

AFRICAN DEVELOPMENT BANK



AFRICAN DEVELOPMENT FUND



MALI - HIPC APPROVAL DOCUMENT
COMPLETION POINT UNDER THE ENHANCED HIPC FRAMEWORK *

ACRONYMS AND ABBREVIATIONS

ADB	:	African Development Bank
ADF	:	African Development Fund
CSP	:	Country Strategy Paper
DSA	:	Debt Sustainability Analysis
HIPC	:	Highly Indebted Poor Countries
IDA	:	International Development Association of the World Bank
IMF	:	International Monetary Fund
NGO	:	Non Governmental Organization
NPV	:	Net Present Value
NPS	:	National Perspectives Study
NSPR	:	National Strategy for Poverty Reduction
PRGF	:	Poverty Reduction and Growth Facility
PRSP	:	Poverty Reduction Strategy Paper

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HIPC APPROVAL DOCUMENT FOR MALI: Completion Point under the Enhanced Framework

1. INTRODUCTION

1.1 In March 2003, Mali became the 6th of the 22 RMCs eligible for the enhanced HIPC Initiative, to reach its completion point, under the enhanced HIPC framework¹. As a result, the Boards of Directors of the IMF and the World Bank approved US\$ 417 million worth of debt relief for the country in end 1998 NPV terms under the enhanced HIPC framework. This amount includes US\$16 million approved for Mali in light of the revisions that have been made to the debt data available at the September 2000 decision point. This document presents the justifications for Mali's qualification for HIPC assistance, as well as the proposed plan to finance the balance of the Bank Group's share of Mali's total debt relief costs. This comes in addition to US \$121 million in 1998 NPV terms the country received when it reached its completion point under the original HIPC framework in September 2000².

1.2 Following this introduction, Section 2 of this document summarizes details of Mali's status of policy and reform implementation during the interim period, September 2000 to March 2003. The total debt relief is disaggregated in Section 3 to illustrate the breakdown of HIPC costs to all creditors at the decision and completion points, with the justification for the change in the total debt relief approved at the decision point. Section 4 shows the HIPC debt relief assistance delivered during the interim period. The Bank Group's operations are reviewed in Section 5, with particular emphasis on activities related to the progress made in the implementation of the Poverty Reduction Strategy Papers (PRSPs). Section 6 presents details of the proposed delivery modality. The proposed financing plan is presented in Section 7. Recommendations for the Boards' consideration are contained in Section 8.

2. HIPC QUALIFICATION

Policy and Reform Requirements

2.1 In September 2000 Mali reached its decision point under the enhanced HIPC Initiative and qualified for US \$401 million (1998 NPV terms) debt relief assistance. At the same time it also reached its completion point under the original Initiative with additional debt relief of US \$121 million (1998 NPV terms). The combined debt relief of approximately US \$523 million reduced Mali's external debt from US \$1,445 to US \$922 million in NPV terms, equivalent to 36.2 percent reduction in the country's outstanding stock of debt at end-1998. In line with the enhanced HIPC framework arrangements, the countries reaching their completion point must fulfill the following three key conditions:

² See Mali – HIPC Approval Document – Decision Point under the Enhanced Framework, ADB/BD/WP/2000/150 – ADF/BD/WP/2000/189, dated 8 November 2000.

- Satisfactory implementation of the PRSP for at least one year;
- Maintenance of a stable macroeconomic position as evidenced by continued strong performance under a program supported by an arrangement under the PRGF;
- Implementation of the social and governance reforms monitored under the Initiative and outlined at the decision point.

2.2 With respect to the above conditions, the Government of Mali adopted the PRSP in May 2002, and has implemented a system of monitoring and evaluating its poverty programs satisfactorily. The government has also maintained a stable and satisfactory macroeconomic performance, as indicated in the fourth and fifth reviews under the PRGF program³. Moreover, it has implemented key reforms in the cotton sector, continued implementation of the privatization program, and made substantial progress toward harmonizing the legislative and regulatory environment to encourage the development of the private sector. Implementation of the 10-year education and health sector development programs has also been satisfactory, especially with respect to budget allocation, personnel policy, teachers' recruitment, and scholarship policy.

2.3 A copy of the relevant HIPC completion point document prepared by the Bretton Woods Institutions (BWIs), providing more details on how Mali implemented specified reforms for reaching the completion point, is attached as Annex 3 to this report for ease of reference.

