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April 14, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **HIPC Initiative—Progress Report to the International Monetary and
Financial Committee and the Development Committee**

Attached for the information of the Executive Directors is a revised progress report by the Acting Managing Director of the Fund and the President of the World Bank on the implementation of the HIPC Initiative, which will be posted on the Fund's external website.

Ms. Ross (ext. 37188) and Mr. Harmsen (ext. 38531) are available to answer technical or factual questions relating to this paper.

Att: (1)

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Department Heads

HIPC Initiative—A Progress Report

Prepared by the Staffs of
the World Bank and the International Monetary Fund

April 14, 2000

I. INTRODUCTION

1. In September 1999, the Development and Interim Committees endorsed—subject to the availability of funding—the enhancements to the HIPC Initiative framework to provide deeper, faster and broader debt relief for countries pursuing sound policies and committed to reform. The lower debt sustainability thresholds and earlier calculation of assistance under the enhanced framework will more than double the amount of debt relief provided by the HIPC Initiative compared to the original framework. The World Bank and the IMF have been moving forward with the implementation of the enhanced framework. Since the Annual Meetings, missions visited about 20 countries to prepare debt sustainability analyses and to help countries initiate the Poverty Reduction Strategy Paper (PRSP) process. To date, five countries—Bolivia, Mauritania, Mozambique, Tanzania, and Uganda—have reached their decision points under the enhanced framework. In addition, the debt relief package for Senegal has been prepared based on agreements with the outgoing government and staffs hope, after consultations with the incoming administration, to be in a position to submit this package to the Boards shortly. Furthermore, two preliminary HIPC documents on Honduras and Guinea have been presented to the Executive Boards of the IDA and the IMF discussing relief under the enhanced Initiative. In moving forward, much work remains to be done to identify sufficient resources to finance the increased costs of the enhanced HIPC Initiative.

II. IMPLEMENTATION TO DATE

A. Retroactive Cases

2. With the endorsement of the enhanced HIPC Initiative in place, staffs proceeded to reassess the retroactive cases—i.e., those countries that had already reached their decision points under the original framework—to determine additional assistance under the enhanced HIPC Initiative. Of the four countries that had already reached their completion points under the original framework, Uganda and Bolivia reached their new decision points under the enhanced framework in February 2000, while Mozambique's debt relief package was

approved in April 2000.¹ A key requirement for reaching the floating completion points for these countries is the adoption of a fully developed PRSP and its broad endorsement by the Executive Boards of the IDA and the IMF as a context for assistance from IDA and the IMF. For Uganda, the completion point document under the enhanced HIPC Initiative has been issued to the Boards of the Fund and IDA for discussion at a forthcoming meeting. As part of a wider response to the severe rains and floods which have hit Mozambique, IDA and the IMF have acted to accelerate the delivery of debt relief, covering Mozambique's debt service to the Bretton Woods Institutions during the next 12 months, coinciding with the expected interim period. Debt service relief from the HIPC Initiative for these three countries will total around US\$8.4 billion, or US\$4.3 billion in net present value (NPV) terms. Table 1 provides details of the status of country cases considered thus far under the Initiative, and the likely amounts of assistance by major creditor.

3. Senegal's debt was considered sustainable under the original HIPC Initiative framework. With the lower thresholds and targets under the enhanced framework, Senegal would qualify for assistance. The debt relief package has been prepared and will be circulated to the Boards as soon as the new government has confirmed its commitment to the economic and social policies underpinning the proposed HIPC package. Other retroactive cases—including Benin, Burkina Faso, and Mali—will be coming up for reassessment in the coming months.

B. New Cases

4. Four new cases have been considered by the Executive Boards of IDA and the Fund under the enhanced HIPC Initiative since the annual meetings. Two of these cases reached their decision points, and the Executive Boards of IDA and the Fund discussed Preliminary HIPC Documents for the other two cases.

5. The Executive Boards of IDA and the IMF agreed in early 2000 that Mauritania is eligible for assistance of US\$1.1 billion in nominal terms under the fiscal criterion (US\$622 million in NPV terms). In April 2000, the Executive Boards of the IMF and IDA agreed that Tanzania had reached its decision point under the enhanced HIPC Initiative and approved assistance of US\$3 billion in nominal terms (or about US\$2 billion in NPV terms). Between the decision and completion points, IDA and the Fund will provide interim relief.

6. In these new cases the "floating" completion point would be triggered by the successful implementation of a set of pre-defined reforms in the macroeconomic, structural and social domains. In particular, both Mauritania and Tanzania will (i) prepare, in broad consultation with

¹ Guyana, the fourth country that had already reached its completion point under the original HIPC framework is expected to reach its decision point under the enhanced HIPC Initiative once it reaches an agreement on a program under the second annual PRGF arrangement. Additional debt relief under the enhanced HIPC Initiative will be estimated in the context of the revised debt sustainability analysis currently in progress.

civil society, a fully developed PRSP, which is endorsed by the Executive Boards of IDA and the IMF as a context for assistance from IDA and the IMF (ii) produce an annual progress report on its implementation,² (iii) maintain a stable macroeconomic environment, as evidenced by performance under a PRGF program, and (iv) implement satisfactory structural reforms as defined in the decision point document. The PRSPs will serve as a basis for future concessional assistance from the IMF and IDA. In all cases, assistance at the completion point is subject to confirmation of comparable action by other creditors.

