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Determinants of developing country debt: the revolving door of debt rescheduling through the Paris Club and export credits

Pamela Blackmon

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Abstract

Programmes designed to alleviate developing country debt have been implemented by bilateral, commercial and multilateral creditors and sovereign debt has been restructured under Paris Club negotiations. These strategies have not been very successful at reducing the debt levels of developing countries, in part because they continue to receive export credit insurance facilities through export credit agencies (ECAs). The purpose of this paper is to examine the high percentages of developing country debt owed to governmental ECAs. Analysis of the external debt of low-income and lower middle-income economies at five year intervals from 1980 to 2010 finds a substantial part of the indebtedness of these economies is held by ECAs. Analysis of specific sub-Saharan African countries undergoing debt rescheduling and forgiveness through Paris Club negotiations was done for Ghana and Kenya. These results show

that, following debt restructuring, new export credit guarantees and/or loans were forthcoming to these countries from the ECAs of the creditor countries that rescheduled their old debt in Paris Club negotiations during 2000–12.

Keywords:

developing country debt | Paris Club | export credit | debt rescheduling | sub-Saharan Africa

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Notes

1. Streeten, “Structural Adjustment”; and Srinivasan, Structural Adjustment.

2. Gunter, “Achieving the MDGs.”

3. Oatley, “Political Institutions and Foreign Debt.”

4. Nooruddin, “The Political Economy of National Debt Burdens.”

5. Gianturco, Export Credit Agencies.

6. Rieffel, The Role of the Paris Club, 3; and Callaghy, Innovation in the Sovereign Debt Regime, 13–15.

7. Gamarra et al., “Debt Relief to Low-income Countries,” 12.

8. Cheru, “Playing Games with African Lives,” 37.

9. Ibid.

10. Boorman, “Dealing Comprehensively, and Justly, with Sovereign Debt,” 226.

11. This process is known as the ‘subordination strategy’, in which old loans are subordinated to new credits in order to continue with the flow of new credits in the form of guarantees or insurance. The process allows many of these countries to continue to be eligible for additional export loans. See M. Kuhn, Official Financing for Developing Countries, 24.

12. Gunter, “Achieving the MDGs,” 50; Arslanalp and Henry, “Helping the Poor to Help Themselves,” 175–176.

13. Fosu, “The Impact of External Debt on Economic Growth”; and Fosu, “Implications of the External Debt-servicing Constraint.”

14. Taylor, “The Debt Problem of Sub-Saharan Africa,” 10.

15. Greene, “The External Debt Problem of Sub-Saharan Africa,” 841.

16. Ibid., 837. See also Rieffel, Restructuring Sovereign Debt, 4.

17. Low-income International Development Association (IDA) only countries that were heavily indebted could take advantage of the IDA Debt Reduction Facility also established in 1989. This facility was established to restructure and buy back commercial debt with IDA credits. Birdsall et al., Delivering on Debt Relief, 23; and Roodman, “Creditor Initiatives in the 1980s and 1990s,” 13–14. The rescheduling of commercial bank debt occurs primarily through the London Club, which is structurally and institutionally similar in many respects to the Paris Club. See Rieffel, Restructuring Sovereign Debt, 104–105.

18. A detailed analysis of these developments is provided in Birdsall et al., Delivering on Debt Relief, 22–24.

19. The differences between the ‘terms’ have to do with the lengths of the repayment periods for Official Development Assistance (ODA) and non-ODA debt and the length of the grace period. For specifics on the term arrangements, see Birdsall et al., Delivering on Debt Relief, 23.

20. The preferred creditor status for the multilateral institutions also meant that they did not reschedule or reduce amounts owed. Rieffel, Restructuring Sovereign Debt, 4.

21. Birdsall et al., Delivering on Debt Relief, 24–25.

22. Borensztein et al., Living with Debt; and Lora and Olivera, Public Debt and Social Expenditure.

23. A detailed study of these issues is provided in Gupta et al., “Debt Relief and Public Health Spending.” For a more detailed analysis of the development of the HIPC as a response to increased poverty in countries under IMF and World Bank programmes, see Blackmon, “Rethinking Poverty.”

