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EBS/00/194  
Correction 1

CONFIDENTIAL

December 21, 2000

To:            Members of the Executive Board

From:        The Secretary

Subject:      **Cameroon—Enhanced Heavily Indebted Poor Countries (HIPC)  
Initiative—Decision Point Document**

The following corrections have been made in EBS/00/194 (9/19/00):

**Page 20, para. 35, line 3:** for “US\$2.8 billion...about 26 percent.”  
   read “US\$2.0 billion...about 27 percent.”

**Page 21, second bullet:** three new sentences added

**Page 22, para. 36:** second sentence revised  
                         **last sentence:** figures revised

Corrected pages are attached.

Att: (3)

Other Distribution:  
Department Heads

32. Following the finalization of the first report of the financial and legal advisors for the commercial debt-and debt-service reduction operation, the overall amount (including late interest) of commercial bank debt remains at almost US\$700 million (at end-June 2000 exchange rates). It is expected that, following the renewal of formal contacts with the Bank Advisory Committee by the Cameroonian government, negotiations will be launched soon with the aim of achieving debt relief at least comparable to that to be obtained under the enhanced HIPC Initiative (Cologne terms).

33. The macroeconomic framework was updated slightly to reflect the new debt service projections following the loan-by-loan reconciliation. The main assumptions are detailed in Box 6 below.

**Box 6. Cameroon: Main Assumptions in the Debt Sustainability Analysis (DSA)**

The following long-term macroeconomic assumptions have been used for the 20-year baseline DSA scenario agreed with the Cameroonian authorities (Table 2).

**Growth**

- Real GDP is expected to rise from about 5 percent currently to about 7 percent a year in the outer years as a result of a steady increase in investment, the continuing implementation of structural reforms, and the strength of non-oil exports. Inflation is projected to remain low, at 2.0 percent per year.

**Exports and imports**

- The volume of exports of goods and services is projected to grow at an annual average rate of 6.2 percent reflecting the continuing strength of non-oil exports (7.3 percent in real terms), despite declining petroleum exports on account of Cameroon's falling oil reserves.
- Total imports of goods and services are projected to grow by an annual average rate of 6.8 percent in real terms.

**Capital account**

- Cameroon is expected to continue requiring concessional assistance in order to meet its financing needs. Thus new financing is assumed to have a grant element of about 44 percent on average. Nevertheless, it is expected that the financing gaps will steadily decline and be completely eliminated by 2010.

**Government revenues**

- The current fiscal reform efforts are expected to gradually increase the revenue to GDP ratio from the current level of 15.5 percent in 1998/99 to about 21 percent over the next 20 years in order to meet the growing resource requirements for the social and rural sectors and for infrastructure. Within this context, the primary balance would be gradually reduced to about 3.2 percent of GDP, while the overall deficit would be stabilized at about 0.6 percent of GDP.

**External public and publicly guaranteed debt**

- It is assumed that all official bilateral creditors would have been granted a Naples terms stock-of-debt operation (a 67 percent reduction in NPV terms) on pre-cutoff-date debt in 1999.
- New financing would continue to be highly concessional. The share of debt contracted on IDA terms (40 years' maturity, 10 years' grace and 0.75 percent interest) is assumed to constitute 60 percent of new borrowing. It is assumed that the remaining 40 percent would be a mixture of IMF PRGF loans for the early years and bilateral loans contracted on rather less concessional terms (25 years' maturity, 6 years' grace, and 2 percent interest).

## Sensitivity analysis

34. As in the preliminary document, the following scenarios were used (Table 8): (i) lower export volume growth (by 2 percentage points); and (ii) less favorable conditions for new external loan financing (reduction of the average grant element from about 44 percent to 35 percent<sup>6</sup>). The strongest impact would result from a lower growth rate of export volumes: this would raise the overall NPV of debt-to-exports ratio by an average of 42 percentage points relative to the baseline over the projection period. The impact of less concessional financing would be somewhat weaker, as on average the NPV of debt-to-exports ratio would increase by 8 percentage points. The debt service ratio would be most affected by lower export growth; on average, it is about 3 percentage points higher than that in the baseline scenario.

## IV. PROFILE OF ASSISTANCE AND POTENTIAL UTILIZATION OF HIPC INITIATIVE RESOURCES

### A. Assistance Under the Enhanced Initiative

35. On the basis of the baseline scenario, the amount of assistance required to reach the NPV of debt-to-exports target of 150 percent would be US\$1.26 billion (Table 4), or about US\$2.0 billion in nominal terms. The common reduction factor would be about 27 percent. Based on proportional burden-sharing, bilateral creditors would provide most of the assistance (US\$874 million, or 69 percent). The rest of the assistance would be from multilateral creditors (US\$324 million, or 26 percent), and commercial bank creditors (US\$62 million, or 5 percent). In calculating the relevant amount of assistance the following assumptions were made:

- **Floating completion point.** The conditions are summarized in Box 7. The authorities estimate that Cameroon could fulfill all conditions for a floating completion point within two-and-a-half years from the decision point.
- **Paris Club creditors.** There would be a flow rescheduling on Cologne terms (90 percent in NPV reduction) following the decision point, with delivery of the remaining required assistance at the completion point through a stock-of-debt operation on Cologne terms. On the basis of the present calculations, it is expected that the delivery of assistance would require reducing the pre-cutoff date of non-ODA debt by 85 percent.
- At least comparable treatment to the Paris Club group of creditors would be provided by **non-Paris Club officials bilateral creditors and commercial creditors.**

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<sup>6</sup> Required minimum concessionality under Fund arrangement.

