Guyana's Experience with Paris Club and Commercial Creditors

A Case Study

Debt Negotiation and Renegotiation Seminar
Commonwealth Secretariat
Kingston, Jamaica
November 6-10, 2006

Guyana's Experience with Paris Club and Commercial Creditors

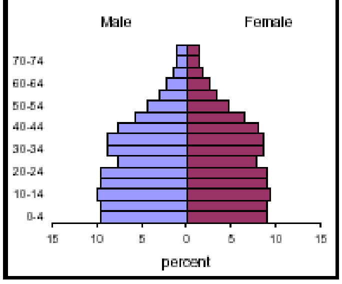
A Case Study

Table of Contents

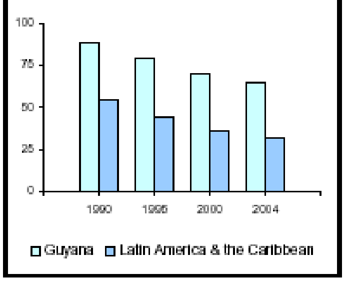
Statistical Overview

Key Development Indicators	Guyana	Latin America & Carib.	Lower middle income
(2005)			
Population, mid-year (millions)	0.75	551	2,475
Surface area (thousand sq. km)	215	20,418	39,946
Population growth (%)	0.1	1.3	1.0
Urban population (% of total population)	38	78	49
GNI (Atlas method, US$ billions)	0.8	2,210	4,746
GNI per capita (Atlas method, US$)	1,000	4,008	1,918
GNI per capita (PPP, international $)	4,230	8,111	6,313
GDP growth (%)	-3.0	4.4	6.9
GDP per capita growth (%)	-2.9	3.1	5.9
(most recent estimate, 2000–2005)			
Poverty headcount ratio at $1 a day (PPP, %)	3 [a]	9	..
Poverty headcount ratio at $2 a day (PPP, %)	11 [a]	23	..
Life expectancy at birth (years)	64	72	70
Infant mortality (per 1,000 live births)	48	27	33
Child malnutrition (% of children under 5)	14	7	12
Adult literacy, male (% of ages 15 and older)	..	91	93
Adult literacy, female (% of ages 15 and older)	..	90	85
Gross primary enrollment, male (% of age group)	134	121	115
Gross primary enrollment, female (% of age group)	125	117	113
Access to an improved water source (% of population)	83	91	82
Access to improved sanitation facilities (% of population)	70	77	57

Age distribution, 2005

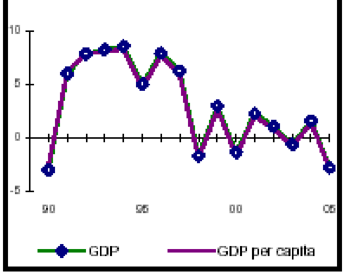


Under-5 mortality rate (per 1,000)



Net Aid Flows	1980	1990	2000	2005 [b]
(US$ millions)				
Net ODA and official aid	43	169	107	145
Top 3 donors (in 2004):				
United Kingdom	1	16	35	20
United States	5	-17	8	20
Japan	0	5	1	11
Aid (% of GNI)	7.6	61.3	16.2	19.2
Aid per capita (US$)	56	231	144	193

Growth of GDP and GDP per capita (%)



Long-Term Economic Trends	1980	1990	2000	2005	1980–90	1990–2000	2000–05
Consumer prices (annual % change)	..	..	6.1	6.9			
GDP implicit deflator (annual % change)	11.8	56.4	9.2	4.2			
Exchange rate (annual average, local per US$)	2.5	39.5	182.5	199.9			
Terms of trade index (2000 = 100)	..	130	100	*95*			
					(average annual growth %)		
Population, mid-year (millions)	0.8	0.7	0.7	0.8	-0.4	0.2	0.2
GDP (US$ millions)	603	397	712	786	-3.1	5.4	0.3
		(% of GDP)					
Agriculture	23.4	38.1	31.1	*26.0*	-0.7	5.3	*1.9*
Industry	35.8	24.9	29.0	*23.0*	-6.2	8.2	*-0.3*
Manufacturing	12.1	10.3	8.2	*9.6*	-8.0	9.9	*3.2*
Services	40.9	37.0	39.9	*35.0*	-1.7	3.7	*1.1*
Household final consumption expenditure	55.4	72.4	66.2	*59.0*	*-3.5*	*5.8*	..
General gov't final consumption expenditure	24.2	13.6	24.7	*27.2*	*-0.4*	*6.0*	..
Gross capital formation	32.8	31.1	22.6	23.6	-8.4	1.8	..
Exports of goods and services	81.3	62.7	96.1	95.8	-4.8	5.8	..
Imports of goods and services	93.6	79.9	110.7	*105.7*	-6.2	4.8	..
Gross savings	..	*-4.0*	10.5	*20.0*	..	-3.8	-6.2

Note: Figures in italics are for years other than those specified. 2005 data are preliminary estimates. .. indicates data are not available.
a. Country poverty estimate is for 1998. b. Aid data are for 2004.

Executive Summary

Guyana used to be one of the most indebted countries in the world with an external public debt which rose from US$62 million at the end of 1965 to US$2 billion, 30 years later. During the period 1987-91 external public debt amounted to 780% of GDP. However, today Guyana's debt stock is approximately US$0.8 billion, representing a 62% reduction over the last 10 years. This has been achieved despite continued high levels of borrowing to finance essential investments in the productive and social sectors.

Whilst Guyana has benefited from multilateral debt relief, the bulk of the debt reduction was derived from the Paris Club group of creditors. Guyana approached the Paris Club group of creditors on six occasions over the period 1989 to 2004 to negotiate terms for debt relief. During this time, Guyana has benefited from debt cancellation from this group of creditors amounting to more than US$930 million. This represents in excess of a 90 percent reduction in the Net Present Value (NPV) of eligible debt owed to the Paris Club group of creditors. Furthermore, annual debt service to these creditors has been reduced from around US$60 million to US$4 million from 1989 to 2004.

However, debt relief of this kind has not come without its costs. The first reschedulings by the Paris Club, between 1989 and 1993, actually exacerbated the problem by focusing solely on liquidly and cash flow rather than looking at the solvency of the country as a whole. The consequence of this is that interest arrears were capitalised and the debt stock actually increased. Furthermore, as debts were rescheduled, the Government was obliged to resume payment of these debts, with the result that actual debt service also increased.

Subsequent debt relief granted by the Paris Club, in particular a 67% debt reduction in 1996, helped to reduce the debt stock significantly. Together with debt relief from the multilateral agencies under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDR) Initiatives, this process has restored Guyana to a position of debt sustainability. The focus now turns to installing the necessary checks and balances to ensure that debt sustainability is maintained through a prudent new financing policy.

However, one outstanding issue remains. A requirement of the Paris Club is that Guyana receives from its other bilateral and commercial creditors a treatment no more favourable than that received from the Paris Club. As few creditors are willing to give the most recent 90% debt reduction, this condition effectively forces Guyana to leave its non-Paris Club and commercial debts in arrears. These debts continue to increase at a rate of US$3 million per annum as interest arrears continue to accumulate.

Also, Guyana has been forced to face several costly litigation cases as creditors seek to recover their money. Successful international pressure has been brought to bear, forcing one major creditor to withdraw its action. Nevertheless, the problem of resolving these debts within the context of the Government's obligations to the Paris Club still remains.

1. Experience with the Paris Club

Overview of the Paris Club

The Paris Club is an informal group of official bilateral creditors whose role is to find co-ordinated and sustainable solutions to the payment difficulties experienced by debtor nations. Paris Club creditors agree to reschedule debts due to them. Rescheduling is a means of providing a country with temporary debt relief through a postponement and, in the case of concessional rescheduling, a reduction in debt service obligations.

The first meeting with a debtor country was in 1956 when Argentina agreed to meet its creditors in Paris. Since then, the Paris Club or ad hoc groups of Paris Club creditors have reached 403 agreements concerning 84 debtor countries. Since 1983, the total amount of debt covered in these agreements has been US$509 billion.

In spite of such activity, the Paris Club has remained strictly informal. It is the voluntary gathering of creditor countries willing to treat in a co-ordinated way the debt due to them by the developing countries. It can be described as a "non institution".

Although the Paris Club has no legal basis nor status, agreements are reached following a number of rules and principles agreed by creditor countries, which help to reach a co-ordinated agreement efficiently. Paris Club creditors have established a number of rules and principles to secure agreements efficiently both amongst creditors and between creditor and debtor countries.

These key principles of the Paris Club are described below.

1. The Paris Club makes decisions on a <u>case by case basis</u> in order to permanently adjust itself to the individuality of each debtor country.

2. <u>Consensus:</u> no decision can be taken within the Paris Club if it is not the result of a consensus among the participating creditor countries.

3. <u>Conditionality</u>: debt treatments are applied only for countries that need a rescheduling and that implement reforms to resolve their payment difficulties. In practice conditionality is provided by the existence of an appropriate programme supported by the IMF, which demonstrates the need for debt relief.

4. <u>Solidarity:</u> Creditors agree to implement the terms agreed in the context of the Paris Club.

5. The Paris Club preserves the <u>comparability of treatment</u> between different creditors, as the debtor country cannot grant to another creditor a treatment less favourable for the debtor than the consensus reached in the Paris Club.

The practical implementation of these principles has led to a number of rules and conventions, which assist the conclusion of negotiations.

