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 In reaching their decision, 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 On March 29, 2000, Mozambique reached its decision point and the Boards of the IMF and World Bank approved US$ 254 million worth of debt relief in 1998 net present value (NPV) terms under the enhanced HIPC Initiative. 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 and illustrates the impact of HIPC debt relief on Mozambique’s debt service profile. The proposed financing plan is presented in Section 6. Recommendations for Board consideration are contained in Section 7.

2. HIPC QUALIFICATION

Mozambique qualified for US$ 254 million worth of debt relief assistance, equivalent to a 72 percent reduction in the country’s outstanding stock of debt. This would be in addition to US$ 1716 million of debt service received under the original HIPC Initiative. Mozambique reached its decision point under the enhanced HIPC Initiative in March 2000, and is expected to reach its completion point in 2001 by fulfilling the following conditions:

- Consolidation of macroeconomic progress, as evidenced by progress under an IMF-supervised Poverty Reduction and Growth Facility (PRGF) programme;
- Satisfactory implementation of policy reforms articulated in the medium-term policy framework;
- Prepare full PRSP; and
- Implement PRSP for at least one year.

Copies of the relevant HIPC completion point documents are annexed to this report.

3. HIPC COSTS

Bilateral creditors will account for US$ 159 million (63 percent) of Mozambique’s debt relief, while multilateral creditors will deliver the remaining US$ 95 million (37 percent). Since the Bank Group
accounts for 19.8 percent of Mozambique’s total multilateral obligations, its share of multilateral debt relief will be US$ 18.8 million in 1998 NPV terms. This would be in addition to US$ 119.7 million of debt relief provided by the Bank Group under the original HIPC framework. In nominal terms, Bank Group assistance to Mozambique under the enhanced HIPC Initiative amounts to US$ 26.98 million. Table 1 provides a breakdown of Mozambique’s total debt relief.

<table>
<thead>
<tr>
<th>Total HIPC Debt Relief</th>
<th>US$ million (1998 NPV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bilateral Creditors</td>
<td>159</td>
</tr>
<tr>
<td>Multilateral Creditors</td>
<td>95</td>
</tr>
<tr>
<td><strong>African Development Bank Group</strong></td>
<td><strong>18.8</strong></td>
</tr>
<tr>
<td><strong>World Bank</strong></td>
<td><strong>53</strong></td>
</tr>
<tr>
<td><strong>IMF</strong></td>
<td><strong>15.6</strong></td>
</tr>
</tbody>
</table>

4. **BANK GROUP INVOLVEMENT IN THE PRSP**

4.1 The interim PRSP (I-PRSP) for Mozambique is based on the Action Plan for the Reduction of Absolute Poverty (PARPA) issued by the government in November 1999. The I-PRSP was prepared through a collaborative process that involved all stakeholders in the country. Although the Bank was not directly involved in the process of preparing the PRSP, its Country Strategy Paper (CSP) for the period 1999-2001 takes into account the government’s development strategy as outlined in the PARPA – which has since evolved into the I-PRSP.

4.2 The objectives of the Bank's CSP are thus consistent with the government's pro-poor development strategy espoused in the I-PRSP. The broad objectives of the I-PRSP and CSP seek to consolidate growth and poverty reduction by reinforcing economic reforms and implementing pro-poor expenditure programs in targeted areas such as education, health care, roads and energy supplies, sanitation and water supply. Priority is also accorded to the promotion of opportunities for income generation and employment creation in the urban and rural areas.

4.3 The government of Mozambique is embarking on the preparation of a full PRSP to fulfil the conditions for reaching the completion point under the enhanced HIPC framework. The Bank Group plans to actively participate in the PRSP preparation process and thus help ensure a co-ordinated and effective approach to addressing the challenges of growth and poverty reduction in Mozambique.

5. **PROPOSED DELIVERY MODALITY**

5.1 As Mozambique 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 March 2000. Interim relief will not exceed 40 percent of the total NPV debt relief, and is expected to be delivered between 2000 and 2003. The Bank Group’s debt relief would be provided by releasing Mozambique from 80 percent of its debt service obligations to the Bank Group each year, until the entire amount of US$ 18.8 million is delivered. The conditions that would trigger Mozambique’s floating completion point are outlined in Section 2. When the completion point is reached, the Bank Group will enter into an irrevocable debt relief commitment. Total debt relief will be delivered by end 2010. Chart A illustrates the impact of Bank Group debt relief on Mozambique’s debt service profile over the delivery
period. As is customary, the annual debt relief disbursement schedule will be annexed to the Debt Relief Agreement between the Bank Group and the government of Mozambique.

