

**IMMEDIATE
ATTENTION**

EBS/02/18

CONFIDENTIAL

February 1, 2002

To: Members of the Executive Board

From: The Secretary

Subject: **HIPC Initiative—Debt Sustainability Analysis and Noncomplying
Purchases and Disbursements**

Attached for consideration by the Executive Directors is a paper on the HIPC Initiative—debt sustainability analysis and noncomplying purchases and disbursement.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Friday, February 8, 2002. In the absence of such a request, the draft decision that appears on pages 3 and 4 will be deemed approved by the Executive Board, and it will be so recorded in the minutes of the next meeting thereafter.

Questions may be referred to Mr. Leckow (ext. 34799) and Ms. Ross (ext. 37188).

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

**HIPC Initiative—Debt Sustainability Analysis and
Noncomplying Purchases and Disbursements**

Prepared by the Policy Development and Review and Legal Departments

Approved by Timothy Geithner and François Gianviti

February 1, 2002

1. This paper proposes an amendment of the HIPC Trust Instrument to provide for a change in the calculation of debt relief under the enhanced HIPC Initiative.¹

2. Under existing procedures for the enhanced HIPC Initiative, the amount of assistance to be committed for a member is determined at the decision point on the basis of a debt sustainability analysis (DSA) using data available for the most recent calendar or fiscal year.² The DSA makes use of actual data for the stock of public and publicly guaranteed external debt as of the end of the relevant calendar or fiscal year, including debt owed to the Fund. It is possible that relevant amounts owed to the Fund may, between the reference date for the DSA and the completion point, be found to constitute noncomplying purchases/disbursements that are subject to early repurchase/repayment expectations under the Fund's Misreporting Guidelines.³ The inclusion of such amounts in the stock of outstanding debt would result in an artificially high level of external debt and an unjustified amount of debt forgiveness as the member's outstanding debt would include amounts that the member, on the basis of accurate information, would not have been entitled to receive.

¹ See: *Instrument to Establish a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations* (annexed to Decision No. 11436-(97/10), adopted February 4, 1997).

² The debt sustainability analysis is prepared jointly by the staffs of the Fund and the Bank and the relevant member.

³ See: *Misreporting and Noncomplying Purchases in the General Resources Account – Guidelines on Corrective Action* (Decision No. 12249-(00/77), adopted July 27, 2000); *Instrument to Establish the Poverty Reduction and Growth Facility Trust* (annexed to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987), Appendix I.

3. It is proposed that the HIPC Trust Instrument be amended to provide for the exclusion of such amounts from the stock of a member's external debt in a DSA; more specifically, the member's outstanding stock of external debt would exclude amounts that were owed to the Fund and outstanding as of the reference date of the DSA and were subsequently found to be a noncomplying purchase/disbursement subject to an early repurchase/repayment expectation.⁴ Where the relevant repurchase/repayment expectation arises before the decision point, the amount would simply be excluded from the stock of debt in the DSA. Where the expectation arises between the decision point and the completion point, the Fund would, at the completion point, recalculate and adjust the amount of its commitment, excluding from the member's outstanding debt the amount that was subject to the repurchase/repayment expectation.⁵ No recalculation or adjustment would be made after the completion point.

4. This change in approach would apply to any new commitment of HIPC resources approved after the amendment entered into force. It would not apply to commitments that had previously been approved by the Fund.

⁴ Where the Fund granted a waiver with respect to the noncomplying purchase/disbursement, the relevant amount would be included as debt. In these circumstances, there would be no resulting modification in the debt stock used as a basis for the calculation of debt relief.

⁵ The calculation would be based on the member's debt sustainability position at the same reference date used at the time of the decision point. Any reduction in the amount of the commitment could not, in any event, exceed the amount of the commitment remaining to be disbursed at the completion point.

PROPOSED DECISION

The following draft decision is proposed for adoption by the Executive Board:

The Instrument to Establish a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations (annexed to Decision No. 11436-(97/10), adopted February 4, 1997) is amended as follows:

- a. The following sentence shall be added in Section I at the end of paragraph 1(v):

“For the purposes of these calculations, amounts that are subject to an early repurchase or repayment expectation established under the Misreporting Guidelines shall not constitute external debt.”

- b. The following shall be added in Section I as a new Paragraph 1 (x):

““Misreporting Guidelines” means the Guidelines on Corrective Action for Misreporting and Noncomplying Purchases in the General Resources Account (Decision No.12249-(00/77), adopted July 27, 2000), and the Provisions on Corrective Action for Misreporting and Noncomplying Disbursements in Arrangements under the Poverty Reduction and Growth Facility (Appendix I of the Instrument to Establish the Poverty Reduction and Growth Facility Trust annexed to Decision No. 8759-(87/176)ESAF, adopted December 18, 1987).”

c. The following sentence shall be added after the first sentence of Section III, paragraph 3(e):

“To the extent that the Trustee, in determining the amount committed to the member under paragraph 3 (b) above, included in the member’s external debt amounts that, after the decision point, were found to be subject to an early repurchase or repayment expectation under the Misreporting Guidelines, the Trustee shall recalculate and adjust the amount of its commitment, excluding from the member’s external debt the amount that was subject to the repurchase or repayment expectation.”