Debts Treated

Among the different types of debt, Paris Club agreements generally only apply:

1. to the debts of the public sector, as the agreement is signed with Governments of the debtor countries unable to meet their external obligations. Debts owed by private entities and guaranteed by the public sector are considered to be part of the public sector.

2. to medium and long term debts. Short term debt (debt with a maturity of one year or less) is excluded from the treatments, as their restructuring can create a significant disruption of the capacity of the debtor country to participate in international trade.

3. to credits granted before the "cut off date". When a debtor country first meets with Paris Club creditors, the "cut off date" is defined and is not changed in subsequent Paris Club treatments and credits granted after this cut off date are not subject to future rescheduling. Thus, the cut off date helps restore access to credit for debtor countries facing payment difficulties. However, there have been a few exceptions to this rule.

From the creditor side, the debts treated are credits and loans granted, or commercial credits guaranteed by the Governments or appropriate institutions of Paris Club creditors. Claims of other creditors are divided in two parts: (i) multilateral claims are not rescheduled and (ii) other claims are treated by the debtor country in a manner comparable to the Paris Club agreement.

Debt that was already treated in the context of a previous Paris Club agreement is normally not treated again, except for those countries where the financing gap is large or where all pre-cut off-date debt was already rescheduled. When previously rescheduled debt is treated again, the earlier debt treatments are conducted before the later ones.

Flow Treatments

A standard Paris Club agreement provides a way of enabling a debtor country to cope with temporary balance of payments difficulties. This is described as flow relief and works in the following way:

1. the period of time to which the agreement refers is usually the period when the IMF programme shows a financing gap that can only be covered by debt rescheduling. This period is called the "consolidation period";

2. payments falling due to Paris Club creditors in this period and covered by the Paris Club agreement are then "consolidated" and the payment of these debts

is then made on a new schedule ("rescheduling"). The typical terms of a rescheduling are described below;

The standard consolidation period is one year. However, creditor countries have accepted to reschedule the debt falling over two or three years, corresponding with a multiyear arrangement with the IMF that shows a financing gap (arrangement under an Extended Arrangement, arrangement under the Poverty Reduction and Growth Facility).

Stock Treatments

Some Paris Club treatments apply not only to the payments falling due in a particular period of time, but also to the entire stock of debt from which those payments fall due. The intention of any agreement which deals with the stock of debt in this way is to provide a country with a final treatment by the Paris Club called an exit rescheduling. These agreements are implemented in two sets of circumstances:

1. in the context of the HIPC initiative, Paris Club creditors provide their share of the effort defined in the context of the initiative through a Cologne terms stock treatment at completion point;

2. in other cases, stock treatments may be implemented, on a case-by-case basis, for countries having established a satisfactory track record with both the Paris Club and the IMF and for which there is sufficient confidence in their ability to respect the debt agreement. In the case of low income countries included in this category, the Paris Club typically grants Naples Terms (e.g. Nigeria).

Stock treatments generate interest on the consolidation that are larger than those resulting from flow treatments. As a consequence, stock treatments provide long-term debt relief, but debt service relief is smaller in the short-term than for a flow treatment.

Payment Terms Resulting From Paris Club Agreements

Throughout its existence, the Paris Club has aimed to produce agreements which lead to levels of payments which are sustainable for the debtor. Over time practice and theory have developed and two trends have emerged in the terms of Paris Club agreements:

1. Longer repayment periods have been considered. In early Paris Club agreements, repayment terms did not exceed ten years including a grace period (in which only interest on the consolidation is due). For poorer countries, these terms have been constantly extended such that the maximum repayment period is now 23 years (including 6 years of grace) for commercial loans, with up to 40 years for official development aid loans (including 16 years of grace).

2. Debt cancellation has been increasingly used for low income countries.

a. In December 1994, the Paris Club agreed to implement a new concessional treatment on the debt of the poorest and most indebted countries, called "Naples terms", raising the level of cancellation up to 67%.
b. In November 1996, the cancellation effort of the creditors was raised up to 80% (Lyon terms) for the countries eligible to the initiative for "Heavily Indebted Poor Countries" (HIPC).
c. In November 1999, following the approval by the international financial community of the enhanced HIPC initiative, Paris Club creditors accepted to raise the level of cancellation up to 90% (Cologne terms) or more when necessary to reach debt sustainability.

Debt Swap Provision

Paris Club agreements usually contain a provision which makes it possible for creditors to voluntarily undertake debt swaps. These operations may be debt for nature, debt for aid, debt for equity or other local currency debt swaps. These swaps often involve the sale of the debt by the creditor Government to an investor who in turn sells the debt to the debtor Government in return for shares in a local company or for local currency to be used in projects in the country. However, the drawback to debt swaps of this kind include the exacerbation of the debt problem, liquidity problems and the inclusion of non-priority projects in the PSIP.

In order to preserve comparability of treatment and solidarity among creditors, the amount of debt swaps that can be conducted is capped at a certain percentage of the stock of the claims of each individual creditor.

The terms under which these operations can take place are contained in the standard terms of treatment. To ensure full transparency between creditors, debtors and creditors submit a report to the Paris Club Secretariat informing about transactions undertaken.

Negotiation Sessions

A debtor country comes to the Paris Club for a negotiation when an appropriate programme is supported by the IMF and shows that the country is not able to meet its debt obligations and thus needs a new payment arrangement with its external creditors.

Nineteen countries are permanent members of the Paris Club and may participate in the negotiation sessions. These countries are Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Russian Federation, Spain, Sweden, Switzerland, United Kingdom and the United States of America.

Other official creditors can also attend rescheduling sessions on an ad-hoc basis, subject to the agreement of permanent members and of the debtor country. For example, Trinidad & Tobago, Guyana's largest bilateral creditor was allowed to participate in the 1996 debt reduction and in subsequent rescheduling/reductions. Any country that has granted Governmental loans or guaranteed credits by the Government or its official agencies to a debtor country which presents a request can attend a Paris Club meeting.

The outcome of the negotiation is not itself a legal agreement between the debtor and the individual creditor countries. Instead, creditor countries that participate in the negotiation sign an Agreed Minutes, which is a recommendation to their Governments to sign bilateral agreements with the debtor country. These bilateral agreements give effect to the agreement reached in the negotiating session.

In these negotiations, the debtor country is usually represented by the Minister of Finance and/or the Governor of the Central Bank. Observers from the international institutions, notably the IMF, the World Bank, and the relevant regional development bank also attend the meeting. Each of them is requested to make a presentation on their views of the economic and financial situation of the debtor country concerned.

Economic Background

Between 1970 and 1989, Guyana's economy bore the characteristics of many other developing countries. Per capita income was below US$1,000, inflation was high, foreign exchange earnings were based on few raw materials, physical and institutional infrastructure had deteriorated and external indebtedness had increased immensely.

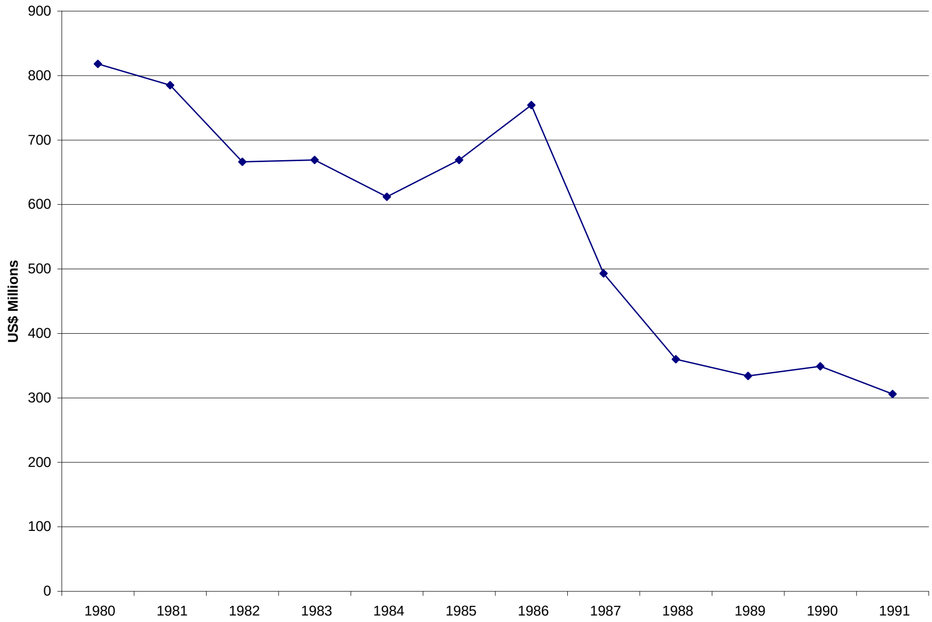
In 1982, Guyana defaulted on its external debt obligations and subsequently accumulated arrears. Guyana's inability to meet its external debt obligations was partly the result of the introduction of inappropriate domestic policies, such as the nationalisation of the country's productive resources, and an asymmetrical external environment characterized by high prices for imports (especially oil) and low prices for exports. As a result, production and productivity deteriorated sharply, forcing the Government to support loss making public entities, which further aggravated the country's fiscal balance and indebtedness.

So severe was the debt burden that the IMF declared that Guyana was no longer eligible to access resources from the Fund in May 1985; her sister institution, the World Bank, declared Guyana ineligible in March 1986. Guyana was also cut-off from receiving aid from traditional donors such as the United States, the Caribbean Development Bank and the United Kingdom and non-traditional donors such as IFAD and the OPEC Fund for International Development.

