ies) rather than a loan, although the economic effects are similar to those of a loan. Drawings on the Fund are meant to finance temporary balance of payments deficits and any member making a drawing undertakes to repurchase the Fund's holdings of its currency not later than three or five years after the drawing (if these holdings have not been reduced otherwise). Because of their special nature, Fund members'

1/ DAC, Ibid.
repurchase commitments do not come under the purview of debt renegotiation agreements. 1/

The Fund has been actively involved, however, in a number of debt rearrangements. At the request of both creditor and debtor countries, it has provided technical assistance in the course of the negotiations on matters within its particular competence. 2/ On some occasions, the Fund has also acted as an intermediary, relaying information to the creditor countries on the signature of bilateral agreements, new loans contracted by the debtor country, and debt repayments.

CONCLUSION

The regularization of debt rearrangements, as evidenced by the common characteristics of the negotiations and agreements which took place in the fourteen multilateral renegotiations of external debt reviewed in this paper, results to a large extent from the new trends in international capital movements since World War II. The flows of capital to the less developed countries now generally involve public participation either directly or through credit insurance. The governments of the capital exporting countries have thus become involved in the debt difficulties of the recipient countries. As creditor countries' cooperation has increased through their participation in international institutions, aid consortia, and consultative groups, "rules of the game" have emerged in the field of international finance. One such rule is that default by a debtor country is now excluded as a means of adjusting financial obligations to debt servicing capacity. Another rule is that the cost of debt relief should be shared in an equitable fashion by all creditors.

At the same time, it is evident that the emerging pattern of debt rearrangement is a changing one. It has come to be recognized that the same approach cannot be followed when debt problems are structural in nature, i.e. when the terms on which a country has to borrow are not compatible with the rate of growth of its servicing capacity, instead of resulting from, say, an excessive accumulation of short-term or medium-term debt. In the former case it is no longer sufficient to concentrate on the purely financial aspect of the debt problem, or on the short-term balance

1/ The Fund may agree, in some cases, to postpone repurchase commitments within the 3-5 years period. In addition, when the balance of payments and general economic situation warrants it, and the country can demonstrate that it is pursuing suitable policies, the Fund may allow a member to make a new drawing to refinance the repurchase it has to make.

2/ One such matter is that of limitations on contracting new foreign credits, which have been incorporated in a number of Fund stand-by agreements. See IMF, Departmental Memorandum 67/50, "Limitations on Foreign Credits: Fund Experience", prepared by the Exchange and Trade Relations Department, July 27, 1967.
of payments. If the relief operation is to be effective, it becomes necessary to discuss the country's capital requirements and appropriate terms of borrowing. The recent debt rearrangements for Indonesia and India have featured some effort among creditors to harmonize terms for the amounts consolidated and to adjust the common terms to the long-term balance of payments situation of the two countries.

The trend toward regularization of debt relief operations has been resisted by some countries who are concerned about the multiplication of debt rearrangements and the possible influence of lenient terms on countries who are candidates for debt relief. However, there is no evidence that multilateral renegotiations, as opposed to bilateral arrangements, encourage laxity on the part of debtors. At the same time if relief efforts are to be successful in preventing a recurrence of over-indebtedness, cooperative action such as is exhibited in multilateral renegotiations is often essential.