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April 4, 2006

**Statement by Mr. Ngumbullu and Mr. Steytler on
Heavily Indebted Poor Countries Initiative—List of Ring-Fenced Countries Potentially Eligible Under the Initiative
(Preliminary)
Executive Board Meeting 06/34
April 5, 2006**

Key Points

- *Debt relief is an effective instrument, supporting highly indebted low-income countries' efforts to attain the MDGs. We hope a solution could be found to the debt problem of other non-HIPC low-income countries.*

- *We endorse staff's proposal to "ring-fencing" the 14 potential eligible HIPCs; however in the interest of equal treatment, we would prefer an approach where no potential beneficiaries are left behind.*

- *The expiration of the sun-set clause at the end of this year could imply that some of the countries identified to be "potentially eligible" may not benefit from debt relief under the HIPC Initiative and the MDRI; this should be avoided.*

- *There is need to accelerate debt resolution of the protracted arrears cases; more donor assistance would be needed.*

Introduction

1. We thank staffs of the Fund and the World Bank for their excellent work on identifying countries that are "potentially eligible" for debt relief under the HIPC Initiative before expiration of the sunset clause. We also appreciate staff's review of financing of the Fund's concessional assistance and debt relief to low-income members, as well as updates of the status of implementation of the HIPC Initiative and Multilateral Debt Relief Initiative (MDRI). Although we believe that the HIPC process is too slow, it is heartening to note that because of the Initiative, annual debt service payments relative to exports and fiscal revenues in the 29 HIPCs that have reached decision point have declined significantly, and poverty-reducing expenditure has increased at the same time. The MDRI relief is expected to have more substantial impact on debt services payments, and hence increase in poverty reducing outlays. This is proof that debt relief is an effective instrument to support countries' efforts at

meeting the MDGs. We, therefore, expect that a solution to the debt problem of non-HIPC low-income countries could be found soon to help them attain the MDGs.

Countries Potentially Eligible for Assistance under the HIPC Initiative

2. We endorse staff's proposal to "ring-fencing" the 14 potentially eligible countries for debt-relief under the HIPC Initiative, based on income and indebtedness criteria using end-2004 data. However, in the spirit of equality of treatment, we would prefer an approach where no potential beneficiaries are left behind. We would encourage staff to continue work on the assessment of debt sustainability of all potentially HIPC eligible countries, with a view to coming up with a comprehensive list as soon as possible.

Status of Program Implementation and Poverty Reduction Strategies

3. It is encouraging to note that 8 out of the 14 identified countries have already met all the policy criteria for eligibility under the enhanced HIPC Initiative and could qualify for debt relief upon reaching decision point. We would have like that, contrary to past experience, these countries would be able to move to decision point at a faster pace. We are worried that because of the expiration of the sun-set clause at the end of this year, some of the countries identified to be "potentially eligible" may not benefit from debt relief under the HIPC Initiative and the MDRI; this should be avoided. In this regard, we want to point out that some countries, like Sudan, have been under successive Staff-Monitored-Programs and have established strong track records of macro-economic performance. For these countries to benefit from debt relief, we suggest that their performance under SMPs be considered as partial fulfillment of the HIPC conditionality, so that they can enter the Initiative before expiration of the sun-set clause. Staff's comments are welcome. Also as staff rightly note, six of the potential eligible countries, have not yet begun an IMF and IDA-supported program, and have only until December 2006 to do so in order to become eligible for debt relief under the Initiative. We would like to know what the Fund could do to support these countries meet the eligibility criteria.

Estimated Cost of HIPC Debt Relief

4. We welcome staff's update on the estimated costs of HIPC debt relief. We note that the estimated cost is about US$0.6 billion lower than the estimated total cost presented in the September 2005 update. The bulk of the estimated cost is accounted for by the three protracted arrears cases (Liberia, Somalia and Sudan). It is our understanding that the G8, in their debt cancellation proposal undertook to provide, on a fair burden sharing basis, the necessary resources to provide debt relief for countries that become eligible for the HIPC Initiative under the extended sunset clause, and that donors would provide extra resources necessary for debt relief at completion point for the three protracted arrears cases. We would appreciate an update from staff on progress with regard to this issue.

5. We commend those Paris Club creditors that have voluntarily committed to provide additional debt relief beyond what is required under the HIPC initiative. However, we note that participation of the non-Paris Club official bilateral creditors continue to remain a challenge. We would urge staff, in addition to moral suasion, which does not seem to be

working, to do more to help increase creditor participation in the Initiative. These could include for instance paying more attention to this issue during the Article IV consultation. We are equally concerned to note that most commercial creditors have not committed to provide HIPC relief, and many have also not provided the traditional debt relief. Instead, we note with concern that several commercial creditors have started to put pressure on HIPCs to settle claims by resorting to litigation and other unilateral actions. We urge staff to further investigate this issue and provide concrete advice to the Executive Board on how this matter can be dealt with going forward.