

## Guidelines for debtor countries' engagement on a debt treatment with the Paris Club

The present document sets out for borrowing countries the different steps of the process to address a request for a debt treatment within the Paris Club. It is distinct and thus not to be used for requests made under the Common Framework for Debt Treatment beyond the DSSI, which is endorsed by the G20 and the Paris Club.

### **1. What are the conditions for a borrowing country to enter into discussions with the Paris Club on a debt treatment?**

Any borrowing country who would like to conclude a debt treatment with its Paris Club creditors (cf. Appendix I) needs to:

- Have an Upper Credit Tranche quality (UCT) program with the IMF, in line with the conditionality principle.<sup>1</sup> If a country does not have such a program with the Fund, it will need to request one. To benefit from a debt treatment, the country will have to fully implement the IMF UCT program.
- Have a need for a debt treatment, in the context of the above-mentioned IMF program. The need for debt treatment and the restructuring envelope required, will be based on an IMF-World Bank Debt Sustainability Analysis and the Paris Club creditors' assessment, and will be consistent with the parameters of the IMF program. The need for a debt treatment could result from liquidity or solvency issues.
- Commit to apply the comparability of treatment principle, which means to seek from its other official bilateral and private creditors a debt treatment at least as favorable as the one agreed with the Paris Club creditors and recorded in the Agreed Minutes.

### **2. With whom could the country informally discuss whether it meets the criteria?**

In view of a request for a debt treatment from the Paris Club, the debtor country could seek advice about the process and technical details of this request with IMF and WB staff as well as with the Paris Club Secretariat. Non-Paris Club official bilateral creditors can also actively participate in discussions, subject to the agreement of permanent members and of the debtor country. For instance, some official bilateral creditors that are not full Paris Club members (China, India and South Africa) attend on a monthly basis Paris Club meetings ("Tours d'Horizon").

### **3. How and when to request a debt treatment from the Paris Club?**

A borrowing country facing debt vulnerabilities willing to enter into discussions with its Paris Club creditors should send a formal request to the Paris Club Secretariat ([ParisClub-secretariat@dgtresor.gouv.fr](mailto:ParisClub-secretariat@dgtresor.gouv.fr)).

A template letter to submit such a formal request is available in Appendix II.

It is suggested to debtor countries to send the request once discussions with IMF staff are well advanced and before the conclusion of a staff level agreement (SLA) with IMF staff.

### **4. How to engage with the Paris Club prior to the formal negotiation meeting?**

Prior to a formal negotiation meeting, the debtor country will have preparatory meetings with the Chair and the Secretariat of the Paris Club (in charge of coordinating the joint engagement of all Paris Club creditors). The debtor country will also be invited, usually at a Ministerial level, to participate in meetings with Paris Club members. Such an early engagement would give the debtor country an

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<sup>1</sup> See the six principles of the Paris Club: <https://clubdeparis.org/en/communications/page/the-six-principles>

opportunity to present its request, financial and economic condition, and reform agenda. At the same time, Paris Club creditors would be given an opportunity to better understand the situation of the country.

In this preparatory phase, the debtor country will receive a template to fill with the detail of the stock of public and publicly guaranteed debt creditor by creditor in order to reconcile debt data.

The debtor country should start its engagement with its other official bilateral creditors (non-Paris Club creditors) and private creditors without delay. Such an early engagement would facilitate and accelerate the implementation of the comparability of treatment principle. The debtor country could request the World Bank Group and other development partners support to hire legal and/or financial advisors for the restructuring process.

#### **5. How is the engagement with the Paris Club organized to address a request?**

All Paris Club members, both creditors with claims on the debtor country<sup>1</sup> and other Paris Club members, attend all the meetings to discuss the request for a debt treatment. The debtor country is invited to attend a meeting with the Paris Club members in order to present the request for a debt treatment. Paris Club meetings are chaired by the Chair of the Paris Club, and prepared by the Paris Club Secretariat.

Engagements with non-Paris Club official bilateral creditors will take place to propose them to work in a coordinated manner with the Paris Club on a case-by-case basis. Private creditors do not join the negotiation but the Paris Club engage as appropriate with them to explain the process and the comparability of treatment.