3. HIPC COSTS

Breakdown of total HIPC Costs among Creditors

3.1 Of the total debt relief of US \$539 million, bilateral creditors will account for US\$ 169 million (31 percent) of Mali's debt relief, while multilateral creditors will deliver the remaining US\$ 370 million (69 percent). The Bank Group's share of debt relief will amount to US\$ 69.72 million (in 1998 NPV terms) which is equivalent to about 19 percent of multilateral creditors' assistance, and equivalent to about 13 percent of total creditor's debt relief.⁴ Table 1 below shows a breakdown of the total US\$ 539 million in 1998 NPV terms among the bilateral and multilateral creditors.

³ See IMF, EBS/02/127 dated 7 December 2002 and EBS/03/16 dated February 14, 2003.

⁴ In nominal terms, Bank Group assistance under the enhanced HIPC initiative at completion point amounts to US\$ 86.42 million.

Table 1: Breakdown of total HIPC costs in NPV 1998 terms (in US\$ million)

Creditors	Original Framework (1 st completion point document) (1)	Enhanced Framework			Total assistance under original and enhanced framework (revised) (5)=(1)+(3)
		Decision point document (2)	Revised (3)	Change (Additional assistance) (4)=(3)-(2)	
Total creditors	121	401	417	16	539
Bilateral Creditors	37	124	132	8	169
Multilateral Creditors	84	277	285	8	370
<i>of which:</i>					
IDA	43	139	143	4	185
IMF	14	44	45	1	59
AfDB	16.2	51.9	53.5	1.6	69.7
Others	12	43	44	1	56

Source: Enhanced HIPC completion point document, IMF/IDA, March 2003, p36, table 5, in 1998 NPV terms, unless otherwise stated.

Explanation of change in total debt relief at Decision and Completion Points

3.2 In conformity with provisions of the enhanced HIPC framework, the Boards of Directors of the World Bank and the IMF may decide to revise the figures at the completion point of countries if the updated debt sustainability analysis (DSA) based on additional information received from creditors shows that the debt of several creditors as of end-1998 had been underestimated in the decision point document. In the case of Mali, the updated DSA based on additional information received from creditors shows that the bilateral debt for several creditors as of end-1998 had been underestimated in the decision point document. The revisions relate to the reclassification of some loans on the basis of more recent information. The new DSA resulted in a revision of the common reduction factor which would now increase to 28.9 percent of end-1998 NPV of debt as opposed to 28.1 percent as indicated under the decision point document. The Bank Group's share of relief under this revision would increase from an estimated US\$51.9 million to approximately US\$53.5 million in end-1998 NPV terms.

3.3 The main changes resulted from the following five key factors: (i) fuller information on the Russian participation in the Naples stock-of-debt operation; (ii) change of debt reduction option under the Paris Club to move from debt service reduction to debt reduction; (iii) the inclusion in the debt stock of certain loans made by France to Public enterprises and the exclusion of certain loans that had been cancelled in 1994; (iv) the reconciliation of debts owed to Iraq; and (v) a number of minor interest rate changes for other creditors.

4. ASSISTANCE DELIVERED DURING THE INTERIM PERIOD

4.1 The Bank Group debt relief to Mali during the interim period - September 2000 to March 2003 - amounted to US\$ 21.52 million in 1998 NPV terms.⁵ This interim relief period lasted for 30 months instead of the scheduled 36 months years, indicating satisfactory performance by Mali.

5. BANK GROUP INVOLVEMENT IN THE PRSP PROCESS

5.1 Since 1997 the Bank Group has participated in a series of regional and national poverty consultation seminars and actively contributed to the process of formulating Mali's poverty reduction strategy. This was achieved mainly through inputs contributed for the National Strategy for Poverty Reduction (NSPR, 1998), the National Perspective Study for 2025 (NPS, 2000), and recently for the full Poverty Reduction Strategy Paper (PRSP, 2002), which has drawn on the work of the NSPR and the NPS. The seminars were conducted through a broad participatory process involving all actors including civil society, the beneficiaries, government agencies, donors, academics, and NGOs. Besides the emphasis on achieving higher economic growth, the PRSP is built on three main pillars: (i) institutional development and improvement in governance and grass roots participation, (ii) development of human resources and strengthening of access to basic services; and (iii) infrastructure development and support for the productive sectors.

