

Commonwealth Ministerial Debt Sustainability Forum

HIPC Initiative and MDRI: The World Bank's Perspective

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Outline

- I. HIPC and MDRI: countries, process, and estimated costs
- II. Challenges and World Bank's response
- III. Conclusions

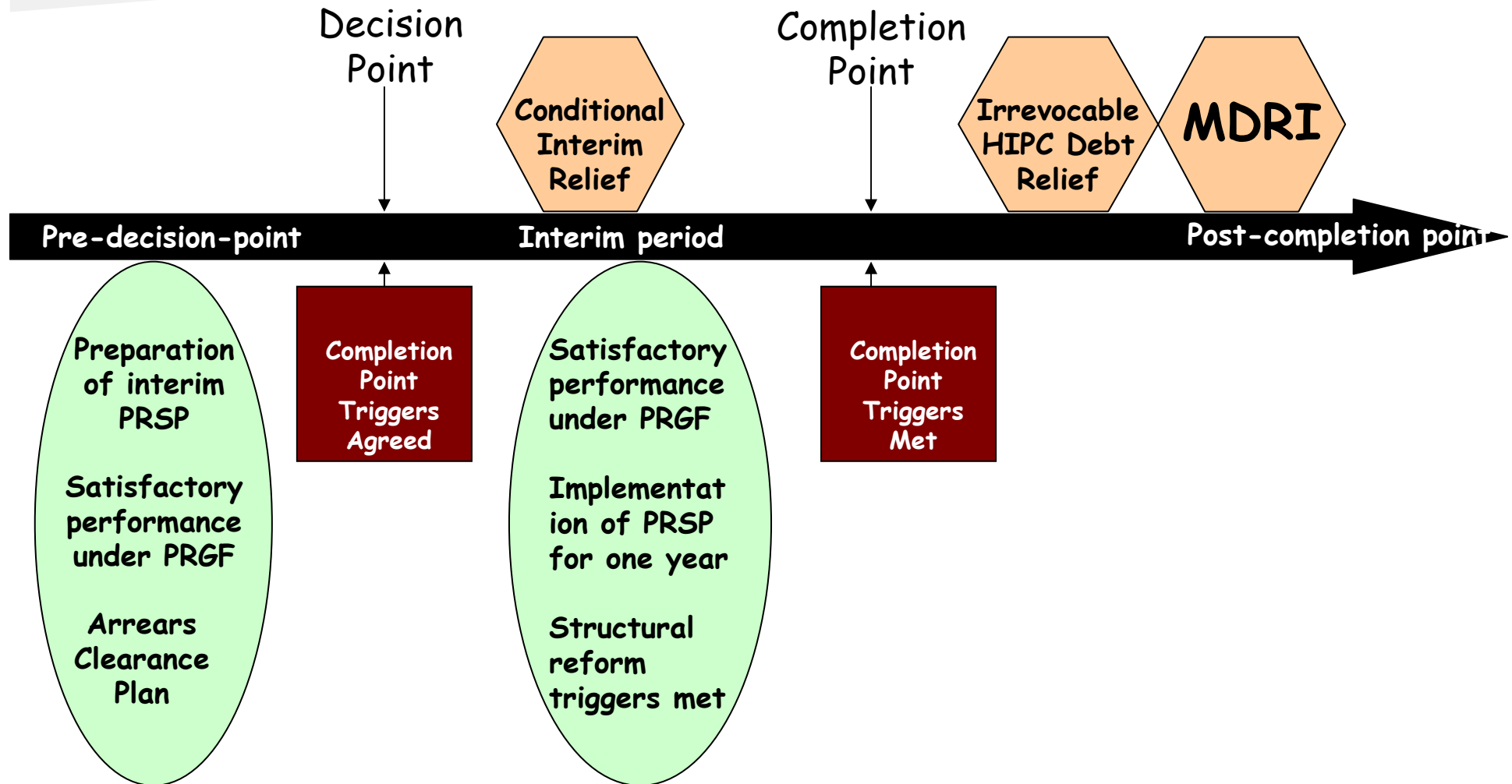
Debt Relief: The HIPC

as of April 2008

23 Post -Completion -Point Countries		
Benin	Honduras	Rwanda
Bolivia	Madagascar	São Tomé and Príncipe
Burkina Faso	Malawi	Senegal
Cameroon	Mali	Sierra Leone
Ethiopia	Mauritania	Tanzania
Ghana	Mozambique	Uganda
Guyana	Nicaragua	Zambia
Gambia , The *	Niger	
10 Interim Countries		
Afghanistan *	Congo , Democratic Republic	Haiti
Burundi	Congo , Republic of	Liberia *
Central African Republic *	Guinea	
Chad	Guinea -Bissau	
8 Pre -Decision -Point Countries		
Comoros	Kyrgyz Republic	Sudan
Côte d'Ivoire	Nepal	Togo
Eritrea	Somalia	