Representatives of the IMF and the World Bank staff attend all meetings as observers to provide technical inputs and information, in particular on the DSA and parameters of the UCT IMF-supported program, as well as on the status of their engagement. Other observers could be invited as appropriate.

The debtor country can benefit from the support of the Paris Club to enter into discussions with its non-Paris Club official bilateral creditors and private creditors, and to conclude a debt treatment agreement.

#### **6. Is it possible to request a time-limited standstill?**

Before the negotiation meeting, the debtor country could indicate whether a time-limited debt service standstill is requested to address its urgent liquidity needs during the negotiation process.

As the Paris Club operates on a case-by-case basis, the Paris Club will assess the request, which is not granted automatically and needs a consensual decision of the Paris Club creditors, including the date of implementation if granted (in any event, not before the conclusion of a SLA with IMF staff).

In case this standstill is granted, the debtor country would be committed to request the same standstill to its other official bilateral creditors. It will not be compulsory for the debtor country to request the same standstill to private creditors, but i) the debtor country could be encouraged to do so, ii) the efforts made by Paris Club creditors under this standstill will be taken into account for the assessment of the comparability of treatment with the other creditors, including private creditors.

#### **7. Which information will the debtor country have to share with the Paris Club?**

The debtor country will be requested to provide to the Secretariat of the Paris Club (which will share this information with all Paris Club members as well as the IMF and the World Bank) all the necessary

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<sup>1</sup> Claims eligible to a debt treatment within the Paris Club are all claims extended before a cut-off date (a specific date determined to preserve the new money provided after that date) including: (i) commercial credits guaranteed or insured by Governments or appropriate institutions of Paris Club members, having an original maturity of more than one year and (ii) loans from Governments or appropriate institutions of Paris Club members, having an original maturity of more than one year.

information on its public sector debt service and debt stock, as part of debt data reconciliation on the claims of the Paris Club and in order to properly design the debt treatment.

**8. When will the Paris Club provide the IMF with the financing assurances needed for the approval of the IMF program or completion of the IMF program review?**

Paris Club creditors are committed to provide the IMF, in a timely manner, with the financing assurances that are needed to support the approval of the envisaged IMF program (or completion of the IMF program review). They will express during a meeting in presence of the IMF and World Bank staff their commitment to restructure their eligible claims in line with the parameters of the IMF program, on the basis of a Working Paper prepared by the Paris Club Secretariat to present the need for a debt treatment consistent with the parameters of the IMF program.

The Paris Club has a long-standing experience and track record in providing the needed financing assurances in a timely manner to support the approval of an IMF program or a review by the IMF Executive Board. An indicative timeline is to provide this support within 3 months after the conclusion of the staff level agreement or the receipt of the request (whichever is the latest), which is not a commitment as some circumstances could justify more time.

**9. What are the next steps after the IMF program approval or completion of the IMF program review, in view of the signature of Agreed Minutes?**

Following the approval of the IMF program or completion of the IMF program review by the IMF Executive Board, the debtor country should continue its engagement with the Paris Club as well as with its other creditors. This continued engagement should prepare the negotiation of the terms of the debt treatment.

The debtor country will be invited to a negotiation meeting with the Paris Club to agree on the terms of the debt treatment in view of the completion of the review scheduled under the IMF program. Once an agreement is reached, the terms of the debt treatment are recorded in a document (“Agreed Minutes”) to be signed by all Paris Club creditors and the debtor country. The implementation of those Agreed Minutes will then require the signing of legally-binding bilateral agreements.

Paris Club creditors make their decision by consensus, on a case-by-case basis and take into account the track record of the debtor country with the Paris Club and the IMF.

Paris Club members which are not creditors with claims on the debtor country will attend the negotiation meeting as observers.

**10. How will the Agreed Minutes be implemented, in particular the comparability of treatment principle?**

After the signature of the Agreed Minutes (AM), the debtor country is expected to reach out to each Paris Club creditor in order to agree and sign legally binding bilateral agreements to implement the agreed terms of the AM. Unless decided otherwise, the bilateral agreements are expected to be signed within six months after the conclusion of the AM. Each Paris Club creditor makes its bilateral agreement available to the others upon request by another Paris Club creditor or by the Chair of the Paris Club.

