BUFF/08/4

January 16, 2008

The Acting Chair's Summing Up
Proposals to Modify the PRGF-HIPC Trust Instrument—Further Considerations and Proposed Decision
Executive Board Meeting 08/3
January 14, 2008

Executive Directors welcomed the staff's proposal to modify the PRGF-HIPC Trust Instrument to take into account the specific circumstances of a number of Heavily Indebted Poor Countries (HIPCs), including Liberia. In adopting the proposed decision, they considered that modification of the Fund's existing rules and policies would avert delays in the delivery of debt relief to Liberia, as well as similarly situated members, for whom, due to factors beyond their control, adequate financing assurances may not be in place to qualify for other instruments that may be used to build a track record toward the HIPC decision point. The amendment is aimed at giving these countries credit, in appropriate circumstances, for their record in implementing strong programs of macroeconomic stabilization and structural reform during the time when the Fund and/or other international institutions are securing the necessary financing assurances to enable arrears clearance and debt relief.

Directors considered that the amendment represents a reasonable balance between facilitating delivery of debt relief to strong performing countries, while at the same time minimizing changes to the internationally-agreed HIPC Initiative framework, avoiding unwanted spillover to other Fund policies, and ensuring that any modification to existing rules and policies would apply uniformly to all similarly-situated HIPCs.

As a result of the amendment of the PRGF-HIPC Trust Instrument, performance under staff monitored programs (SMPs) could henceforth be counted as a track record toward reaching the HIPC Initiative decision point in cases where the Board agrees with staff's assessment that macroeconomic and structural reform policies under the SMP meet the policy standards associated with programs supported by arrangements in the upper credit tranches (UCT) or under the PRGF. The amendment also includes such SMPs among the programs that members may use to establish eligibility for debt relief under the PRGF-HIPC Trust Instrument. Consequently, a member that is eligible or potentially eligible for HIPC Initiative debt relief and has not yet reached the decision point will now be able to have its strong policy performance under a qualifying SMP count toward the decision point track record, even if financing assurances are lacking to allow access to other qualifying instruments identified in the PRGF-HIPC Trust Instrument.

Directors emphasized that the amendment does not change the status of SMPs in the Fund's toolkit. In particular, SMPs will continue to be approved by management, and not by the Board; and the Board's agreement with staff's assessment that a given SMP has policies of UCT quality will be used only to facilitate a member's eligibility and/or qualification for HIPC Initiative debt relief. Directors noted that in several recent Board discussions, the Board's UCT quality determinations had been recorded in the Chairman's Closing Remarks or in the Chairman's Summing Up. Going forward, they noted the importance of maintaining a process that clearly reflects the key role of the Executive Board in reaching agreement with the staff assessment on the UCT quality of SMPs. In this context, the Executive Board agreed that such Board determinations will henceforth be recorded in the Chairman's Summing Up related to the Board discussion.

Directors agreed that, in order to preserve payment discipline, the SMPs of members not eligible for a Rights Accumulation Program (RAP) would qualify only if they have no arrears to the Fund, and, in cases where they have arrears to the World Bank, an agreed financing plan and a timetable for normalizing financial relations with the Bank are in place. RAP-eligible members—consistent with their treatment under the RAP policy—would not be required to clear existing arrears to the Fund either prior to or during a qualifying SMP, but would be expected to remain current on new obligations to the Fund; they would also need to have in place an agreed financing plan and a timetable for normalizing financial relations with the World Bank in case of arrears to them. Directors acknowledged, however, that some RAP-eligible members that have emerged from conflict with severely limited payment capacity may face difficulties in remaining current even on their new obligations to the Fund. Considering the special situation of these members, the decision allows some limited flexibility for them to accumulate new arrears to the Fund during the period of a qualifying SMP in the circumstances specified in the amendment. A number of Directors, however, would have preferred to avoid having such flexibility in the amendment, which could be perceived as giving rise to moral hazard problems with regard to payments to the Fund.