7. In December 1999, the Executive Boards of IDA and the IMF discussed preliminary documents on the HIPC Initiative for Honduras³ and Guinea⁴. Honduras would qualify under the Enhanced HIPC Initiative based on the fiscal criterion, and Guinea would qualify under the exports criterion. The decision points for these two countries could be reached in 2000 subject to: (i) preparation of an interim PRSP and (ii) progress on key macroeconomic and structural reforms as outlined in the preliminary HIPC documents. These countries could potentially receive nominal debt service relief in the order of US\$2 billion.

C. Updated Cost Estimates

8. In December 1999, the staffs of the World Bank and the IMF prepared jointly an update on costing the enhanced HIPC Initiative, including a breakdown of the costs for each multilateral institution. Updated total costs for the HIPC Initiative were estimated at US\$28.2 billion in 1999 NPV terms (see Table 2). Under the enhanced framework, the shares of HIPC Initiative costs for bilateral and multilateral creditors remain roughly equal. In 1999 NPV terms, multilateral cost estimates are as follows: US\$6.3 billion for the World Bank, US\$2.3 billion for the IMF, US\$2.2 billion for the AfDB, US\$1.1 billion for the IaDB, and US\$2.2 billion for other multilateral development banks (MDBs).

² On Tanzania, reflecting its long track record of adjustment and reform, Executive Directors noted that this requirement be interpreted flexibly.

³ Honduras: Preliminary Document on the Initiative for Heavily Indebted Poor Countries (HIPC), IDA/R99-183 and EBS/99/210, November 23, 1999.

⁴ Guinea: Preliminary Document on the Initiative for Heavily Indebted Poor Countries (HIPC), IDA/R99-200 and EBS99/226, December 14, 1999.

III. PARTICIPATION OF ALL CREDITORS UNDER THE ENHANCED HIPC INITIATIVE FRAMEWORK AND FINANCING ISSUES

9. Successful implementation of the enhanced HIPC Initiative will depend on the full participation of multilateral as well as bilateral creditors; and the availability of adequate financing to meet multilateral institutions' costs as the Initiative moves forward. Since the endorsement of the enhanced framework in September 1999, staffs have been working with donor governments and with MDBs to bring these conditions into place.

A. Financing and Participation of the World Bank and the IMF

World Bank participation and financing

10. In its endorsement of the enhancement of the HIPC Initiative framework, the Development Committee agreed that financing of debt relief should not compromise the financing made available through concessional windows such as IDA. Following the Annual Meetings, Bank management, in consultation with donors and the Executive Directors and taking into account both the level and timing of resources projected to be available to the HIPC Trust Fund to support debt relief, developed specific implementation modalities for the provision of debt relief by the World Bank and the operation of the HIPC Trust Fund under the enhanced framework.⁵ In January 2000, IDA's Executive Directors approved these modalities and adopted a decision that the forgiveness of a portion of the debt service on IDA credits as it falls due is consistent with IDA's Articles of Agreement.

11. The predominant method of delivering debt relief on IDA debt will be through debt service relief. Because the World Bank component of the HIPC Trust Fund will not have sufficient resources to provide full financing of debt relief commitments at the point the commitment is made, IDA, rather than the HIPC Trust Fund, will assume the responsibility of providing the debt relief at the time of the commitment (i.e., at the decision point). IDA will be reimbursed on a pay-as-you-go basis by the World Bank component of the HIPC Trust Fund (subject to the availability of resources in that component)—the Trust Fund will provide to IDA annual amounts that match the amounts forgiven by IDA during the same period. IDA will deliver, to the extent feasible, its full share of debt relief to the country within 20 years after the decision point. Within this objective, IDA will provide annually relief of not less than 50 percent of IDA debt service due on the amounts disbursed and outstanding at the reference year when HIPC assistance is calculated. IDA debt relief will begin at the decision point, with the maximum level of debt relief provided during the interim period equal to one third of the total NPV to be provided to the country by IDA.

⁵ (IDA/R2000-4), January 10, 2000.

12. For the three countries with significant outstanding IBRD debt (Côte d'Ivoire, Cameroon, and Honduras), to the extent that donor funding is not available in the World Bank component of the HIPC Trust Fund, debt relief on IBRD loans will have to be provided by IDA. IDA will during the interim period provide annually supplemental HIPC debt relief grants to cover the debt relief that will be provided on IBRD loans. At the completion point, IDA would provide a single supplemental HIPC debt relief credit to prepay the amount of IBRD debt outstanding required to achieve the remaining NPV relief to be provided on the country's IBRD debt.