5.2 Within the framework of the PRSP, the Bank supported the participatory process and the Government's programs for good governance, decentralization, and institutional capacity building. This included an ADF loan and grant of UA 2.60 million approved in December 2002 to support the good governance project for strengthening the human and institutional capacities in order to effectively support the efforts of Government, the private sector, and decentralized communities in the implementation of governance activities in concert with the PRSP. In addition, an ADF policy-based loan of UA 22.30 million was approved in October 2002 to support the SAP III program cofinanced with the IMF, IDA, the EU and other bilateral governments⁶.

5.3 The CSP update in 2002 was prepared in line with the PRSP, and emphasizes priority interventions in agriculture and rural infrastructure. This CSP update was therefore in full alignment with the Bank Group Strategic Plan (2003-2007) which emphasizes greater selectivity in operations and targeting of available resources on a limited number of program and project interventions in ADF-only countries, in 2-3 sectors only, to achieve maximum development impact.⁷

⁵ This is equivalent to US\$22.82 million in nominal terms.

⁶ See Mali – Country Strategy Paper 1999-2001, Update for 2002 (ADF/BD/WP/2000/01/Add.1 dated 13 August 2002), paras 3.2-3.3. See also Bank Group Annual Report 2002, Chapter 7, ADF project profiles.

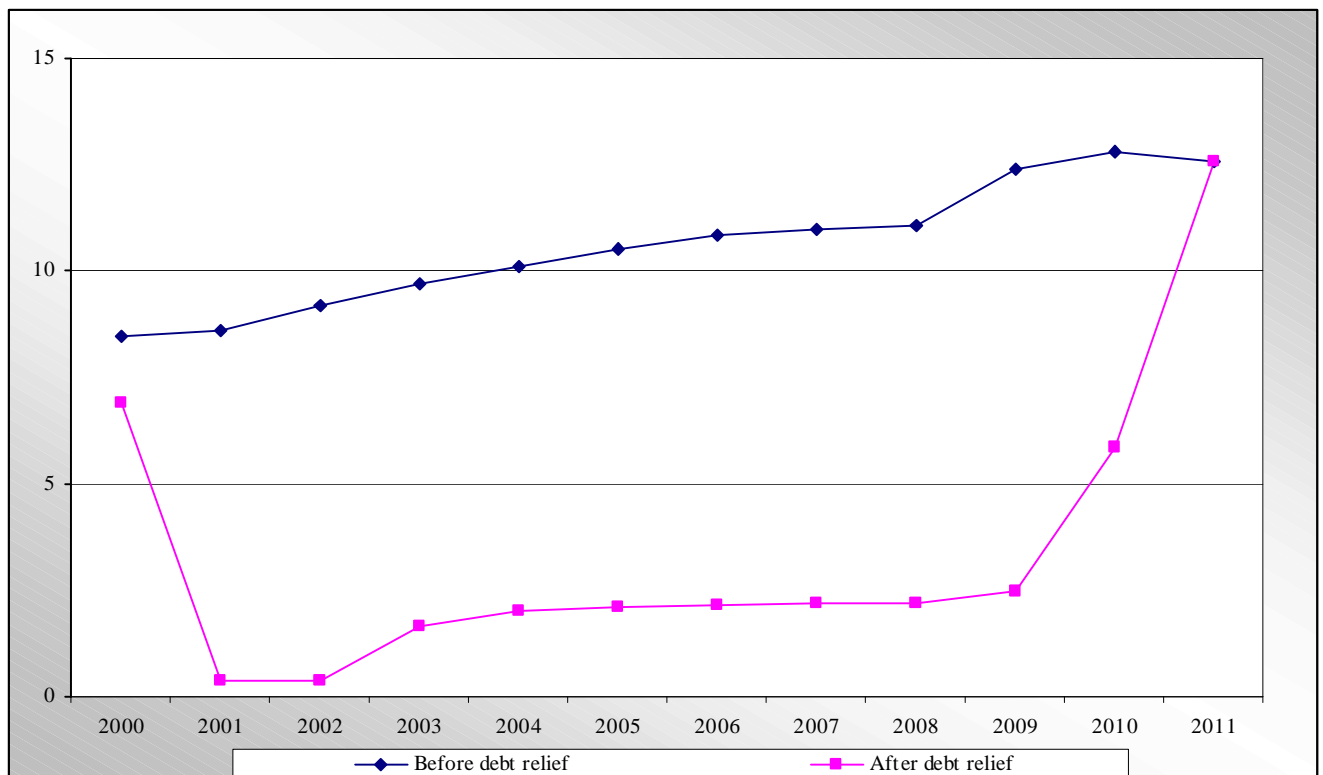
⁷ See Chapter IV of the Strategic Plan for the Bank Group for the 2003-2007 Period (ADB/BD/WP/2002/82/Rev.3/Approved - ADF/WP/2002/97/Rev.3/Approved, dated 18 December 2002).

