January 29, 1996

To: Members of the Executive Board

From: The Secretary

Subject: Final Minutes of Executive Board Meeting 95/19

The following corrections have been made in the final minutes of EBM/95/19 (2/24/95):

Page 9, 2nd full para., lines 6-11: a summary of the problems defined in the Annex table on page 65 has been incorporated

Pages 9 and 10: footnote referenced to the Annex table has been added

Page 66: the table referred to on page 10 has been added to the record as Annex table 2

Corrected pages of the redraft of Mr. Evans's statement and annex tables are attached.

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many cases, the minimum to be expected. But equally, it represents for some a best-case scenario. We need more sensitivity analysis on the effects of different export growth scenarios.

On new lending, the prospects for donors providing resources, either for increased concessional multilateral lending or for additional bilateral grants, seem bleak. The forthcoming IDA and African Development Fund replenishments will be difficult; it is hard to see them maintaining constant lending levels, let alone increasing levels of lending on the most concessional terms. Thus the refinancing approach implicit in the net transfer analysis may be difficult to sustain in practice. The analysis also assumes that slack in the most concessional multilateral lending will be taken up by a switch to grants by bilateral donors. Bilateral official development assistance has been declining steadily in real terms over the last few years. As aid is increasingly focused on the poorest countries, there are real uncertainties about the future levels of the most concessional lending. Again, more sensitivity analysis is needed.

Internal or external--such as terms of trade--shocks can worsen the prospects for individual countries. Of course, as the staff papers demonstrate, if there are benign shocks, the number of countries affected will be less. It is helpful to begin by looking at the number of heavily indebted poor countries with problems--defined in several different ways: those whose total debt stock to exports exceeds 200 percent; those whose multilateral debt stock to exports exceeds 100 percent; and those whose multilateral debt service exceeds 10 percent in more than one year. 1/ In this light, I conclude that there are a significant number of countries with present and prospective problems. However, using optimistic assumptions, the flow approach risks understating the problem.

On the distinctly optimistic assumptions in the papers about concessional flows, most of the countries with either zero real export growth or growth of 3 percent would receive larger concessional transfers from the multilaterals than they would pay in multilateral debt service--but that does not remove the debt problem because concessional resources would be earmarked to repay debt, not encourage development; and the debt overhang would remain.

It is also helpful to look at some more concrete examples. From the perspective of both a flow and a stock approach, Tables 1, 4, and 5 of the background paper, as well as additional

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1/ See Annex Table 1.

information from the staff, suggest that the present sizable debt problems of Nicaragua, Sierra Leone, and Uganda will not go away in the medium term, and that they may, in fact, worsen. 1/

The conclusion of the staff paper on issues and developments is that: if these countries improve their economic performance, if all new multilateral and bilateral lending is concessional, if the downward trend in concessional flows and grants is reversed, and if there are no adverse shocks, then the number of countries unable to manage their multilateral debts will be small.

It is not prudent to base policy upon such a combination of favorable outcomes. My conclusion is that, for this group of heavily indebted poor countries, there is significant evidence of difficulty in servicing multilateral debts; and that policies need to be developed to alleviate these difficulties.

Moreover, this debate should be seen in the context of aiming for sustainable overall debt burdens, and the significant contribution that multilateral institutions can make to that fundamental aim. As a part of this, heavily indebted countries need an exit strategy to provide a greater certainty of coping with their multilateral debt repayments.

For these reasons, my authorities have proposed that all international financial institutions look at ways in which they can help their poorest most indebted members. We will be indicating areas in which the World Bank might help alleviate the debt burden of these countries in their forthcoming discussion. For IMF debt we suggest: more concessional resources, where appropriate, especially greater access to the enhanced structural adjustment facility (ESAF); and greater ESAF concessionality for those countries whose need is greatest. We also support the various ideas that have been put forward stressing the need for the Fund to play a central role in encouraging a shift towards lending more suited to a country's needs and capacity to repay. I look forward to discussing policy proposals, including those from the United Kingdom, at our next session.

Mr. Evans, adding to his statement, said that the terms of a future ESAF should be such as to enable the Fund to respond to the problems of the severely-indebted member countries. Action across a broad front by bilateral and multilateral donors, the Paris Club, and the Fund was required to alleviate those problems, but such action could not be taken for granted. The Fund should be prepared to play a bigger role than in the past to deal with a likely worsening of the debt burden.

1/ See Annex Table 2.

ANNEX

Table 1. Heavily Indebted Low-Income Countries
Defined by Debt Problem

	Problem as Defined by	Number of Countries	Source
A.	Total debt stock (NPV) to exports greater than 200 1/	36	Table 1, SM/95/30
B.	Multilateral debt stock (NPV) to exports greater than 100	18 plus 4 arrears cases	Table 4, SM/95/30
C.	Multilateral debt service exceeds 10 percent in more than 1 year	23 plus 5 arrears cases	Table 4, SM/95/30
(i)	Assumption of 3 percent real export growth	14	Table 5, SM/95/30
(ii)	Assumption of zero real export growth	23	Table 5, SM/95/30, and additional information from staff

1/ In its paper "Toward Resolving the Debt Problem of SILICs" the World Bank states that "debt-to-export ratios in excess of 200 percent have generally proven to be unsustainable." Multilateral debt service will not exceed 10 percent from 2005-2014 under the stylized framework (not including arrears cases.

Table 2. Debt Ratios for Selected Countries

	2005-2014			1993-4	
	MULTILATERAL DEBT-SERVICE RATIOS			NPV DEBT STOCK / EXPORT RATIOS	
COUNTRY	ACTUAL, 1992/94	AVERAGE PROJECTED UNDER STYLISED FRAMEWORK, ASSUMING 3% REAL EXPORT GROWTH	AVERAGE PROJECTED UNDER STYLISED FRAMEWORK, ASSUMING 0% REAL EXPORT GROWTH	TOTAL DEBT	MULTILATERAL DEBT
Uganda	31	23	34	812	381
Nicaragua	19	20	29	2632	233
Sierra Leone	28	8	12	594	126

Sources: tables 1, 4 and 5, SM/95/30; additional information from staff