The overall decline in economic activity and unsustainable level of its external debt worsened Guyana's external vulnerability and diminished its creditworthiness. The accumulation of arrears on external debt not only affected the country's economic prospects but also the integrity of its relation with the international community. These difficulties highlighted the need for a comprehensive approach to halting the country's economic decline and worsening debt position, and restoring its international credibility.

The decline in GDP throughout the 1980s can be clearly seen in Chart 1 below.

Chart 1: Gross Domestic Product (GDP) at Current Prices (1980 – 1991)



Source: Debt Management Division, Ministry of Finance, Guyana

To tackle its economic woes, the Government supported by the international financial institutions and bilateral donors, launched an Economic Recovery Programme (ERP) in 1988. This programme was designed to shift the economy back to a market-oriented one and included far-reaching adjustments and structural reforms in an attempt to restore sustainable output and employment growth.

Also, with the implementation of the ERP, the Government signalled its intention to normalise its relationship with its creditors. Previously, Guyana had adopted a partial approach to servicing of its debt. This was informed by the need to maintain existing flows to finance further development projects, while continuing dialogue with other creditors on a workable solution for clearing the arrears. Guyana sought to prioritise payments of the various categories of debt. In this regard, the main priority was to service the debt to the multilateral creditors since collectively they provided the largest percentage of investment resources to the country.

Two strategies were adopted. First, the Government ensured that it kept current with the main multilateral donor, the Inter-American Development Bank (IDB), since it was disbursing existing loans and providing new loans and grants.

Second, subject to foreign exchange availability, the Government serviced a part of the outstanding debt to the other multilateral agencies (IMF, World Bank, CDB, the OPEC Fund). It should be noted, in passing, that the multilateral agencies do not disburse existing loans nor do they provide new loans to countries that are in arrears with them. In terms of the other priorities for payment of the debt, the Government adopted the following order: interest payments on existing debts to the foreign commercial banks with whom Guyana had deferment agreements (for example, the Royal Bank of Canada consortium); nationalisation payments; bilateral creditors; and commercial arrears.

Arrears to three (3) key multilateral institutions (IMF, IBRD, and CDB) were settled in 1990 with financing that was provided by the Government, the Support Group (led by Canada), and a temporary bridging loan from the Bank for International Settlement. Repayment of this loan was met from the first two draw downs on loans from the IMF (Stand-By Credit and Enhanced Structural Adjustment Facility (ESAF)) and the World Bank (Structural Adjustment Credit (SAC))

Having cleared all its arrears with the Fund and other traditional multilateral creditors, Guyana then approached the Paris Club in an attempt to reorganize the external debt stock, including the grant of debt relief.

Benefits and Terms Received

By 1989, more than half of Guyana's public and publicly guaranteed external debt was owed to Paris Club creditors, in the form of either official development assistance (ODA) or insured commercial credit. On May 23, 1989, the Paris Club creditors agreed to reschedule Guyana's public and publicly guaranteed external debt owed to Paris Club creditors falling due within the consolidation period (January 1, 1989 to February 28, 1990). Applying *Venice Terms*, the Paris Club creditors provided US$42 million in debt stock reduction, and rescheduled US$684 million in current obligation and arrears falling due during the consolidation period.

It should be noted that when Guyana first approached the Paris Club, the prevailing wisdom was that the build-up of arrears by developing countries was only a temporary liquidity problem rather than the result of insolvency. As a result, the accumulated stock of arrears was rescheduled into new loans on non-concessional terms. Rather than providing substantial relief and breathing room, the reorganization worsened the debt problem since many of the loans were contracted on concessional terms orginally. The first Paris Club rescheduling had the effect of increasing and capitalising Guyana's external debt. It was not surprising, therefore that by 1990, faced with foreign exchange problems, Guyana again defaulted on its debt repayments. A new approach needed to be adopted by the Paris Club.

By the time Guyana approached the Paris Club for the second time in 1990, it was generally acknowledged by the international community that the mounting debt burden of developing countries reflected solvency problems that required more than just a temporary reduction in debt service and other palliatives. This represented an important shift towards finding a permanent solution to the problem of solvency and debt distress and, at the same time, promoting growth and economic development.

In keeping with this paradigm shift, and in recognition of Guyana's efforts at macroeconomic stabilization and structural reform that resulted in the International Monetary Fund's (IMF's) Executive Board approving the first three year Enhanced Structural Adjustment Facility (ESAF), Guyana was granted more favourable rescheduling terms under the agreement reached in September 12, 1990. These terms were called the *Toronto Terms*. Similar to the first agreement, this agreement provided debt relief through the rescheduling of all interest and amortization arrears (including late interest) as of the end of the consolidation date under the first rescheduling (August 31, 1990). Rescheduling under the Toronto terms provided debt reduction of US$142 million while US$188 million of debt to official creditors was rescheduled.

As an aside, but related to Guyana's debt reduction, between 1990 and 1992, several Paris Club creditors wrote-off a number of bilateral debts. During that period, Canada, UK, USA and the Netherlands wrote-off approximately US$247 million.

Table 1: Goodwill Cancellation of Debt

	Year	**Amount of Relief**
Canada	1990	US$33 million
USA	1990/1991	US$113 million
Netherlands	1991	US$18 million
UK	1993	US$83 million
Total		US$247 million

Source: Debt Management Division, Ministry of Finance, Guyana

Based on continued strong implementation of economic and structural reform, Guyana reached a third rescheduling agreement with its Paris Club creditors in May 1993. The terms implemented were called the *London Terms*. According to these terms, the Paris Club agreed to extend a write-off of 50 percent on maturities falling due between August 1, 1993 and December 31, 1994. They also agreed to include the possibility of extending the concessional terms to the full stock of debt after 3 years, if Guyana remained in good standing with the Paris Club and made satisfactory progress under the Fund-supported ESAF. The rescheduling under the London terms provided debt reduction of about US$40 million while US$80 million of debt to official creditors was rescheduled. While the terms improved progressively, they nevertheless failed to result in an appreciable reduction in Guyana's debts.

Guyana approached the Paris Club for the fourth time in May 1996 and was granted *Naples Terms* - a 67 percent reduction in its stock of eligible debt with the remaining 33 percent to be repaid over 23 years including a grace period of 6 years at market interest rates. The total debt relief granted to Guyana amounted to US$529 million, out of a total of US$799 million of eligible debt owed to the Paris Club creditors. This significant reduction resulted in Guyana's debt stock being reduced from approximately US$2 billion to US$1.5 billion. Notwithstanding this, the total debt service increased from US$104 million in 1996 to US$128 million in 1997 as Guyana resumed servicing of its debt to Trinidad and Tobago following that country's decision to join the Paris Club in May 1996.

The interest rates negotiated by Guyana for debts rescheduled under the Paris Club Agreement of 1996 are outlined in Table 2. Following the Paris Club Agreement of 1996, 86 percent of the rescheduled debt was on fixed interest terms. It is worth noting that at the time of the Paris Club negotiations, market participants had expected interest rates to increase in the short-term.

erAgreement

Paris Club Creditor Countries	Interest Rate Type	Applicable to Currency Portion/Category	Agreed Interest Rate per annum
France	Fixed Rate Variable Rate	French Franc U.S. Dollar	7% U.S. Libor + 0.5%
Netherlands	Fixed Rate	Entire Debt	7.15%
UK (ECGD)	Fixed Rate Variable Rate	U.S. Dollar Pound Sterling	7.30% Sterling Libor + 0.5%
Denmark	Fixed Rate	Entire Debt	7.30%
Germany	Fixed Rate	Entire Debt	7%
Trinidad & Tobago	Fixed Rate	Entire Debt	6.60%
USA	Fixed Rate Fixed Rate	USAID (Housing Guarantee) EXIMBANK	7.125% 7.69%
Canada	Variable Rate	Entire Debt	U.S. Libor + 0.75%

Source: Debt Management Division, Ministry of Finance, Guyana

However, a retrospective analysis by the Government of Guyana of the decision to adopt fixed interest rates concluded that total debt service payments would have been less had variable rates been opted for in the Paris Club Agreement of 1996. This is not due solely to the fact that market interest rates actually fell in the subsequent years, but it is also the result of the large margin imposed by the creditor for adopting fixed as opposed to variable interest rates.[1] However, analysis of this kind depends heavily on assumptions about the margins that would have been agreed upon between the individual creditors and the Government of Guyana in the event that variable rates had been chosen.

Guyana next approached the Paris Club on the June 25, 1999 at which time the Paris Club implemented the *Lyons Terms*, increasing the total reduction on eligible debt from 67 percent to a level of 80 percent in NPV terms. Paris Club creditors agreed to provide 'Lyons' terms, as part of their contribution to the Heavily Indebted Poor Countries (HIPC) initiative. The Paris Club contribution was fixed at US$79 million in net present value (NPV) terms out of a total assistance of US$256 million based on the percentage of Paris Club debt at the decision point - December 1997.

[1] In setting the fixed interest rate, the creditor will take the prevailing variable rate and add a margin. This margin reflects the fact that the debtor no longer carries the risk associated with a variable interest rate

Case Study: Guyana's Experience with Paris Club and Commercial Creditors

The creditor countries of the Paris Club which extended debt relief to Guyana at the June 1999 meeting were: Canada, Denmark, France, Germany, the Netherlands, the Russian Federation, the United Kingdom and the United States of America. Trinidad & Tobago, which is Guyana's largest bilateral creditor, also took part in the debt relief operation.