Note: * Countries that have reached decision or completion point since Jan 2007

Debt Relief: The Process



Debt Relief: IDA's Delivery

- To reduce debt burdens in HIPCs, IDA provides debt relief through the HIPC Initiative and the MDRI

HIPC Initiative and MDRI: Estimates of Debt Relief

Status as of March 2008

(End-2006 NPV terms, in billions of U.S. dollars)

	World Bank Group Debt Relief			Total Debt Relief		
	HIPC	MDRI	HIPC and MDRI	HIPC	MDRI	HIPC and MDRI
All HIPCs	14	17	31	68	26	94
23 Post-Completion-Point HIPCs	9	14	23	33	21	54
10 Interim HIPCs	3	2	4	15	3	18
8 Pre-Decision-Point HIPCs	2	2	4	19	2	22

- While debt relief has significantly reduced the debt burden in HIPCs, achieving long-term debt sustainability remains a challenge

Pre-Decision-Point HIPCs

Challenges:

- Difficult political, security and economic situation
- Significant arrears
 - Freeze on relations with the financial community (IFIs)

World Bank's Response:

- IDA's assistance to fragile countries
- Systematic approach to arrears clearance
 - Liberia, Côte d'Ivoire

Interim HIPC

Challenges:

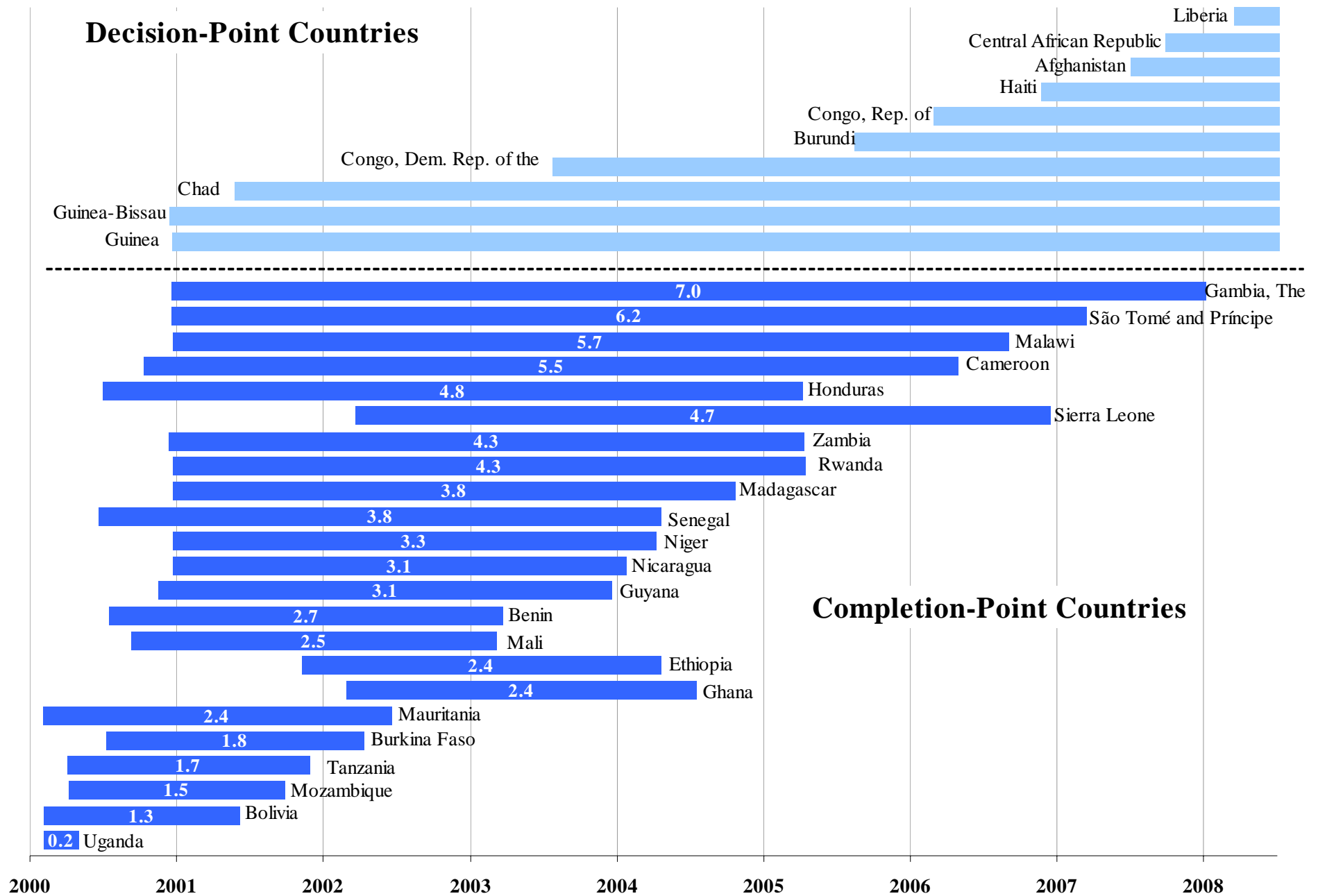
- Creditors participation
 - Non-Paris Club and commercial creditors
- Difficulties in meeting floating completion point triggers
 - Prolonged interim periods ([Chart](#))
 - MDBs' interim relief limits

