

**AFRICAN DEVELOPMENT BANK**



**AFRICAN DEVELOPMENT FUND**



**Brief on Bank Group Participation  
in the HIPC Initiative and Debt Sustainability**

**Informal Boards Meeting of 2 Dec 04**

# **Brief on Bank Group Participation in the HIPC Initiative and Debt Sustainability**

## **1. Introduction**

1.1 This brief provides an update on Bank Group participation in the implementation of the HIPC debt relief Initiative. It covers a review of the regional member countries (RMCs) which have reached the Completion Point, those in the Interim Period, and those not yet at Decision Point.

1.2 Also assessed in this brief are emerging issues regarding HIPCs in the interim period and those coming out of conflict. In addition, issues related to the emerging new debt sustainability framework and its implications for loan/grant financing terms for the 40 ADF-eligible RMCs are examined.

## **2. Update on HIPC Debt Relief Implementation**

### **2.1 Debt Relief at Completion Point – 12 RMCs**

2.1.1 As at end November 2004, 12 RMCs have reached their completion points, and are now receiving irrevocable debt relief. They are: Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mauritania, Mozambique, Niger, Senegal, Tanzania, and Uganda. Annex 1 provides details of the debt relief cost for these RMCs, estimated at **US\$ 1.11 billion** in decision point NPV terms, equivalent to **US\$ 1.50 billion** in nominal terms.

2.1.2 Among the 12 RMCs which have reached their completion points, 5 of them qualified recently for irrevocable debt relief at the completion point between April and October 2004. They are: Ethiopia, Niger, Senegal, Ghana and Madagascar<sup>1</sup>.

### **2.2 Interim Debt Relief – 11 RMCs.**

2.2.1 As at end November 2004, 11 RMCs are in the interim period, between decision and completion points, and benefiting from interim debt relief under the enhanced HIPC Initiative. As shown in Annex 1, the RMCs are: Cameroon, Chad, Democratic Republic of the Congo (DRC), The Gambia, Guinea-Bissau, Malawi, Guinea, Rwanda, Sao Tome and Principe, Sierra Leone and Zambia. The Annex also provides details of the HIPC debt relief cost for these RMCs, estimated at **US\$ 1.53 billion** in decision point NPV terms, equivalent to **US\$ 2.73 billion** in nominal terms.

2.2.2 *DRC – Latest Decision Point:* Among the 11 RMCs now benefiting from interim debt relief, is the DRC for which the Boards approved, on 16 June 2004, the Bank Group's share of debt relief at decision point of **US\$ 905.09 million** in end-2002 NPV terms. The Boards of the IMF/World Bank had earlier, on 23 July 2003, approved a total debt relief of **US \$ 6.3 billion** in 2002 NPV terms for the DRC. The Bank Group's share of US \$905.09 million is equivalent to 14.3 percent of the total cost of all creditors, or **36.6 percent** (the largest share) of the multilateral creditors contribution, against 33.6 percent for IDA, 19.1 percent for the IMF, and 10.7 percent for all the other multilateral creditors.

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<sup>1</sup> See Annex II for brief highlights on the 5 HIPCs.

## 2.3 Emerging Issues for Interim Period and Post Conflict Countries

2.3.1 This sub-section reviews emerging issues for debt sustainability<sup>2</sup> as they relate to: (a) RMCs in the interim period; and (b) Post conflict countries (PCCs) and the new PCCF arrears clearance program.

### *RMCs in the Interim Period*

2.3.2 Annex 1 shows that, overall, 23 RMCs are now benefiting from debt relief under the HIPC Initiative, of which 12 have reached the completion point, while 11 RMCs are currently in their interim periods. But, as also indicated, 6 of the RMCs in their interim periods continue to experience serious delays in reaching the completion point. The main reason for the delays is the fact that these RMCs have not yet satisfied some of the completion point triggers: preparation and implementation of a full PRSP; continued satisfactory macroeconomic performance and structural reforms; and consolidation of the peace process, among others. The RMCs concerned are: Cameroon, Chad, the Gambia, Guinea, Malawi, and Zambia.

2.3.3 Among the 6 RMCs, 4 countries (Cameroon, the Gambia, Guinea, and Zambia) have already received the maximum 40% cumulative interim period share of total debt relief (NPV terms), and have therefore exhausted their interim financing. Accordingly, these RMCs are expected to be paying fully their debt service obligations coming due. In the circumstances, the Bank Group continues to liaise closely with the Debt Department of the World Bank and the HIPC Trust Fund, to agree on a common approach to deal with the problem.