Guyana's final approach to the Paris Club occurred on January 14, 2004. The Paris Club agreed to further concessional rescheduling based on *Cologne Terms*, which required a reduction in the NPV of debt of 90 per cent. Guyana successfully lobbied for greater debt relief resulting in eight (8) out of the ten (10) creditors providing a 100 per cent write-off of eligible debt. The Russian Federation gave a write-off of 98%, whilst Trinidad & Tobago provided 90%[2]. In total, relief from the Paris Club under the Cologne Terms represented a nominal write-off of US$254 million, with the remaining US$54 million being rescheduled.

A summary of the terms and amounts of debt relief Guyana received for each restructuring is set out below in Table 3. Further, Table 4 below shows the benefits derived by Guyana from its negotiations with the Paris Club based on the three (3) most recently concluded Agreed Minutes. This table shows the total write-off obtained from each Agreed Minute as well as the individual write-off provided by specific creditors.

[2] This notwithstanding, Trinidad and Tobago extended its generosity during the post-flood period in 2005. That country allowed Guyana to forgo, in the short term, debt service payments of US$4.5 million which were due in 2004 and 2005.

Table 3: Paris Club Rescheduling Terms

	Venice	**Toronto**	**London**	**Naples**	**Lyons**	**Cologne**
Year	1989	1990	1993	1996	1999	2004
Approach	Flow	Flow	Flow	Stock	Stock	Stock
Repayment Schedule	Flat	Flat	Graduated	Graduated	Graduated	Graduated
Maturity (years)	10 or 20	14 to 25	23	23	23	23
Grace (years)	5 or 10	8 to 14	6	6	6	6
Nominal Amount Rescheduled (US$m)	684	188	80.0	270.5	245.9	54.2
Nominal Amount Written-off (US$m)	42	142	40.0	529.1	34.6	254.0
Reduction in NPV of Debt (%)	0%	33%	50%	67%	80%	90%

Source: Debt Management Division, Ministry of Finance, Guyana

Table 4: Debt Cancellations in US Dollars obtained from the Paris Club (1996-2004)

	1996 Paris Club (Naples Terms)	**1999 Paris Club (Lyons Terms)**	**2004 Paris Club (Cologne Terms)**	**Total**
Canada	3,595,125	492,475	1,398,226	5,485,825
Denmark	2,825,247	377,512	1,074,437	4,277,197
France	2,014,245	425,339	1,249,654	3,689,238
Germany	11,326,510	1,387,986	14,772,014	27,486,511
Japan	-	-	591,327	591,327
Netherlands	10,694,414	1,434,571	4,698,595	16,827,581
Norway	1,626,161	-	-	1,626,161
Russian Federation	-	-	16,295,559	16,295,559
Sweden	488,742	-	-	488,742
Trinidad & Tobago	359,249,080	-	123,251,149	482,500,229
United Kingdom	126,644,472	18,467,060	54,731,344	199,842,876
United States of America	10,101,024	1,293,534	35,967,659	47,362,216
Total	**528,565,020**	**23,878,478**	**254,029,965**	**806,473,463**

Source: Debt Management Division, Ministry of Finance, Guyana

Chart 2 below illustrates clearly the movement of the debt stock and debt service between 1985 and 2006. It depicts a situation of rapidly increasing debt stock and debt service in the 1980s and early 1990s, before falling gradually and then precipitately in the post 1999 period.

Chart 2: External Debt Stock and Actual Debt Service (1985 – 2006)

Source: Debt Management Division, Ministry of Finance, Guyana

As noted above, the grant of debt relief was associated with the implementation of major reforms, including the privatisation of a range of industries and businesses. It is therefore not possible to attribute directly the subsequent improvement in Guyana's economic fortunes to either factor.

Guyana's debt stock now stands at US$0.8 billion, a reduction of US$1.3 billion from its peak at US$2.1 billion 10 years earlier. Furthermore, Guyana's primary indicator of debt distress, the ratio of the Net Present Value (NPV) of debt to Government revenue, is projected to reach a peak of 222% by 2010 significantly below the ceiling of 250% set by the Bretton Woods Institutions (BWIs). Consequently, the Government's focus has now switched from striving to achieve debt sustainability, through the Paris Club, to maintaining debt sustainability through the creation of the necessary institutional mechanisms[3].

[3] Some of these initiatives include the establishment of the Aid Strategy Task Force (ASTF) and the Aid Strategy Technical Working Group (ASTWG); consolidation and modernization of the public debt laws and regulations; and reorganization of the Debt Management Division.

The Wider Search for Debt Sustainability

In 1997, Guyana became the fourth country to be declared eligible by the IMF and the World Bank Boards to benefit from debt relief under the Heavily Indebted Poor Countries (HIPC) initiative, and the first to qualify under the fiscal/openness criterion (Net Present Value of Debt to Revenue Ratio) for countries with highly open economies and a heavy debt burden despite strong efforts to mobilise revenues.

The HIPC initiative was the culmination of a vigorous lobby for a broader approach to debt relief that included addressing claims by multilateral organisations. The principal objective of the HIPC initiative was to ensure that adjustment and reform efforts are not put at risk. In order to achieve this, the overall debt burden of countries that have a sustained record of sound macro-economic performance would be reduced to a sustainable level.

At end-1999, Guyana's external debt stock had been reduced to US$1.2 billion reflecting mainly the delivery of US$256 million in NPV terms of HIPC relief. The resulting reduction implied debt service relief of about US$410 million in nominal terms. This is equivalent to an annual decline in debt service payments of 25 percent during the first five years of the Initiative.

While the debt relief awarded under the original HIPC initiative enabled Guyana to reach the debt to exports ratio sustainability target (between 97 and 117 percent), it did not bring the debt-to-revenue ratio below the sustainability target set by the Boards of the IMF and the World Bank. Hence, Guyana became eligible for additional relief under the enhanced HIPC initiative in order to reduce its debt-to-revenue ratio to the target of 250 percent.

Guyana qualified for the enhanced HIPC Initiative, reaching decision and completion points on November 13, 2000 and December 18, 2003 respectively. The debt relief resulting from the E-HIPC initiative was US$414 million in nominal terms or US$334.5 million in net present value (NPV) terms. The combined relief from the original and enhanced HIPC Initiatives reduced Guyana's outstanding debt in NPV terms by 54 percent. The E-HIPC initiative lowered Guyana's NPV of debt-to-revenue ratio to about 213 percent in 2003, 37 percentage points below the sustainability threshold for countries that qualify under the fiscal window.

The most recent development with respect to the Government's external debt position was the G8 debt relief initiative, also known as the Multilateral Debt Relief Initiative (MDRI). The MDRI aims to relieve HIPCs and low-income countries with chronic debt problems by providing 100% cancellation of debts owed to the IMF, the International Development Association (IDA) and the African Development Bank (AfDB). Guyana qualified for this relief on the basis that it was a post-Completion Point HIPC country with a sound track record of implementation of policy reforms under IMF-supported programmes.

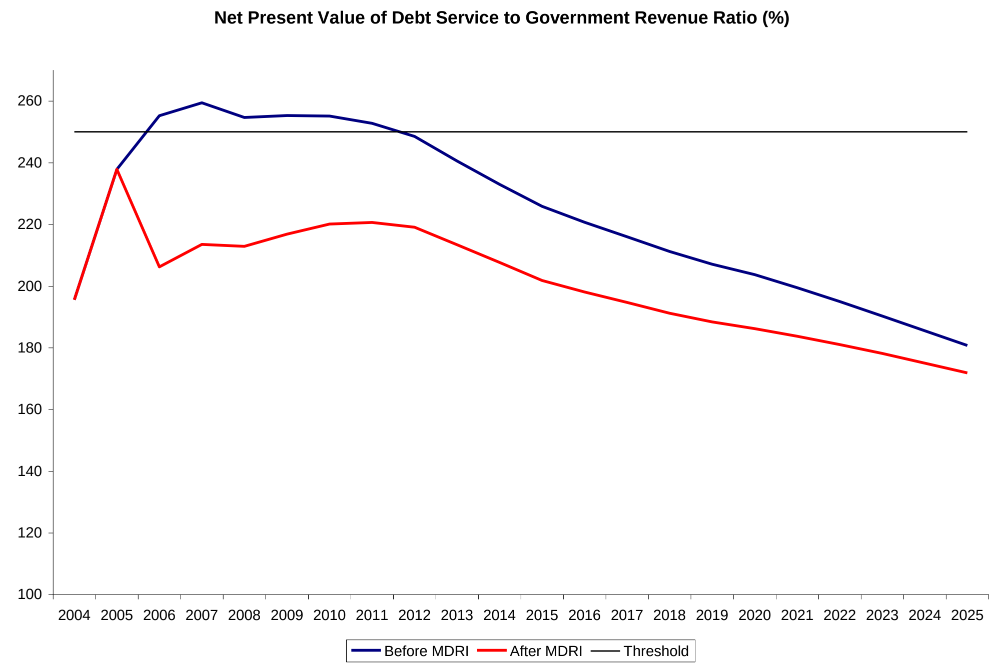
Case Study: Guyana's Experience with Paris Club and Commercial Creditors

On January 6, 2006, the IMF cancelled all outstanding debts incurred by Guyana prior to January 1, 2005. This debt relief amounts to approximately US$65 million, equivalent to 70% of the debt outstanding to the IMF at that time. This reduction could have been higher had the IMF made several large disbursements to Guyana earlier instead of the post January 2005 period.