World Bank's Response:

- WB/IMF: Scorecard and Contextual Notes
- Debt Reduction Facility (DRF) for IDA-only countries
- Exceptional increase in the interim debt relief ceiling (Haiti, Guinea, Guinea-Bissau)



Duration of the Interim Period in post-Decision-Point HIPCs (in years)



Post-Completion-Point HIPC

Challenges:

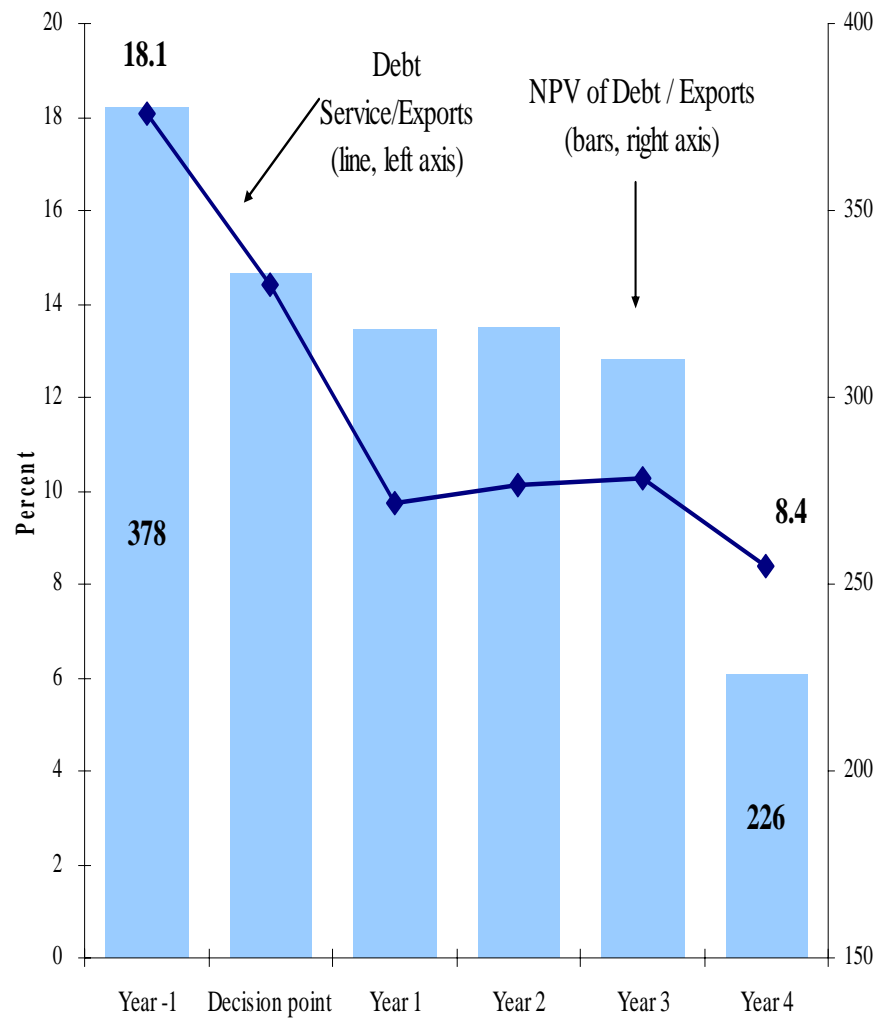
- Long-term debt sustainability ([Chart](#))
- Non-concessional borrowing
- Weak debt management capacity
- Litigation ([Survey](#))

World Bank's Response:

