AFRICAN DEVELOPMENT FUND

AFRICAN DEVELOPMENT BANK

DEMOCRATIC REPUBLIC OF THE CONGO (DRC): HIPC APPROVAL DOCUMENT - DECISION POINT UNDER THE ENHANCED HIPC FRAMEWORK

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

LIST OF ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
BADEA	Arab Bank for Economic Development in Africa
BCC	Banque Centrale du Congo
BEAC	Banque des Etats de l'Afrique Centrale
CSP	Country Strategy Paper
BWIs	Bretton Woods Institutions
DRC	Democratic Republic of the Congo
DSA	Debt Sustainability Analysis
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association of the World Bank
JSA	Joint Staff Assessment of the World Bank and IMF
IMF	International Monetary Fund
I-PRSP	Interim-Poverty Reduction Strategy Paper
MDBs	Multilateral Development Banks
NPV	Net Present Value
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RMCs	Regional Member Countries
UN	United Nations

TABLE OF CONTENTS

		Page
I	Introduction	1
II	Assessment of Eligibility to HIPC	2
III	Recent Bank Group Support to the DRC	4
IV	Completion Point Triggers	5
V	Total HIPC Costs Among Creditors	6
VI	Proposed Delivery Modality	9
VII	Proposed Financing Arrangements	9
VIII	Recommendations	11
Tables		
	Table 1: Breakdown of Total HIPC Costs	7
	Table 2: Proposed Financing Arrangements	10
	Table 3: DRC - Debt Relief Assistance from Bank Group and HIPC Trust Fund	11
Figures		
	Figure 1: Composition of HIPC Debt Relief - Multilateral Creditors	7
	Figure 2: Impact of Debt Relief on Democratic Republic of the Congo's Bank Group Debt Service Profile	8
Annexes		
1	**Annex 1**: HIPC Debt Relief Schedule and Sources of Financing	i-iii
	Annex 1A: African Development Bank - HIPC Debt Relief Schedule	i
	Annex 1B: African Development Fund - HIPC Debt Relief Schedule	ii
	Annex 1C: Debt Relief From DRC Special Account and HIPC Sources	iii
2	**Annex 2**: Technical Note: Bank's Loan Consolidation Mechanism for the DRC	iv
3	**Annex 3**: Decision Point Document for DRC - IMF/ World Bank	i

HIPC APPROVAL DOCUMENT FOR DEMOCRATIC REPUBLIC OF THE CONGO:

Decision Point under the Enhanced Framework

I. INTRODUCTION

1.1 In July 2003, the Democratic Republic of the Congo (DRC) reached its decision point and became the 23rd regional member country (RMC) to qualify for debt relief under the enhanced HIPC framework [1]. The Boards of Directors of the IMF and the World Bank approved US$ 6.3 billion worth of debt relief in end-2002 NPV terms for the country.

1.2 The DRC qualified for HIPC debt relief after having succeeded in restoring macroeconomic stability, as evidenced by satisfactory performance under the IMF-financed PRGF program, and after having made substantial progress towards the restoration of peace and the establishment of an all-inclusive transitional government. Although peaceful conditions have not returned to all parts of the country, both the government and the international community have taken major steps to strengthen security and create the conditions for a return of peaceful conditions throughout the country.

1.3 The HIPC debt relief for DRC has also been made possible by the actions that the three major international financial institutions (IFIs) – the ADB, the IMF and the World Bank – took to clear the substantial arrears that the DRC had built up with these three institutions. In this regard, it will be recalled that the Boards of Directors approved a special mechanism for the DRC to help it clear its arrears with the Bank Group. This was part of a coordinated effort by the three institutions to help the country normalize its relations with the IFIs and help create the conditions for the re-engagement of the country with the international community. The Boards approved the restructuring of the DRC loans over a twenty-year period. And recognizing the potential windfall gains from the consolidation due to the relatively high interest rate charged on the restructured loan, the Boards also approved a special interest-rate recycling mechanism to reduce the effective cost of debt service to the DRC. [2] The interest-recycling mechanism has been made possible by contributions from several donors to the arrears clearance scheme (see Annex II for details).

1.4 Against this background, this document presents a proposal for the extension of HIPC debt relief to the DRC by the Bank Group as well as a financing proposal for the Bank Group's share of debt relief. Under the HIPC debt relief program approved by the Boards of the IMF and the World Bank, the Bank Group's share is estimated at US$ 905.09 million in end-2002 NPV terms, equal to approximately 80.2 percent of the Bank Group's outstanding claims in NPV terms at end-2002.

---

[1] See Democratic Republic of the Congo (DRC): Enhanced HIPC Decision Point Document, IMF/IDA, July 14 2003.

[2] A Mechanism for Clearing the Arrears of the DRC to the ADB Group (ABD/BD/CN/INF/2002/19/Add.1 – ADF/CN/INF/2002/19/Add.1) of 4 June 2002. DRC: Information Note on the Arrears Clearance System (ADB/BD/IF/2002/203/Add.2 – ADF/BD/IF/2002/164/Add.2), dated 14 January 2003 and the Fourth Report (ADB/BD/IF/2003/95 - ADF/BD/IF/2003/71) of 12 June 2003.

1.5 The paper is organized as follows. Following this introduction, Section 2 of this document summarizes details of DRC's status of eligibility and the implementation of its reform program that enabled it to qualify for HIPC debt relief. The progress made in the implementation of its IDA- and PRGF-supported programs as well as recent political and security developments are reviewed. In Section 3, the Bank Group's operations are discussed, with particular reference to its participation in the preparation of DRC's Interim-PRSP. Section 4 presents the conditions necessary for DRC to reach its completion point. In Section 5, the total debt relief is disaggregated to show the breakdown of HIPC costs to all creditors at the decision point. Section 6 presents details of the proposed delivery modality of the Bank's debt relief program And the proposed financing plan is presented in Section 7. Finally, recommendations for the Boards' consideration are contained in Section 8.

II. ASSESSMENT OF ELIGIBILITY TO HIPC[3]

2.1 **Policy and Reform Requirements.** The DRC has made considerable progress in stabilizing its economic situation and creating the conditions for sustainable economic growth and poverty reduction. Since early 2001, far-reaching structural measures have been put in place, resulting in the removal of major economic distortions. Important measures taken in this regard include the unification of multiple exchange rates and the liberalization of prices, the latter including the introduction of a transparent and automatic mechanism for the pricing of petroleum products. As a result, for the first time in 13 years, economic growth was positive (about 3 percent) in 2002 increasing to 5 percent in 2003. The end-of-period inflation rate was about 16 percent in December 2002 and 4.4 percent at end-2003[4], sharply down from 135 percent in 2001. Fiscal performance in 2002 was better than programmed, with revenue slightly higher, and expenditure in line with the program target, while overall expenditure was lower. The satisfactory performance under the IMF staff-monitored program (SMP), covering June 2001 to March 2002, paved the way for a PRGF arrangement of SDR 580 million, via the Government Economic Program (PEG), covering April 2002–July 2005. There was also renewed IDA lending, through an Economic Recovery Credit (ERC) of SDR 360.4 million, and an Emergency Multi-Sector Rehabilitation and Reconstruction Program (EMRRP) of SDR 358.8 million.[5]

2.2 Further, structural and sectoral reforms have been initiated in a number of areas. These include banking sector reform to revive financial intermediation and increase the effectiveness of monetary policy, with the Central Bank implementing an action plan aimed at improving its accounting system, management and operations. The government has also continued to stress the promotion of good governance and measures to combat corruption by creation of an anticorruption commission (August 2002), adoption of the Code of Ethics and Good Conduct applicable to all public officials (November 2002), and through an anti-corruption strategy and action plan adopted in February 2003.

[3] The discussions in this section are based on the Debt Sustainability Analysis carried out by the IMF and the World Bank. See Annex 3 for further details.
[4] See Heavily Indebted Poor Countries (HIPC) Initiative – Statistical Update, IDA/SecM2004-0184, dated April 2, 2004, page 14.
[5] The proceeds of the first purchase under the PRGF and the first tranche of the ERC were used mainly to repay bridge loans that had been obtained to clear the DRC's arrears with the IMF and IDA, amounting to SDR 403.9 million and US$328.6 million, respectively.

2.3 Within this framework, all IDA and other externally financed public projects are now subject to a transparent bidding process. The authorities have also identified their overall poverty-related expenditures in government budgets for 2003 and 2004 using their new economic, administrative, and functional classification system, with details provided on each project and program, including geographic location. In addition, monitoring and evaluation of poverty-related expenditure will take into account the recommendations of IDA's 2002 public expenditure review.

2.4 The government also intends to foster effective partnership between the public sector, civil society, the private sector, and international organizations specialized in the fight against corruption, such as with Transparency International and Interpol, and improve public access to relevant information. Finally, reform of public institutions will include civil service reform, judicial sector reform, improved public finance management on both the revenue and expenditure sides, reform of the procurement system, increased transparency and accountability at the local level, and a major effort to improve the quality of public services in priority sectors (i.e., health, education, rural development, and infrastructure).