2.3.4 Regarding the remaining 2 RMCs (Malawi and Chad) which have not reached the completion point within the first 3 years of mandated economic reforms, but have not yet exhausted their interim financing, a case by case approach is being adopted. A good example was the case of Guinea Bissau (which was part of this group until end-May 2004), but its case was dealt with by extension of the interim debt relief, in view of the exceptional governance issues it experienced from 2001 to 2003.

2.3.5 For Guinea Bissau, the Boards approved on 27 May 2004, on a lapse of time basis, a formal request for extension of the interim period debt relief for 2 more years. Subsequently, a formal request was made and approved by the HIPC Trust Fund to provide the 2 years' extension of interim debt relief, subject to satisfactory policy performance by the country after the first year.

### *Post Conflict RMCs and the PCCF*

2.3.6 As at end November 2004, **9 RMCs** remain which have not yet qualified for debt relief at decision point under the enhanced HIPC Initiative. The countries are: Burundi, Central African Republic (CAR), Congo Republic, Comoros, Côte d'Ivoire, Somalia, Liberia, Sudan and Togo. These are post conflict countries (PCCs), or countries now emerging from conflict, with substantial arrears problems, and with some still facing periodic social/political crises.

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<sup>2</sup> Debt sustainability is defined here as it applies under the enhanced HIPC Initiative. Two measures are commonly used. First, if a country's NPV of debt/exports ratio is below 150%, its debt is said to be sustainable; second, if the NPV of debt/fiscal revenue is less than 250%, the country's debt is also sustainable. On the other hand if the ratios exceed the thresholds defined, the country's debt is said to be unsustainable. This narrow definition of debt sustainability should be distinguished from the new and broader definition which is reflected in the emerging consensus of the IMF/World Bank debt sustainability framework based on various debt burden indicators and thresholds. See section 3 below.

2.3.7 In order to address the issues concerning the PCCs, the Boards of Directors have approved, as of July 2004, the new Post Conflict Country Facility (PCCF), an innovative scheme designed to help clear the arrears of 7 of the 9 PCCs<sup>3</sup> so that they can qualify for debt relief at decision point under the enhanced HIPC Initiative. This will simultaneously enable the PCCs to become eligible for re-engagement by the Bank Group and the other IFIs in operational activities in those countries.

2.3.8 The Boards have agreed to allocate UA 100 million from the ADF-X replenishment for the PCCF. Of this, UA 55 million will be used to reimburse against the amount advanced from the ADF-IX resources as a seed contribution to the PCCF to facilitate its early launching. The resources of the Facility will be used, on a case-by-case basis, to assist those PCCs that meet the criteria established by the Bank Group.

2.3.9 *Update on Country Cases.* An update on the current status of the PCCF arrears clearance program, and the country cases is provided below. It is noted that the prospects for early arrears clearance programs are bright only for 2 (Burundi and Congo Republic) of the 7 PCCs that are in the PCCF program.

- **Burundi:** The Boards approved Burundi's PCCF proposal and the Interim-CSP on 27 October 2004. Total arrears to be cleared amount to **UA 16.68 million**. The financing plan for the arrears clearance program has been agreed and the shares are - Burundi: 30%; Donors: 35%; and PCCF: 35%.
- **Congo Republic:** The Congo's arrears clearance proposal under the PCCF and the country's I-CSP are ready for Board consideration and approval on December 8, 2004. Following approval of the two documents, it is proposed that sanctions on Congo would be lifted, and this would allow for rapid resumption of Bank Group assistance to the country. Total arrears amount to **UA 99.85 million**. The financing plan has been agreed, with the following breakdown: Congo: 33%; Donors: 33%; and PCCF: 33%.
- **Liberia:** Total arrears amount to **UA 148.64 million**. A Bank Group mission was recently in Liberia to prepare a country dialogue note. Meanwhile the Bank has been informed that the World Bank and IMF are working on a proposal to clear the arrears of Liberia, as the IBRD arrears are over US \$400 million. It is understood that a bridge financing operation is being considered followed by new IDA credits.
- **Cote d'Ivoire:** Total arrears amount to **UA 127.44 million**. Although the Government recently made some token payments towards clearing its arrears, these payments fall far short of commitments made by the Finance Minister at the Kampala Annual meetings. With the eruption of further civil violence recently, PCCF arrears clearance is likely to be delayed.
- **Sudan:** Total arrears amount to **UA 96.64 million**. Attempts to proceed with the Sudan arrears clearance program have effectively been derailed in view of the humanitarian crisis situation in the Darfour region. Attempts to get the Sudanese authorities to increase their monthly installments from US \$ 500,000 to US \$ 1.0 million have also not been fruitful.
- **CAR:** Total arrears amount to **UA 22.46 million**. Based on contacts with IMF/World Bank staff, it appears that a re-engagement program for 2005 is under consideration. This will be contingent, though, upon the elections being scheduled for early 2005.

