



HIPC Initiative & MDRI

Status of Implementation

Commonwealth Ministerial Debt Sustainability Forum

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Main Objectives of the Presentation

- To provide an update on the implementation and financing of the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) by the AfDB Group
- To review the emerging issues resulting from debt relief under both the HIPC Initiative and the MDRI, for the way forward



OUTLINE

■ HIPC Initiative

- HIPC Process in the AfDB
- Status of Countries under HIPC as at end-March 2008
- Cost & Delivery Update

■ Multilateral Debt Relief Initiative (MDRI)

- Key Features
- Implementation Arrangements
- Financing Arrangements
- Status of Commitments
- Key Burning Issues & Way Forward

■ Concluding Remarks



HIPC Process in the AfDB

- ❑ Close AfDB and WB/IMF collaboration in HIPC process
- ❑ HIPC Trust Fund (donors) finance up to 80% AfDB debt relief with remaining 20% balance financed through AfDB internal resources
- ❑ Debt sustainability analysis (DSA) field missions by IMF/WB teams, now joined by AfDB staff



Status of Countries under HIPC Initiative as at end March 2008

Completion Point HIPCs

19

- Benin
- Burkina Faso
- Cameroon
- Ethiopia
- Ghana
- The Gambia
- Madagascar
- Malawi
- Mali
- Mauritania
- Mozambique
- Niger
- Sao Tome & Principe
- Senegal
- Sierra Leone
- Rwanda
- Tanzania
- Uganda
- Zambia