2.5 It is equally important to highlight, the remarkable progress that the DRC has made over the past two years in consolidating the peace process. A new Transitional Constitution was enacted on April 4, 2003, and an all-inclusive transitional government comprising the President and four vice-presidents from the different warring factions was created on June 30, 2003, to be followed by free and transparent elections after two years. An international committee has also been established to monitor the transition process.

2.6 The authorities' sound macroeconomic policies, which have been in place since mid-2001, and their ongoing far-reaching structural reforms are already leading to real GDP growth. The outlook envisages a period of reconstruction (2002–05), followed by sustained development starting in 2006. Annual real GDP growth is projected to accelerate through the medium term, from 3 percent in 2002 to 7 percent in 2005 and 2006, before gradually declining to about 6 percent in 2009, 5 percent in 2013, and 4 percent in 2020. This performance is consistent with recent IMF findings on the sources of growth in the DRC and the experiences of other post-conflict countries.[6] Institutional capacity building is projected to permit a doubling of the government's share of GDP, so that revenue, excluding grants, will increase from 8 percent of GDP in 2002 to 16 percent by 2022.

2.7 A two-day Consultative Group meeting was held for the DRC on 17-18 December 2003 at which representatives from 15 donor countries and 17 international organizations participated. During the meeting, positive assessments of the political and economic reforms over the past year were presented. Participants commended the Government for such progress and recognized the international community's sustained support as a key element for the success of the country's reunification and recovery. They announced, or confirmed financial contributions, including about $1.08 billion in disbursements in 2004 and $1.2 billion in 2005, as well as pledges exceeding $3.9 billion for the period of 2004-2006. Donors indicated that their contributions in the following years would remain at this level, and likely to be increased if progress on both political and economic fronts continued.

[6] In a sample of 16 countries that experienced conflict in the 1980s and 1990s, annual real GDP growth averaged 5.9 percent during the five post-conflict years, and some countries performed better (e.g., Mozambique, Lebanon, and Rwanda).

2.8 To guide its reconstruction and rehabilitation efforts and to reduce poverty, the DRC prepared an Interim-PRSP (I-PRSP) in March 2002 through a participatory process carried out in four key provinces of the country. The process involved the Government, civil society, NGOs, the private sector, and the Bank Group, among other development partners. Although the participatory processes were largely restricted to stakeholders in the provinces under government control, all parties to the inter-Congolese political dialogue unanimously endorsed the economic agenda of the government embodied in the I-PRSP[7]. The joint assessment of this I-PRSP by major MDBs in June 2002 concludes that the strategy paper provides an adequate basis for the development of a participatory full PRSP and the provision of concessional assistance. The poverty reduction strategy that resulted from these consultations is based on three pillars of activity: (a) restoring peace and achieving good governance; (b) stabilizing the macroeconomic environment and achieving pro-poor growth; and (c) placing local communities in a central position in the formulation and implementation of social and development activities.

III. RECENT BANK GROUP SUPPORT TO THE DRC

3.1 Since 2001, the Bank, in collaboration with other development partners, has resumed operations in the DRC by providing three grants within the context of the I-PRSP: the first was through a UA 1.97 million TAF project for institutional support and capacity building;[8] and the rest were two grants for emergency humanitarian assistance operations (of US $500 thousand each) implemented by WHO in favor of victims in Kisangani and Goma areas.[9] During the Bank Group Annual Meetings held in Addis Ababa (3-5 June 2003), the Bank signed agreements for two new projects approved in 2002 within the framework of the I-PRSP (2002 to end-2005) and the Bank's own Interim-CSP (2002-July 2003). The first is a grant of UA 3.23 million for a capacity building project and the other a loan of UA 27.0 million for a socio-economic infrastructure rehabilitation project[10]. And in 2004, the Bank has in addition approved one loan of UA 20.0 million and a grant of UA 5.0 million to finance an Eastern Province Healthcare Development project and another grant for UA 5.23 million to finance the Education Sector Support Project.

3.2 In its I-PRSP, the Government has adopted a crisis exit strategy that lays emphasis on the rehabilitation and reconstruction of core infrastructure and capacity building in the main socio-economic sectors. This strategy is backed by donors in the context of the Multi-sector Emergency Rehabilitation and Reconstruction Programme (EMRRP). In the I-CSP, the Bank backed the multi-sector components of the EMRRP, targeting the rehabilitation of social infrastructure in urban areas and building national capacity for macroeconomic and sectoral management.

[7] See DRC: Interim PRSP, paras 65-72
[8] Bank Group Annual Report 2001, ADF Project Profiles, p.215.
[9] Bank Group Annual Report 2001, ADB Project Profiles, p.141
[10] DRC: CSP 2003-2004 - Revised Version, paras 5.1.1 to 5.1.4 (ADB/BD/WP/2003/102/Rev.1 - ADF/BD/WP/2003/118/Rev.1), dated 7 October 2003.

3.3 The Boards of Directors approved DRC's CSP in October 2003[11], and the Bank's strategy up to the end of the ADF-IX period (August 2003 - December 2004) will be to supplement ongoing actions by focusing on food security and improving infant and maternal health indicators that are at present very alarming owing to the economic crisis and conflicts. This strategy is consistent with the priorities set out in the I-PRSP and EMRRP.

3.4 Given the good macroeconomic performance and the progress achieved towards the restoration of peace and national reunification, the Government's economic programme is supported through an ADF-IX basic allocation of UA 89.09 million, including UA 24.05 million in the form of grants. The level of the allocation reflects a post-conflict enhancement factor that has raised DRC's basic allocation by about 37 percent above its initial level. Based on the Boards' approval of the I-CSP (2002 to July 2003), totalling UA 30.23 million, the resources available for the 2003-2004 period amount to UA 58.86 million, including UA 20.82 million in grants, but excluding policy-based lending. This package will help to strengthen the peace process by helping the country meet the basic needs of the population, and by regenerating an economy in crisis for the benefit of the poor.

3.5 The Bank will also support the full PRSP that is under preparation, by contributing funds for the national poverty survey and sector work into priority areas such as health, education, social welfare and infrastructure, through the funds provided under the ongoing institutional support operations. It will also continue to help build the capacity for macroeconomic management and planning, and especially for public debt management and public investment programme preparation and follow-up. In order to keep close track of the Bank's portfolio in the DRC as well as developments in the country, a Bank professional-level staff member has been seconded to the DRC in 2003, with residence in Kinshasa, pursuant to a Board decision taken in November 2002.

IV. COMPLETION POINT TRIGGERS

4.1 The DRC is expected to reach its completion point under the HIPC initiative in July 2007 on the assumption that a full PRSP is completed by the third quarter of 2005. The authorities have reached understanding with the donor community on a series of completion point triggers. These include:

- Satisfactory completion of a full PRSP through a participatory process and its implementation for one year, duly documented in the DRC's annual progress reports and confirmed by a joint BWIs' staff assessment (JSA);
- Continued maintenance of macroeconomic stability after reaching the decision point, as evidenced by satisfactory performance under the PRGF-supported program;
- Use of budgetary savings resulting from the enhanced HIPC Initiative-related debt-service relief during the interim period for poverty-related expenditures in accordance with the I-PRSP, with supporting documentation;

[11] Ibid, paras 5.2.1 to 5.2.5

- Adoption of satisfactory sectoral development strategies and related implementation plans for health, education, and rural development;
- Fulfilling specific and monitorable triggers on public expenditure management, governance and service delivery in priority sectors; and
- Installation and full activation of a computerized debt-recording system, covering all public and publicly guaranteed debt, as well as public enterprise debt not carrying the guarantee of the State.

V. TOTAL HIPC COSTS AMONG CREDITORS

5.1 The total debt of the DRC as at end-December 2002 was estimated at $10.7 billion, in nominal terms. After the full use of traditional debt-relief mechanisms for bilateral and commercial debt, the stock of external debt outstanding in NPV terms is estimated at $7.9 billion. In order to reduce DRC's debt to 150 percent of its exports (the maximum threshold under the enhanced Initiative) the Executive Boards of the IMF and the World Bank agreed to reduce the debt stock of DRC by 80.2 percent. This is the "common reduction factor" that is being applied by all bilateral and multilateral creditors. The total debt relief for the DRC over the next ten to fifteen years in 2002 NPV terms is thus estimated at $6.3 billion, out of its total external debt outstanding of $7.9 billion in NPV terms.