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 Mozambique, a HIPC Trust Fund Grant Agreement between the Bank Group, the International Development Association (IDA) and the government of Mozambique; 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:

<table>
<thead>
<tr>
<th>Source</th>
<th>US$ end 1998 NPV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Resources</td>
<td>3.76</td>
</tr>
<tr>
<td>European Commission pledge</td>
<td>7.52</td>
</tr>
<tr>
<td>Balance with HIPC Trust Fund</td>
<td>7.52</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>18.80</strong></td>
</tr>
</tbody>
</table>

7. RECOMMENDATIONS

The Boards are invited to:

1. Note the justifications for Mozambique’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.
Impact of Debt Relief on Mozambique’s Bank Group Debt Service Profile
(in million US dollars)
### Mozambique

<table>
<thead>
<tr>
<th>Decision Point Date</th>
<th>TOTAL ADB</th>
<th>TOTAL Debt Relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>06 April 2000</td>
<td>0</td>
<td>1.353839</td>
</tr>
<tr>
<td>2000</td>
<td>0</td>
<td>1.353839</td>
</tr>
<tr>
<td>2001</td>
<td>0</td>
<td>2.284506</td>
</tr>
<tr>
<td>2002</td>
<td>0</td>
<td>2.334609</td>
</tr>
<tr>
<td>2003</td>
<td>0</td>
<td>2.607003</td>
</tr>
<tr>
<td>2004</td>
<td>0</td>
<td>2.594037</td>
</tr>
<tr>
<td>2005</td>
<td>0</td>
<td>2.473112</td>
</tr>
<tr>
<td>2006</td>
<td>0</td>
<td>2.612652</td>
</tr>
<tr>
<td>2007</td>
<td>0</td>
<td>2.889078</td>
</tr>
<tr>
<td>2008</td>
<td>0</td>
<td>3.165735</td>
</tr>
<tr>
<td>2009</td>
<td>0</td>
<td>1.358384</td>
</tr>
</tbody>
</table>

**Summary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Nominal Relief</td>
<td>US$ 23.672955 mn</td>
</tr>
<tr>
<td>of which ADB</td>
<td>US$ 0.000000 mn</td>
</tr>
<tr>
<td>Total NPV Relief</td>
<td>US$ 18.800000 mn</td>
</tr>
<tr>
<td>Duration</td>
<td>10 years</td>
</tr>
</tbody>
</table>
African Development Fund

HIPC Debt Relief Schedule
(in US$ millions)

<table>
<thead>
<tr>
<th>Decision Point Date</th>
<th>ADF</th>
<th>TOTAL Debt Relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>06 April 2000</td>
<td>23.672955</td>
<td>23.672955</td>
</tr>
<tr>
<td>2000</td>
<td>1.353839</td>
<td>1.353839</td>
</tr>
<tr>
<td>2001</td>
<td>2.284506</td>
<td>2.284506</td>
</tr>
<tr>
<td>2002</td>
<td>2.334609</td>
<td>2.334609</td>
</tr>
<tr>
<td>2003</td>
<td>2.607003</td>
<td>2.607003</td>
</tr>
<tr>
<td>2004</td>
<td>2.594037</td>
<td>2.594037</td>
</tr>
<tr>
<td>2005</td>
<td>2.473112</td>
<td>2.473112</td>
</tr>
<tr>
<td>2006</td>
<td>2.612652</td>
<td>2.612652</td>
</tr>
<tr>
<td>2007</td>
<td>2.889078</td>
<td>2.889078</td>
</tr>
<tr>
<td>2008</td>
<td>3.165735</td>
<td>3.165735</td>
</tr>
<tr>
<td>2009</td>
<td>1.358384</td>
<td>1.358384</td>
</tr>
</tbody>
</table>

Summary

Total Nominal Relief US$ 23.672955 mn
  of which ADB US$ 0.000000 mn
  of which ADF US$ 23.672955 mn
Total NPV Relief US$ 18.800000 mn
Duration 10 years
Annex 3

IMF/ World Bank HIPC Documents for MOZAMBIQUE