

**AFRICAN DEVELOPMENT FUND**



**AFRICAN DEVELOPMENT BANK**



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

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

## **HIPC APPROVAL DOCUMENT FOR MOZAMBIQUE: Completion 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 September 2001, Mozambique reached its completion point and the Boards of the IMF and World Bank approved US\$ 306 million worth of debt relief in end-2000 net present value (NPV) terms under the enhanced HIPC Framework. This includes US\$ 254 million approved under its earlier decision point in March 2000. This document invites the Boards to note the justifications for Mozambique's qualification for HIPC assistance, and approve the proposed plan to finance the Bank Group's share of Mozambique's costs. Section 2 of this document summarises details of Mozambique'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**

Mozambique qualified for US\$ 306 million (NPV terms) worth of debt relief assistance, equivalent to 72.7 percent reduction in the country's outstanding stock of debt at end-2000, after full use of traditional debt relief mechanisms. The country reached its completion point in September 2001, under the enhanced HIPC framework by satisfactorily fulfilling agreed conditions in a number of key areas including the following: continued implementation of strong macroeconomic and structural policies, monitored under the Poverty Reduction and Growth Facility (PRGF); the development of a PRSP endorsed by the Executive Directors of the Bank and the Fund, and the satisfactory implementation of its poverty reduction strategy for at least one year. Other

agreed conditions fulfilled satisfactorily by Mozambique are in the area of primary health care, HIV/AIDs control and prevention, education, transportation and agricultural development, public expenditure management and procurement

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

### 3. HIPC COSTS

3.1 Bilateral creditors will account for US\$ 194 million (63 percent) of Mozambique's debt relief, while multilateral creditors will deliver the remaining US\$ 112 million (37 percent). The Bank Group's share of debt relief will amount to US\$ 22.25 million in 2000 NPV terms, this includes US\$ 18.8 million being provided under the earlier its decision point. In addition, Mozambique received an assistance estimated to about US\$ 119 million under the original HIPC framework. Table 1 provides a breakdown of Mozambique's total debt relief in NPV terms. In nominal terms, Bank Group assistance to Mozambique under the enhanced HIPC Initiative amended amounts to US\$ 29.27 million of which US\$ 23.67 million at decision point.

3.2 Bank Group debt relief to Mozambique during the interim period April 2000 to September 2001 amounted to US\$ US\$ 3.25 million (NPV, 1998 terms) equivalent to US\$ 3.38 million in nominal terms.

**Table 1. Breakdown of Mozambique's HIPC Costs (Amended)**

	US\$ million ( End-1998 NPV) Decision point	US\$ million ( End-2000 NPV) Completion point
<b>Total HIPC Debt Relief</b>	254	306
Bilateral Creditors	159	194
Multilateral Creditors	95	112
<i>Of which:</i>		
<b><i>African Development Bank Group</i></b>	<b>19</b>	<b>22</b>
<i>World Bank</i>	53	62
<i>IMF</i>	16	18
<i>Other</i>	8	9

### 4. BANK GROUP INVOLVEMENT IN THE PRSP PROCESS

Following the approval of Mozambique's I-PRSP, the Bank Group participated in discussions held in Maputo by the Government with the country's development partners aimed at articulating the principles of the PARPA (Action Plan for the Reduction of Absolute Poverty) into concrete activities with time-bound objectives and indicators in a Full-PRSP. The Bank Group's participation in the Full PRSP was effected during normal field missions for project supervision, preparation and/or appraisal. One priority of the Bank during these discussions was effective decentralization as a precondition for meaningful poverty reduction. Subsequently, the Bank financed an economic adjustment program with poverty reduction and good

governance as main elements, and decentralization the key instrument. A follow-up institutional support operation for local government capacity building is envisaged.

4.1 The preparation of the Bank Group's CSP for 1999-2001 involved exchanges with civil society representatives, officials of the Ministry of Planning and Finance, and line Ministries, on the key activities of the I-PRSP that held the best promise of early results on poverty reduction. The CSP incorporated the outcome of these participatory meetings while taking into account the country's development constraints as well as the priorities of the government, the private sector, civil society organizations and major development partners. The design of the operations programming of the CSP also reflected the PRGF program that had been negotiated with the IMF. Within this context, the Bank Group's medium-term assistance strategy (1999-2001) has the following objectives: Boosting food security and promoting the diversification of the agricultural sector; supporting human resources' development through increased investment; development of infrastructure to promote rural development, open up the country and reduce transport costs; and promoting private sector development through support for macroeconomic reforms.

