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Concluding Remarks by the Chairman
Issues and Developments in Multilateral Debt and Financing for the Heavily Indebted Poor Countries - Preliminary Considerations
Executive Board Meeting 95/19 - February 24, 1995

This discussion was intended to be preliminary, and I will therefore only offer some concluding remarks to prepare for the discussion we will have on March 29, to further consider ways to tackle the problems of multilateral debt and financing of heavily indebted poor countries. My concluding remarks therefore are intended to reflect the current thinking of the Executive Board.

Directors commended the quality and coverage of the staff papers and expressed satisfaction with the close cooperation they reflected with the World Bank. A number of Directors considered that the staff tended to underestimate the magnitude of the multilateral debt problem of the heavily-indebted poor countries. Other Directors believed that, on the basis of the available analysis, the majority of the countries with multilateral debt problems should be able to manage their multilateral debt service with continued net multilateral transfers, provided that these countries generate at least moderate real export growth.

The discussion suggested that part of the difference in views on this basic point can be traced to different assessments of the realism of the assumptions underlying the analysis. For instance, is an annual real export growth rate of 3 percent, as assumed in the projections incorporating new lending, a minimum to be expected in many cases, or is it on the optimistic side, particularly in light of likely overall resource flows? It was widely agreed that more in-depth assessments are required on the basis of country-specific scenarios. Longer-term assessments should be placed in the context of comprehensive macroeconomic and financial frameworks, and should include more explicit discussions of the plausibility of medium-term financing plans, including aid and new disbursements, and of the interrelationships between overall external resource flows and economic growth.

Directors agreed broadly with the conclusion that all new multilateral and bilateral lending to these countries should be on concessional terms, and that all creditors should be encouraged to shift to concessional lending. We need to give further thought to how to push this forward. The Fund could do more in this area by extending the maturity coverage under borrowing ceilings in its arrangements with member countries and by tightening the definition of concessionality. It was observed that this will require a careful balancing of the need to ensure the availability of

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adequate financial support for adjustment programs and the need to limit future debt-service burdens. Several speakers stressed the importance of the PFP process and the need to strengthen it further.

On the Fund's financial involvement in these countries, speakers noted that for most countries prospective debt-service burdens to the Fund will be lower over the next decade than they have been in the past, mainly as a result of the introduction of the SAF/ESAF. There was broad agreement that ESAF terms are consistent with sustainable debt-service burdens in most cases and that it remained appropriate for the Fund to extend such assistance, while respecting the revolving character of our resources and the monetary character of our institution. Most speakers noted the desirability of continued Fund support for these countries, which implies the longer-term availability of financing on ESAF terms. At the same time, there was a general view that the Fund would need to do more, and that greater ESAF concessionality would be needed to deal with some of the most difficult cases, including the extreme cases of arrears to the Fund at present. We will come back to these issues on the basis of a staff paper outlining the possibilities, including options for funding from the Fund's own resources.

In brief, I would conclude from this discussion that, while there does not seem to be at this stage a generalized problem of debt to the multilateral institutions, it was agreed that there are a number of countries for which debt service--and the debt overhang to multilaterals--is at a level that would clearly impede development prospects in the future. For the Fund, the clear implication is the need to have available resources on ESAF terms for the foreseeable future. However, there appears to be no need for major changes in the Fund's facilities, or in their concessionality, for most of the poorer members. Directors agreed that we should reassess the means available to the Fund to deal with the remaining protracted arrears cases, and to assure the viability of some additional countries with prospective heavy debt burdens by complementing the mechanisms already put in place by others, including by Paris Club creditors. In this connection, Directors welcomed the new Naples terms and their recent application to help deal with Uganda's debt problem. The forthcoming discussion in March will also provide the basis for the Board's report to the Interim and Development Committees.