

# HISTORICAL DEVELOPMENT

Since 1956, the Paris Club has remained a central player in the resolution of developing and emerging countries' debt problems.

In 1956, the world economy was emerging from the aftermath of the Second World War. The Bretton Woods institutions were in the early stages of their existence, international capital flows were scarce, and exchange rates were fixed. Few African countries were independent and the world was divided along Cold War lines. Yet there was a strong spirit of international cooperation in the Western world and, when Argentina voiced the need to meet its sovereign creditors to prevent a default, France offered to host an exceptional three-day meeting in Paris that took place from 14 to 16 May 1956.

Today, the Paris Club provides debt treatments to debtor countries in a totally different world. Most countries are active players in the world economy and are interdependent through goods and capital flows. Financial globalization has created new opportunities for developing and emerging countries but has brought with it new risks of crisis. Sovereign debt is a minor source of borrowing for emerging economies given the development of emerging bond markets. But the low-income countries generally do not have access to these markets and assistance from bilateral and multilateral donors remains vital for them. Non-Paris Club creditors are becoming an increasingly important source of financing for these countries. Yet despite the fact that Paris Club creditors now have to deal with far more complex and diverse debt situations than in 1956, their original principles still stand.

## Milestones

- 1956 (May 16):** First Paris Club Agreement (Argentina)
- 1966:** First Paris Club Agreement with an Asian country (Indonesia)
- 1976:** First Paris Club Agreement with an African country (Zaire)
- 1981:** First Paris Club Agreement with a European country (Poland)
- 1982:** The Mexican crisis triggers the “debt crisis” of the 1980s.
- 1987:** First Paris Club Agreement under the Venice terms (Mauritania)
- 1988:** First Paris Club Agreement implementing the Toronto terms (Mali)

**1990:** First Paris Club Agreement implementing the Houston terms (Morocco). First debt swap clause in a debt treatment agreement

**1991:** Exceptional exit treatments granted to Poland and Egypt. First Paris Club Agreement implementing the London terms (Nicaragua)

**1992:** First Paris Club Agreement with Russia (deferral)

**1995:** First Paris Club Agreement implementing the Naples terms (Cambodia)

**1996:** Heavily Indebted Poor Countries Initiative (HIPC)

**1997:** Russia joins the Paris Club. First early repayment operation (Argentina)

**1998:** First Paris Club Agreement implementing the Lyon terms under the HIPC initiative (Uganda)

**1999:** Enhanced HIPC Initiative. First Paris Club Agreement implementing the Cologne terms under the HIPC initiative (Mozambique)

**2000:** Uganda is the first HIPC-eligible country to reach the Enhanced HIPC Initiative Completion Point

**2001:** Exceptional debt treatments granted to the Former Republic of Yugoslavia

**2003:** Paris Club creditors approve the Evian Approach

**2004:** First debt treatment under the Evian Approach (Kenya). Phased exit treatment granted to Iraq

**2005:** Exceptional treatment granted to countries hit by the tsunami (Indonesia and Sri Lanka). Exit treatment granted to Nigeria

**2006:** 50th anniversary of the Paris Club

**2007:** First buyback operations at market value below par (Gabon, Jordan)

**2008:** Publication of the first annual report of the Paris Club. The Paris Club releases comprehensive data on its claims

**2010:** Call to cancel Haiti's debt

**2013:** First Conference of the Paris Forum

**2014:** The Paris Club and Argentina agree to a resumption of payments and to clearance of all arrears. The State of Israel becomes the twentieth member of the Paris Club

**2015:** Agreement on the debt between Cuba and the Group of Creditors of Cuba

**2016:** Celebrating the 60th anniversary. Welcoming Korea as the 21st member, and Brazil as the 22nd member

**2017:** Organization of the first regional Paris Forum conference in Namibia

**2018:** Conference organized by the ODI on Africa's rising debt

**2019:** The Paris Club welcomes India

**2020:** Debt relief to Somalia. Debt suspension Initiative for the Poorest countries (DSSI). Endorsement with the G20 of a common framework to coordinate debt treatments

**2021:** Meeting of the Creditor Committee for Chad under the Common Framework. The Paris Club has fully and successfully implemented the DSSI and its extensions - South Africa becomes a prospective member

**2023:** First meeting of the Creditor Committee for Sri Lanka. How the Paris Club works and has evolved over the past 70 years

**2024:** Debt cancellation for Somalia under HIPC

## **The Early Years (1956-1980)**

From 1956 to 1980, the Paris Club's activity level was low. The number of agreements signed with debtor countries never exceeded four per year. The Paris Club took advantage of these early years to gradually standardize its negotiation process and agreements.