Further, on July 1, 2006, the IDA cancelled all outstanding debts incurred by Guyana prior to January 1, 2004. This debt relief amounted to approximately US$218 million, equivalent to 95% of the debt outstanding to the IDA at that time.

The MDRI has provided a sound platform for achieving a sustainable debt strategy by Guyana in the future. Chart 4 below shows the NPV of Debt to Revenue ratio, both before and after the MDRI. Before the MDRI, the ratio was above the threshold, indicating a high risk of debt distress. The ratio would have peaked at 258% in 2007 and would have fallen below the threshold by 2012. After the MDRI, the ratio remains below the threshold throughout the period, peaking at 221% in 2011. This places Guyana at a medium risk of debt distress, under the IMF/World Bank classification.

Chart 4: Net Present Value of Debt to Government Revenue Ratio



Source: Debt Management Division, Ministry of Finance, Guyana

The debts owed by Guyana to the Inter-American Development Bank (IDB) were not included in those cancelled under the MDRI. However, discussions are ongoing regarding the cancellation of these debts. The IDB is the largest of Guyana's creditors, representing approximately US$470 million in outstanding debt or over 50% of the existing debt stock (after IDA and IMF cancellations).

Comparable Treatment Clause

The Paris Club Agreed Minutes include a clause of "comparability of treatment", which aims to ensure a balanced treatment (burden sharing) among all external creditors of the debtor country. According to this clause, the debtor country commits itself to seek from non-multilateral creditors, notably other official bilateral creditor countries that are not members of the Paris Club, and private creditors (mainly banks, bondholders and suppliers), a restructuring on comparable terms to those negotiated within the Agreed Minutes.

The Paris Club creditors make an exception for multilateral creditors, such as the International Monetary Fund and the World Bank. Paris Club creditors agree that the debtor should meet its obligations to multilateral creditors before servicing other creditors' claims (multilateral debt treatment only occurs under the HIPC and MDR Initiatives).

The Paris Club creditors do not expect that the debtor's agreements with its other creditors will exactly match the terms of the Paris Club's own agreement. Instead, considering the diversity of other possible creditors (non-Paris Club official bilateral creditors, banks, suppliers, bondholders, etc.), the Paris Club creditors require that the debtor seek terms that are "comparable" to the Paris Club's own agreement. The Paris Club creditors require the debtor to share with them the results of its negotiations with other creditors.

Paris Club creditors traditionally have taken a broad approach to assessing whether the debtor has provided comparable treatment. Factors for assessing comparability include, for each type of creditor, the changes in nominal debt service, net present value and duration of the restructured debt. No form of debt instrument is inherently protected from rescheduling. However, Paris Club creditors do consider on a case-by-case basis whether particular factors mitigate against demanding comparable treatment of a particular creditor or debt instrument(s).

Guyana was required to seek comparable debt relief from all of its other creditors through Clause III, Paragraph 1 of the Paris Club Agreed Minute of January 14, 2004, which states:

> *"Consequently, the Republic of Guyana commits not to accord any category of creditors – and in particular creditor countries not participating in the present Agreed Minute, commercial banks, suppliers and bondholders (in particular the former debt of GUYMINE) – a treatment more favourable than that accorded to the Participating Creditor Countries."*

The legal obligations of the Agreed Minute are imposed on the Government through the bilateral agreements with each creditor, which implement the debt cancellations agreed upon in the Agreed Minute. These bilateral agreements typically include a so-called *pari passu* clause. For example, the agreement signed on June 24, 2004 with the United States of America states:

Case Study: Guyana's Experience with Paris Club and Commercial Creditors

> *"Guyana shall seek to secure from external public or private creditors not participating in the [Paris Club Agreed] Minute reduction arrangements on terms comparable to those set forth in the Minute."*

It goes on to note that:

> *"In particular, the United States may terminate all or part of this Agreement if the Participating Creditor Countries determine that Guyana has not met its obligations under the Minute, including those of comparable treatment. If the United States of America terminates all or part of this Agreement, all debts cancelled under this Agreement shall be due and payable immediately."*

Thus, if Guyana were to give more favourable treatment to another creditor, the cancellation of debts owed to the United States of America and any other bilateral Paris Club creditor can be jeopardised.

Table 5 below shows some of the creditors who have bilateral agreements with the Government of Guyana which included Comparable Treatment clauses and who have cancelled debt in excess of US$10 million each. These sums could be jeopardized if the Government breaches the requirement of comparable treatment.

Table 5: Bilateral Agreements with Comparable Treatment Clauses (in decreasing order of the size of the write-off provided)

Creditor	Agreed Minute	Write-Off (US$)
Trinidad & Tobago	1996	359,249,080
United Kingdom	1996	126,644,472
Trinidad & Tobago	2004	123,251,149
United Kingdom	2004	54,731,344
United States of America	2004	35,967,659
United Kingdom	1999	18,467,060
Russian Federation	2004	16,295,559
Germany	1996	11,326,510
Netherlands	1996	10,694,414
United States of America	1996	10,101,024
Total		**766,728,271**

Source: Debt Management Division, Ministry of Finance, Guyana

Relations with Non-Paris Club Bilateral Creditors

Thus far, the Government, in common with other HIPC countries, has made slow progress in its debt negotiations with the non-Paris Club bilateral creditors due to the latter's apparent unwillingness to participate in the enhanced HIPC initiative. Prior to the Paris Club meeting in January 2004, the Government had written to eleven (11) non-Paris Club bilateral creditors to secure a commitment that they would be willing to participate in the enhanced HIPC initiative and to indicate how their debt relief would be delivered.

However, the Government only received official responses from three (3) of them. In 2003, China and India both agreed to write-off debts of US$29 million and US$0.8 million respectively. China has further committed to cancelling debts of about US$14 million, being balances outstanding at the end of 2004. The Government of Venezuela has verbally signalled its intention to write-off US$12.5 million outstanding (but has not yet provided a debt cancellation agreement). Further, the Government has been actively pursuing discussions with Kuwait to cancel debts of US$54 million, but with no success.

Guyana does not service its debts to the Non-Paris Club creditors because of the above comparable treatment requirements. This would require a debt reduction in the region of 90% in Net Present Value (NPV) terms. Not without reason, most Non-Paris Club creditors are unwilling to provide such terms. Until such an agreement is reached, Guyana cannot service its debt to these creditors.

Observations and Lessons Learnt

Guyana received improved terms with each successive Paris Club negotiation. Nevertheless, repeated rescheduling of arrears and interest refinancing, on ungenerous terms, during the first seven years, contributed to the growth in the country's external debt stock from some US$1.4 billion in 1989 to about US$2.06 billion in mid-1996. As a result, and despite significant increases in exports and domestic revenue, scheduled debt service to exports and scheduled debt service to revenue rose to about 23 percent and 38 percent respectively in 1996.

These developments eroded the large amounts of flow relief Guyana received under these rescheduling agreements, and concerns were eventually raised about Guyana's ability to meet its debt service payments in the medium term without resorting to counter-productive macroeconomic policies.

Even after the Paris Club's first stock-of-debt operation in 1996, where the debt outstanding to the Paris Club creditors was actually reduced and not rescheduled, the fiscal burden of the debt remained high with a net present value (NPV) of debt-to-revenue of 469 percent and debt service-to-Government revenues of 42 percent.

Nevertheless, subsequent cancellations under the 1999 and 2004 Paris Club Agreed Minutes, together with debt relief from the multilateral creditors, have helped to restore Guyana to debt sustainability. Thus, whilst the process does include both risk and cost to the beneficiary country, it has undoubtedly been, overall, a beneficial experience for Guyana.

A number of other observations can be made:

- The importance of thorough preparation of your case.

- The need to have good, accurate and up-to-date records.

- The need for highly qualified trained staff to manage the debt division and conduct negotiations with the Paris Club.

- The need to constantly engage creditors in dialogue to secure relief beyond Paris Club maximum.

- The role of the IMF and other official multilateral financial institutions (MFIs) on the one hand, Debt Relief International (DRI) and partner Regional Organisations (such as CEMLA in Guyana's case) and UNCTAD on the other hand in bringing your case to the attention of the Paris Club and other creditors.

- The need to maintain a sound macroeconomic position to ensure growth and investment to pursue sustainable borrowing.

- Timing on the delivery of relief is crucial when signing post Paris Club Agreements to ensure country programmes can be optimally managed.

2. Experience with Commercial Creditors

Guyana has benefited from two (2) operations aimed at reducing the indebtedness to commercial creditors. As a result of these two (2) buyback operations, a significant portion of the commercial debt, for which the contractual debt service burden is typically large, has been retired.

Commercial Bank Buy Back

Over the period 1991-1992, Guyana bought back US$93 million (US$69.2 million in principal and US$23.5 million in unpaid interest) worth of commercial debt stock and arrears owed to a syndication of commercial banks, including the major shareholder, the Royal Bank of Canada (RBC) and private creditors with uninsured debt (NCM of the Netherlands and Bank of Baroda).

