

AFRICAN DEVELOPMENT BANK



AFRICAN DEVELOPMENT FUND



ETHIOPIA - HIPC APPROVAL DOCUMENT
DECISION POINT UNDER THE ENHANCED FRAMEWORK*

**HIPC APPROVAL DOCUMENT FOR ETHIOPIA:
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 November 2001, Ethiopia reached its decision point and the Boards of the IMF and World Bank approved US\$ 1,275 million worth of debt relief in end-June 2001 net present value (NPV) terms under the enhanced HIPC Framework. This document invites the Boards to note the justifications for Ethiopia's qualification for HIPC assistance, and approve the proposed plan to finance the Bank Group's share of Ethiopia's costs. Section 2 of this document summarises details of Ethiopia'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

Ethiopia qualified for US\$ 1,275 million (NPV terms) worth of debt relief assistance, equivalent to 47.2 percent reduction in the country's outstanding stock of debt at end-June 2001, after full use of traditional debt relief mechanisms. The country reached its decision point in November 2001, and is expected to reach its completion point by end-2003 by fulfilling the following conditions:

- Preparation and implementation of a fully participatory PRSP for at least one year;
- Maintaining macroeconomic stability and satisfactory implementation of the IMF-supervised Poverty Reduction and Growth Facility (PRGF) program;
- Strengthening public expenditure management by:

- (i) Reconciling monetary and fiscal accounts starting in fiscal year 2001/2002;
 - (ii) Consolidating federal and regional budgets for both the past year and the budget year at the beginning of each fiscal year, starting 2002/2003;
- Introducing value-added tax by January 2003;
- Completing the financial restructuring of the Commercial Bank of Ethiopia (CBE) and increasing the competitiveness of the financial sector through:
 - (i) allowing the management of CBE to operate on commercial principles;
 - (ii) provisioning for non-performing loans and other doubtful assets consonant with international standard practices;
 - (iii) allowing private banks to enter into management contracts with foreign institutions;
- Implementing satisfactorily an action plan in agriculture agreed with IDA, to improve the competitiveness and efficiency of fertilizer input market, including monitorable indicators, with half-yearly assessment reports starting December 2002;
- Reducing the repetition rate at the primary school level from 9 per cent in 1999/2000 to 7 per cent; and increasing the gross enrollment rate of girls in primary level from 40.7 per cent in 1999/2000 to 50 per cent;
- Increasing DPT3 vaccination coverage from 40 per cent in 2000/2001 to 50 per cent; and increasing the utilization rate of health outreach facilities (defined as the number of new outpatients during the year divided by total population) from 27 percent in 2000/2001 to 30 per cent;
- Fighting HIV/AIDS through increased distribution of condoms throughout the country by 6 million annually starting from 50 million in 2000.

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

3. HIPC COSTS

Bilateral creditors will account for US\$ 482 million (38 percent) of Ethiopia's debt relief, commercial banks US\$ 30 million (2 percent), while multilateral creditors will deliver the remaining US\$ 763 million (60 percent). The Bank Group's share of debt relief will amount to US\$ 216.47 million in end-June 2001 NPV terms, equivalent to 28 percent of multilateral creditors' assistance. Table 1 provides a breakdown of Ethiopia's total debt relief in NPV terms.

Table 1. Breakdown of Ethiopia's HIPC Costs

	US\$ million (NPV terms)
Total HIPC Debt Relief	1,275
Bilateral Creditors	482
Multilateral Creditors	763
<i>Of which:</i>	
<i>African Development Bank Group</i>	216
<i>World Bank</i>	463
<i>IMF</i>	34
Commercial Bank Creditors	30

4. BANK GROUP INVOLVEMENT IN THE PRSP

Ethiopia's Interim PRSP (I-PRSP) is based on the government's National Development Program (NDP) for 2000-2005, which was developed in consultation with the administrative units of all levels of government. It was also discussed with private sector organizations and representatives covering the spectrum of political parties. The I-PRSP underscores the government's objective of attaining the International Development Goals by 2015. The I-PRSP benefited from the comments of Ethiopia's development partners, including the Bank Group.

