

## **4<sup>th</sup> Inter-regional Debt Management Conference, UNCTAD**

### **Recent developments in Paris Club debt restructuring**

#### **Summary of discussion**

Monday, 10 November 2003

Moderated by Barry Herman, DESA, UN

Panellists: Mr. Emmanuel Moulin, Secretary General, Paris Club  
Mr. Paul E. Habeshaw, HM Treasury, UK  
Mr. Bjorn Brede Hansen, Royal Norwegian Ministry of Foreign Affairs

The presentations by the panellists focussed on the Evian Approach, its rationale, the implementation mechanisms, and the challenges lying ahead.

The Evian Approach's main aim is to provide a framework for dealing with the debt of non-HIPCs in a structured manner, in particular in addressing the issues of sustainability of debt for middle-income countries. The need to adopt a new approach for non-HIPCs was driven by the following set of factors:

First, the evolution of the composition of the external debt over time, with the growing importance of private creditors increased the need for a closer co-ordination amongst different types of lenders. Second, the progress made by the IMF and the World Bank in developing tools for analysing sustainability enabled creditors to use these techniques in obtaining a better evaluation of the debt situation of countries. Third, the failure of the SDRM initiative led to the need to find solutions for improving the existing mechanisms for tackling the debt problems of sovereigns.

From a conceptual point of view, the key novelty in the Evian Approach is creditors' focus on long-term debt sustainability rather than on exclusively providing short term debt relief. In terms of new procedures, this becomes evident as the first step in the debt reorganization becomes the definition of the debt problem in terms of whether the inability to pay is due to a transitory liquidity problem or a whether the debtor faces a sustainability problem. In the case of liquidity problems, the Paris Club will continue using the existing terms, i.e. Classic and Houston Terms. In case that the debtor is faced with a sustainability problem, the range of mechanisms to be applied is extremely broad, and will include write-offs, extended use of debt swaps, and changes to the cut-off date.

Some of the new features of debt negotiations under the Evian Approach include the shift to discussing a debtor's position with private creditors prior to the meeting of the Paris Club, the extensive use of debt sustainability tools by both the IMF and the creditors, and the fact that the decision on the sustainability of a country's debt situation will be made by creditors rather than by the multilateral organizations.

Some of the challenges in implementing the Evian Approach that will be faced by creditors is the application of debt sustainability models as they are still being developed, the decision as to when is a debt judged to be unsustainable, the methodology for changing the cut-off date, the burden sharing amongst creditors of the Paris Club, and the co-ordination with private creditors in light of confidentiality issues.

During the discussion, debtor countries raised a number of issues with respect to current practices, such as the difficulty in achieving comparability of treatment both with non-Paris Club official creditors and with the London Club of creditors. Problems with respect to ensuring the participation of non-Paris Club creditors were identified as a major challenge in achieving an efficient debt restructuring mechanism.