This buy-back operation was financed by a grant of about US$11 million that was provided through a facility made available by the International Development Association (the soft window of the World Bank) and Canada. By 1992, Guyana was able to extinguish all of its commercial bank debt at a total cost of US$9.7 million (about 11 cents to the US dollar) and benefited from an 89 percent discount.

External Payments Deposit Scheme (EPDS) Buy Back

In 1999, Guyana benefited for the second time from a grant of US$5.5 million from the World Bank IDA Debt Buyback Facility and the Swiss Government to clear arrears to commercial creditors. Guyana was able to access this facility as a result of it being an IDA only country. This buyback scheme retired US$34.4 million of commercial debt, out of a total of US$55.9 million (representing an acceptance rate of 62% of the claims). The debt was bought back at a price of US$0.09 to the dollar, representing a discount of 91%.

This debt was part of the External Payments Deposit Scheme (EPDS) set up in the late 1970's when Guyana was experiencing balance of payments difficulties and was no longer able to settle the claims of foreign exporters. Guyanese firms from the public and private sectors with external liabilities were required to deposit the local currency equivalent of their external debt service payments with the Bank of Guyana, awaiting the availability of foreign exchange for the actual payment to be remitted to the creditor.

2. Experience with Litigation

Big Food Group plc

The Government of Guyana incurred the debt to the former Booker McConnell plc. at the time of the nationalisation of Booker's holdings in 1976. The original claim amounted to £18,839,910, consisting of £12,861,622 in principal and £5,978,288 in contractual interest net of withholding tax. The original claim was made up of 20 promissory notes issued pursuant to an agreement between Booker and the Government of Guyana relating to the acquisition by Guyana of assets of Booker and its subsidiaries in Guyana.

This debt was serviced from July 1, 1977 until, and inclusive of, July 1, 1988. Twelve of the 20 promissory notes were redeemed according to the amortisation schedule, leaving 8 promissory notes, amounting to £6,777,892.00, unpaid. Guyana defaulted on its debt service obligations (principal and interest payments) from 1989 onwards, and the amount falling due during the years 1989-1996 was in arrears.

In 1989, Booker plc agreed to a deferral of payments, which was later extended until the end of 1999. As at March 31, 2002, a total of £12,508,243.52 was outstanding, consisting of £6,777,892.00 in unpaid promissory notes (principal and contractual interest) and £5,730,351.52 in penalty interest

Note that the creditor was originally called Booker McConnell Limited. The name was changed to Booker McConnell plc on June 10, 1981 and to Booker plc. on July 2, 1986. Booker plc was acquired by the Iceland Group in June 2000 (later renamed the Big Food Group plc.).

Several attempts were made to settle the debt within the guidelines and the framework of successive Paris Club Agreed Minutes. However, the Big Food Group plc took the position that they did not recognize the Paris Club and initiated proceedings in the International Centre for the Settlement of Investment Disputes (ICSID) by submitting a "Request for Arbitration" on July 31, 2001.

However, the creditor chose to withdraw its claim on Guyana on March 17, 2003 following intensive lobbying by the Government of Guyana and several Non-Governmental Organizations (NGOs), such as Jubilee 2000. Whilst no formal write-off, by way of closure of the case jacket, has actually taken place, the announcement of the withdrawal of the law suit through a press release effectively provided Guyana with a debt reduction of approximately £13 million.

Government Bonds (Original Suppliers)

Following various operational and financial problems in the 1980's, the decision was taken to restructure the Guyana Mining Enterprise (GUYMINE), a Government-owned bauxite mining company. As part of the restructuring, the Government of Guyana assumed the liabilities of GUYMINE in June 1992. In lieu of the debt owed by GUYMINE to its creditors at that time, the Government of Guyana issued nineteen (19) bonds on May 17, 1994 to the creditors of GUYMINE.

Of the nineteen (19) original bondholders, four (4) creditors either did not accept the bond or did not provide the Government with the necessary payment instructions when requested. Those four (4) creditors namely Export Services Incorporated, Esso Standard Oil S.A. Limited, Green Mining Enterprise and Caterpillar Americas Company brought their cases to arbitration to challenge the 1992 Bond Issue and recover the sum owed.

This action led to a suspension of interest payments on the bonds issued to those companies. Instead, the Government opened a Special Debt Account in an overseas bank to facilitate payment of all unpaid interest accumulated on the disputed bonds.

Green Mining and Export Services Inc. took the issue to arbitration in both the international and local courts seeking immediate payment of the amount due. The arbitration took over five (5) years to conclude. Eventually, the Government won the arbitration case and was compensated to the value of US$290,000. The creditors agreed to accept the bonds and payment of the outstanding interest due on the bonds between June 1992 and December 1999. ESSO and Caterpillar also pursued arbitration in the local court, but ultimately withdrew their claims and accepted the bonds and the outstanding interest.

Esso Standard Oil S.A.

In November 1999, Esso Standard Oil Ltd. indicated to the Government that it was willing to settle the matter and accept the bond issued in its favour, providing that the Government paid all interest amounts due and in arrears since June 1992. The Government, in turn, requested ESSO to withdraw the legal action brought against the Government and GUYMINE's successor companies before these outstanding payments were met. ESSO agreed and withdrew its case as of January 19, 2000. The unpaid interest as of December 31, 1999 was US$1,095,458.81, which was paid from the Special Debt Account.

Caterpillar Americas Company

Caterpillar had an outstanding claim on LINMINE of US$775,866.31, which was covered by the issue of Bond No. 11. Caterpillar took the issue to arbitration in the local courts to receive immediate payment of the full value of the debt, rather than accept the bond.

However, Caterpillar ultimately withdrew its case at the same time as Esso Standard Oil and agreed to accept the bond. At that time, the interest arrears that had accrued on the bond, which stood at US$292,278.44 as of December 31, 1999, was paid to Caterpillar from the Special Debt Account.

Export Services Incorporated and Green Mining Incorporated

Green Mining was the largest bondholder with an outstanding claim of US$12,986,409.81 against GUYMINE. Export Services also had a claim of US$1,134,731.11. Each of these creditors received bonds in the value of their respective claims against GUYMINE. As noted above, these companies took the issue to arbitration in both the international and local courts and lost.

The Government of Guyana negotiated a settlement with Green Mining and Export Services in July 2000. This settlement required the Government to make payments of interest that were due and unpaid to these two bondholders from the time the bonds were issued on June 19, 1992 up until December 31, 1999 (inclusive), amounting to a total of US$5,319,607.88. In return, the two (2) companies agreed to drop all legal proceedings that had been brought against the Government.

A further issue that arose out of these proceedings was the fact that Green Mining Enterprise and Export Services had purchased political risk insurance from the Overseas Private Investment Corporation (OPIC). OPIC is a self-sustaining US Government agency that encourages private investment in developing countries and emerging markets by providing financing and political risk insurance. Green Mining sued OPIC for non-payment of its insurance claim relating to GUYMINE.

As OPIC operates on a cost recovery basis, it does not support investment in countries considered to be of high risk. Countries are classified as either "on cover" or "off cover" using three (3) criteria, namely: a) an assessment of the political stability of the respective country; b) how that country handles investment disputes and c) how it treats foreign investors generally. At the time, Guyana was classified as "off cover". This means that Guyana was not recommended to US companies as a place to do business.

It was felt that one of the most significant obstacles to US companies willing to invest in Guyana was their inability to secure political risk and other investment insurance as well as financing from OPIC. Furthermore, Guyana's lack of OPIC coverage may have discouraged investors from third countries since OPIC coverage, or lack thereof, is often viewed as a general indicator of a country's friendliness to foreign investment.

However, as a result of the settlement with Green Mining, OPIC agreed to restore Guyana to 'On-Cover' status, allowing US companies to reconsider Guyana as an investment centre.

APPENDIX 1 – Definition of Terms Used by the Paris Club

Active agreement: a Paris Club rescheduling agreement is said "active" until the date of the last repayment maturity expected by the agreement. Over this date, maturities expected by the agreement were, in theory, repaid.

Agreed Minutes: Participating creditor countries and the debtor country usually sign an Agreed Minute at the end of a negotiation session. This is not a legally binding document, but a recommendation by the heads of delegations of Participating Creditors countries to their Governments to sign a bilateral agreement implementing the debt treatment. When there are only a few creditors concerned, the Paris Club agreement is exchanged through mail between the Chair of the Paris Club and the Government of the debtor country, and is called "terms of reference". In some cases, the multilateral debt agreement has also been called "memorandum of understanding".

Appropriate Market Rate: an interest rate defined in a bilateral agreement implementing the Paris Club Agreed Minutes, based upon standard interest rates of the currency considered, plus a management fee. This rate may be fixed or variable and does not include a country-risk premium.

Arrears: debt due and not paid as of a given date. Arrears may be late payments as well as debt due a long time before.

Commercial credits: (i) credits granted by a bank or a supplier to a debtor country for importing goods and services. When these credits are guaranteed by an appropriate institution of a Paris Club creditor, they are included in the claims treated in the context of the Paris Club. (ii) Non-ODA credits are sometimes referred to as commercial credits.

Completion point: in the context of the HIPC initiative, the international community commits to provide sufficient assistance by the completion point for the country to achieve debt sustainability.

Concessional Treatment, Concessionality: Concessionality can occur either through a cancellation of part of the claims, or through a rescheduling of the claims over a long period of time with an interest rate that is lower than the appropriate market rate. When a debt treatment results in a reduction of the net present value of the claims rescheduled, it includes concessionality.