13. In keeping with the understanding embodied in the Development Committee communiqué, IDA's debt relief costs will be clearly and separately identified—the amount of debt service that IDA forgives and the amount of IDA supplemental debt relief grants and credits it provides will be known. At this time the resources available in the HIPC Trust Fund fall far short of the total costs that will be incurred by IDA. The IDA 13 replenishment is therefore expected to consider (i) the normal financing requirements for IDA to carry out its development objectives and (ii) IDA's unfunded HIPC costs. It will then be up to the donors to decide how to fund these separate IDA HIPC Initiative costs and how they will share the burden. The implications of HIPC debt relief for IDA and the process for mobilizing resources will be discussed at the mid-term meeting of IDA Deputies in June 2000.

IMF participation

14. The IMF provides HIPC debt relief through special operations of the PRGF-HIPC Trust. Following IMF and IDA Board approval of the HIPC Initiative decision point document, and subject to receipt of satisfactory financing assurances from other creditors, the IMF commits to deliver HIPC Initiative assistance in the form of grants which are paid into the country's account, administered by the IMF as Trustee, and used to help meet its debt service payments to the IMF.

15. Beginning in the decision point year, a country may receive as much as 20 percent of total IMF assistance each year between the decision and completion points, up to the total of IMF debt service due by the country to the IMF each year, with interim assistance not to exceed 60 percent of overall IMF assistance. The balance of committed assistance, including interest on amounts committed but not disbursed during the interim period, is delivered at the completion point.⁶

⁶ The interim period between the decision and completion points may be shorter (or longer) than three years depending on the successful implementation of pre-defined reforms as laid out in the decision point document. The phasing and amounts of grants delivered to the escrow account are set to ensure delivery of the IMF's share in the NPV of total debt relief.

16. The schedule for the use of these grants to meet a country's debt service payments to the IMF is agreed with the country with the objective of easing the country's debt service burden. The delivery profile thus reflects country-specific considerations including the profile of total debt service obligations and the degree of front-loading desired given the state of preparation of a country's PRSP, its poverty reduction spending needs, and its absorption capacity.

Status of financing of PRGF-HIPC Trust

17. The total cost to the IMF of participation in the HIPC Initiative and the continuation of concessional lending under the Poverty Reduction and Growth Facility (PRGF) is estimated at US\$3.7 billion in end-1999 NPV terms, with the HIPC Initiative accounting for two-thirds of the total. The financing package consists of pledged contributions by member countries of US\$1.5 billion in end-1999 NPV terms and contributions by the IMF of US\$2.2 billion in end-1999 NPV terms.

18. On December 8, 1999, the IMF Executive Board took the decisions necessary to enable many bilateral contributors and the IMF to make their contributions to the PRGF-HIPC Trust, including termination of the IMF's Second Special Contingency Account (SCA-2) and approval of off-market gold transactions by the IMF of up to 14 million ounces. Since then, the IMF has made substantial progress in securing the necessary financing. About 60 percent of pledged contributions have either been received or are being contributed on the basis of an agreed schedule of contributions. As to the IMF, the bulk of its contribution, US\$1.7 billion in end-1999 NPV terms, will come from the investment income on the profits generated from off-market gold transactions, which were completed in early April 2000. The IMF will also provide US\$0.5 billion in end-1999 NPV terms from other sources, of which about 40 percent has already been contributed to the PRGF-HIPC Trust.

19. So far, the IMF's Executive Board has authorized the transfer of nine-fourteenths of the investment income on profits from gold sales to be used for the benefit of the HIPC Initiative. The transfer of the remaining five-fourteenths requires a decision by the IMF's Executive Board with an 85 percent majority. Further legislation by the United States Congress is necessary for the Executive Director of the United States to support such a decision. Without these final steps, there will be a shortfall in resources available for debt relief under the HIPC Initiative of about US\$580 million in end-1999 NPV terms.

B. Multilateral Development Bank Participation and Financing

20. In order to facilitate the internal deliberations within individual institutions, staffs have produced detailed estimates for each MDB of their costs, along with illustrative scenarios for delivering their share of assistance. Contacts have continued with individual multilateral

creditors on a regular basis. Staffs have held numerous bilateral technical meetings with MDBs⁷, to discuss ways and means of participation in the enhanced framework. The OPEC Fund co-hosted a meeting of Arab MDBs together with the Bank, and the Bank hosted its semi-annual meetings with MDBs in October 1999 and in early April 2000.

21. Overall, a majority of institutions indicated their continued support for the HIPC Initiative, and in addition, the favorable position taken by managements of their institutions with regard to participation in the enhanced HIPC Initiative framework. Besides the World Bank and the IMF, 8 of 17 institutions⁸—BOAD, CABEI, EIB, EU, IaDB, IFAD, NDF⁹, and NIB—were able to report confirmation by their decision making bodies of participation in the enhanced HIPC Initiative framework, although several of these will need significant donor assistance in order to deliver their share of debt relief, consistent with their financial integrity.