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<sup>3</sup> The 7 PCCs to benefit from the PCCF include: Côte d'Ivoire, Central African Republic (CAR), Burundi, Congo, Sudan, Liberia and Somalia. The other 2 PCCs not yet beneficiaries are: Comoros and Togo.

- **Somalia:** Total arrears amount to **UA 34.3 million**. In the absence of a national government, only the World Bank and the UNDP have been making any efforts at re-engagement with the country. The activities include support to: (i) the second phase of macro-economic data analysis and dialogue; (ii) the livestock and meat industry; (iii) an action plan to address HIV/AIDS issues; and (iv) capacity building for skills development and centers of training. The Bank Group plans to initiate its PCCF process for Somalia following the establishment of a national government.

### **3. Emerging Debt Sustainability Framework and ADF Financing Terms**

3.1 The possible operational implications of the emerging new IMF/World Bank debt sustainability framework<sup>4</sup> on the Bank Group's financing terms during the ADF-X cycle was presented and discussed at the 3<sup>rd</sup> ADF-X replenishment consultations held on 16-17 September in Tunis, Tunisia<sup>5</sup>.

3.2 After extensive inter-agency consultations involving IDA, AfDB, AsDB and other IFIs, it was agreed that the new debt sustainability framework would guide the loan/grant financing terms for ADF and other concessional resources. Accordingly, it was agreed that in order to avoid the build-up of excessive debt in the future, the terms of ADF-X financing would be based on an analysis of each country's prospect for debt sustainability.

3.3 This would rely on the agreed IMF/World Bank debt sustainability framework as applied to the ADF. Accordingly, countries deemed likely to face debt distress by contracting additional concessional loans would only be eligible for grant financing. By contrast, countries which are deemed in a position to sustain higher levels of concessional debt, with very low probability of debt distress, would be eligible for loans or a combination of loans and grants. Based on the analysis, using the IMF/World Bank debt sustainability framework, the proportion of loans and grants for each ADF country will be determined; similarly, the share of grants in the overall ADF-X replenishment will be determined.

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<sup>4</sup> See World Bank: *Debt Sustainability in Low Income Countries – Proposal for an Operational Framework and Policy Implications*, February 2004.

<sup>5</sup> See *ADF: The New IMF/World Bank Debt Sustainability Framework and Its Implications for ADF-X Financing Terms*, September 2004, Annexes 2 and 4: Paper prepared for the ADF-X Third Consultations, Tunis, Tunisia (16-17 September 2004).