- The total amount of **IMF** assistance is US\$36.9 million in NPV terms. The IMF is expected to deliver interim assistance (US\$4.0 million of which US\$2.9 million would be made available at the decision point to cover repayments falling due until the end of 2001) from the fourth quarter of 2000 onwards and the full amount of assistance at the completion point. The delivery drawdown of assistance is expected to follow a profile which smoothens the debt service due to the Fund (Table 9). The result would be to reduce the debt service to the Fund by about US\$1 million per year on average over the next three years, rising to an average of about US\$7 million per year from 2003/04 to 2009/10 as debt service due to the Fund increases.
- **World Bank Group.** Cameroon is one of three HIPC countries for which IDA will need to provide debt relief on IBRD debt outstanding.<sup>7</sup> This is due to the composition of World Bank debt service in the medium term, with 74 percent of total World Bank debt service attributable to IBRD loans for the period 2000/01 to 2005/06. The HIPC Debt Initiative Trust Fund can provide this relief, but it can use only resources for that purpose from donors other than IBRD (as IBRD net income transfers may not be used to provide debt relief on IBRD debt). Additional donor funding specifically for World Bank debt relief is thus needed. To the extent that donor funding is not available or sufficient for this purpose, IDA resources will need to be used to provide the required debt relief. In the event that adequate donor funding for this purpose is not provided, the proposed debt relief would be provided through: (i) IDA providing annually supplemental HIPC debt relief grants during the interim period to cover 45 percent of IBRD debt service due which would provide interim assistance (US\$64 million); (ii) a supplemental HIPC debt relief credit from IDA of US\$118 million at the Completion Point to repay outstanding IBRD debt; and (iii) a reduction of 51 percent in IDA debt service falling due after completion point and through May 2009. Executive Directors of IBRD may need to decide whether to grant a waiver of the IBRD prepayment penalty that would normally be applied. The nominal assistance is estimated at US\$203 million from 2000/01 to 2011/12 for IBRD and US\$62 million from 2002/03 to 2008/09 for IDA, amounting to a total of US\$265 million in nominal debt relief from the World Bank. This compares to an additional US\$28 million in debt service due to IDA between 2003/04 and 2018/19 for the supplemental HIPC debt relief credit disbursed at Completion Point. The overall result would be to reduce Cameroon's debt service to the World Bank by 57 percent or US\$29 million per year over the period 2000/01 to 2008/09 (Table 10).
- The **African Development Bank (AfDB)** would deliver interim assistance from the decision point onward to a maximum of 40 percent of total assistance in NPV terms. It is estimated that enhanced HIPC assistance would cover 43 percent of AfDB debt service from the fourth quarter of 2000/01 until 2007/08. Assistance from the AfDB

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<sup>7</sup> This is in accordance with the approved modality as outlined in paragraph 14 of the paper "Heavily Indebted Poor Countries (HIPC) Initiative: Note on modalities for Implementing HIPC Debt Relief Under the Enhanced Framework", IDA/R2000-4, January 10, 2000.

is estimated at US\$13 million per annum on average over the period July 1, 2001 to June 30, 2008.

- All **remaining multilateral creditors** provide assistance from the completion point onwards.

36. On the basis of the above assumptions, the **interim HIPC debt service relief**<sup>8</sup> would amount to an average of about US\$100 million (about 6 percent of government revenue) per year for the next three years. Beyond the assumed completion point, the HIPC debt service relief would amount to about US\$60-US\$80 million annually for twelve years beginning 2003/04 and rise to an average US\$100 per year in the period 2015/16-2018/19 (Table 7).<sup>9</sup> This would be equivalent to an average of 1.1 percent and 0.3 percent of GDP per annum, respectively, for the periods 2000/01-2002/03 and 2003/04-2012/13. The debt service ratio would be reduced by about 2-4 percentage points during the interim period and would remain below 10 percent of exports afterwards.

37. Assuming that the Executive Boards of IDA and the IMF approve the proposed assistance for Cameroon under the enhanced HIPC Initiative, and in light of the recent indications by the Paris Club, financing of about 85 percent of the total NPV debt relief required would be assured. This would provide sufficient assurance for both IDA and the Fund to proceed with interim relief.

## B. Key Poverty Alleviation Activities to Benefit from HIPC Assistance

38. The substantial debt service savings arising from HIPC Initiative assistance will be used to overcome the severe structural obstacles to social development in Cameroon, including low productivity in the agriculture sector, weak physical infrastructure, low levels of human development, and poor access to basic services. **The government's strategy will center on the following key areas: education, health, HIV/AIDS, social affairs, rural development (including rural infrastructure), basic infrastructure, and governance.** Implementation of these key poverty programs will involve the support of donors, NGOs and all stakeholders.

39. In each of the priority target sectors, a set of budgetary programs—considered as crucial in the fight against poverty—are being identified by the authorities in a series of consultations involving ministries and stakeholders. These budgetary programs will initially involve expenditure allocations for ministries, although a more detailed and participatory

<sup>8</sup> This is the difference in debt service between the position following full use of traditional debt relief mechanisms and that after the delivery of enhanced HIPC Initiative assistance.

<sup>9</sup> Over the last three years, debt service paid has been very high, as was highlighted in the preliminary document. As a ratio of social expenditures it averaged more than 250 percent. However, as a result of both lower debt service and increased social spending, this ratio is expected to decline significantly, falling below 50 percent by 2001/02. The actual debt relief is likely to be much higher than is assumed here if, as expected, most members of the Paris Club go beyond Cologne terms. In this context, it is expected that additional debt relief would amount to about US\$1.0 billion in NPV terms.