6. PROPOSED DELIVERY MODALITY

6.1 As Mali has reached its completion point, it is proposed that the Bank Group makes a commitment to provide irrevocable debt relief of the US\$ 69.72 million in 1998 NPV terms with effect from March 2003. The Bank Group's debt relief would be provided by releasing Mali from up to 80 percent of its debt service obligations to the Bank Group each year, until the entire equivalent amount of US\$ 86.42 million in nominal terms is delivered. Total debt relief will be delivered in 7 more years of an initial 11-year period, by July 2010.⁸

6.2 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 Mali's Bank Group Debt Service Profile
(in million US dollars)



⁸ See the HIPC Debt Relief Schedule in Annex 2.

Legal Aspects of Debt Relief Operation

6.3 Debt relief for Mali is to be provided, under the enhanced framework of the HIPC Debt Relief 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 Mali;
- a HIPC Trust Fund Grant Agreement between the Bank Group, the International Development Association (IDA) and the Government of Mali; and
- a Contribution Agreement between the Bank Group and the IDA.

7. PROPOSED FINANCING ARRANGEMENTS

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

	<i>Million US\$, in 1998 NPV terms</i>	<i>Percent</i>
Internal Resources	13.94⁹	20
European Commission pledge	27.88	40
Balance with HIPC Trust Fund	27.88	40
TOTAL	69.72	100

8. RECOMMENDATIONS

The Boards of Executive Directors are invited to:

- Note the justifications for Mali's qualification for HIPC assistance at its completion point, under the enhanced framework; and
- Approve the plan to finance the Bank Group's share of HIPC debt relief for Mali, in accordance with the arrangements presented in Section 7.

⁹ Under the original framework, the Bank Group had transferred UA 3.91 million (equivalent to US\$ 4.95 million as shown in the grant agreement) to the HIPC Trust Fund as its share of the debt relief to Mali. An additional US\$ 8.99 million is therefore required.

Annex 1

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HIPC Debt Relief Schedule

*(in US\$ millions)***Mali**Completion
Point Date
March 2003

	TOTAL ADB	TOTAL Debt Relief (ADB/ADF)
2000	0	1.589898
2001	0.504096	8.250198
2002	0.466643	8.832396
2003	0	8.077967
2004	0	8.075953
2005	0	8.415905
2006	0	8.685038
2007	0	8.766083
2008	0	8.864504
2009	0	9.917410
2010	0	6.945570
	0.970739	86.420922

Summary

Total Nominal Relief		US\$ 86.420922 m
<i>of which</i>		
	ADB	US\$ 0.970739 m
	ADF	US\$ 85.450184 m
Total NPV Relief		US\$ 69.72 m
Duration		11 years

Annex 2

AFRICAN DEVELOPMENT FUND

HIPC Debt Relief Schedule

*(in US\$ millions)***Mali**

Completion Point Date	TOTAL ADF	TOTAL Debt Relief (ADB/ADF)
March 2003		
2000	1.589898	1.589898
2001	7.746103	8.250198
2002	8.365753	8.832396
2003	8.077967	8.077967
2004	8.075953	8.075953
2005	8.415905	8.415905
2006	8.685038	8.685038
2007	8.766083	8.766083
2008	8.864504	8.864504
2009	9.917410	9.917410
2010	6.945570	6.945570
	85.450184	86.420922

Summary

Total Nominal Relief		US\$ 86.420922 m
<i>of which</i>		
	ADB	US\$ 0.970739 m
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Annex 3

Enhanced HIPC Completion Point Document for Mali - IMF/ World Bank