Interim Period HIPCs

8

- Burundi
- CAR
- Chad
- Congo Rep,
- DRC
- Guinea
- Guinea Bissau
- Liberia

Pre-Decision Point HIPCs

5+1

- Comoros
- Côte d'Ivoire
- Somalia
- Sudan
- Togo

- Eritrea



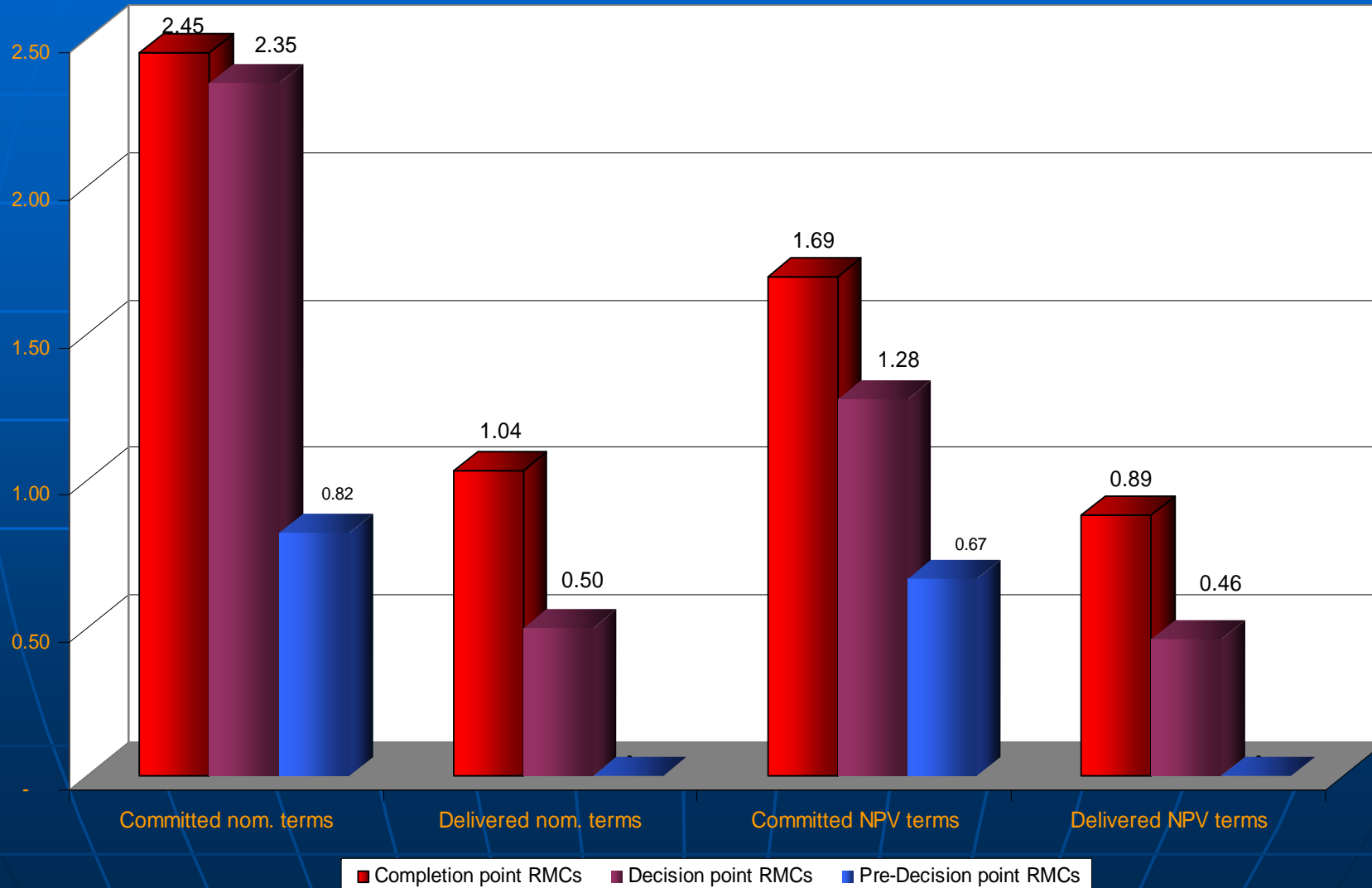


Expected dates for reaching Completion Point and Qualifying for MDRI Relief

| Beneficiary Countries | Decision Point | Completion Point |
|-------------------------------------|-----------------------|-------------------------|
| Interim Countries | | |
| Burundi | | 30-Jun-08 |
| Chad | | 30-Jun-08 |
| DRC | | 30-Jun-08 |
| Guinea | | 30-Aug-08 |
| Congo, Rep. of | | 31-Dec-09 |
| CAR | | 31-Dec-09 |
| Liberia | | 31-Dec-09 |
| Guinea Bissau | | 30-Jun-10 |
| Pre-decision Point Countries | | |
| Comoros | 30-Jun-08 | 30-Sep-10 |
| Côte d'Ivoire | 30-Jun-08 | 31-Dec-10 |
| Sudan | 31-Mar-09 | 31-Dec-11 |
| Togo | 31-Mar-09 | 31-Dec-11 |
| Eritrea | 30-Jun-09 | 30-Mar-12 |
| Somalia | 30-Sep-13 | 30-Sep-16 |



HIPC Cost & Delivery Update as at end-December 2007 (UA billions)





Multilateral Debt Relief Initiative (MDRI)

Key Features

- **G8 proposal to cancel 100 percent of debt** owed by post-completion point HIPC countries to ADF, IDA and IMF, to support countries' efforts in reaching the **MDGs**.
- **42 Eligible HIPC countries worldwide, out of which 33 potential ADB RMCs**
- Donors committed to providing additional resources to compensate ADF for forgone credit reflows.
- **Compensatory replacement funds** “dollar for dollar” to be reallocated to all ADF-only countries, including non-HIPCs, using the PBA System



MDRI Implementation Arrangements

■ Key Dates & Debt Coverage

- Cut-off date: December 31, 2004
- Implementation date: January 1, 2006
- Debt coverage: Debt outstanding and disbursed (DOD)

■ Eligibility Criteria for first 13 Completion Point Countries

- Satisfactory macro-economic performance under IMF-PRGF
- Satisfactory implementation of poverty reduction strategy
- Adequate public expenditure management system, including minimum standards of governance and transparency

■ Eligibility Criteria for Interim/Pre-Decision Point RMCs

- For remaining 8 post-decision/interim and 6 pre-decision point countries, reaching completion point would be sufficient to establish eligibility for MDRI.