Consolidation: change of the terms of debt payment obligations. This can be implemented either though a change of the terms of the existing debt ("rescheduling"), or through the exchange of the debt for a new instrument (notably, through "refinancing").

Cut-off-date: When a debtor country first meets with Paris Club creditors, the "cut-off- date" is defined and is not changed in subsequent Paris Club treatments and credits granted after this cut-off date are not subject to future rescheduling. Thus, the cut-off- date helps restore access to credit for debtor countries facing payment difficulties.

Debt Reduction, DR: in the context of a concessional treatment, creditors may usually choose among a number of options to provide the required debt reduction in net present value. When the creditor chooses the "DR" option, the net present value reduction is achieved through a cancellation of part of the claims.

Debt Service Reduction, DSR: in the context of a concessional treatment, creditors may usually choose among a number of options to provide the required debt reduction in net present value. When the creditor chooses the "DSR" option, the net present value reduction is achieved through a rescheduling of the claims at an interest rate lower than the appropriate market rate.

Debt Swaps: These operations may be debt for nature, debt for aid, debt for equity swaps or other local currency debt swaps. These swaps often involve the sale of the debt by the creditor Government to an investor who in turn sells the debt to the debtor Government in return for shares in a local company or for local currency to be used in projects in the country. Paris Club creditors and debtors regularly conduct a reporting to the Paris Club Secretariat of the debt swaps conducted.

Decision Point: in the context of the HIPC initiative, at the decision point the Executive Boards of the IMF and World Bank formally decide on a country's eligibility, and the international community commits to provide sufficient assistance by the completion point for the country to achieve debt sustainability calculated at the decision point.

Deferral: a debt treatment may defer some debt due immediately or in the near future to a later date. When a new long-term payment profile is defined, the treatment applied is not a deferral, but a rescheduling.

De Minimis provision: Paris Club agreements define a "de minimis" level : when the claims of a Paris Club creditor covered by the rescheduling agreement are less than this level, this creditor participates to the meeting as observer and does not reschedule its claims. This rule aims at preventing debt treatments that do not have a significant impact in terms of debt relief and would be costly to implement.

Eligible Debt: debt that may be treated in the context of a Paris Club agreement.

Exit Rescheduling: an exit treatment is the last rescheduling a country normally gets from the Paris Club. The aim is that the debtor country will not need any further rescheduling and will thus not come back for negotiation to the Paris Club.

Flow Treatment: a standard Paris Club agreement provides a way of tiding a debtor country through temporary balance of payments difficulties during a given period of time. This is referred to as a flow treatment, as opposed to a stock treatment.
Late Interest: interest that accrues on arrears. The late interest rate usually includes the original interest rate of the credits, plus a penalty.

Moratorium Interest, Interest on the Consolidation: interest rate applied on the rescheduling. The interest rate and the conditions applying to the claims of Paris Club creditor countries are defined in bilateral agreements.

Net Present Value: the net present value (NPV) of debt is a measure that takes into account the degree of concessionality. It is defined as the sum of all future debt-service obligations (interest and principal) on existing debt, discounted at the appropriate market rate. Whenever the interest rate on a loan is lower than the market rate, the resulting NPV of debt is smaller than its face value.

Observers: observers from international financial institutions or who are members of the Paris Club, but with no claims concerned by the debt treatment (de minimis creditors, creditors with only short term or post-cut off-date claims, etc.), may attend a negotiation session. They do not sign the Agreed Minutes, but are referred to in it.

ODA Credits, non-ODA Credits: "Official development assistance" ("ODA") credits are defined by the OECD as credits with a low interest rate and aimed at development.

Official Creditor: this covers a) official bilateral creditors (Governments or their appropriate institutions), including Paris Club members ; b) multilateral creditors (international institutions such as the IMF, the World Bank or regional development banks).

Participating Creditor Countries: the creditor countries that sign an Agreed Minutes. They are members of the Paris Club or other official creditors.

Refinancing: creditor countries may choose to apply the terms of a Paris Club agreement either through a refinancing (they make a new loan that is used to repay the existing debt) or though a change of the terms and conditions of the existing debt (rescheduling).

Reprofiling: in a Paris Club agreement, part of the debt may be reprofiled over a few years, instead of a long term period of time. The duration of a reprofiling is an intermediate between a deferral and a long term rescheduling.

Rescheduling: (i) consolidation, change of the terms of debt payment obligations; (ii) when opposed to concessional treatment, non-concessional consolidation; (iii) when opposed to deferral or reprofiling, the part of a consolidation with the longer terms of repayment (iv) when opposed to refinancing, consolidation through a change of the terms and conditions of the existing debt.

Stock Treatment: As opposed to standard flow treatments, some Paris Club treatments apply not only to the payments falling due in a particular period of time, but to the whole stock of debt from which those payments fall due. The intention of any agreement which deals with the stock of debt in this way is to provide a country with a final treatment by the Paris Club called an exit rescheduling.

Terms of Reference: When there are only a few creditors concerned in a debt treatment, the Paris Club agreement is not done as an Agreed Minute, but as a "Terms of Reference". The terms of the treatment are defined through an exchange of letters between the President of the Paris Club and the Government of the debtor country.

Topping-up: in a subsequent debt reduction, granting more debt reduction on debt the Paris Club previously reduced to provide even further debt relief (e.g., when increasing the cancellation level from 33.33% of Toronto terms to 67% of Naples terms).

APPENDIX 2 – Example of Terms Proposed for Bilateral Agreements

Table 6: Sample of Proposed Terms Offered in Negotiating the Bilateral Implementing Rescheduling Agreements Pursuant to the Paris Club Agreed Minute of June 25, 1999

Creditors	Date Agreement Received from creditors	Summary of terms proposed in First Draft Bilateral Implementing Agreements. 1/	Summary of terms proposed in Second Draft Bilateral Implementing Agreements.
DENMARK	May 1, 2000	▪ Variable interest rate: 0.5 % per annum above six-month US dollar LIBOR ▪ 15 day grace period ▪ Penalty interest: additional 0.5% per annum ▪ First interest payment date: May 23, 2000. ▪ 365 day basis for interest calculation. ▪ Capitalisation of interest accrued until first interest payment date not proposed.	▪ Received on August 23, 2000 ▪ Fixed interest rate of 7% per annum (Market rate plus 0.5% admin. margin. ▪ Grace period of 30 days ▪ First interest payment date: November 23, 2000 (second on May 23, 2001 etc.)
USA (EXIM/Housing)	September 17, 1999	**EXIMBANK** ▪ Fixed interest rate: 6.5% per annum ▪ First interest payment date: May 23, 2000 ▪ No proposed grace period ▪ Capitalisation of interest	

		accrued until first interest payment date not proposed ▪ 365 day basis for interest calculation. **Housing Guarantee** ▪ Fixed interest rate: 6.875% per annum. ▪ First interest payment date: May 23, 2000 ▪ No proposed grace period. ▪ Capitalisation of interest accrued until first interest payment date not proposed ▪ 365 day basis for interest calculation.	
FRANCE	December 14, 2000	▪ Variable interest rate(US Dollar portion): 1% above 3- month-US-dollar LIBOR per annum ▪ Fixed interest rate (EURO portion): 7% per annum *or* a variable interest rate: TEC 10 index plus 1% ▪ Four quarterly interest payments in Feb, May, Aug and Nov with the first interest payment due on February 23, 2000	▪ Received on July 10, 2000 ▪ Variable interest rate(US Dollar portion): 0.5% above 6- month-US-dollar LIBOR per annum ▪ Fixed interest rate (EURO portion): 6.5% per annum. ▪ Semi-annual payments and calculation on May 23 and November 23 of each year. ▪ First interest payment date: August 23, 2000 without late interest charge.

		▪ No grace period proposed. ▪ Penalty interest: additional 1% per annum ▪ Capitalisation of unpaid interest proposed as at November 23 each year. ▪ 360 day basis for interest calculation	▪ Implicit grace period, since any amounts of late interest smaller than Euros 200 will not be charged. ▪ Capitalisation of unpaid interest proposed as at November 23 each year. ▪ 360 day basis for interest calculation. ▪ Minor corrections incorporated.
CANADA (EDC)	February 10, 2000	▪ Variable interest rate: 2% above LIBOR per annum. ▪ Penalty interest: additional 1% per annum ▪ First interest repayment date: May 23, 2000 ▪ No grace period proposed. ▪ 360 day basis for interest calculation ▪ EDC has requested that the GoG pay Administration fees (USD25,000) and Documentation fees (USD4,000) and also legal and travel costs incurred by legal counsel.	▪ Received on August 10, 2000 ▪ Variable interest rate: 0.85% above LIBOR per annum. ▪ Penalty Interest: additional 1% per annum ▪ First interest repayment date: May 23, 2000 ▪ Grace period of 10 days proposed. ▪ 360 day basis for interest calculation ▪ Combined administration and Documentation Fees totalling of US$5,000.
UK (ECGD)	August 17, 2000	▪ Variable interest rate ('Market Rate'): LIBOR	▪ August 29, 2000 ▪ Variable interest rate