24. Birdsall et al., Delivering on Debt Relief, 24–25.

25. A book chapter by Bird and Powell examining debt relief initiatives did mention the involvement of ECAs by noting that aid agencies of creditor countries did not want to see increases in aid budget monies for low-income countries used for old ECA credits, see Bird and Powell, “Debt Relief in Low-income Countries,” 181–182. However, the omission of developing country debt incurred as a result of ECA activity is surprising in articles such as Easterly, “How Did Heavily Indebted Poor Countries Become Heavily Indebted?”

26. Eurodad, Exporting Goods or Exporting Debts?

27. The most extensive analysis of the development and operations of export credit agencies is provided in Stephens, The Changing Role of Export Credit Agencies, 76, 106.

28. Gianturco, Export Credit Agencies, 4.

29. For detailed information as to how longer-term projects in developing countries pose greater risks for investors, see Moran, Foreign Direct Investment and Development; and Moran, Harnessing Foreign Direct Investment.

30. An excellent analysis of the OECD Arrangement is provided in Moravcsik, “Disciplining Trade Finance.”

31. The introductory material of each US Export–Import Bank annual report contains information on the export financing that the bank has supported, in addition to the

number of US jobs in US companies that have been supported by the financing. The 2011 annual report noted that financial transactions supported an estimated $41 billion worth of US exports and an estimated 290,000 US jobs at more than 3600 US companies. US Export–Import Bank, Annual Report, 2011, 4.

32. For specific reasons as to why firms used the financing provided by the US Export–Import Bank in order to mitigate the risks of doing business in Kazakhstan and Uzbekistan, see Blackmon, In the Shadow of Russia, 83–88. For detailed information on specific firms that use ECAs to support their projects in developing countries, see Blackmon, "Global Companies," 300–315.

33. Kuhn et al. Officially Supported Export Credits, 12, 14.

34. All definitions are taken from the World Development Indicators/Global Development Finance Database series definitions. The permanent url for database information is at http://go.worldbank.org/B53SONGPA0.

35. The World Bank defines low-income economies as having a GNI per capita of $1005 or less and lower middle-income economies as having a GNI per capita of $1006 to $3975, as of May 2012. http://data.worldbank.org/news/new-country-classifications, accessed October 26, 2012.

36. These debt indicators are found in the World Development Indicators/Global Development Finance database.

37. OECD Development Assistance Committee (DAC), "DAC Statistical Reporting Directives," November 12, 2010, 11. http://www.oecd.org/dac/stats/38429349.pdf.

38. Birdsall et al., Delivering on Debt Relief, 22.

39. See Borensztein et al., Living with Debt, 105; and Oatley, "Political Institutions and Foreign Debt," 182.

40. For an article that deals more specifically with the pressures from nongovernmental organisations, see Busby, "Bono made Jesse Helms Cry."

41. World Bank, Global Development Finance, 1.

42. This was also confirmed during the author's interview with an official at the US Export–Import Bank, May 7, 2012.

43. Export credit agencies vary widely in the types of export credit facilities they offer. Stephens, The Changing Role of Export Credit Agencies, 5, notes 'there is no such thing as a typical export credit agency. They come in all shapes and sizes.'

44. For example, I was able to receive information from the UK's ECGD for 2000–04 via a Freedom of Information Request through email correspondence.

45. US Export–Import Bank, Annual Report, 2004, 16.

46. Current information available at Individual Transaction Information. https://www19.edc.ca/edcsecure/disclosure/DisclosureView.aspx?yr=2009&lang=EN. Information from 2001–10 was sent to the author via email from an EDC representative.

