

**AFRICAN DEVELOPMENT FUND**



**AFRICAN DEVELOPMENT BANK**



**MALAWI - HIPC APPROVAL DOCUMENT - DECISION**  
**POINT UNDER THE ENHANCED FRAMEWORK\***

**NB : This document contains errata or corrigenda (see Annexes)**

## **HIPC APPROVAL DOCUMENT FOR MALAWI: Decision Point under the Enhanced Framework**

### **1. INTRODUCTION**

1.1 The Boards of Directors approved the Bank Group's participation in the enhanced HIPC Initiative, on July 6, 2000. During this meeting, Management's proposal for the delivery modalities and financing arrangements were also approved. Accordingly, the Bank Group would provide its debt relief by releasing eligible countries from up to 80 percent of their annual debt service obligations until the total debt relief is delivered. Debt service delivery would commence at the decision point, with no more than 40 percent of HIPC assistance being provided during the interim period, viz., between the decision and completion points. Whenever possible, total debt relief will be provided within 15 years.

1.2 During their deliberations, the Boards of Directors took note of an earlier meeting of the Deputies of the African Development Fund on June 30, 2000 in Paris. At this meeting the Deputies endorsed the Bank Group's proposed delivery modalities and further agreed that the Bank Group has made the maximum effort in generating internal resources for the HIPC Initiative. The Deputies gave assurance to the Bank Group that they would meet the remaining financing gap to cover the full cost of the Bank's participation in the Initiative.

1.3 In December 2000, Malawi reached its decision point and the Boards of the IMF and World Bank approved US\$ 643 million worth of debt relief in end December 1999 net present value (NPV) terms under the enhanced HIPC Framework. This document invites the Boards to note the justifications for Malawi's qualification for HIPC assistance, and approve the proposed plan to finance the Bank Group's share of Malawi's costs. Section 2 of this document summarises details of Malawi's qualification, while the total debt relief is disaggregated in Section 3 to illustrate how the Bank Group's share of the HIPC costs have been derived. The Bank Group's operations are reviewed in Section 4, with particular emphasis on activities related to the Poverty Reduction Strategy Papers (PRSPs). Section 5 presents details of the proposed delivery modality. The proposed financing plan is presented in Section 6. Recommendations for the Boards' consideration are contained in Section 7.

### **2. HIPC QUALIFICATION**

Malawi qualified for US\$ 643 million (in NPV terms) worth of debt relief assistance, equivalent to 44 percent reduction in the country's outstanding stock of debt at end December 1999 after full use of traditional debt relief mechanisms. The country reached its decision point in December, 2000, and is expected to reach its completion point by 2003 by fulfilling the following conditions:

- Preparation and implementation of a full PRSP for at least one year;
- Implementation of macroeconomic and structural reforms, in particular:
  - (i) Maintaining a stable macroeconomic environment as evidenced by satisfactory implementation of the IMF-supervised Poverty Reduction and Growth Facility (PRGF) program;
  - (ii) Implementation of an Integrated Financial Management Information System (IFMIS) on a pilot basis in four ministries;
  - (iii) Quarterly expenditure reporting as per format jointly developed by MOF/IDA;

- (iv) Approval by Cabinet of the “Micro-finance Policy”, establishment of a monitoring system covering all micro-finance institutions, and a 20 percent increase in the number of micro-finance clients;
- (v) Submission of draft Land Law to parliament;
- Separation of fiscal management and audit functions under new legislation;
- Making progress in implementing the National AIDS strategy, in particular fully staffed, functional and autonomous National AIDS Control Secretariat, and implementation of an effective Behavior Change Communication Strategy, among others;
- Making progress towards raising the quality of education through, among others, increasing the share of education sector expenditure in discretionary recurrent budget of at least 23 percent, and reallocation of budgetary resources from secondary school boarding (except for ‘special needs education’) to teaching and learning materials;

A copy of the relevant HIPC decision point document is annexed to this report.

### 3. HIPC COSTS

Bilateral creditors will account for US\$ 163 million ( 25 percent) of Malawi’s debt relief while multilateral creditors will deliver the remaining US\$ 480 million ( 75 percent). The Bank Group’s share of debt relief will amount to US\$ 71.28 million in end-1999 NPV terms. Table 1 provides a breakdown of Malawi’s total debt relief in NPV terms.