5.2 The actual debt relief to be provided to the DRC by different creditors under the enhanced HIPC Initiative is thus expected to have the following profile in 2002 NPV terms:(i) Paris Club Creditors: $3.5 billion;(ii) Multilateral Creditors: $2.5 billion; (iii) Non-Paris Club bilateral creditors: $219 million; and (iv) Commercial Lenders: $161 million. The share of the Bank Group, the World Bank, and the IMF in the total HIPC debt relief to be provided to DRC (in 2002 NPV terms) is as follows: (i) Bank Group ---$905.09 million; (ii) World Bank --- $831 million; and (iii) IMF --- $472 million.

5.3 Table 1 below shows a breakdown of the total US$ 6.3 billion in 2002 NPV terms among the bilateral and multilateral creditors. Of this total debt relief, bilateral creditors will account for US$ 3.8 billion of the DRC debt relief (equivalent to about 61 percent of the total debt relief), while multilateral creditors will deliver the remaining US$ 2.5 billion (about 39 percent of the total debt relief). The Bank Group's share of debt relief will amount to US$ 905.09 million (in 2002 NPV terms). This is equivalent to about 14.3 percent of the total HIPC debt relief delivery from all creditors.

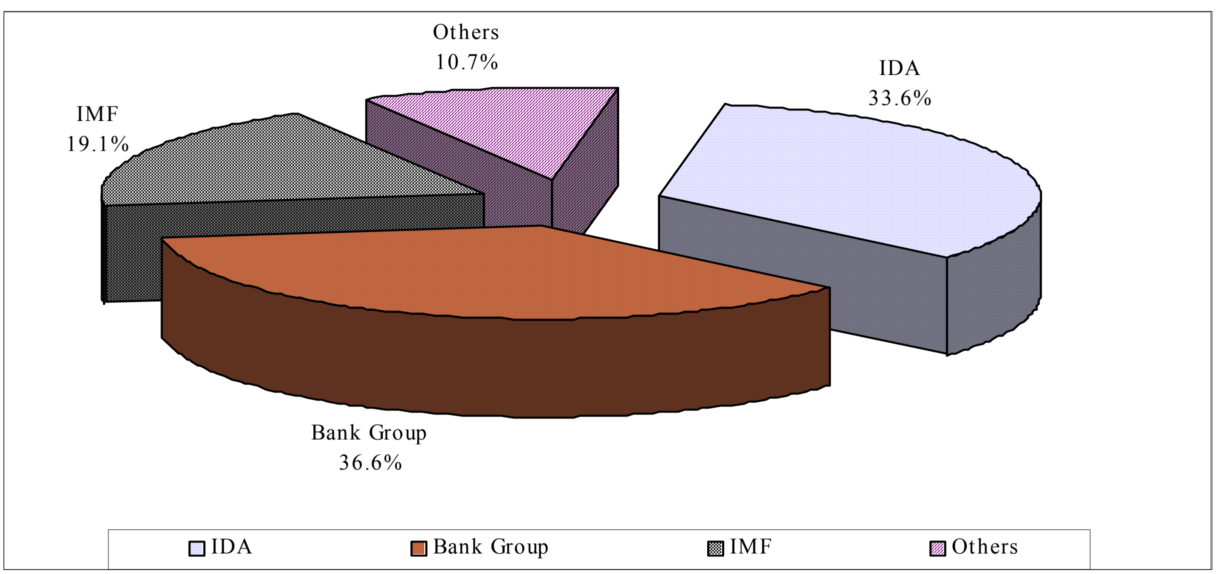
Table 1: Breakdown of total HIPC costs in 2002 NPV terms (US$ million)

	US$ million (2002 NPV)
Total HIPC Debt Relief	**6,311**
Bilateral Creditors	3,837
Multilateral Creditors	2,474
of which:	
African Development Bank Group	***905***[12]
IDA	*831*
IMF	*472*
Other Multilateral Creditors	*265*

Source: Enhanced HIPC Decision Point document, IMF/IDA, July 2003, para 55, Table 6., in 2002 NPV terms.

5.4 Figure 1 below highlights the breakdown of the HIPC debt relief participation among Multilateral Creditors. The Bank Group is the first multilateral creditor with roughly 36.6 percent of the total debt relief assistance of multilateral creditors, against 33.6 percent for IDA and 19.1 percent for IMF, and 10.7 percent for others.

Figure 1. Composition of HIPC Debt Relief Participation among Multilateral Creditors

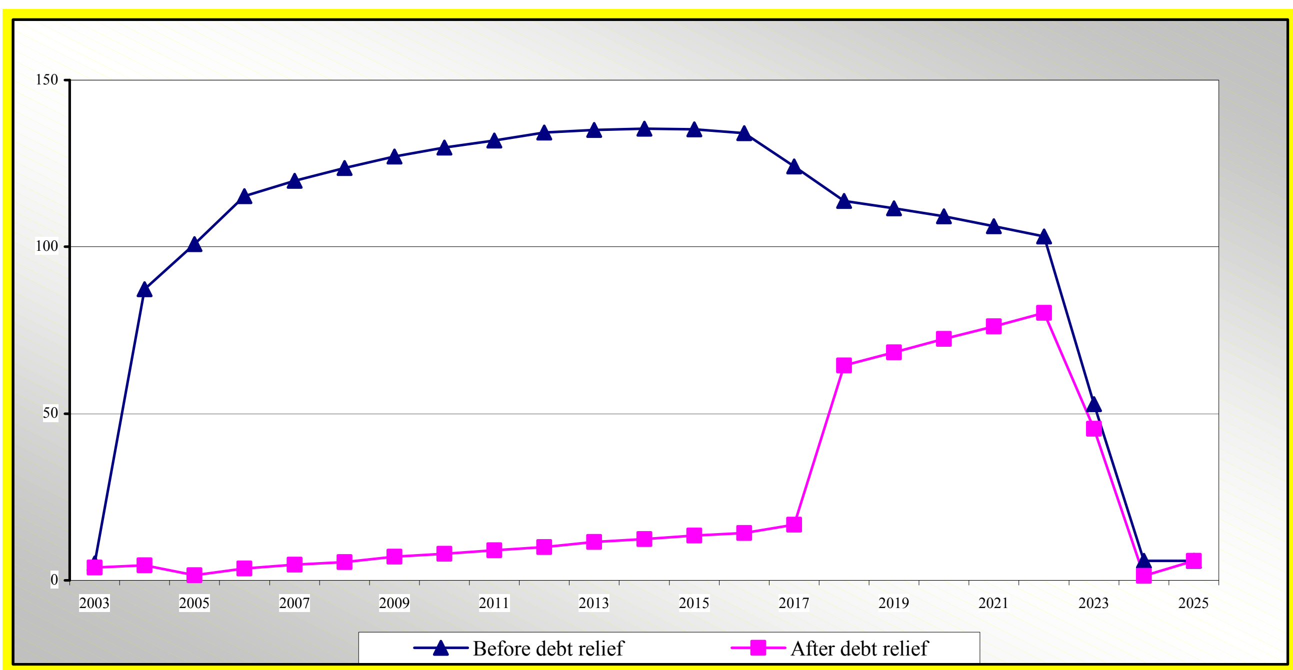


[12] The NPV of the stock of debt includes the NPV reduction resulting from the treatment of arrears before end-2002

5.5 **Impact of the enhanced HIPC Initiative**. The DRC's external debt burden would be reduced significantly with the delivery of assistance under the enhanced HIPC Initiative. This reduces the NPV of the debt-to-exports ratio for the country from 758 percent to 150 percent, equivalent to 80.2 percent reduction in the country's outstanding stock of debt at end-2002[13]. Under the baseline export projections, the NPV of debt-to-exports ratio would decline from 758 percent in 2002 to 97 percent in 2009. The NPV of debt-to-exports ratio, after enhanced HIPC Initiative relief, will remain relatively elevated during the interim period, owing to new borrowing to finance reconstruction. In later years, the NPV of debt-to-exports ratio would remain below 150 percent through 2022, reaching about 92 percent at the end of the projection period. See Figure 2.

Figure 2. Impact of Debt Relief on Democratic Republic of the Congo's Bank Group Debt Service Profile

(in million US dollars)



[13] Reflects the September 2002 Paris Club rescheduling, with comparable treatment by other bilateral and commercial creditors, and a hypothetical stock-of-debt operation on Naples terms at end-2002 by Paris Club creditors, with comparable treatment by other official, bilateral and commercial creditors on eligible debt (pre-cutoff and non-ODA).

VI. PROPOSED DELIVERY MODALITY

6.1 In line with the HIPC practice to date, each creditor decides on the modalities and timing of the delivery of its share of the debt relief, subject to the proviso that the total amount of debt relief in NPV terms is delivered. Against this backdrop, and in line with the modalities approved by the Boards of Directors in July 2002 it is proposed that the Bank Group makes a commitment to provide total debt relief of US$ 905.09 million in 2002 NPV terms with effect from July 2003 – the decision point for the HIPC debt relief. Interim relief would be delivered between the decision point (July 2003) and completion point (July 2007). It is further proposed that as DRC is a post-conflict country, the total debt relief would be provided by releasing DRC from up to 90 percent of its debt service obligations to the Bank Group each year, until the entire amount of debt relief – US 905.09 in 2002 NPV terms equivalent to US$ 1.81 billion, in nominal terms, is delivered[14]. The higher amount of annual debt relief on the debt service due (i.e., 90 percent as opposed to the standard 80 percent) is in line with the debt relief modality adopted by the World Bank.