Few countries were granted debt treatments. They were mainly located in Latin America (Argentina, Brazil, Chile and Peru) and in Asia (Indonesia, Pakistan, Turkey and Cambodia). The first African country to conclude a debt treatment agreement with the Paris Club was Zaire (now Democratic Republic of Congo) in 1976. Countries that had gained their independence in the 1960s were in a period of debt accumulation, whereas some “older” countries were already experiencing balance of payments problems. After 1976, some African debtor countries approached the Paris Club for one or more debt treatments (Sierra Leone, Togo, Sudan and Liberia), but at a relatively slow pace compared with the subsequent period.

During these early years, Paris Club agreements were fairly simple. They were based on standard “[Classic terms](#)” which were the sole terms of treatment used by creditors from 1956 to 1987. Under Classic terms, debtor countries were granted a rescheduling of credits (whether ODA or non-ODA) at the appropriate market rate with a repayment profile negotiated on a case-by-case basis (generally a ten-year repayment period including a three-year grace period). The Paris Club offered non-concessional flow relief to support IMF adjustment programs. In many cases, several Paris Club debt treatments were required in fairly quick succession to help the debtor country to exit the cycle of rescheduling.

## **Dealing with the Debt Crisis (1981-1996)**

1981 marked a turning point in Paris Club activity. The number of agreements concluded per year rose to more than ten and even to 24 in 1989. This was the famous “debt crisis” of the 1980s, triggered by Mexico defaulting on its sovereign debt in 1982 and followed by a long period during which many countries negotiated multiple debt agreements with the Paris Club, mainly in sub-Saharan Africa and Latin America, but also in Asia (the Philippines), the Middle East (Egypt and Jordan) and Eastern Europe (Poland, Yugoslavia and Bulgaria). Following the collapse of the Soviet Union in 1992, Russia joined the list of countries that have concluded an agreement with the Paris Club. So by the 1990s, Paris Club activity had become truly international.

From 1981 to 1987, creditors continued to apply the same rules despite the growing number of countries facing payment difficulties. Classic terms, designed for dealing with temporary liquidity problems, were systematically used for debt treatment. Amounts treated were generally small, corresponding to one or two years of installments due to creditors and to the implementation period for an IMF-supported program.

Yet in the mid-1980s, growing concerns about the ability of poor countries to repay their debts led creditors to consider new terms of treatment. In

1987, Paris Club creditors adopted Venice terms (non-concessional terms that provide debtor countries with longer deferral and repayment periods).

In October 1988, Paris Club creditors agreed to implement [Toronto terms](#), which introduced for the first time a partial cancellation of the debt of the poorest and most heavily indebted countries . Twenty poor countries were granted Toronto terms from 1988 to 1991 and a total of 26 agreements were signed on these terms during the period.

The Toronto terms were designed for the poorest and most heavily indebted countries, while the Classic terms were to remain the treatment used for other debtors. The debt crisis also hit lower middle-income countries. So in September 1990, the Paris Club creditors decided to adopt new debt treatment rules for some of these countries facing high indebtedness and a stock of official bilateral debt totaling at least 150% of their private debt. These new treatment terms were called "[Houston terms](#)". They introduced three significant improvements compared with Classic terms. To date, 35 agreements have been concluded with 19 countries under Houston terms.

Given the lasting impact of the debt crisis on the poorest and most heavily indebted countries, the Paris Club creditors agreed in December 1991 to raise the level of debt cancellation from 33.33%, as defined in the [Toronto terms](#), to 50%. Thus were born [London terms](#). A total of 23 countries were granted the London terms from 1991 to 1994, when these terms were replaced by [Naples terms](#).

The adoption of Naples terms in December 1994 made two substantial improvements to London terms. The level of debt cancellation was raised to at least 50% and a maximum of 67% of eligible non-ODA credits . Secondly, the Paris Club made the ground-breaking decision that stock treatments could be implemented on a case-by-case basis for countries with a satisfactory track record with both the Paris Club and the IMF, provided there was ample confidence in the ability of the debtor country to meet its obligations under the debt agreement. Eligibility for Naples terms is assessed on a case-by-case basis . The adoption of Naples Terms marked a major turning point in Paris Club history. For the first time ever, Paris Club creditors agreed to consider major levels of debt reduction extending beyond flow treatments to include stock treatments. This development reflected a growing understanding within both the official and private creditor community that the poorest countries' debt burdens were unsustainable.