47. I was provided with data from the ECGD's Annual Review and Resource Accounts for 2000–04 by a representative of the department under a Freedom of Information Request, but was denied data prior to 2000 because the ECGD representative estimated that it would take longer than the approved time of 40 hours to process my request. Before its financial report for 2000–01, the ECGD did not publish a list of guarantees in its annual report. I was provided with EDC data on its export credit activity for 2001–10, including on which countries received guarantees and/or loans from it, with amounts, and the month, day and year of the financial support, by a representative of EDC. However, I was informed that the disclosure policy for EDC began in 2001, which meant that only transactions from that date onwards were available.

48. Information on Paris Club meetings explains that Paris Club members participate as creditors, if they have claims towards the invited debtor country, and as observers, if they do not. See http://www.clubdeparis.org/sections/composition/fonctionnement-du-club/reunions, accessed May 2012. There was also some controversy as to whether Nigeria should have qualified for Paris Club rescheduling, since it is not strictly an IDA-only country. For more information on this controversy, see Callaghy, "The Paris Club, Debt and Poverty Reduction," 173–177.

49. Rieffel, Restructuring Sovereign Debt, 85.

50. Kuhn, Official Financing for Developing Countries, 24.

51. Eurodad, Exporting Goods or Exporting Debts?, 3, 8.

52. The US Export–Import Bank presents information on their exposure by industry in each of their annual reports, and the air transportation sector is consistently the largest

industry sector of exposure. For 2004 this sector comprised 38%, followed by power projects (10.8%), oil and gas (10.5%) and manufacturing (7%). However, for 2004 the category 'all other' comprised 33.3%, a category which encompasses many projects detailed in this article. US Export–Import Bank, Annual Report, 2004, 69.

53. UK ECGD, Annual Review and Resource Accounts, 2004–05, 2005–06 and 2008–09.

54. Current information available at Individual Transaction Information. https://www19.edc.ca/edcsecure/disclosure/DisclosureView.aspx?yr=2009&lang=EN. Information from 2001–10 was sent to the author via email from an EDC representative.

55. World Bank, Global Development Finance, 177.

56. Kenya's PPG Multilateral Debt also increased during this time from $2836 million in 2000 to $3426 million in 2005 and to $4110 million in 2010. Thus Kenya saw increases in both PPG Bilateral Debt (attributed in part to increases in export credit facilities) and PPG Multilateral Debt from 2000 to 2010. World Bank, Global Development Finance, 177.

57. Paris Club, "Paris Club Creditors agreed on December 10, 2001 with the Government of the Republic of Ghana to a Restructuring of its Public External Debt," press release, http://www.clubdeparis.org/sections/communication/archives-2001/ghana/viewLanguage/en, accessed May 2012. For detailed information on the HIPC process, including the criteria for reaching the decision point and completion point, see Blackmon, "International Economic Institutions and Global Justice," 4028–4029.

58. Paris Club, "Paris Club Creditors agreed on May 16, 2002 with the Government of the Republic of Ghana to a Restructuring of its Public External Debt," press release, http://www.clubdeparis.org/sections/communication/archives-2002/ghana6077/viewLanguage/en, accessed May 2012.

59. Paris Club, "Ghana Debt Treatment July 22, 2004," press release, http://www.clubdeparis.org/sections/traitements/ghana-20040722/viewLanguage/en, accessed May 2012.

60. Paris Club, "Paris Club reduces Ghana's Debt under the Enhanced HIPC Initiative, July 22, 2004," press release, http://www.clubdeparis.org/sections/communication/archives-2004/ghana7195/viewLanguage/en, accessed May 2012.

61. US Export–Import Bank, Annual Report, 2001, 26; and Annual Report, 2007, 22.

62. US Export–Import Bank, Annual Report, 2008, 23; and Annual Report, 2009, 18.

63. US Export–Import Bank, Annual Report, 2010, 23.

64. World Bank, Global Development Finance, 149.

65. UK ECGD, Annual Review and Resource Accounts, 2008–09, 12.

66. Current information available at Individual Transaction Information. https://www19.edc.ca/edcsecure/disclosure/DisclosureView.aspx?yr=2009&lang=EN. Information from 2001–10 was sent to the author via email by an EDC representative.

67. World Bank, Global Development Finance, 149.

68. Ibid.

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