Legal Aspects of Debt Relief Operation

6.2 Debt relief for the Democratic Republic of the Congo 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 paragraph 6.1. These terms will be implemented by:

- A Debt Relief Agreement between the Bank Group and the Government of the Democratic Republic of the Congo;
- A HIPC Trust Fund Grant Agreement between the Bank Group, the International Development Association (IDA) and the Government of the Democratic Republic of the Congo; and
- A Contribution Agreement between the Bank Group and the IDA

VII. PROPOSED FINANCING ARRANGEMENTS

7.1 The proposed financing plan below for the DRC debt relief is unique and quite different from earlier financing plans for other regional member countries that have qualified for debt relief. It consists of the following five elements:

- Contributions amounting to about US $76 million received from bilateral donors towards clearing the arrears of the DRC to the ADB. This has also enabled the setting up of the interest-recycling mechanism;
- Contributions from the European Commission via the HIPC Trust Fund, amounting to $35million and US $5 million directly to help clear the arrears of the DRC to the ADB. This contribution has also enabled the start up of the interest-recycling mechanism;

[14] See the HIPC Debt relief Schedule in Annex I.

- Contributions from ADF-IX amounting to $45.09 million to clear the arrears of the DRC to ADF, approved by the Deputies;
- Income allocations by the ADB Board of Governors to the interest-recycling mechanism to provide debt relief on interest payments on the restructured loan; and
- Contributions from the HIPC Trust Fund to finance the balance of the remaining debt relief.

7.2 These arrangement have resulted in the proposed financing of the Bank Group's share of debt as shown in Table 2 as follows:

Table 2
Proposed financing arrangements (End-2002 NPV terms*)*

CONTRIBUTORS	AMOUNT US$ million	PERCENT (%)
Internal Resources and Bilateral Contributions	447.75	49.5
HIPC Trust Fund and European Union	457.34	50.5
Total	**905.09**	**100.0**

7.3 Of the total debt relief due to DRC of US $905.09 million, in end-2002 NPV terms, the share of the Bank Group (including contributions from bilateral donors) would amount to US $447.75 million, which is equivalent to 49.5 percent of the total relief. The HIPC Trust Fund (including the contribution of the European Commission) has agreed to finance the remaining 50.5 percent.

7.4 With respect to debt relief under the ADF and ADB windows, debt relief from the **ADF window** is estimated at US$ 117.90 (in end 2002 NPV terms, as for all the figures subsequently). The ADF has already contributed US$ 45.09 million towards arrears clearance, which constitutes part of its contribution towards HIPC debt relief (see Table 3). The remaining US$ 72.8 million will be funded from the HIPC Trust Fund.

7.5 As regards the **ADB window**, the Bank, as noted above, has put in place the 'Interest Re-cycling Mechanism' (see Annex II for the details) to provide debt relief on interest payments due on the restructured loan. The net contribution of the Bank towards interest payments, excluding upfront payments received through the HIPC Trust Fund and excluding any windfall gains from the loan consolidation, amounts to US$ 345.46 million (see Table 3). The ADB will also provide some assistance towards principal payments. When resources in the DRC Special Account exceed funds required to meet all interest payments due in a given year, it is proposed that the excess is used to meet part of the principal payments in that year. In this manner, it is estimated that the Bank will contribute US$ 57.19 million towards debt relief on principal repayments. The total contribution of the Bank towards debt relief for the ADB window therefore amounts to US$ 402.65 million. As agreed with the HIPC Trust Fund, the remaining debt relief of US$ 326.43 million on principal payments will be funded from donor sources through the HIPC Trust Fund. The contribution of the HIPC Trust Fund, including the upfront payments made through the Fund, would amount to US$ 384.55 million.

Table 3

DRC - Debt Relief Assistance from Bank Group and HIPC Trust Fund
(US$ million) in end 2002 NPV terms

OPERATIONS	ADB	ADF	Bank Group
Bank Group	**402.65**	**45.09**	**447.75**
ADB Interest recycling (excl. HIPC & EEC contribution)	345.46	-	345.46
ADB principal payments	57.19	-	57.19
ADF arrears clearance	-	45.09	45.09
HIPC Trust Fund	**384.55**	**72.80**	**457.35**
Upfront payments for interest recycling (incl. EEC)	58.11	-	58.11
ADB principal payments	326.43	-	326.43
ADF debt service payments	-	72.80	72.80
TOTAL	**787.20**	**117.90**	**905.09**

VIII. RECOMMENDATIONS

8.1 The Boards of Executive Directors are invited to:

- Note the justifications for the DRC's qualification for HIPC assistance at its decision point, under the enhanced HIPC framework;
- Authorize the Bank to provide HIPC interim assistance to DRC between the decision and completion points in line with the existing guidelines; and
- Approve the plan to finance the Bank Group's share of HIPC debt relief for the DRC, in accordance with the financing plan presented in Section 7.

ANNEX I: HIPC DEBT RELIEF SCHEDULE AND SOURCES OF FINANCING

ANNEX-IA : AFRICAN DEVELOPMENT BANK

Debt Relief Schedule

(Gross Nominal Amount in US$ million)

Year	TOTAL ADB	TOTAL DEBT RELIEF (ADB/ADF)
2003	-	1.226920
2004	77.761769	82.800945
2005	94.893173	99.178877
2006	106.566536	111.621080
2007	109.723292	115.089455
2008	112.884366	118.182715
2009	114.796583	119.992269
2010	116.478592	121.816663
2011	117.537668	122.843827
2012	118.910600	124.257057
2013	118.158468	123.539842
2014	117.706158	123.054571
2015	116.509622	121.825074
2016	114.530446	119.814873
2017	102.229135	107.478665
2018	44.000719	49.217288
2019	38.013458	43.197065
2020	31.623924	36.776145
2021	24.926384	30.044070
2022	17.694516	22.919069
2023	2.028770	7.358314
2024	-	4.586036
Total Gross Amount	**1,696.974178**	**1,806.820820**

ANNEX-IB: AFRICAN DEVELOPMENT FUND

Debt Relief Schedule *

(in US$ million)

Year	TOTAL ADF	TOTAL DEBT RELIEF (ADB/ADF)
2003	1.226920	1.226920
2004	5.039176	82.800945
2005	4.285704	99.178877
2006	5.054544	111.621080
2007	5.366163	115.089455
2008	5.298350	118.182715
2009	5.195686	119.992269
2010	5.338072	121.816663
2011	5.306159	122.843827
2012	5.346457	124.257057
2013	5.381374	123.539842
2014	5.348413	123.054571
2015	5.315452	121.825074
2016	5.284427	119.814873
2017	5.249530	107.478665
2018	5.216569	49.217288
2019	5.183608	43.197065
2020	5.152222	36.776145
2021	5.117686	30.044070
2022	5.224552	22.919069
2023	5.329544	7.358314
2024	4.586036	4.586036
Total Amount	**109.846642**	**1,806.820820**

****** Excluding arrears clearance for a total amount of US$ 45.093 million in NPV terms***

ANNEX-IC: DEBT RELIEF FROM DRC SPECIAL ACCOUNT AND HIPC SOURCES

(Gross Nominal Amount in US$ million)

Year	AFRICAN DEVELOPMENT BANK				ADF	TOTAL BANK GROUP
	On Interest Payments (DRC Special Fund)	On Principal Payments		TOTAL	HIPC Trust Fund Account	
		DRC Special Fund	HIPC Trust Fund Account			
2003	-	-	-	-	1.226920	1.226920
2004	77.761769	-	-	77.761769	5.039176	82.800945
2005	84.944168	-	9.949005	94.893173	4.285704	99.178877
2006	92.410208	1.389405	12.766923	106.566536	5.054544	111.621080
2007	90.728525	1.950135	17.044631	109.723292	5.366163	115.089455
2008	88.783506	2.213472	21.887388	112.884366	5.298350	118.182715
2009	85.795777	3.282246	25.718560	114.796583	5.195686	119.992269
2010	82.467370	3.594253	30.416969	116.478592	5.338072	121.816663
2011	78.637244	4.098579	34.801845	117.537668	5.306159	122.843827
2012	74.446667	4.487700	39.976234	118.910600	5.346457	124.257057
2013	69.266129	5.446384	43.445955	118.158468	5.381374	123.539842
2014	63.789279	5.742696	48.174183	117.706158	5.348413	123.054571
2015	57.754305	6.303427	52.451890	116.509622	5.315452	121.825074
2016	51.350720	6.632529	56.547197	114.530446	5.284427	119.814873
2017	44.191586	7.053138	50.984412	102.229135	5.249530	107.478665
2018	37.819123	6.181596	-	44.000719	5.216569	49.217288
2019	31.427454	6.586004	-	38.013458	5.183608	43.197065
2020	24.732049	6.891875	-	31.623924	5.152222	36.776145
2021	17.500182	7.426202	-	24.926384	5.117686	30.044070
2022	9.968780	7.725736	-	17.694516	5.224552	22.919069
2023	2.028770	-	-	2.028770	5.329544	7.358314
2024	-	-	-	-	4.586036	4.586036
Total Gross Amount	**1,165.803612**	**87.005377**	**444.165190**	**1,696.974178**	**109.8466418**	**1,806.820820**

ANNEX-II : TECHNICAL NOTE ON THE BANK's LOAN CONSOLIDATION MECHNISM FOR THE DRC

I INTRODUCTION

1. In June 2002, the Boards of Directors of the Bank Group approved a special mechanism for the DRC to help the country clear its arrears with the ADB Group, normalize relations with the MDBs, and eventually qualify for debt relief under the HIPC initiative. In July 2003, the IMF and the World Bank approved a proposal to grant the DRC interim debt relief under the HIPC decision point mechanism.