# ANNEX I

HIPC DEBT RELIEF IMPLEMENTATION AS AT END - NOVEMBER 2004													
(US\$ millions)													
COUNTRY	APPROVAL DATE		BANK GROUP APPROVAL DATE		CUT-OFF DATE	TOTAL DEBT RELIEF COMMITTED		LAST DATE OF RELIEF	TOTAL DEBT RELIEF DELIVERED		AS % OF TOTAL DEBT RELIEF COMMITTED		40 PERCENT CEILING (THREE YEARS LIMIT DATE) / STATUS <sup>1</sup>
	DECISION POINT	COMPL. POINT	DECISION POINT	COMPL. POINT		NPV TERMS	NOMINAL TERMS		NPV TERMS	NOMINAL TERMS	NPV TERMS (%)	NOMINAL TERMS (%)	
<b>COMPLETION POINT CASES</b>													
Benin	Jul-00	Mar-03	Oct-00	Jul-03	Dec-98	37.57	46.50	Apr-09	19.54	21.70	52.01	46.66	Irrevocable
Burkina Faso	Jun-00	Apr-02	Oct-00	Jul-02	Dec-99	86.70	125.74	Oct-20	28.78	31.62	33.20	25.15	Irrevocable
Ethiopia	Nov-01	Apr-04	Feb-02	Oct-04	Dec-02	339.46	461.39	Sep-21	84.46	90.76	24.98	19.67	Irrevocable
Ghana	Feb-02	Jul-04	May-02	Nov-04	Dec-00	130.93	160.15	Jan-13	55.14	58.67	42.12	36.63	Irrevocable
Madagascar	Dec-00	2004-Q4	Feb-01	Floating	Dec-99	59.10	75.23	Sep-11	23.64	25.16	40.00	33.44	Dec-03
Mali	Sep-00	Mar-03	Nov-00	Jul-03	Dec-98	69.72	86.42	Jul-10	31.82	34.83	45.65	40.30	Irrevocable
Mauritania	Feb-00	Jun-02	Jul-00	Jul-02	Dec-98	72.80	90.69	Apr-11	36.05	40.64	49.52	44.81	Irrevocable
Mozambique	Apr-00	Sep-01	Oct-00	Feb-02	Dec-98	22.25	29.27	Sep-10	9.93	11.17	44.61	38.18	Irrevocable
Niger	Dec-00	Apr-04	Mar-01	Oct-04	Dec-02	50.01	86.26	Dec-24	7.50	8.22	15.00	9.52	Irrevocable
Senegal	Jun-00	Apr-04	Oct-00	Oct-04	Dec-98	56.80	65.42	May-06	22.72	24.13	40.00	36.88	Irrevocable
Tanzania	Apr-00	Nov-01	Jul-00	Feb-02	Jun-99	124.90	190.75	Jul-17	36.65	41.03	29.34	21.51	Irrevocable
Uganda	Apr-97	Jan-00	Apr-98	Sep-00	Jun-99	59.30	78.65	Mar-12	24.77	27.81	41.77	35.36	Irrevocable
<b>Subtotal (A)</b>						<b>1109.54</b>	<b>1486.47</b>		<b>381.00</b>	<b>415.74</b>			
<b>INTERIM PERIOD CASES</b>													
Cameroon <sup>2</sup>	Oct-00	2004-Q4	Nov-00	Floating	Jun-99	78.60	90.11	Mar-06	31.44	33.34	40.00	37.00	Sep-03
Chad <sup>2</sup>	May-01	2004-Q4	Jul-01	Floating	Dec-00	36.90	49.38	Apr-12	9.79	10.61	26.52	21.49	Apr-04
Dem. Rep. of Congo <sup>3</sup>	Jul-03	2006-Q4	Jun-04	Floating	Dec-02	905.09	1804.87	Sep-24	85.74	87.54	9.47	4.85	Jul-07
Gambia <sup>2</sup>	Dec-00	2005-Q4	Feb-01	Floating	Dec-99	15.80	19.57	Jan-09	6.31	6.77	39.97	34.61	Jul-03
Guinea <sup>2</sup>	Dec-00	2005-Q3	Apr-01	Floating	Dec-99	75.30	89.07	Apr-07	30.12	32.27	40.00	36.23	Oct-03
Guinea Bissau <sup>2,3</sup>	Dec-00	2005-Q4	Dec-00	Floating	Dec-99	50.84	84.98	Jan-24	13.96	15.24	27.45	17.94	Dec-05
Malawi <sup>2</sup>	Dec-00	2004-Q4	Jan-01	Floating	Dec-99	70.90	98.22	Jan-14	20.51	22.00	28.93	22.40	Dec-03
Rwanda	Dec-00	2004-Q4	Jan-01	Floating	Dec-99	75.00	141.15	Jul-25	17.98	20.05	23.97	14.21	Dec-04
Sao Tome & Principe	Dec-00	2005-Q4	Apr-01	Floating	Dec-99	34.20	78.93	Oct-38	4.96	5.47	14.50	6.93	Dec-04
Sierra Leone <sup>3</sup>	Mar-02	2005-Q4	Jun-02	Floating	Dec-00	42.81	98.62	Jan-36	6.10	6.63	14.25	6.72	Jan-05
Zambia <sup>2</sup>	Nov-00	2005-Q2	Jan-01	Floating	Dec-99	146.10	177.64	Jul-14	58.44	61.15	40.00	34.42	Dec-03
<b>Subtotal (B)</b>						<b>1531.53</b>	<b>2732.55</b>		<b>285.35</b>	<b>301.09</b>			
<b>Subtotal (C)=(A)+(B)</b>						<b>2641.07</b>	<b>4229.01</b>		<b>666.35</b>	<b>716.83</b>			
<b>RMCs NOT YET AT DECISION POINT *</b>													
Burundi <sup>3</sup>	2005	Floating		TBD		73.30	206.79		...	...	...	...	...
Central African Rep. <sup>3</sup>	TBD	Floating		TBD		37.14	45.15		...	...	...	...	...
Comoros <sup>4</sup>	TBD	Floating		TBD		18.80	25.20		...	...	...	...	...
Congo Republic <sup>3</sup>	2005	Floating		TBD		126.70	151.55		...	...	...	...	...
Cote d'Ivoire <sup>3</sup>	TBD	Floating		TBD		300.00	360.18		...	...	...	...	...
Liberia <sup>3</sup>	2005	Floating		TBD		123.10	145.38		...	...	...	...	...
Somalia <sup>3</sup>	TBD	Floating		TBD		53.10	63.02		...	...	...	...	...
Sudan <sup>3</sup>	2005	Floating		TBD		159.50	210.53		...	...	...	...	...
Togo <sup>4</sup>	TBD	Floating		TBD		13.50	20.43		...	...	...	...	...
<b>Subtotal (D)</b>						<b>905.14</b>	<b>1228.23</b>		-	-			
<b>TOTAL (C)+(D)</b>						<b>3546.21</b>	<b>5457.24</b>		<b>666.35</b>	<b>716.83</b>			
* Dates for completion points are tentative													
1. Refers to the constraint of 40 percent ceiling and/or the mandatory three-year program of economic reforms													
2. These countries have had delays in reaching their completion points, as a result they are expected to pay fully their debt service obligations falling due													
3. Post conflict regional member countries													
4. Others													
Source: World Bank-HIPC Unit and Bank Group HIPC Database													
TBD: To be determined													