Financing Arrangements

- **Compensatory donor resources**
 - Provided within the framework of ADF replenishments and Donors' legislative and budgetary constraints
- **Donor Compensation secured over three periods**
 - 2006 – 2007 (remaining ADF–10 period):
Unqualified commitments
 - 2008 – 2015 (remainder of first decade):
Mostly unqualified, some qualified commitments
 - 2016 – 2054 (subsequent four decades):
Mostly qualified, some unqualified commitments



Status of Donor Commitments as at end-March 2008

| Commitment Status | 2006-2007 | | 2008-2015 | | 2016-2054 | | 2006-2054 | |
|---------------------------------------|------------|--------|------------|--------|------------|--------|------------|--------|
| | UA million | % | UA million | % | UA million | % | UA million | % |
| Unqualified commitments (1) | 77.60 | 91.5% | 431.55 | 58.8% | 48.58 | 1.0% | 557.72 | 10.0% |
| Qualified commitments (2) | 6.68 | 7.9% | 180.45 | 24.6% | 3,456.44 | 72.5% | 3,643.56 | 65.2% |
| Total commitments (3) = (1)+(2) | 84.28 | 99.4% | 611.99 | 83.4% | 3,505.02 | 73.5% | 4,201.29 | 75.2% |
| Costs not yet covered (4)=(6)-(3)-(5) | - | 0.0% | 117.34 | 16.0% | 1,230.97 | 25.8% | 1,348.30 | 24.1% |
| Structural gap (5) | 0.55 | 0.6% | 4.73 | 0.6% | 30.69 | 0.6% | 35.96 | 0.6% |
| Total Original Cost (6) | 84.82 | 100.0% | 734.05 | 100.0% | 4,766.67 | 100.0% | 5,585.55 | 100.0% |
| Amount committed in advance/defer | 17.88 | | 20.85 | | (35.51) | | 3.23 | |
| Total | 102.71 | | 754.91 | | 4,731.16 | | 5,588.78 | |



Key Burning Issues & Way Forward

- ❑ **Difficulties/Slippages by RMCs in satisfying decision/completion point triggers**
 - Arrears clearance as key requirement to qualify for HIPC debt relief
 - Satisfactory preparation and implementation of the PRSP
 - Track record of macroeconomic policy performance under PRGF programs
 - Implementation of required social, governance and other structural reforms

- ❑ **Instruments of Commitments (IoCs) in support of MDRI**
 - Transformation of political commitments into unqualified or qualified IoCs remains critical to ensure ADF's sustainability, going forward

- ❑ **Additionality of Donor Financing**
 - Hold donors to their pledge that financing of MDRI costs will be additional to regular ADF replenishment contributions in order to ensure long-term financing capacity of ADF.



Key Burning Issues & Way Forward (cont'd)

❑ Free Rider/Moral Hazard Issue

- Fiscal space freed up by MDRI creates risk of new non-concessional borrowing and re-accumulation of unsustainable debt
- New AfDB Policy on Non-concessional Borrowing addresses issue:
 - Collaboration with other creditors around DSF as common approach to concessionality, and in debt management capacity building
 - Differentiated case by case approach, including volume discounts, and hardening of terms, to discourage re-accumulation of debt
 - Flexibility in accommodating non-concessional borrowing for low-risk economies to help them achieve the MDGs and middle income status

❑ New Financing for Development

- Supplement limited concessional resources to assist RMCs achieve MDGs and finance infrastructure development



Concluding Remarks

■ HIPC & MDRI beneficiaries:

- Need to stabilize, improve performance & deepen structural reforms
- Strengthen their debt management capacities and policies to discourage unwarranted non-concessional borrowing
- Improve the tracking of the freed up resources from debt relief for poverty reducing expenditures
- Scale-up and diversify their economies to increase exports and boost economic growth
- Apply new financing for development to achieve MDGs and finance infrastructure development



Thank You