2. This technical note has been prepared to provide an updated analysis and explanation of the revised cash flows and debt relief in the consolidated ADB loan for the DRC. The figures in this note are based on a number of assumptions about future events and are therefore working estimates.

3. The paper is organized in five sections. Following the introduction, section two reviews the cash flows for the consolidated loan contained in the paper approved by the Board and the factors that have led to subsequent modifications. Section three presents the revised cash flow projections using exchange rates from the end of 2002. Section four analyzes the implications of the revised cash flow projections from three key perspectives: the interest re-cycling mechanism; potential cash flow shortfalls; and the Bank's embedded contribution to debt relief. The fifth and final section summarizes the conclusions. The paper is supported by five technical annexes.

II ORIGINAL CASH FLOWS AND ISSUES

4. The projected cash flows for the consolidated DRC loan at the time of Board approval are presented in annex 1. These figures, which were originally presented in the Board paper in USD, have been converted into UA amounts using the prevailing exchange rate of 1 UA = 1.25 USD. Since then, a number of assumptions on which the projections were based have been over-taken by events:

   - The original cash flow projections anticipated donor pledges of USD 76 million (UA 61 million) to be paid to the Bank in 2002. With these funds, the Bank would have had sufficient internal resources through an allocation of income to the DRC special account to cover the entire first interest payment due in July 2004. In retrospect, actual donor payments have been substantially delayed. In 2002, a total of UA 12.9 million was received from the DRC, Belgium, and the SFM. In early 2003, a further UA 4.9 million was received from Canada. Following the decision point approval for the DRC in July 2003, an additional UA 35.5 million was received from the EU, the UK, Italy, and Norway in the final part of 2003[15]. In early 2004, UA 3.4 million has been received from Switzerland, and an additional amount of UA 16.7 million is expected to be paid in by the HIPC Trust Fund shortly[16].

   - Consistent with the accounting policies of the Bank, the consolidated loan was separated into two parts: Loan "A" representing the existing outstanding loan principal and Loan "B"

[15] Of this, USD 5 million was received in 2003 as a partial payment from the EU and EUR 2.7 million from Italy.
[16] All payments received by end of 2003 are stated at the actual UA amount recognized in the ADB income, while all payments received or projected to be received in 2004 or later are converted to UA at the end 2003 exchange rates.

representing the interest capitalized. The original cash flows assumed that interest for the first year would be capitalized into the loans. However, to comply with the original intent not to increase the total amount reported as receivable from the DRC on the balance sheet of the Bank, changes have been made to the planned application of funds in 2003 and 2004.

III REVISED CASH FLOWS

5. In view of the protracted period of donor payments and the loan administration and accounting issues encountered, as indicated above, the cash flows for the consolidated loan have been revised as presented in annex 2. The highlights are as follows:

- Donor payments of UA 12.9 million received in 2002 were applied to reduce arrears on interest before the consolidation. Donor payments of UA 4.9 million received in early 2003 were applied as a reduction of loan B principal in the first half of 2003.

- Donor payments received during the remainder of 2003 of UA 35.5 million plus a contribution from the DRC special account of UA 12.9 million were applied as interest payments on loan A in the second half of 2003.

- The UA 3.4 million from Switzerland received in early 2004, plus the anticipated UA 16.7 million from HIPC in the first half of 2004, plus the expected UA 53.4 million income allocation from ADB in May 2004[17] will be available for the DRC special account to meet the remaining interest payment of UA 8.7 million on Loan A in July 2004, and the combined interest payment of UA 28.4 million on loans A and B due in January 2005. In the meantime, accrued interest on loan B will be capitalized into the loan B balance until July 1, 2004.

- The first principal payment on loan B will be due on July 1, 2004 with semi-annual payments rising thereafter. When loan B principal payments end in 2017, loan A principal payments will begin. Loan A principal repayments will be completed in January 2023.

- The initial principal balances of loans A and B are UA 346.5 million and UA 374 million respectively for a total of UA 720.5 million. This compares to UA 683 million estimated in the Board paper. The difference of UA 37.5 million is attributable to exchange rate effects.

IV IMPLICATIONS OF REVISED CASH FLOWS

6. The implications of the revised cash flows for the consolidated DRC loan are examined from four perspectives:

- Interest re-cycling mechanism
- Potential cash flow shortfalls
- The Bank's embedded contribution to debt relief
- Impact of consolidation on ADB Income

[17] Subject to approval by the ADB Board of Governors.

Interest Re-cycling Mechanism

7. To avoid any accounting loss or "write-down" during consolidation, the Board approved restructuring of the DRC loans over a twenty-year period using the average contractual interest rate on the original loans (8.97%). Recognizing the potential windfall gains from this consolidation (because market rates were far lower than the average contractual rate), the Board approved a special interest re-cycling mechanism to reduce the effective cost of debt service to the DRC. Under this mechanism, each year an income allocation equal to interest earned on the consolidated loan would be proposed for the DRC debt relief special account[18]. In each subsequent year, resources from the special account would be used to meet the next interest payment, and if feasible, part of the next principal payment, on the consolidated loan. The recycling mechanism has a built-in cushion to cater to the impact of market rate movements on the UA amounts of debt service.

8. The revised cash flows projected for the special account are presented in annex 3. Although the re-cycling mechanism will function as originally planned, the specific flows have changed due to donor payment delays. For example, in 2003 the UA 4.9 million received from Canada was applied to reduce the principal balance of loan B. Although, strictly speaking, these funds were not used to meet interest payments, they will be eligible for allocation to the DRC special fund in 2004.

Potential Cash Flow Shortfalls

9. The original interest recycling mechanism's sustainability was based on receiving adequate upfront payments from bilateral donors in a timely manner. The delay in the receipt of bilateral donor funds would have created a potential cash flow shortfall in some of the future years, which would then have had to be met by HIPC/DRC. Recognizing the desirability of making the interest recycling mechanism sustainable upfront, HIPC Trust Fund has agreed to release the required UA 16.7 million as part of the upfront payments, on approval of the decision point document by the Board.

The Bank's Embedded Contribution to Debt Relief

10. Although the Bank is substantially reducing the DRC's cost of servicing the consolidated loan through the interest re-cycling mechanism, in view of the windfall created by consolidating at the average contractual rate, the effective debt relief provided by the Bank must factor in this windfall.

11. On the basis of calculations detailed in annex 4, the share of the debt relief provided by the Bank through interest re-cycling is about UA 286 million, or 36% of the original loan value in PV terms[19].

Impact of Consolidation on ADB Income

12. The interest payments on the consolidated loans, as well as principal repayments of Loan B (consolidated interest arrears) will go towards increasing the Bank's operating income significantly. The income impact in 2003 and 2004 is estimated at UA 53 million and UA 43 million respectively; thereafter, the income impact is projected to increase to a peak of about UA 96 million before dropping off to UA 4 million in 2022. Details of the magnitude and timing of the income impact are presented in annex 5.

---

[18] In view of DRC income being recognized on a cash basis, Management will endeavor to make interest payments due on January 1 of any following year by the day before, in order to ensure recognition in the income of any current year; this one–day prepayment is necessary to make the interest recycling mechanism self-sustainable.

[19] The share of debt relief increases to 39% if bilateral contributions mobilized by the Bank are included.

13. A large component of the income impact will be offset by the income allocation in subsequent years to the DRC Special Account and therefore will not result in increasing the Bank's risk capital; however, the income impact attributable to principal repayments of Loan B after 2003, amounting to a cumulative amount of UA 425 million, will be retained and reinforce the Bank's risk capital.