		plus 0.5% on both currency portions. ▪ Penalty interest: LIBOR plus 0.5% ('Market Rate'). Market Rate charged on late interest. (Interest on interest) ▪ First interest repayment date: November 23, 2000 (updated from replaced draft, which proposed August 23, 2000.) ▪ No grace period proposed. ▪ 360 day basis year for interest calculation on US$ portion. 365 day basis year for interest calculation on Sterling portion.	('Market Rate'): LIBOR plus 0.5% on both currency portions. ▪ Penalty interest: LIBOR plus 0.5% ('Market Rate'). Market Rate charged on late interest. (Interest on interest) ▪ First interest payment date: November 23, 2000 (second on May 23, 2000 etc.) ▪ Grace Period of 14 days (with Side Letter). ▪ 365 day basis year for interest calculation on both USD and Sterling portions.
GERMANY	June 23, 2000	▪ Interest rate to be negotiated. ▪ Penalty interest: 1% above agreed interest rate. ▪ Capitalisation of unpaid interest proposed from 14 days after interest due date. ▪ First interest repayment date: July 31, 2000. ▪ 14 day grace period	Sent on October 13, 2000 ▪ Fixed interest rate: 5.75% per annum. ▪ Postpone first interest payment date to beyond July 31, 2000. ▪ Reduce penalty interest to additional 0.5% per annum ▪ No capitalisation of interest arising from delayed

		proposed. ▪ 360 day basis year for interest calculation.	payments. ▪ Mention January 7, 2000 interest payment due under November 12, 1996 agreement. ▪ Increase to 365 day basis for interest calculation.
TRINIDAD & TOBAGO	-	▪ Fixed interest rate: 3.24% per annum. ▪ First interest payment date: January 7,2000 ▪ 365 day basis for interest calculation.	-
NETHERLANDS (NCM)	November 11, 1999	▪ Fixed interest rate: 6% per annum ▪ 14 day grace period ▪ Penalty Interest: additional 1% per annum ▪ First interest payment date: May 23, 2000 ▪ 365 day basis for interest calculation. ▪ Capitalisation of interest accrued until first interest payment date not proposed.	▪ Received on May 26, 2000 ▪ Common rate proposed for both currency portions reflects the long term interest level of the Euro. Prepared, only to reach a final settlement, to reduce the fixed interest rate from 6% to 5.75% per annum. ▪ First interest payment date: July 7, 2000 (second on November 23, 2000 etc.) ▪ Penalty Interest: additional 0.5% per annum.

APPENDIX 3 – Selected Socio-Economic Indicators

Table 7: Selected Socio-Economic Indicators for Guyana (1991-2003)

INDICATORS	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
NATIONAL ACCOUNTS AGGREGATES													
Growth Rate of Real GDP	6.1	7.7	8.3	8.5	5.1	7.9	6.2	-1.8	3.0	-1.4	2.3	1.1	-0.6
GDP at factor cost (US$M)	303.7	323.1	390.0	456.8	517.0	590.1	626.5	601.3	593.6	596.9	602.5	617.8	631.0
GNP at factor cost (US$M)	167.4	212.7	296.2	373.8	431.0	510.9	552.8	545.1	524.6	552.6	550.9	562.7	588.4
Per capita GDP (US$)	420	454	531	612.0	680.0	766.0	808.3	777.5	770.3	804.4	810.2	829.2	840.2
Per capita GNP (US$)	232	299	403	501.0	567.0	663.0	713.2	704.8	680.8	744.7	740.8	755.4	783.5
Gross National Disposable Income (US$M)	235.9	293.5	400.7	488.6	563.4	695.5	717.9	705.6	668.5	716.6	700.1	705.2	733.3
Private Consumption (% of Gross Domestic Expenditure)	53.9	42.7	42.6	43.9	43.2	42.1	40.6	43.9	41.1	43.0	47.5	45.1	44.8
Public Consumption (% of Gross Domestic Expenditure)	11.6	11.6	12.5	14.4	14.8	16.5	18.7	19.1	22.7	23.8	23.2	21.1	23.7
EXTERNAL TRADE AND FINANCE (US$M)													
BOP Current Account Balance	-118	-146	-137	-100	-94.9	-53.8	-105	-98.5	-75.2	-109	-128	-106	-84
Imports of Goods and Non-Factor Services (G&NFS)	...	513.7	567.6	576.2	626.9	-663	-708	-775	-728	-788	-776	-758	-671
Exports of Goods and Non-Factor Services (G&NFS)	...	447.4	494.5	526.4	579.0	621.0	637.4	688.9	672.0	674.5	662.3	667.2	600.6
Resource Balance	...	-66.3	-73.1	-49.8	47.9	-42.5	-71.4	-86.2	-56.3	-104	-114	-91.7	-71.1
Imports of G&NFS / GDP (%)	...	159.0	145.5	126.1	121.3	112.4	113.1	128.9	122.7	130.4	128.9	122.8	106.4

INDICATORS	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Exports of G&NFS / GDP (%)	...	138.5	126.8	115.2	112.0	105.2	101.7	114.6	113.2	113.0	109.9	108.0	95.2
Net International Reserves of Bank of Guyana	-27.9	15.2	56.5	89.4	86.4	153.9	149.9	122.2	126.8	178.4	187.4	183.7	176.1
External Public Debt Outstanding	1873	2054	2062	2004	2058	1537	1513	1496	1210	1193	1196	1246	1083
PRICES, WAGES AND OUTPUT													
Rate of Inflation (% change in Urban CPI)	70.3	14.2	7.7	16.1	9.1	6.6	6.8	4.6	11.9	6.2	2.6	7.1	4.9
Electricity Generation (in M.W.H) ('000)	219.1	237.5	252.2	290.6	335.0	347.3	390.4	431.2	443.2	476.9	504.6	580.9	549.3
POPULATION & VITAL STATISTICS													
Mid-Year Population ('000)	723.1	712.4	734.8	746.0	760.4	770.1	775.1	773.4	770.6	742.0	743.6	745.0	751.0
Population Growth Rate (e.o.p)	-1.5	2.8	1.1	2.2	1.3	0.5	0.1	-0.2	0.5	-4.9	0.1	0.2	0.8
Net Migration ('000)	-23.6	6.4	-7.0	0.3	-7.5	-12.6	-16.3	-10.3	-12.2	-11.1	-12.0	...	...
Visitor Arrivals ('000)	74.5	94.9	107.3	112.8	107.6	97.1	75.7	65.6	57.5	...	...	...	...
Crude Birth Rate (per 1,000 persons)	25.2	25.6	27.3	29.2	29.8	24.0	26.1	24.1	23.2	23.9	23.6	...	23.5
Crude Death Rate (per 1,000 persons)	7.1	6.6	6.9	7.1	7.1	6.5	6.8	6.5	6.6	7.2	6.6	...	7.3
Crude Marriage Rate (per 1,000 persons)	...	...	...	5.2	5.2	8.7	6.5	6.7	7.1	6.8	7.3	...	...
Infant Mortality Rate (per 1,000 live births)	43.0	42.9	34.9	28.8	27.8	25.5	25.5	22.9	25.6	29.0	...	...	...
Under 5 Mortality Rate (per 1,000 live births)	...	...	...	34.1	34.6	30.3	31.8	31.3	...	...	...	...	...

PUBLIC EXPENDITURE

INDICATORS	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Education as % of National Budget	1.9	4.8	6.2	7.3	6.7	7.3	6.8	11.9	11.6	11.7	16.5	18.2	14.4
Health as % of National Budget	2.9	5.3	6.9	7.4	8.3	6.3	7.3	5.9	6.7	5.7	7.0	8.8	8.9
Number of Physicians per Ten Thousand Population	2.0	2.0	2.1	3.1	3.0	3.8	2.8	4.3	2.6	3.8	4.4	4.6	4.4
Number of Nurses per Ten Thousand Population	5.9	5.9	5.0	6.3	8.0	8.0	9.4	19.3	8.6	10.4	10.5	10.5	14.0
Number of Hospital Beds per Ten Thousand Population	28.8	28.0	27.7	35.9	35.9	35.9	38.8	42.3	42.6	42.5	42.4	42.4	43.6
Low birth-weight babies (<2500g.) as a % of live births	...	23.9	...	19.2	15.3	14.6	14.8	14.1	12.2	12.7	...	...	...
NUTRITION (% OF CHILDREN UNDER 5)													
Severely malnourished (<60g.)	...	3.0	...	0.8	1.1	0.9	0.9	0.8	0.5	0.5	...	...	...
Moderately malnourished	...	23.6	...	15.2	20.6	18.2	15.5	15.6	12.9	13.0	...	...	...
Overweight %	...	...	...	3.6	5.6	4.5	4.5	4.0	4.3	4.3	...	...	...
IMMUNIZATION COVERAGE													
1 year old immunized against DPT	...	...	...	89.7	86.0	83.0	88.0	90.0	83.0	88.0	85.0	85.0	92.0
1 year old immunized against Measles	...	...	...	82.8	84.1	91.1	82.0	93.3	87.0	85.0	91.0	93.0	89.0
1 year old immunized against Polio	...	...	...	90.1	87.0	83.0	88.5	90.0	83.0	78.8	90.0	90.0	93.0
1 year old immunized against TB	...	...	...	93.5	93.3	88.4	94.0	92.5	91.0	93.0	95.0	95.0	95.0
CRIME													
Reported Serious Crimes	8084	5842	6768	5188	3425	3676	3233	4423	3905	4149	3512	3470	2941

INDICATORS	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
of which: Homicides	192	105	117	108	109	98	99	120	101	95	87	152	224