22. The African Development Bank (AfDB) remains committed to the principles of the HIPC Initiative and has scheduled a Board meeting in April/May to seek approval for its participation in the enhanced HIPC. The OPEC Fund and the Arab Bank for Economic Development in Africa (BADEA) have indicated their agreement in principle to participate in the enhanced framework, subject to the agreement of their governing bodies.¹⁰ CAF reiterated its commitment to the HIPC Initiative and expressed its willingness to explore modalities of participation recognizing its financial limitations and the need for donor participation. Other

⁷ Including Banque Ouest Africaine de Développement (BOAD), Central American Bank for Economic Integration (CABEI), International Fund for Agricultural Development (IFAD), African Development Bank (AfDB), Inter-American Development Bank (IaDB), Nordic Investment Bank (NIB).

⁸ Attending organizations were: African Development Bank (AfDB); Arab Bank for Economic Development in Africa (BADEA); Asian Development Bank (ADB); CARICOM Multilateral Clearing Facility (CMCF); Central American Bank for Economic Integration (CABEI); Central Bank of West African States (BCEAO); Corporacion Andina de Fomento (CAF); European Commission/European Union (EC/EU); Fund for Cooperation Compensation & Development of the Economic Community of West African States (ECOWAS); Financial Fund for the Development of the River Plate Basin (FONPLATA); Inter-American Development Bank (IDB); International Fund for Agricultural Development (IFAD); Islamic Development Bank (ISDB); Nordic Investment Bank (NIB); Nordic Development Fund (NDF); OPEC Fund for International Development; West African Development Bank (BOAD).

⁹ This is subject to certain amendments to NDF's legal statutes. Although NDF cannot yet undertake a binding financial obligation to participate in the enhanced framework, there is an agreement in principle to participate actively in the enhanced HIPC Initiative.

¹⁰ For BADEA, participation would be on a case-by-case basis, recognizing the financial constraints in securing sufficient resources.

MDBs, such as the Islamic Development Bank and ECOWAS Fund, are still in the process of exploring their options internally and with their shareholders. However, there are also a couple of multilateral institutions which have not been participating in the MDB process, and more work remains to achieve their full participation in the HIPC Initiative.

23. During the April MDB meetings, the Bank facilitated meetings between MDBs that will likely require assistance to deliver their full share of relief and representatives of potential donor countries. These information-sharing meetings highlighted the predicament of these MDBs in meeting their share of the costs from internal resources while trying to maintain their financial integrity, and were a good starting point for future dialog between donors and MDBs. Collaborative work will continue with MDBs with a view to resolving key participation and financing issues.

Status of HIPC Trust Fund financing for MDBs

24. During the 1999 Annual Meetings, it was recognized that a number of multilateral creditors would need supplementary financing to enable them to cover their full costs of participating in the Enhanced HIPC Initiative. Since that time the World Bank has continued discussions with existing and potential donors to secure existing pledges and mobilize additional contributions.¹¹ All donors that had pledged during the Annual Meetings have reconfirmed their pledges and additional pledges have been received from Canada, Japan, New Zealand, and Spain. A total of \$2.1 billion in donor pledges have been received bringing overall contributions and pledges to \$2.4 billion (see Table 3). Contribution agreements have been signed or are currently being finalized with Australia, Canada, the European Commission, Germany, Netherlands, New Zealand, and the United Kingdom.

25. In terms of financing the cashflow requirements of the HIPC Initiative, these pledges, and the funding to be made available from the internal resources of the MDBs, need to be converted into a potential annual stream of funding. This resulting stream should then be compared with the financing requirements emanating from the country cases brought forward under the Initiative. The match between these two streams is a function of a number of key variables: the timing of the country cases brought to Decision and Completion points on the one side, and on the other, the timing and fungibility of donor commitments; the capacity of other MDBs to mobilize internal resources to finance debt relief; and the modalities through which they would deliver such relief. All of these need to be further discussed and validated with the institutions concerned, which are still exploring these matters with their own management and shareholders. Under the most favorable set of assumptions, with strong internal resource mobilization on the part of the MDBs, current donor contributions and pledges would cover the initial years of the currently expected debt service costs of the MDBs. However, some donors have indicated that there might be limitations on how flexibly their contributions could be used

¹¹ See IDA/SecM2000-31.

and a number of MDBs are still concerned about proceeding on a less than full upfront financing basis. If these limitations materialize, aggregate financing problems could arise much sooner: in some scenarios to as early as late 2000. Moreover, should some MDBs facing financing shortfalls, there could be a slowing down of the consideration of specific early country cases.

26. The above reinforces the need to continue to move in a determined fashion to ensure full financing for the enhanced HIPC framework. The international community will need to secure substantial additional resources to make good the political commitments which government leaders have made. The resource mobilization effort will also clearly need to be sustained for a long time. The staff of the Bank and Fund are working with officials of donor countries/agencies and will continue to report on progress in this important area.

C. Participation of Official Bilateral Creditors

27. The Executive Boards have considered the participation of official bilateral creditors in providing debt relief, and in particular the difficulty encountered by HIPCs in securing comparable treatment from non-Paris Club creditors. Since a key principle underlying the HIPC Initiative is that action should be coordinated among all creditors involved with broad and equitable participation, the inability of most HIPCs to secure comparable relief from non-Paris Club bilateral creditors threatens to compromise the debt sustainability of these HIPCs. The Boards recognized the diversity of creditors and emphasized that such issues should be addressed flexibly on a case-by-case basis in conformity with this general principle. Directors emphasized that it will be important that workable solutions be found to this problem, and encouraged further efforts by donors and other creditors to assist poorer creditors—particularly HIPCs.