V CONCLUSIONS AND RECOMMENDATIONS

14. For over three years, the Bank has been working with the IMF and IBRD to put in place a special mechanism for consolidating the DRC's arrears to the Bank. When the DRC reached the HIPC decision point it marked a key milestone in the process that triggered renewed commitments from donors to pay any outstanding pledges for the up-front payment to the Bank.

15. The increased visibility that has been created by the decision point event has made it possible to revise the cash flow projections for the consolidated loan with greater certainty. However, payment delays plus loan administration and accounting issues encountered in implementing the consolidation has led to a number of modifications of the cash flows; nevertheless, they do not substantively alter the structure of the consolidation approved by the Board in June 2002.

16. From the estimated UA 793 million present value of the original loan before consolidation, the Bank is providing an estimated 36% (UA 286 million) of effective debt relief to the DRC through the interest re-cycling mechanism. This debt relief estimate factors out any windfall gains to the Bank that resulted from the consolidation at the contractual interest rates.

APPENDIX 1

Original Cash Flows and Balances of Consolidated Loan
(Figures in UA millions converted from USD @1 SDR=USD1.25)

1. The table below presents the projected base-case balances and cash flows on the consolidated facility that were presented for the Board approval in June 2002. For comparison, they have been converted into UA figures using the USD/UA exchange of 1.25 assumed in that paper.

2. In 2002, an up-front partial payment of UA 61 million was expected that would have been applied towards interest in arrears. The consolidated residual balance of arrears and principal not yet due would have been approximately UA 622 million (UA 683 million original debt to the ADB less the UA 61 million partial payment). Interest would have been capitalized at an average rate of 8.97% for the first year leading to an increasing facility balance to reach UA 678 million in 2003. Interest due in 2004 on the consolidated facility would have been approximately UA 61 million. Principal repayments would have also begun in 2004 and would have increased annually until the facility is fully repaid. Total debt service payments would also have increased gradually from UA 65 million in 2004 to a peak of UA 83 million in 2014.

Year	End of Period Balance	Interest Charges	Principal Repayments	Total Cashflow
2002	622.5	60.8	0.0	60.8
2003	678.4	0.0	0.0	0.0
2004	674.7	60.9	3.7	64.6
2005	667.3	60.6	7.4	68.0
2006	656.2	59.9	11.1	71.0
2007	641.4	58.9	14.8	73.7
2008	623.0	57.6	18.5	76.1
2009	600.8	55.9	22.1	78.1
2010	575.0	54.0	25.8	79.8
2011	545.5	51.6	29.5	81.2
2012	512.3	49.0	33.2	82.2
2013	475.4	46.0	36.9	82.9
2014	434.8	42.7	40.6	83.3
2015	390.5	39.0	44.3	83.3
2016	342.5	35.1	48.0	83.0
2017	290.8	30.8	51.7	82.4
2018	235.5	26.1	55.4	81.5
2019	176.4	21.1	59.1	80.2
2020	113.7	15.8	62.7	78.6
2021	47.2	10.2	66.4	76.6
2022	0.0	4.2	47.2	51.5

APPENDIX 2

Revised Cash Flows and Balances of Consolidated Loan
(Figures in UA millions based on exchange rates at the end of 2003)

1. The table below presents the revised cash flow projections and the estimated loan balances over the 20-year life of the consolidated loans. These figures are derived from the Bank's loan accounting system using the following rules for the application of payments from outside sources:
   - Funds received in 2002 from the SFM, the DRC, and Belgium totaling UA 13 million were used to reduce the principal balance on loan B in 2002.
   - Funds received from Canada totaling UA 4.9 million received in early 2003 were used to reduce the principal balance on loan B in 2003.
   - Funds expected from the EU, UK, Italy and Norway in 2003 totaling UA 36 million were used to meet part of the interest payment of UA 48.5 million in the second half of 2003. The difference was made up from resources from the DRC special account.

	Loan A			Loan B			Loans A+B
Date	End of period balance	Principal repayments	Interest charges	End of period balance	Principal repayments	Interest charges	Total Debt Service
30-Jun-02	346.5			374.0			
01-Jul-02	346.5	0.0	0.0	361.0	13.0	0.0	13.0
01-Jan-03	346.5	0.0	0.0	377.2	0.0	0.0	0.0
01-Jul-03	346.5	0.0	48.5	389.3	4.9	0.0	53.4
01-Jan-04	346.5	0.0	0.0	406.7	0.0	0.0	0.0
01-Jul-04	346.5	0.0	8.7	421.8	2.9	0.0	11.6
01-Jan-05	346.5	0.0	15.7	418.7	3.0	12.7	31.5
01-Jul-05	346.5	0.0	15.4	413.6	5.1	18.6	39.1
01-Jan-06	346.5	0.0	15.7	408.5	5.1	18.7	39.5
01-Jul-06	346.5	0.0	15.4	401.0	7.5	18.2	41.1
01-Jan-07	346.5	0.0	15.7	393.5	7.5	18.1	41.3
01-Jul-07	346.5	0.0	15.4	384.0	9.5	17.5	42.4
01-Jan-08	346.5	0.0	15.7	374.6	9.5	17.4	42.5
01-Jul-08	346.5	0.0	15.5	362.7	11.9	16.8	44.1
01-Jan-09	346.5	0.0	15.7	350.8	11.9	16.4	44.0
01-Jul-09	346.5	0.0	15.4	336.5	14.3	15.6	45.3
01-Jan-10	346.5	0.0	15.7	322.2	14.3	15.2	45.2
01-Jul-10	346.5	0.0	15.4	306.0	16.2	14.3	46.0
01-Jan-11	346.5	0.0	15.7	289.8	16.2	13.8	45.7
01-Jul-11	346.5	0.0	15.4	271.1	18.6	12.9	46.9
01-Jan-12	346.5	0.0	15.7	252.5	18.6	12.3	46.6
01-Jul-12	346.5	0.0	15.5	231.4	21.1	11.3	47.9
01-Jan-13	346.5	0.0	15.7	210.4	21.1	10.5	47.2
01-Jul-13	346.5	0.0	15.4	187.4	23.0	9.4	47.7
01-Jan-14	346.5	0.0	15.7	164.4	23.0	8.5	47.1
01-Jul-14	346.5	0.0	15.4	139.0	25.4	7.3	48.1
01-Jan-15	346.5	0.0	15.7	113.6	25.4	6.3	47.4
01-Jul-15	346.5	0.0	15.4	86.3	27.4	5.1	47.8
01-Jan-16	346.5	0.0	15.7	58.9	27.4	3.9	46.9
01-Jul-16	346.5	0.0	15.5	29.7	29.3	2.6	47.4
01-Jan-17	346.5	0.0	15.7	0.0	29.7	1.3	46.7
01-Jul-17	321.7	24.8	15.4	0.0	0.0	0.0	40.3
01-Jan-18	296.8	24.8	14.5	0.0	0.0	0.0	39.4
01-Jul-18	270.3	26.6	13.2	0.0	0.0	0.0	39.8
01-Jan-19	243.7	26.6	12.2	0.0	0.0	0.0	38.8
01-Jul-19	215.7	28.0	10.8	0.0	0.0	0.0	38.8
01-Jan-20	187.7	28.0	9.8	0.0	0.0	0.0	37.8
01-Jul-20	157.9	29.8	8.4	0.0	0.0	0.0	38.2
01-Jan-21	128.1	29.8	7.1	0.0	0.0	0.0	36.9
01-Jul-21	97.0	31.2	5.7	0.0	0.0	0.0	36.9
01-Jan-22	65.8	31.2	4.4	0.0	0.0	0.0	35.5
01-Jul-22	32.9	32.9	2.9	0.0	0.0	0.0	35.8
01-Jan-23	0.0	32.9	1.5	0.0	0.0	0.0	34.4
Total		346.5	552.1		442.5	304.7	1645.9

APPENDIX 3

Interest Re-cycling Mechanism

(Figures in UA millions based on exchange rates at the end of 2003)

1. The table below presents the cash flows associated with the interest re-cycling mechanism. These cash flows and balances were derived using the following rules:

   - In 2002 and 2003, all payments for the DRC consolidated loan are allocated to the DRC special account. From 2004 onwards, income allocations equal to any interest payments[20] on consolidated loans A and B in a given year are made to the DRC special account in the following year.
   - Any balance in the special account is available to meet interest payments due on loans A and B. If resources in the special account exceed funds required to meet all interest payments due in a given year, the excess[21] is used to meet part of the principal payments in that year.