In application of the comparability of treatment principle, the debtor country will be committed to seek from its other official bilateral creditors and private creditors a treatment at least as favorable as the one agreed with the Paris Club and recorded in the AM. Whenever the debtor country has not been in a position to reach comparable terms, Paris Club creditors will consider that the country is still “seeking” comparable terms as long as it has not paid its other creditors more than what would be provided under comparable terms.

The Paris Club will assess the comparability of treatment based on the following key parameters<sup>1</sup>: changes in nominal debt service over the IMF program period; the debt reduction in present value terms; and the extension of the duration of the treated claims.<sup>2</sup> For that purpose, Paris Club members will engage as often and as needed with other creditors, including private creditors, prior to the signing of the AM. They will also provide clarity in advance to the debtor country on how the comparability of treatment will be assessed.

The debtor country will have to regularly update the Paris Club on the progress made in its negotiations with these other creditors which are expected to be concluded within six months after the conclusion of the AM. For that purpose, the debtor country will provide a written report every three or six months specifying the status of its negotiations.<sup>3</sup>

Before concluding a debt treatment with the other creditors, it is normal practice for the debtor country to consult the Paris Club Secretariat on the terms of treatment under discussion to have Paris Club creditors' views on whether such terms would be assessed as consistent with the comparability of treatment principle.

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<sup>1</sup> A higher effort on one key parameter (for instance change in net present value) could (but not automatically) be seen as compensating for a lower effort on another key parameter (for instance change in duration).

<sup>2</sup> The change in net present value and in duration could be assessed with a sensitivity table presenting several possible discount rates (including a 5 percent discount rate), each of them being used as a common discount rate for all creditors.

<sup>3</sup> The report should specify, for each creditor concerned, at least (i) the amount of debt service or debt stock expected to be treated; (ii) the status of the negotiations (date of contact, date of past and future meetings, parameters under discussion, debt restructuring proposals, possible litigations); (iii) the description of possible difficulties; (iv) the strategy chosen to obtain a progress of these negotiations, (v) all characteristics of signed restructuring agreements.

Appendix I: list of Paris Club members

Australia  
Austria  
Belgium  
Brazil  
Canada  
Denmark  
Finland  
France  
Germany  
Ireland  
Israel  
Italy  
Japan  
Korea  
Netherlands  
Norway  
Russian Federation  
Spain  
Sweden  
Switzerland  
United Kingdom  
United States of America

## Appendix II: Suggested template letter for submitting a formal request to the Paris Club

*Letter to be sent by the authorities of a borrowing country to Paris Club creditors, in order to formally submit a request for a debt treatment<sup>1</sup>. A table presenting the composition of the stock of public debt should be attached to the letter.*

The Government of [Borrowing Country] formally requests from the Paris Club a treatment of its debt to address a need identified in the context of an upper credit tranche (UCT) IMF-supported program.

The Government of [Borrowing Country] is committed to:

- implement an upper credit tranche (UCT) IMF-supported program. In this regard, the Government of [Borrowing Country] [is already benefiting from an upper credit tranche (UCT) IMF-supported program since IMF board date to be inserted] or [has made a request on date to be inserted for an upper credit tranche (UCT) IMF-supported program],
- share all necessary information on its public sector and publicly guaranteed debt service and debt stock, and
- ensure a comparability of treatment with its other official bilateral creditors and its private creditors.

The composition of the public debt of [Borrowing Country] is presented in the attachment.

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<sup>1</sup> Borrowing countries should send their request letters to the Paris Club secretariat at [ParisClub-Secretariat@dgtresor.gouv.fr](mailto:ParisClub-Secretariat@dgtresor.gouv.fr). The Paris Club Secretariat will take care of re-routing the request to its 22 members. A hard copy might be sent to the Paris Club secretariat, Direction générale du Trésor, 139 rue de Bercy, 75572 Paris Cedex 12.