## **5. PROPOSED DELIVERY MODALITY**

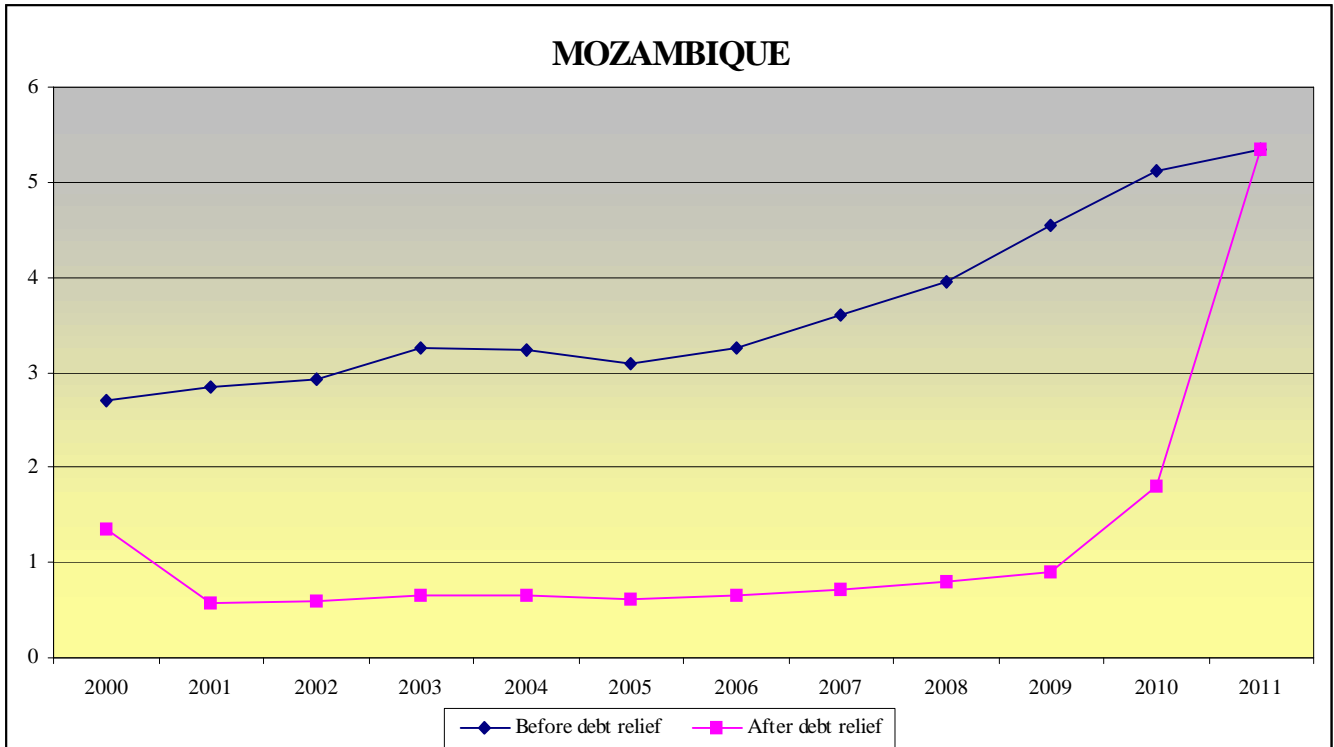
5.1 As Mozambique has reached its completion point, it is proposed that the Bank Group makes an irrevocable commitment to provide, with effect from September 2001. The Bank Group's debt relief would be provided by releasing Mozambique from up to 80 percent of its debt service obligations to the Bank Group each year, until the entire amount of US\$ 22.25 million is delivered. Total debt relief will be delivered by end 2010.

### **Legal Aspects of Debt Relief Operation**

5.2 Debt relief for Mozambique 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 Chad; a HIPC Trust Fund Grant Agreement between the Bank Group, the International Development Association (IDA) and the government of Chad; 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 Mozambique'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-2000 NPV*

Internal Resources	<b>4.45</b>
European Commission pledge	<b>8.90</b>
Balance with HIPC Trust Fund	<b>8.90</b>
<b>TOTAL</b>	<b>22.25</b>

## 7. RECOMMENDATIONS

The Boards are invited to:

1. Note the justifications for Mozambique's qualification for HIPC assistance at its completion 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)**

**Mozambique**

Completion Point Date		<b>TOTAL ADB</b>	<b>TOTAL Debt Relief</b>
Sept. 2001	2000	0	1.353839
	2001	0	2.284506
	2002	0	2.334609
	2003	0	2.607003
	2004	0	2.594037
	2005	0	2.473112
	2006	0	2.612652
	2007	0	2.889078
	2008	0	3.165735
	2009	0	3.631668
	2010	0	3.320185
		<b>0</b>	<b>29.266425</b>

**Summary**

Total Nominal Relief	US\$ 29.266425 mn
<b>of which ADB</b>	<b>US\$ 0.000000 mn</b>
of which ADF	US\$ 29.266425 mn
Total NPV Relief	US\$ 22.250000 mn
Duration	11 years

Annex  
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**African Development Fund  
HIPC Debt Relief Schedule  
(In US\$ millions)**

**Mozambique**

Completion Point Date		<b>TOTAL ADF</b>	<b>TOTAL Debt Relief</b>
Sept. 2001	2000	1.353839	1.353839
	2001	2.284506	2.284506
	2002	2.334609	2.334609
	2003	2.607003	2.607003
	2004	2.594037	2.594037
	2005	2.473112	2.473112
	2006	2.612652	2.612652
	2007	2.889078	2.889078
	2008	3.165735	3.165735
	2009	3.631668	3.631668
	2010	3.320185	3.320185

**29.266425**                      **29.266425**

**Summary**

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

# Annex

**SUBJECT : MOZAMBIQUE - HIPC APPROVAL DOCUMENT  
COMPLETION POINT UNDER THE ENHANCED  
FRAMEWORK**

**CORRIGENDUM –ENGLISH ONLY\***

framework  
Please note that the exact title of the document is MOZAMBIQUE-  
HIPC Approval Document - **Completion Point** under the enhanced  
instead of *Decision Point* under the Enhanced framework as  
mentioned in the document distributed on 7/2/2002.



**SUBJECT : MOZAMBIQUE - HIPC APPROVAL DOCUMENT  
COMPLETION POINT UNDER THE ENHANCED FRAMEWORK**

**CORRIGENDUM\***

Please read “**in end-1998 NPV terms**” instead of “in end-2000 NPV terms” in the following paragraphs 1.3 and 3.1 and section 6, and in table 1 of the above-mentioned document distributed on 7/2/2002.