**Table 1. Breakdown of Malawi’s HIPC Costs**

	US\$ million ( End-1999 NPV)
<b>Total HIPC Debt Relief</b>	<b>643</b>
Bilateral Creditors	<b>163</b>
Multilateral Creditors	<b>480</b>
<i>Of which:</i>	
<i>African Development Bank Group</i>	<i>71</i>
<i>World Bank</i>	<i>331</i>
<i>IMF</i>	<i>30</i>

### 4. BANK GROUP INVOLVEMENT IN THE PRSP

4.1 The Interim PRSP (I-PRSP) for Malawi incorporates policies to reduce macroeconomic imbalances, broaden market-oriented reforms, and improve outcomes in the social sector. Specific policies would be directed at strengthening public expenditure management, improving governance, raising the quality of education, improving health outcomes, including fighting HIV/AIDS, strengthening land and credit markets, and creating an effective safety net. Although the Bank Group was not directly involved in the preparation of the I-PRSP, its Country Strategy Paper (CSP) for Malawi takes into account the Government’s program for poverty reduction, the strategies and donor support required.

4.2 Bank Group's CSP preparatory process included a participatory workshop with representatives from the trade unions, human right organizations, the Chamber of Commerce and civil society organizations, including NGOs. The Bank Group's medium-term assistance strategy (1999-2001) focuses on poverty reduction through support for macroeconomic reforms that will promote accelerated growth, and financial and fiscal stability. It emphasizes projects and programs that promote small-holder agriculture, rural development, improved access to social services, particularly, basic education and primary health care. It will also support institutional capacity building and the creation of a conducive environment for private sector development.

4.3 The government of Malawi is embarking on the preparation of a full PRSP to fulfil the condition for reaching the completion point under the enhanced HIPC framework. The Bank Group plans to be actively involved in the process and would assist in the development of a coordinated approach for sustained economic growth and poverty reduction in Malawi.

## 5. PROPOSED DELIVERY MODALITY

5.1 As Malawi has reached its decision point, it is proposed that the Bank Group makes a commitment to provide interim debt relief between the decision and completion points, with effect from December 2000. Interim relief will not exceed 40 percent of the total NPV debt relief, and is expected to be delivered between 2000 and 2003. The Bank Group's debt relief would be provided by releasing Malawi from up to 80 percent of its debt service obligations to the Bank Group each year, until the entire amount of US\$ 71.28 million is delivered. The conditions that would trigger Malawi's floating completion point are outlined in Section 2. When the completion point is reached, the Bank Group will enter into an irrevocable debt relief commitment. Total debt relief will be delivered by end-2015.

### Legal Aspects of Debt Relief Operation

5.2 Debt relief for Malawi is to be provided, under the enhanced framework of the HIPC Debt Initiative, through the mechanism of debt service relief, in accordance with the terms described in the preceding paragraphs. These terms will be implemented by a Debt Relief Agreement between the Bank Group and the government of Malawi; a HIPC Trust Fund Grant Agreement between the Bank Group, the International Development Association (IDA) and the government of Malawi; and, the Contribution Agreement between the Bank Group and the IDA. The provision of debt relief, as described, is consistent with the rules of the African Development Bank and the African Development Fund.

## 6. PROPOSED FINANCING ARRANGEMENTS

The Bank Group's share of debt relief will be financed as follows:

	<i>Million US\$ end-1999 NPV</i>
Internal Resources	<b>14.26</b>
European Commission pledge	<b>28.51</b>
Balance with HIPC Trust Fund	<b>28.51</b>

**TOTAL 71.28**

## **7. RECOMMENDATIONS**

The Boards are invited to:

1. Note the justifications for Malawi's qualification for HIPC assistance at its decision point, under the enhanced framework; and
2. Approve the plan to finance the Bank Group's share of HIPC debt relief, in accordance with the arrangements presented in Section 6.