IV. NEXT STEPS

28. While it is expected that potentially up to 20 countries could qualify for debt relief this year, timing depends significantly on progress made toward developing nationally led and outcome-oriented poverty reduction strategies. At the same time, securing sufficient funding to cover the increased costs of the enhanced framework will become more and more urgent. Over the coming year, countries that are expected to reach their completion point are Bolivia (under the enhanced framework), and Burkina Faso, and Mali (under the original framework). Besides those already listed earlier, and subject to country specific developments, decision points under the enhanced HIPC Initiative framework could be reached in 2000 for Cameroon, Chad, Guinea-Bissau, Guyana, Malawi, Nicaragua, Rwanda, and Zambia. In addition, staffs expect to bring Cameroon, Chad, Malawi, Niger, Rwanda, and Zambia to the Executive Boards for preliminary assessment of eligibility under the enhanced HIPC framework. Annex I provides a background note on the HIPC Initiative Timetable, including a revised timetable for HIPC Initiative country documents through end-2000.

29. Bank and Fund staff will prepare another progress report on the implementation of the enhanced HIPC Initiative for the next Annual Meetings of the Development Committee and the International Monetary and Financial Committee in September 2000.

Table 1: HIPC Initiative: Status of Country Cases Considered Under the Initiative
April 8, 2000

| Country | Decision Point | Completion Point | NPV of Debt-to-Export Target (in percent) | Assistance Levels 1/ (In millions of U.S. dollars, present value) | | | | Percentage Reduction in NPV of Debt 2/ | Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars) | Satisfactory Assurances from Other Creditors | |
|--|----------------|------------------|---|---|--------------|---------------|---------------|--|---|--|---------------------|
| | | | | Total | Bilateral | Multi-lateral | IMF | | | | |
| Decision point reached under enhanced framework | | | | | | | | | | | |
| Bolivia | | | | 1302 | 425 | 876 | 84 | 194 | 30 | 2,060 | |
| <i>original framework</i> | <i>Sep. 97</i> | <i>Sep. 98</i> | 225 | 448 | 157 | 291 | 29 | 53 | | | <i>Received</i> |
| <i>enhanced framework</i> | <i>Feb.00</i> | <i>Floating</i> | 150 | 854 | 268 | 585 | 55 | 141 | | | <i>Being sought</i> |
| Mauritania | Feb.00 | Floating | 137 3/ | 622 | 261 | 361 | 47 | 100 | 50 | 1,200 | Being sought |
| Mozambique | | | | 1,970 | 1,235 | 736 | 141 | 434 | 72 | 4,300 | |
| <i>original framework</i> | <i>Apr. 98</i> | <i>Jun. 99</i> | 200 | 1716 | 1076 | 641 | 125 | 381 | | | <i>Received</i> |
| <i>enhanced framework</i> | <i>Apr. 00</i> | <i>Floating</i> | 150 | 254 | 159 | 95 | 16 | 53 | | | <i>Being sought</i> |
| Tanzania | Apr. 00 | Floating | 150 | 2,026 | 1,006 | 1,020 | 120 | 695 | 54 | 3,000 | Being sought |
| Uganda | | | | 1,003 | 183 | 820 | 160 | 517 | 40 | 1,950 | |
| <i>original framework</i> | <i>Apr. 97</i> | <i>Apr. 98</i> | 202 | 347 | 73 | 274 | 69 | 160 | | | <i>Received</i> |
| <i>enhanced framework</i> | <i>Feb.00</i> | <i>Apr. 00</i> | 150 | 656 | 110 | 546 | 91 | 357 | | | <i>Being sought</i> |
| Completion point reached under original framework | | | | | | | | | | | |
| Guyana | Dec. 97 | May 99 | 107 3/ | 256 | 91 | 165 | 35 | 27 | 24 | 410 | Received |
| Decision point reached under original framework | | | | | | | | | | | |
| Burkina Faso | Sep. 97 | Apr. 00 | 205 | 115 | 21 | 94 | 10 | 44 | 14 | 200 | Being sought |
| Côte d'Ivoire | Mar. 98 | Mar. 01 | 141 3/ | 345 | 163 | 182 | 23 | 91 | 6 4/ | 800 | Being sought |
| Mali | Sep. 98 | Spring 00 | 200 | 128 | 37 | 90 | 14 | 44 | 10 | 250 | Being sought |
| Total assistance provided/committed | | | | 7,767 | 3,422 | 4,344 | 634 5/ | 2,146 | | 14,170 | |
| Preliminary HIPC document issued 6/ | | | | | | | | | | | |
| Ethiopia | ... | ... | 200 | 636 | 225 | 411 | 22 | 214 | 23 | 1,300 | ... |
| Guinea | ... | ... | 150 | 638 | 256 | 383 | 37 | 173 | 34 | 1,148 | ... |
| Guinea-Bissau | ... | ... | 200 | 300 | 148 | 153 | 8 | 73 | 73 | 600 | ... |
| Honduras | ... | ... | 137 3/ | 569 | 208 | 361 | 18 | 85 | 18 | 1,024 | ... |
| Nicaragua | ... | ... | 150 | 2,507 | 1,416 | 1,091 | 32 | 188 | 66 | 5,000 | ... |
| No assistance required under original framework--to be reassessed under enhanced framework | | | | | | | | | | | |
| Benin | Jul. 97 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Senegal | Apr. 98 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.