4.1 The Bank Group used the participatory approach in the preparation of its Country Strategy Paper (CSP), covering the period 1999-2001. It organized a two-day seminar in September 1998 in Addis Ababa, which was attended by central and sector ministries, regional bureaux, the private sector, NGOs, and multilateral and bilateral development partners resident in Ethiopia. This seminar provided useful inputs into the draft CSP, which was discussed with the Government in 1999. The main objective of the Bank Group's medium-term assistance strategy (1999-2001) in Ethiopia is poverty reduction through support for agriculture, transport development (roads), and rural energy supply. It also seeks to improve the policy environment for development activities through policy-based operations and to meet government's post-conflict rehabilitation and construction needs. The specific objectives of the CSP include: empowering the poor and women; improving good governance within the context of the country's I-PRSP; boosting food security and promoting the diversification of the agricultural sector; improving rural physical infrastructure, and promoting private sector development through support for macroeconomic reforms.

4.2 The government of Ethiopia has embarked on the preparation of a full PRSP, with the establishment of a high level inter-ministerial steering committee and consultation from the district level, to fulfill the condition for reaching the completion point under the enhanced HIPC framework. The Bank Group and other donors have been working closely with the government to elaborate the full PRSP through technical assistance and active participation in regular meetings.

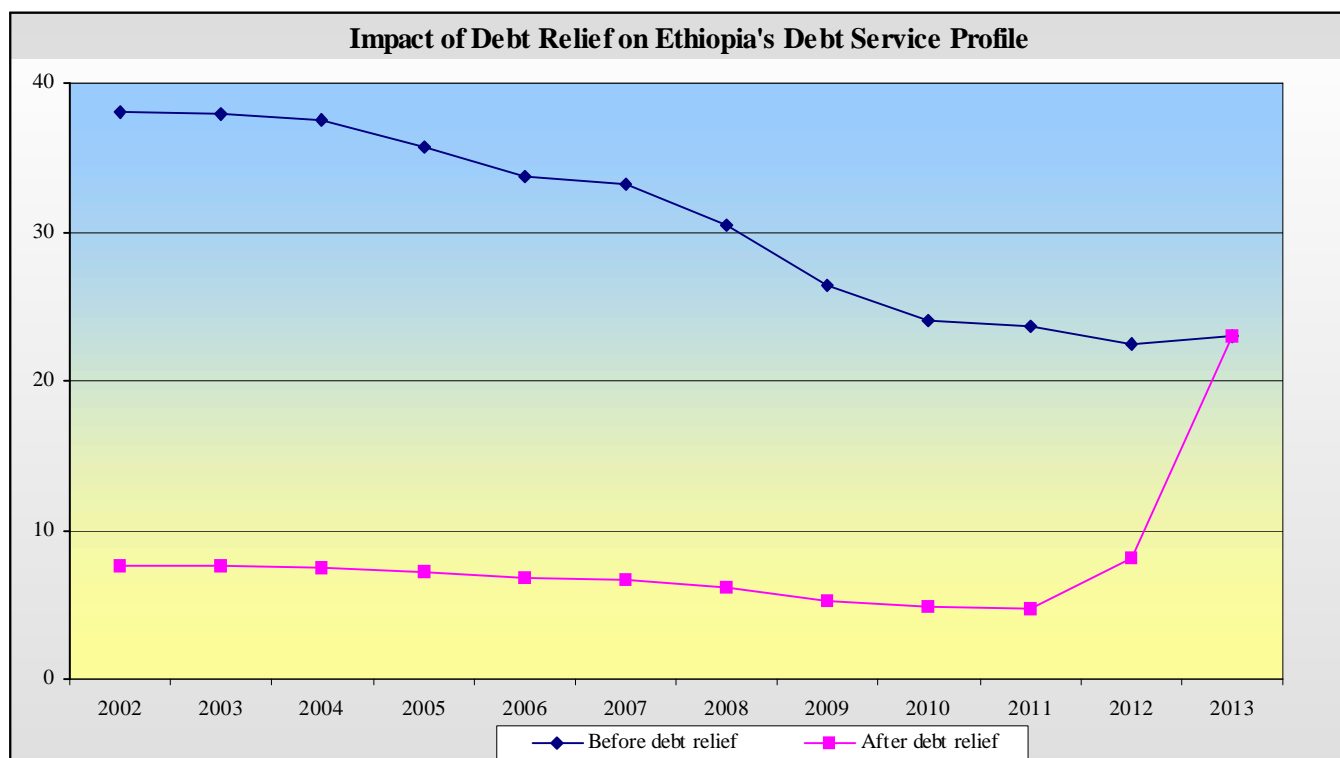
5. PROPOSED DELIVERY MODALITY

5.1 As Ethiopia 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 November 2001. Interim relief will not exceed 40 percent of the total NPV debt relief, and is expected to be delivered between 2001 and 2003. The Bank Group's debt relief would be provided by releasing Ethiopia from up to 80 percent of its debt service obligations to the Bank Group each year, until the entire amount of US\$ 216.47 million is delivered. Total debt relief will be delivered by end 2012. The conditions that would trigger Ethiopia'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.

