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IMF and World Bank Support Burundi's Completion Point under the Enhanced HIPC Initiative and Approve Debt Relief under the Multilateral Debt Relief Initiative

The World Bank's International Development Association (IDA) and the International Monetary Fund (IMF) have agreed that Burundi has made sufficient progress and taken the necessary steps to reach its completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Because of this agreement, Burundi becomes the 24th country to reach the completion point under the Initiative.

Debt relief under the Enhanced HIPC Initiative from all of Burundi's creditors has been revised upward to US\$833 million in net present value (NPV) terms¹, from US\$826 million estimated at the time of the decision point document. HIPC debt relief from IDA and the IMF amounts to US\$425 million and SDR19 million (US\$28 million) in NPV terms, respectively.

In reaching the HIPC completion point, Burundi also becomes eligible for further debt relief from the IMF, IDA, and the African Development Fund (AfDF) under the Multilateral Debt Relief Initiative (MDRI). MDRI relief net of HIPC assistance would lead to a nominal² reduction of debt owed to IDA and the IMF by US\$90 million and SDR9 million (US\$15 million) respectively.

To reach the completion point, Burundi completed a number of measures aimed at preparing and implementing a national poverty reduction strategy, maintaining a stable macroeconomic environment, setting up mechanisms to ensure efficient and transparent use of HIPC interim debt relief, strengthening public expenditure management, implementing governance measures related to social sector services delivery, and improving debt management capacity. In addition, the authorities have made good progress in implementing other measures—on demobilization, the coffee sector, and social sectors.

"We are very pleased that the Boards of the Bank and the Fund have approved full debt relief for Burundi under the HIPC initiative and MDRI," said John M. McIntire, World Bank Country Director for Tanzania, Uganda, and Burundi. "This confirms the quality of Burundi's

fiscal and debt management as it emerges from conflict and continues toward economic and social recovery. My Fund colleagues and I congratulate the Burundian authorities on this achievement. At the same time we urge them to maintain momentum toward the goals of their national Poverty Reduction Strategy Program by using this debt relief for its intended purposes,” he added.

Bernardin Akitoby, IMF Mission Chief for Burundi, noted that “the authorities are to be commended for reaching this important milestone. Debt relief will reduce significantly Burundi’s debt burden and free up resources to finance spending in areas critical to meeting the Millennium Development Goals.” He added that a key challenge going forward is “to maintain a sustainable external and domestic debt position through careful borrowing and prudent fiscal policy.”

The HIPC Initiative

In 1996, the World Bank and IMF launched the HIPC Initiative to create a framework in which all creditors, including multilateral creditors, can provide debt relief to the world's poorest and most heavily indebted countries, and thereby reduce the constraints on economic growth and poverty reduction imposed by the debt-service burdens in these countries. The Initiative was modified in 1999 to provide three key enhancements:

Deeper and Broader Relief. External debt thresholds were lowered from the original framework. As a result, more countries have become eligible for debt relief and some countries have become eligible for greater relief;

Faster Relief. A number of creditors began to provide interim debt relief immediately at the “decision point.” Also, the new framework permitted countries to reach the “completion point” faster; and

Stronger Link between Debt Relief and Poverty Reduction. Freed resources were to be used to support poverty reduction strategies developed by national governments through a broad consultative process.

To date, 35 HIPC countries have reached their decision points, of which 24 (including Burundi) have reached the completion point.

The MDRI

At the July 2005 G8 Summit in Gleneagles, Scotland, G8 leaders pledged to cancel the debt of the world's most indebted countries, most of which are located in Africa. The aim of this Multilateral Debt Relief Initiative (MDRI) was to reduce further the debt of HIPCs and provide additional resource to help them reach the Millennium Development Goals (MDGs)

The MDRI is separate from the HIPC Initiative but linked to it operationally. Under the MDRI, three multilateral institutions — the World Bank's International Development Association, the International Monetary Fund, and the African Development Fund — provide 100 percent debt relief on eligible debts to countries having reached the HIPC completion point³. Unlike the HIPC Initiative, the MDRI is not comprehensive in its creditor coverage. It does not involve participation of official bilateral or commercial creditors, or of multilateral institutions other than the above-mentioned three.

¹ Net present value of debt is the discounted sum of all future debt service obligations (interest and principal)

² Nominal terms refer to the actual dollar value of debt service forgiven over a period of time.

³ The IMF also provided MDRI debt relief to non-HIPCs whose income per capita is below US\$380 in order to ensure uniformity of treatment in the use of IMF resources.