2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.

3/ Eligible under fiscal criteria; figures provided show the ratios of debt-to-exports that correspond to the targeted debt-to-revenue ratio. For Guyana and

Cote d'Ivoire, a 280 percent NPV of debt-to-revenue ratio was targeted at the completion point; for Honduras and Mauritania a 250 percent ratio was targeted at the decision point.

4/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPV of debt at the completion point in the calculation of this ratio.

5/ Equivalent to SDR 374 million at an SDR/USD exchange rate of 0.744.

6/ Figures are based on preliminary assessments at the time of the issuance of the preliminary HIPC document; and are subject to change.

Assistance levels for Ethiopia and Guinea-Bissau were based on the original framework and applied at the completion point; for Nicaragua, Tanzania, Guinea, and Honduras, targets are based on the enhanced framework and assistance levels are at the decision point.

Table 2. HIPC Initiative--Estimates of Potential Costs by Creditor

(US\$ billion in 1998 and 1999 NPV terms)

| | April Costing Exercise (33 countries) ^{1/} | Updated Costing Exercise (32 countries) ^{2/} | |
|------------------------------------|---|---|-------------|
| | 1998 terms | 1998 terms | 1999 term |
| Total costs | 27.4 | 26.6 | 28.2 |
| Bilateral and commercial creditors | 14.2 | 13.3 | 14.1 |
| Multilateral creditors | 13.3 | 13.3 | 14.1 |
| World Bank | 5.1 | 5.9 | 6.3 |
| IMF | 2.3 | 2.2 | 2.3 |
| AfDB/AfDF | 2.0 | 2.1 | 2.2 |
| IaDB | 1.0 | 1.1 | 1.1 |
| Other | 2.9 | 2.1 | 2.2 |

Source: Modifications to the HIPC Initiative IDA/SecM99-475 and EBS/99/138, July 26, 1999; and HIPC Initiative: Update on Costing the Enhanced HIPC Initiative, IDA/SecM99-679, December 8, 1999.

1/ Excluding Liberia, Somalia and Sudan. Based on the application of retroactivity to historical decision points, as discussed in the July 1999 Modifications paper.

2/ Excluding Ghana, which has not requested HIPC Initiative assistance, and Liberia, Somalia and Sudan. Based on the application of retroactivity to end-1998 data, the latest available at the time of endorsement of the enhanced framework, as discussed in the July 1999 Modifications paper.

Table 3. Enhanced HIPC Framework: Status of Bilateral Donor Pledges to the HIPC Trust Fund a/

(As of April 10, 2000, amounts in nominal US\$ million)

| Donor | Contributions | Contributions | Contributions Pledged During | | Total Announced | Memo Item: Overall Contr/ |
|-------------------|--------------------|----------------|--------------------------------|--------------|-----------------|-----------------------------|
| | (received prior to | Pledged Before | & Subsequent to Annual Meeting | | Pledges | Pledges to Current&Enhanced |
| | September 1999) b/ | September 1999 | EU/EC c/ | Others | (Cols 2 thru 4) | Framework (Col.1+5) d/ |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Australia | 5 | | | 7 | f/ 7 | 12 |
| Austria | | | 19 | | 19 | 19 |
| Belgium | 4 | 8 | 28 | | 36 | 40 |
| Canada | 27 | | | 75 | f/ 75 | 102 |
| Denmark | 26 | | 16 | | 16 | 42 |
| Finland | 15 | | 11 | | 11 | 26 |
| France | | 21 | 178 | | 199 | 199 |
| Germany | | 27 | f/ 171 | 54 | 252 | 252 |
| Greece | 1 | | 9 | | 9 | 10 |
| Ireland | 15 | | 4 | | 4 | 19 |
| Italy | | | 92 | 70 | 162 | 162 |
| Japan | 10 | | | 190 | 190 | 200 |
| Luxembourg | 1 | | 2 | | 2 | 3 |
| Netherlands | 61 | | 38 | 70 | f/ 108 | 169 |
| New Zealand | | | | 2 | 2 | 2 |
| Norway | 42 | | | | | 42 |
| Portugal | 15 | | 7 | | 7 | 22 |
| Spain | 15 | | 43 | 70 | 113 | 128 |
| Sweden | 28 | | 20 | | 20 | 48 |
| Switzerland | 30 | | | | | 30 |
| United Kingdom e/ | 36 | 135 | 95 | 50 | 280 | 316 |
| United States | | | | 600 | 600 | 600 |
| Total | 331 | 191 | 734 | 1,187 | 2,112 | 2,443 |

a/ Figures are approximate. Some contributions are in the donor's national currency and in the form of a promissory note.

