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THE EVIAN APPROACH – TALKING POINTS
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WHAT IT IS – AND WHAT IT ISN'T

- Evian approach applies to ALL NON-HIPC AND MIDDLE INCOME COUNTRIES, to the extent that they qualify for debt rescheduling (They have to have an IMF program in place), whether they get reduction or only flow relief.
- Hereafter it is NOT a question whether a country would get “Evian treatment” or not; ALL non-HIPC countries are hereafter “Evian cases” to the extent that they request a debt rescheduling.
- The question is whether they would get a TRADITIONAL TREATMENT (rescheduling, filling of short-to-medium term financing gaps by way of postponed payments) OR a “COMPREHENSIVE TREATMENT” – i.e. a phased, multi-year treatment with initial flow relief, perhaps followed by debt reduction in the event that the debt is deemed clearly unsustainable, provided the country in question is “on track” with its economic reform programs.
- Very importantly, the Evian approach does NOT SIGNIFY THE INTRODUCTION OF NEW *TERMS*, it’s a new, flexible FRAMEWORK FOR ACTION, no more, no less.

WHAT'S NEW?

- The key novelty is that LONG-TERM DEBT SUSTAINABILITY, as apart from merely filling short-term financing gaps, shall be the GUIDING PRINCIPLE for debt relief also for middle-income countries, as has long been the case for the poorest countries (the HIPC countries).
- Comprehensive DSAs (Debt sustainability analyses) may – or may not – lead to the granting of DEBT REDUCTION.
- DEBT REDUCTION as such is not entirely new to middle-income countries. Countries like Egypt, Poland and ex-Yugoslavia have obtained deep debt reduction. However, this has been on a purely ad hoc basis, perhaps driven as much by geo-political concerns as concerns over debt sustainability.
- What’s new is that the option of DEBT REDUCTION for middle-income countries has been EXPLICITLY FORMULATED; PUT DOWN ON PAPER and BROADCAST ON THE INTERNET (Paris Club’s web page).

Very much part of the public domain.

- Although many debt rescheduling agreements have been divided into phases, the option of a PHASED, MULTI-YEAR APPROACH is also a novelty.
- MORE ACTIVE POLICY ON UPDATING CUT-OFF DATES. The Paris Club has rescheduled post-cut-off date debts before, when this has been necessary to produce credible debt relief agreements. Still, there is reason to expect more activism in this field in the future. In my opinion, it is totally out of place to have 20-year old cut-off dates; then there risk of moral hazard is more on the creditor than on the debtor side of the equation. This change is LONG OVERDUE.
- MORE COORDINATION WITH PRIVATE SECTOR CREDITORS. Not new; started long before Evian, but will probably be strengthened through pre-negotiation (ex ante) consultations.

WHAT WILL REMAIN BASICALLY THE SAME?

- The AD HOC – CASE-BY-CASE – APPROACH. Very flexible approach. Again, the Evian approach should NOT be confused with NEW TERMS - there are no new terms, just options – and perhaps added flexibility (for creditors).
- The strong link to IMF CONDITIONALITY will remain intact. (If anything, the phased approach may in fact lead to even stronger linkages between debt relief and program implementation over time).
- The IMF will NOT become a JUDGE as regards DEBT SUSTAINABILITY. The conclusion as to whether or not a debt is to be considered unsustainable will ultimately rest with the creditor countries, although the analyses will be conducted by the IMF.
- Debt reduction will only be given in EXCEPTIONAL CASES (as today). *What will be seen as constituting “exceptionality” may change, but this remains to be seen.*
- NO FIXED CRITERIA OR INDICATORS for unsustainable debt. The Evian approach is NOT a HIPC INITIATIVE for middle-income countries (not a “HIMC”)!