	LOAN A+B			Embedded Debt Relief		
Date	Interest Payment	Principal Payment	Total	ADB Income allocation to DRC Special Account*	Debt relief from DRC Special Account	DRC Special Account balance
1/Jul/02	0.0	13.0	13.0	0.0	0.0	0.0
1/Jan/03	0.0	0.0	0.0	0.0	0.0	0.0
1/Jul/03	48.5	4.9	53.4	13.0	13.0	0.0
1/Jan/04	0.0	0.0	0.0	0.0	0.0	20.1
1/Jul/04	8.7	2.9	11.6	53.4	8.7	64.7
1/Jan/05	28.4	3.0	31.5	0.0	28.4	36.3
1/Jul/05	34.0	5.1	39.1	37.1	34.0	39.4
1/Jan/06	34.4	5.1	39.5	0.0	34.4	5.0
1/Jul/06	33.6	7.5	41.1	68.4	33.6	39.8
1/Jan/07	33.8	7.5	41.3	0.0	34.8	5.0
1/Jul/07	32.9	9.5	42.4	67.4	32.9	39.5
1/Jan/08	33.0	9.5	42.5	0.0	34.5	5.0
1/Jul/08	32.3	11.9	44.1	66.0	32.3	38.7
1/Jan/09	32.1	11.9	44.0	0.0	33.7	5.0
1/Jul/09	31.0	14.3	45.3	64.3	31.0	38.3
1/Jan/10	30.9	14.3	45.2	0.0	33.3	5.0
1/Jul/10	29.7	16.2	46.0	61.9	29.7	37.2
1/Jan/11	29.5	16.2	45.7	0.0	32.2	5.0
1/Jul/11	28.3	18.6	46.9	59.3	28.3	36.0
1/Jan/12	27.9	18.6	46.6	0.0	31.0	5.0
1/Jul/12	26.8	21.1	47.9	56.2	26.8	34.4
1/Jan/13	26.1	21.1	47.2	0.0	29.4	5.0
1/Jul/13	24.8	23.0	47.7	52.9	24.8	33.2
1/Jan/14	24.1	23.0	47.1	0.0	28.2	5.0
1/Jul/14	22.7	25.4	48.1	48.9	22.7	31.2
1/Jan/15	22.0	25.4	47.4	0.0	26.2	5.0
1/Jul/15	20.5	27.4	47.8	44.7	20.5	29.2
1/Jan/16	19.6	27.4	46.9	0.0	24.2	5.0
1/Jul/16	18.1	29.3	47.4	40.0	18.1	26.9
1/Jan/17	17.0	29.7	46.7	0.0	21.9	5.0
1/Jul/17	15.4	24.8	40.3	35.2	15.4	24.7
1/Jan/18	14.5	24.8	39.4	0.0	19.7	5.0
1/Jul/18	13.2	26.6	39.8	30.0	13.2	21.8
1/Jan/19	12.2	26.6	38.8	0.0	16.8	5.0
1/Jul/19	10.8	28.0	38.8	25.4	10.8	19.6
1/Jan/20	9.8	28.0	37.8	0.0	14.6	5.0
1/Jul/20	8.4	29.8	38.2	20.6	8.4	17.2
1/Jan/21	7.1	29.8	36.9	0.0	12.2	5.0
1/Jul/21	5.7	31.2	36.9	15.5	5.7	14.8
1/Jan/22	4.4	31.2	35.5	0.0	9.8	5.0
1/Jul/22	2.9	32.9	35.8	10.1	2.9	12.2
1/Jan/23	1.5	32.9	34.4	0.0	12.2	0.0
Total	**856.8**	**789.0**	**1645.9**	**870.2**	**890.3**	

* Equals previous year's interest payments, except for upfront payments in 2002 and 2003, which are allocated entirely.

[20] Interest payments due on January 1 of any year are assumed to be made by December 31 of the previous year, to ensure timely income allocation in light of the cash basis accounting followed for DRC.

[21] Subject to a minimum balance of UA 5 million until the last payment due in 2023, to protect the recycling mechanism from market rate movements.

APPENDIX 4

Bank's Debt Relief Contribution

1. The starting point for estimating the Bank's contribution to debt relief is to present value the DRC's loans and arrears before consolidation using the discount rates applicable for HIPC debt relief calculations.

2. This is done by adding the nominal values of any interest overdue (UA 373 million) and principal overdue (UA 273 million) to the present value of any principal not-yet-due (UA 147 million). On this basis, the present value of the DRC loans before consolidation was estimated as UA 793 million. This is UA 69 million higher than the nominal value of the DRC loans of UA 724 million because of the higher PV of the small "not-yet-due" portion.

3. After consolidation, the present value of the Bank's loans to the DRC increases substantially to UA 1,162 million. The increase of about 46% is due to the sharp difference in the average contractual interest rate and the currency-weighted average CIRR discount rate. The present value of the windfall due to consolidation, from a HIPC debt relief perspective, is therefore the difference between the pre and post consolidation loans using the CIRR discount rates. On this basis, the windfall is approximately UA 369 million (UA 1,162 million less UA 793 million).

4. By re-cycling interest, the Bank is foregoing a significant amount of potential earnings that could be allocated to reserves. The total nominal value of the payments re-cycled by the ADB plus up-front payments from ADF is UA 885 million or about UA 655 million in present value terms. Therefore, the total present value of the debt relief provided by the Bank can be calculated as UA 286 million, the difference between this foregone income of UA 655 million and the windfall embedded in the consolidation of UA 369 million.

5. On the basis of these figures, the share of the debt relief provided by the Bank through interest re-cycling is about 36% of the original loan value in PV terms (UA 286 million divided by the present value of the original loan of UA 793 million)[22].

[22] If bilateral donor payments mobilized by the Bank are included, the present value of the debt relief provided by the Bank increases to UA 305 million, taking the share to 39% of the original loan value in PV terms.

APPENDIX 5

Impact of Consolidation on ADB Income
(Figures in UA millions based on exchange rates at the end of 2003)

1. The table below presents the estimated impact of the consolidated loan on the Bank's interest income. Three types of cash flows from the DRC consolidated loan will affect the Bank's revenues. Interest charges from both loan A and loan B are recognized as interest income. In addition, principal repayments from loan B, which represent the DRC's consolidated interest arrears, are also recognized as income.

	Loan A		Loan B		Total	
Year	**Principal Repayments (1)**	**Interest Charges (2)**	**Principal Repayments (3)**	**Interest Charges (4)**	**Cash Flow (1+2+3+4)**	**Income Impact (2+3+4)**
2002	0.0	0.0	13.0	0.0	13.0	13.0
2003	0.0	48.5	4.9	.0	53.4	53.4
2004	0.0	24.4	6.0	12.7	43.1	43.1
2005	0.0	31.1	10.2	37.3	78.6	78.6
2006	0.0	31.1	15.0	36.3	82.4	82.4
2007	0.0	31.1	18.9	34.9	84.9	84.9
2008	0.0	31.2	23.8	33.2	88.1	88.1
2009	0.0	31.1	28.5	30.8	90.4	90.4
2010	0.0	31.1	32.4	28.2	91.7	91.7
2011	0.0	31.1	37.3	25.2	93.5	93.5
2012	0.0	31.2	42.1	21.8	95.1	95.1
2013	0.0	31.1	46.0	17.8	94.9	94.9
2014	0.0	31.1	50.8	13.6	95.5	95.5
2015	0.0	31.1	54.7	.0	94.7	94.7
2016	0.0	31.2	58.9	4.0	94.1	94.1
2017	49.7	30.0	0.0	0	79.7	30.0
2018	53.2	25.4	0.0	0.0	78.6	25.4
2019	56.0	20.6	0.0	0	76.6	20.6
2020	59.5	15.5	0.0	0.0	75.1	15.5
2021	62.3	10.1	0.0	0	72.4	10.1
2022	65.8	4.4	0.0	0.0	70.3	4.4

ANNEX-III: Enhanced HIPC Decision Point Document for Democratic Republic of the Congo - IMF/ World Bank

Annex

DEMOCRATIC REPUBLIC OF THE CONGO (DRC): HIPC APPROVAL DOCUMENT -DECISION POINT UNDER THE ENHANCED HIPC FRAMEWORK

DEMOCRATIC REPUBLIC OF THE CONGO (DRC): HIPC APPROVAL DOCUMENT - DECISION POINT UNDER THE ENHANCED HIPC FRAMEWORK

CORRIGENDUM

Page 5

Paragraph 3.5 : last sentence “In order to keep close track of the Bank’s portfolio in the DRC as well as developments in the country, a Bank professional-level staff member has been seconded to the DRC in 2003, with residence in Kinshasa, pursuant to a Board decision taken in November 2002”