b/ Includes allocations from the Interest Subsidy Fund (ISF) to the HIPC Trust Fund. Australia is retaining its surplus resources in the ISF (rather than transferring them to the HIPC Trust Fund) but has authorized the World Bank to use them to provide debt relief as necessary under the HIPC Initiative. There remain approximately \$83 million in ISF surplus assets that have not been allocated.

c/ For illustration, exchange rate used is EUR1 - US\$1.

d/ Many donors have also provided debt relief through other initiatives and mechanisms including: the Debt Reduction Facility for IDA-only Countries (providing financing for commercial debt reduction efforts), and specific country-held multilateral debt relief facilities. Most notably, additional debt service relief has also been provided to several Central American countries in the aftermath of Hurricane Mitch through the Central American Emergency Trust Fund. Bilateral donor funding to that trust fund to provide debt service relief to Honduras and Nicaragua includes (in \$ million): Spain - \$30; Norway - \$15; Netherlands - \$12.8; Switzerland - \$15.5; Italy - \$12; United Kingdom - \$16.3; Austria - \$2.7; Canada - \$5.4; Germany - \$13.2; Sweden - \$16.6; United States - \$25; and Denmark - \$10.9 (through a bilateral trust fund administered by IDB). These resources are not included herewith as the debt relief under HIPC is additional to these efforts.

e/ In addition, the United Kingdom has contributed SDR31.5 million to the HIPC Trust Fund for the IMF for debt relief to Uganda.

f/ For these donors, contribution agreements have been signed.

HIPC Initiative—Background Note on Timetable

Introduction

In December 1999, the staffs of the World Bank and the IMF provided the Boards with an updated costing of the enhanced HIPC Initiative which included a timetable for the early HIPC cases.³ Subsequently, Bank and Fund staffs issued a news release⁴ that summarized the Bank and Fund Directors' views regarding the poverty reduction strategies. In this context, the Directors of the Bank and Fund have also reviewed the status of implementation under the enhanced HIPC framework, and endorsed an updated schedule under which three countries—Bolivia, Uganda and Mauritania—were expected to reach their respective decision points in early 2000. It was also mentioned that depending on policy performance and resolution of outstanding issues, five to eight additional countries, including Mozambique, could potentially arrive at their decision points by early spring.

Steady progress is being made in the preparation of preliminary and decision point HIPC documents. Under the enhanced HIPC Initiative five countries have reached their decision points and the completion point document for Uganda has been issued to the Boards. In addition, the Boards have considered the preliminary documents for two countries and more will be reviewed shortly.

It is expected that potentially up to 20 countries could reach their respective decision point by the end-2000. The actual timing of HIPC Initiative country documents will largely be dependent on performance of reform programs and the pace at which countries are able to prepare their interim-PRSPs.

In response to numerous requests, staffs briefly review the progress made to date in re-assessing the retroactive cases as well as the new country cases for which debt relief packages are either being or will be prepared in 2000.

Status of retroactive country cases

Following the endorsement of the enhanced HIPC framework at the Annual Meetings last fall, staffs proceeded with a reassessment of the assistance required for the nine early HIPC cases (Benin, Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mali, Mozambique, Senegal, and

³ IDA/SecM99-679, December 8, 1999, and EBS/99/220, December 7, 1999 entitled "Heavily Indebted Poor Countries (HIPC) Initiative: Update on Costing the Enhanced HIPC Initiative".

⁴ December 22, 1999.

Uganda). Missions to update the debt sustainability analysis have been undertaken in seven of these countries where macroeconomic performance was broadly on track.

In January/early February, the Boards approved debt relief packages for Bolivia and Uganda under the enhanced HIPC framework. In March and early April the Boards also approved the debt relief packages for Mozambique and Tanzania. The status of preparation and expected timing for bringing the remaining countries to their decision points is set out below.

Benin

The authorities have indicated that they wish to seek debt relief under the enhanced HIPC Initiative. Delays in implementing key structural reforms have meant that the review under the second-year PRGF arrangement could not be completed as scheduled. Amongst the outstanding reform issues are the liberalization of the cotton sector (which has a major bearing on the rural poverty alleviation strategy) and the introduction of a performance-based compensation system and a new pay scale for the civil service. In February 2000, Fund and Bank missions visited Cotonou to pursue discussions on an interim-PRSP, a program that could be supported by a new PRGF arrangement, and future IDA assistance. Based on these discussions, it is expected that the second decision point document for Benin could be ready in the second quarter of 2000.

Burkina Faso

The Burkinabè authorities initiated work on a poverty reduction strategy paper immediately after the 1999 Annual Meetings and staff from both the Bank and the Fund, and from a number of other donors, have been assisting them in this endeavor. The authorities plan to present their PRSP to the two Boards at the same time as the review for the Completion Point under the original HIPC Initiative. This is now expected in the second quarter of 2000 and a recent Bank/Fund mission has confirmed that the government's economic and structural program is broadly on track for that schedule. It is therefore expected that a document merging the completion point measures under the original framework with the presentation of the second decision point could be considered by the Boards in May.