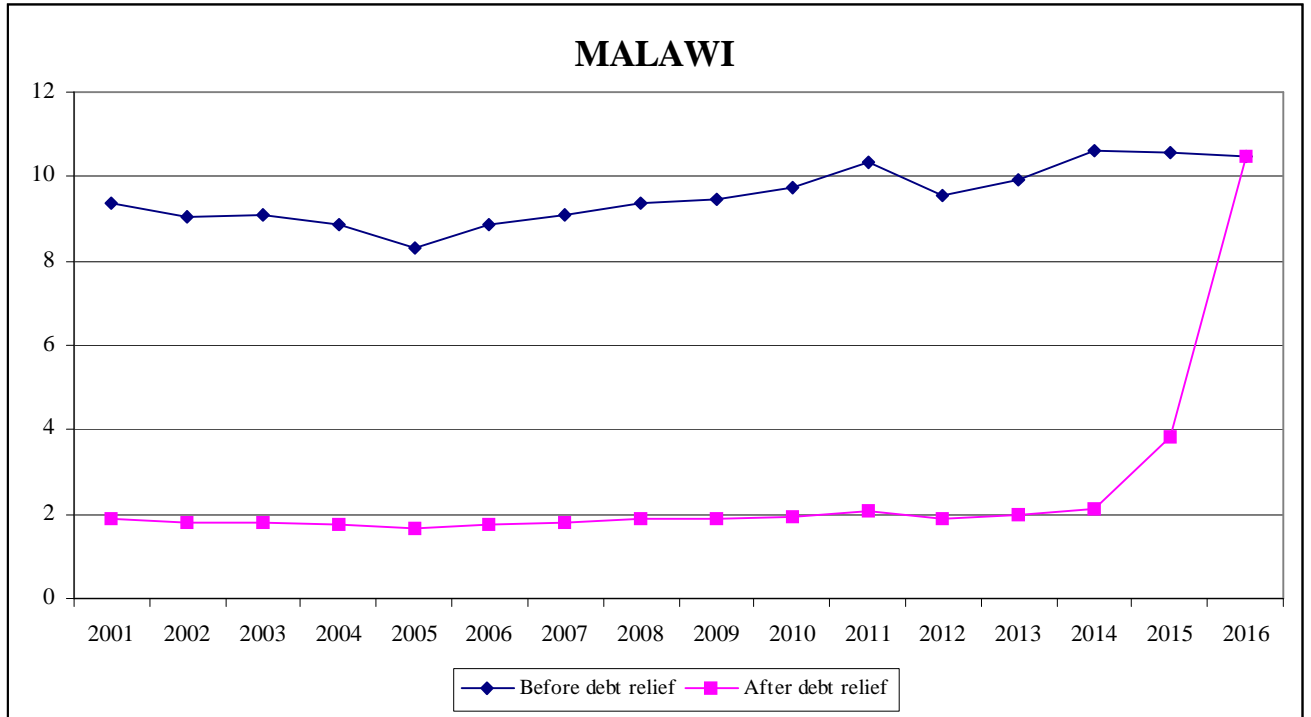
**IMF/ World Bank HIPC Document for**

**MALAWI**

# Annex

**MALAWI - HIPC APPROVAL DOCUMENT: DECISION POINT UNDER THE  
ENHANCED FRAMEWORK\***

**Impact of Debt Relief on Malawi's Bank Group Debt Service Profile**  
(in million US dollars)



**African Development Bank  
HIPC Debt Relief Schedule  
(in US dollars)**

**Malawi**

	<b>TOTAL ADB</b>	<i>TOTAL ADB and ADF Mill. \$</i>
2001	3.488	7.507
2002	2.889	7.226
2003	2.724	7.286
2004	2.151	7.099
2005	1.636	6.658
2006	1.553	7.080
2007	1.470	7.285
2008	1.388	7.511
2009	1.304	7.583
2010	1.221	7.805
2011	1.138	8.254
2012	0	7.626
2013	0	7.944
2014	0	8.496
2015	0	6.722
	<b>20.962</b>	<b>112.082</b>

**Summary**

Total Nominal Relief	US\$ 112.08 mn
<b>of which ADB</b>	<b>US\$ 20.96 mn</b>
Total NPV Relief	US\$ 71.28 mn
Duration	15 years

**African Development Fund  
HIPC Debt Relief Schedule  
(in US dollars)**

**Malawi**

	<b>TOTAL ADF</b>	<i>TOTAL ADB and ADF Mill. \$</i>
2001	4.019	7.507
2002	4.337	7.226
2003	4.562	7.286
2004	4.948	7.099
2005	5.022	6.658
2006	5.527	7.080
2007	5.815	7.285
2008	6.123	7.511
2009	6.279	7.583
2010	6.585	7.805
2011	7.116	8.254
2012	7.626	7.626
2013	7.944	7.944
2014	8.496	8.496
2015	6.722	6.722
	<b>91.121</b>	<b>112.082</b>

**Summary**

Total Nominal Relief	US\$ 112.08 mn
<b>of which ADF</b>	<b>US\$ 91.12 mn</b>
Total NPV Relief	US\$ 71.28 mn
Duration	15 years



**SUBJECT : MALAWI - HIPC APPROVAL DOCUMENT: DECISION  
POINT UNDER THE ENHANCED FRAMEWORK**

**CORRIGENDUM\***

**(Document approved by the Board on 31 January 2001)**

Please note that the cover memorandum to this document should have referred to the debt relief delivery period for **Malawi**, instead of “the three countries.”