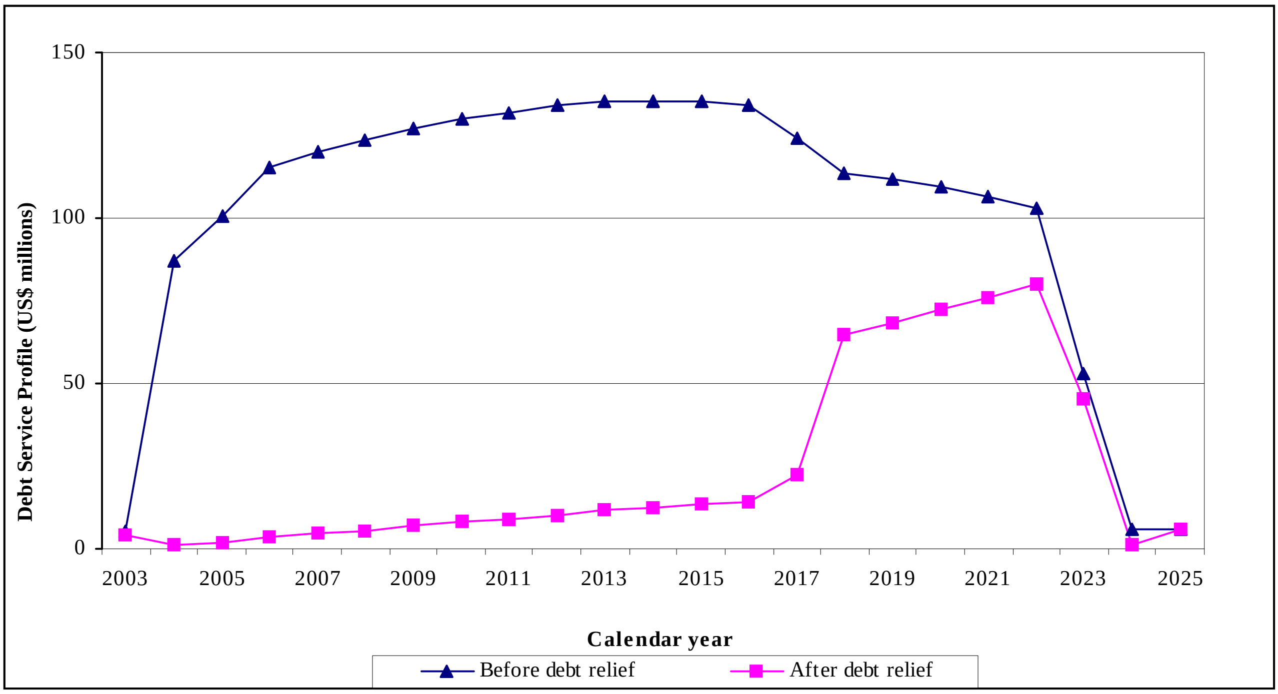
has been changed and replaced by:

“In order to keep close track of the Bank’s portfolio in the DRC as well as developments in the country, a Bank professional-level staff member **will be seconded to the DRC before the end of 2004**, with residence in Kinshasa, pursuant to a Board decision taken in November 2002”

Page 8

Figure 2 should be replaced by the Figure below:

Impact of Debt Relief on Democratic Republic of the Congo’s Bank Group Debt Service Profile
(in million US dollars)



Page 9

Paragraph 6.1: the fourth sentence in the paragraph should be replaced by:

"It is further proposed that as DRC is a post-conflict country, the total debt relief would be provided by releasing DRC from up to 90 percent of its debt service obligations to the Bank Group each year, until the entire amount of debt relief – US 905.09 in 2002 NPV terms equivalent to **US$ 1.80 billion**, in nominal terms [14], is delivered."

Footnote 14: "See the HIPC Debt relief Schedule in Annex I" should be replaced by:

"See the HIPC Debt Relief Schedule in Annex–IC. Note that the US$ 1.80 billion excludes arrears clearance amount of UA 36.5 million through a grant from the ADF window, and the upfront payments before the ADB loan consolidation from SFM contribution (UA 11.7 million), and Belgium contribution (US$ 1.34 million)".

Annexes - IA, IB, and IC

The review process revealed that one principal payment in July 2004 for the ADB window was overlooked in the calculation of debt relief, and that was therefore left out of the figures in Annex-IA and IC. The required adjustment has now been made, by front-loading this principal payment in 2004. This has resulted in a small reduction in the total nominal debt relief from US$ 1.806 billion to US$ 1.804 billion, as reflected in the revised Annexes - IA, IB, and IC as follows:

<u>**ANNEX I**</u>

Page i

Annex - IA should be replaced by the table below:

ANNEX I: HIPC DEBT RELIEF SCHEDULE AND SOURCES OF FINANCING

ANNEX-IA : AFRICAN DEVELOPMENT BANK

Debt Relief Schedule

(Gross Nominal Amount in US$ million)

Year	TOTAL ADB	TOTAL DEBT RELIEF (ADB/ADF)
2003	-	1.226920
2004	81.324696	86.363873
2005	94.893173	99.178877
2006	106.566536	111.621080
2007	109.723292	115.089455
2008	112.884366	118.182715
2009	114.796583	119.992269
2010	116.478592	121.816663
2011	117.537668	122.843827
2012	118.910600	124.257057
2013	118.158468	123.539842
2014	117.706158	123.054571
2015	116.509622	121.825074
2016	114.530446	119.814873
2017	96.715459	101.964989
2018	44.000719	49.217288
2019	38.013458	43.197065
2020	31.623924	36.776145
2021	24.926384	30.044070
2022	17.694516	22.919069
2023	2.028770	7.358314
2024	-	4.586036
Total Gross Amount	**1,695.023430**	**1,804.870071**

Annex - IB should be replaced by the table below:

ANNEX-IB: AFRICAN DEVELOPMENT FUND

Debt Relief Schedule *

(in US$ million)

Year	TOTAL ADF	TOTAL DEBT RELIEF (ADB/ADF)
2003	1.226920	1.226920
2004	5.039176	86.363873
2005	4.285704	99.178877
2006	5.054544	111.621080
2007	5.366163	115.089455
2008	5.298350	118.182715
2009	5.195686	119.992269
2010	5.338072	121.816663
2011	5.306159	122.843827
2012	5.346457	124.257057
2013	5.381374	123.539842
2014	5.348413	123.054571
2015	5.315452	121.825074
2016	5.284427	119.814873
2017	5.249530	101.964989
2018	5.216569	49.217288
2019	5.183608	43.197065
2020	5.152222	36.776145
2021	5.117686	30.044070
2022	5.224552	22.919069
2023	5.329544	7.358314
2024	4.586036	4.586036
Total Amount	**109.846642**	**1,804.870071**

** Excluding arrears clearance of UA 36.5 million through a grant from the ADF window, and the upfront payments before the ADB loan consolidation from SFM contribution (UA 11.7 million), and Belgium contribution (US$ 1.34 million).*

Annex - IC should be replaced by the table below:

ANNEX-IC: DEBT RELIEF FROM DRC SPECIAL ACCOUNT AND HIPC SOURCES*

(Gross Nominal Amount in US$ million)

Year	AFRICAN DEVELOPMENT BANK				ADF	TOTAL BANK GROUP
	On Interest Payments (DRC Special Fund)	On Principal Payments		TOTAL	HIPC Trust Fund Account	
		DRC Special Fund	HIPC Trust Fund Account			
2003	-	-	-	-	1.226920	1.226920
2004	77.761769	-	3.562928	81.324696	5.039176	86.363873
2005	84.944168	-	9.949005	94.893173	4.285704	99.178877
2006	92.410208	1.389405	12.766923	106.566536	5.054544	111.621080
2007	90.728525	1.950135	17.044631	109.723292	5.366163	115.089455
2008	88.783506	2.213472	21.887388	112.884366	5.298350	118.182715
2009	85.795777	3.282246	25.718560	114.796583	5.195686	119.992269
2010	82.467370	3.594253	30.416969	116.478592	5.338072	121.816663
2011	78.637244	4.098579	34.801845	117.537668	5.306159	122.843827
2012	74.446667	4.487700	39.976234	118.910600	5.346457	124.257057
2013	69.266129	5.446384	43.445955	118.158468	5.381374	123.539842
2014	63.789279	5.742696	48.174183	117.706158	5.348413	123.054571
2015	57.754305	6.303427	52.451890	116.509622	5.315452	121.825074
2016	51.350720	6.632529	56.547197	114.530446	5.284427	119.814873
2017	44.191586	7.053138	45.470736	96.715459	5.249530	101.964989
2018	37.819123	6.181596	-	44.000719	5.216569	49.217288
2019	31.427454	6.586004	-	38.013458	5.183608	43.197065
2020	24.732049	6.891875	-	31.623924	5.152222	36.776145
2021	17.500182	7.426202	-	24.926384	5.117686	30.044070
2022	9.968780	7.725736	-	17.694516	5.224552	22.919069
2023	2.028770	-	-	2.028770	5.329544	7.358314
2024	-	-	-	-	4.586036	4.586036
Total Gross Amount	**1,165.803612**	**87.005377**	**442.214441**	**1,695.023430**	**109.846642**	**1,804.870071**

** Excluding arrears clearance of UA 36.5 million through a grant from the ADF window, and the upfront payments before the ADB loan consolidation from SFM contribution (UA 11.7 million), and Belgium contribution (US$ 1.34 million).*