Côte d'Ivoire

Political uncertainty and slippages in the reform agenda have slowed down the presentation of Côte d'Ivoire's second decision point document. A constitutional referendum is to be held in April 2000 and general elections are planned before end-October. The government's fiscal targets for end-December were not achieved, and the implementation of structural adjustment measures met with delays, including in the areas of tax reform, privatization, and governance. However, the transition government has taken some positive steps in economic and sector management and started the preparatory work for an interim PRSP. A Fund mission will be in Abidjan in March/April to conduct discussions on the 2000 Article IV consultation and a

staff-monitored program covering the period April–September 2000. The presentation of the next structural adjustment operation to the World Bank Board is being postponed until agreement has been reached on a new macroeconomic framework supported by a PRGF arrangement.

Guyana

Agreement on the Economic and Social framework to be supported by the enhanced HIPC Initiative framework has not yet been reached in Guyana. A Fund mission visited Guyana in December 1999 to continue discussions on a program for 2000 that could be supported by a second-year PRGF arrangement. However, the authorities were not fully prepared to discuss a program and needed more time to firm up the government budget for 2000. Follow-up discussions are expected to take place in April 2000.

The government is seeking a Public Service Reform Adjustment Operation from IDA. However, preparation of this proposed adjustment operation, especially agreeing on the content and timing of measures, is taking more time than initially anticipated. The government is currently preparing an Interim PRSP based on the National Development Strategy. Bank staff are assisting the government with the 1999 poverty data analysis, public expenditure review on social sectors, and labor market analysis. The government expects to complete the interim PRSP in May 2000. Reflecting the delays described earlier, the presentation of the second decision point document for Guyana is now expected no earlier than the third quarter of 2000.

Mali

A joint Bank/Fund mission visited Mali last October to review the progress made in meeting the completion point measures under the original HIPC framework. The mission concluded that the country had not implemented the completion point measures, especially those pertaining to the structural sectors as well as the social sectors. As a result, the first review of the IMF program has not been completed. The joint Bank/Fund mission agreed with the government on a set of measures that need to be implemented in order to reach the completion point. To date, progress in fulfilling these measures has been slower than expected. The implementation process has also been influenced by the change in government in February 2000. A Bank/Fund mission is now planned for April 2000 to assess progress of Mali in reaching the conditions for the completion point. As in Burkina Faso, it is expected that the second decision point document will be merged with the completion point under the original HIPC Initiative framework.

Senegal

Over the last couple of months, staffs have worked closely with the outgoing government on the debt sustainability analysis and the interim PRSP. As a result of this work, the staffs were

ready to present the debt relief package for discussion by the Boards. In March, presidential elections were held and resulted in a change of government. The new government will take office in early April. The staffs propose to hold discussions with the new government as soon as possible with a view to finalize economic and social policy agreements, including the timetable for preparing the PRSP. In light of these discussions, the staffs plan to submit the HIPC decision point document and the interim PRSP to the Boards as soon possible.

Possible Time Line of HIPC Initiative Country Documents, Q4 1999 to Q4 2000 1/

| | 1999 | | 2000 | | |
|---|-------|----------|--------------------------|--------------------------|----------|
| | Q4 | Q1 | Q2 | Q3 | Q4 |
| Countries eligible for reassessment 2/ | | | | | |
| Bolivia | | 2nd D.P. | | 2nd C.P. | |
| Mozambique | | | 2nd D.P. | | |
| Uganda | | 2nd D.P. | 2nd C.P. | | |
| Benin | | | 2nd D.P. | | |
| Burkina Faso | | | original C.P. & 2nd D.P. | | |
| Cote d'Ivoire | | | | | 2nd D.P. |
| Guyana | | | | 2nd D.P. | |
| Mali | | | | original C.P. & 2nd D.P. | |
| Senegal | | | 2nd D.P. | | |
| Possible new country documents under the enhanced Initiative | | | | | |
| Cameroon | | | Prel. | D.P. | |
| Chad | | | Prel. | | D.P. |
| Ghana * | DSA | | | | |
| Guinea | Prel. | | D.P. | | |
| Guinea-Bissau | | | | D.P. | |
| Honduras | Prel. | | D.P. | | |
| Malawi | | | Prel. | | D.P. |
| Mauritania | | D.P. | | | |
| Nicaragua | | | | | D.P. |
| Niger | | | | Prel. | |
| Rwanda | | | | Prel. | D.P. |
| Tanzania | | D.P. | | | |
| Yemen ** | | | DSA | | |
| Zambia | | | Prel. | | D.P. |

1/ Earliest possible timing is shown. Actual timing is subject to country circumstances.

2/ The timing of the second completion points for these countries will need to be decided by the Boards.

* The authorities have decided not to pursue HIPC Initiative assistance.

** Yemen appears to be sustainable according to the preliminary results of the DSA undertaken in November 1999.

DSA = debt sustainability analysis

D.P. = decision point

C.P. = completion point

Prel. = preliminary HIPC Initiative document