## ANNEX II

### **Highlights on Recent Completion Point Cases**

1. ***Ethiopia***: The IMF/World Bank Boards confirmed Ethiopia's total debt relief approval of **US\$ 1.275 billion** (NPV terms), in April 2004, as agreed at the decision point, and also approved an additional **US\$ 706.9 million** topping up assistance (NPV terms). The Bank Group's Board of Directors have already approved, on 13 October 2004, Ethiopia's Completion Point Board document for irrevocable debt relief approval of **US\$ 216.47 million** (17 percent of total) in NPV terms. The Boards also approved an additional topping up assistance of **US\$ 122.99 million** (17.4 percent of total) in NPV terms.
2. ***Niger***: The Boards of the IMF/World Bank confirmed Niger's total debt relief approval of **US\$ 520.6 million** (NPV terms), in April 2004, as agreed at the decision point, and approved an additional **US\$ 142.5 million** (NPV terms) topping up assistance. The Bank Group's Board of Directors have also approved, on 13 October 2004, Niger's Completion Point Board document for irrevocable approval of **US\$ 37.24 million** debt relief (7.2 percent of total) in NPV terms. They also approved an additional topping up assistance of **US\$ 12.78 million** (9.0 percent of total) in NPV terms.
3. ***Senegal***: The IMF/World Bank Boards confirmed Senegal's total debt relief approval of **US\$ 488 million** (NPV terms), in April 2004, as agreed at the decision point. There was no need for topping up assistance in this case. The Bank Group's Board of Directors has also approved, on 13 October 2004, Senegal's Completion Point Board document for irrevocable debt relief of **US\$ 56.80 million** (11.7 percent of total) in NPV terms.
4. ***Ghana***: In July 2004, the IMF/World Bank Boards confirmed irrevocable approval of Ghana's total debt relief of **US\$ 2.19 billion** (NPV terms), as agreed at the decision point in February 2002. There was no need for topping up assistance in Ghana's case. The Bank Group's Board of Directors are to consider, during on 1<sup>st</sup> December 2004, Ghana's Completion Point Board document for irrevocable approval of **US\$ 130.93 million** debt relief (6.0 percent of total) in NPV terms.
5. ***Madagascar***: In October 2004, The IMF/World Bank Boards approved Ethiopia's total debt relief of **US\$ 836 billion** in NPV terms, which is **US\$ 22 million** higher than estimated at the decision point, in view of additional information received from creditors since the decision point.. The Bank Group's Board of Directors are to consider, in January 2005, Madagascar's Completion Point Board document for irrevocable approval of **US\$ 60 million** debt relief in NPV terms.