POTENTIAL PROBLEMS/CHALLENGES IN IMPLEMENTATION

- DEFINING UN-SUSTAINABILITY IN THE ABSENCE OF FIXED INDICATORS. (*When does a debt become unsustainable?*) No debt/export-ratio; no debt service/exports-ratio (as in HIPC). — I’m NOT

advocating the introduction of fixed criteria - for which I do not think there is any support among creditors. Nevertheless a problem.

- (Tension between “UNSUSTAINABLE DEBT” and “ONLY EXCEPTIONAL CASES”? May leave room for different interpretation, colored by nuances in creditor positions).
- How, in concrete terms, will CUT-OFF DATES be updated? (Pure ad hockery?) Remains to be seen. (Lots of hidden – and not so hidden – agendas among creditors. A bit worried as to how this issue will be resolved).
- PHASED APPROACH: Paris Club creditors should be careful NOT TO MAKE THINGS OVERLY COMPLICATED.
- COORDINATION WITH THE PRIVATE SECTOR. Implementation of COMPARABILITY OF TREATMENT. Always a challenge – will be no less so with the Evian approach.

NORWAY’S POSITION

- Norway has **STRONGLY AND ACTIVELY SUPPORTED** the Evian approach (more vocally than many a G8 country).
- In cases where debt burdens are deemed clearly unsustainable, we should not fool ourselves into thinking that we could somehow get by with flow treatments (*you just can’t kill a virus with penicillin*). We’ve seen too many examples of **REPETITIVE TREATMENTS** of the same debtor countries, coming back to the Paris Club six or seven or even more times. Evian terms are an **ANTIDOTE TO “HOUSTON ADDICTION”**.
- In **UNSUSTAINABLE** cases debt reduction would be an appropriate policy response, provided the countries in question are fully and continuously committed to economic reform and **POVERTY REDUCTION**. Debt reduction should clearly be linked to a **“TRACK RECORD”**.
- No need for **FIXED CRITERIA/INDICATORS**, but **WILL NOT RULE OUT “LESS THAN MECHANISTIC MARKERS”** some time in the future, based on experience.
- Should keep in mind that **CUT-OFF DATES** are meant to preserve and protect the creditworthiness of debtor countries (and the claims of creditors). Therefore, very aggressive updating may not necessarily be in their interest. Need to find a **SENSIBLE BALANCE – A MIDDLE GROUND**.

- We're happy with the option of using FLEXIBLE INSTRUMENTS, such as DEBT SWAPS, as part of a comprehensive treatment (not only as a supplement). That is; we have serious problems with traditional, bilateral swaps, which we think are plagued with severe inefficiencies. Instead, we have floated ideas on what we call "MULTILATERALLY COORDINATED DEBT-FOR-DEVELOPMENT SWAPS" (Collective swaps). I'm not going to get into detail, but I draw your attention to a Norwegian "think piece", previously shared with the Paris Club and the G8, now being distributed to all delegations with the help of the Secretariat.

CONCLUSIONS

- Through the Evian approach, the Paris Club has LIFTED A TABOO, in its EXPLICITLY NAMING DEBT REDUCTION AS AN OPTION for middle-income countries with unsustainable debt.
- Clearly, this is a CONTRIBUTION TO MORE ORDERLY, TIMELY AND PREDICTABLE ECONOMIC CRISIS RESOLUTION.
- It should be recalled, though, that the aim of the Evian approach is primarily to EXPAND POLICY OPTIONS; it will NOT represent the opening a PANDORA'S BOX of indiscriminate, across-the-board debt reduction for middle-income countries. To the extent that there are INFLATED EXPECTATIONS out there, I think it important that these be adjusted.
- It's NOT A GIANT LEAP – but it is an important and significant STEP FORWARD.
- It's NOT A FIXED PRESCRIPTION, NOT A FINAL RECIPE.
- It's very much a WORK IN PROGRESS
- There will be a lot of LEARNING BY DOING.
- Recommendation: read both press release and Paris Club's WORKING PAPER, also published on www.clubdeparis.org – a very wise move by the secretariat, strongly recommended by Norway, for the sake of TRANSPARENCY.