Legal Aspects of Debt Relief Operation

5.2 Debt relief for Ethiopia 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 Ethiopia; a HIPC Trust Fund Grant Agreement between the Bank Group, the International Development Association (IDA) and the government of Ethiopia; 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.

Chart A. Impact of Debt Relief on Ethiopia's Bank Group Debt Service Profile
(in million US dollars)



6. PROPOSED FINANCING ARRANGEMENTS

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

Million US\$, end-June 2001 NPV

Internal Resources	43.29
European Commission pledge	86.59
Balance with HIPC Trust Fund	86.59
TOTAL	216.47

7. RECOMMENDATIONS

The Boards are invited to:

1. Note the justifications for Ethiopia'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.

AFRICAN DEVELOPMENT BANK

**HIPC Debt Relief Schedule
(in US\$ millions)**

Ethiopia Decision Point Date	TOTAL ADB	TOTAL Debt Relief
Nov. 2001		
2002	21.810647	30.402237
2003	20.445658	30.309645
2004	19.434531	30.048854
2005	17.614113	28.549276
2006	15.924963	26.972758
2007	15.054882	26.605346
2008	12.115475	24.417411
2009	8.459026	21.113937
2010	5.150668	19.220552
2011	4.914318	18.972794
2012	2.285435	14.411467
	143.209717	271.024276

Summary

Total Nominal Relief	US\$ 271.024276 mn
of which ADB	US\$ 143.209717 mn
of which ADF	US\$ 127.814559 mn
Total NPV Relief	US\$ 216.466627 mn
Duration	11 years

Annex
Page 2 of 2

AFRICAN DEVELOPMENT FUND

**HIPC Debt Relief Schedule
(in US\$ millions)**

Ethiopia

Decision Point Date	TOTAL ADF	TOTAL Debt Relief
Nov. 2001		
2002	8.591589	30.402237
2003	9.863987	30.309645
2004	10.614323	30.048854
2005	10.935163	28.549276
2006	11.047795	26.972758
2007	11.550464	26.605346
2008	12.301936	24.417411
2009	12.654910	21.113937
2010	14.069884	19.220552
2011	14.058476	18.972794
2012	12.126032	14.411467
	127.814559	271.024276

Summary

Total Nominal Relief	US\$ 271.024276 mn
of which ADB	US\$143.209717 mn
of which ADF	US\$ 127.814559 mn
Total NPV Relief	US\$ 216.466627 mn
Duration	11 years

**IMF/ World Bank HIPC Document for
ETHIOPIA**