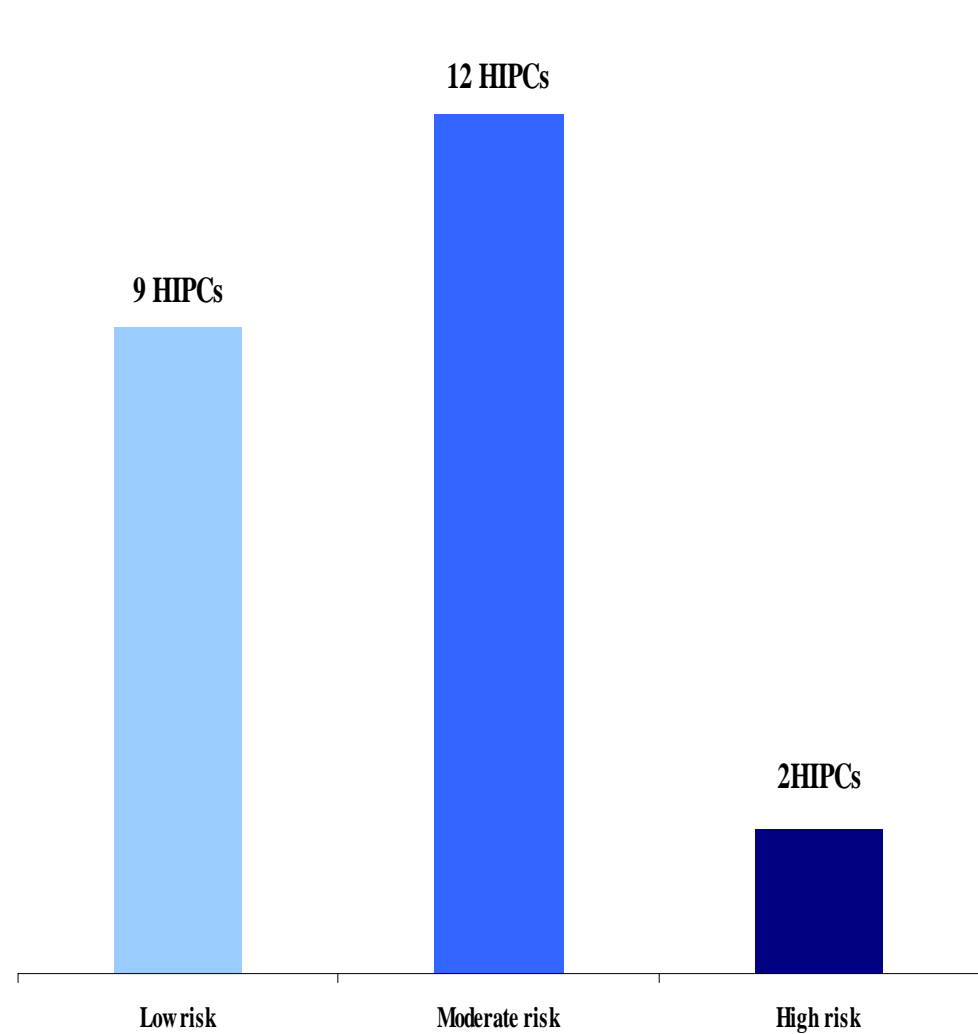
- Joint IDA/IMF Debt Sustainability Framework for LICs
- IDA financing policies
- DSF Outreach
- Debt Management: DeMPA & MTDS
- DRF for IDA-only Countries



Evolution of Debt Ratios following HIPC Decision Point



Risk Classification of Post-Completion-Point HIPCs under the DSF



Sources: Country authorities, IMF and World Bank staff estimates.



Commercial Creditors Litigation against HIPCs

Another challenge to the implementation of the Initiative

- 11 of 24 HIPCs surveyed by staff reported lawsuits by 44 litigating creditors. Six new legal actions in the last year
- 24 litigating creditors have obtained court judgments against 8 HIPCs, amounting to about US\$1bln on original claims of US\$434mln (principal only)

The Debt Sustainability Framework

- Joint WB/IMF product (launched 2005)
- Forward looking approach for assessing whether current debt levels and policies pose a risk of debt distress
- Supports LICs in achieving development objectives and MDGs, without creating future debt problems
 - Allows creditors to tailor their financing terms in anticipation of future risks
 - Guide new borrowing decisions to match financing with ability to repay debt

IDA's Financing Policies

1. Grant/Credit composition:

Under IDA14, and IDA15, IDA grants are used for the sole objective of *mitigating debt distress risks* detected under the DSF

- High-risk LICs receive only grants;
- Moderate-risk LICs receive a 50/50 mix of grants and loans;
- Low-risk LICs receive traditional credits

IDA's Financing Policies

2. IDA's Non-Concessional Borrowing Policy (2006):

- IDA financing may change (volumes and/or terms of new borrowing)
- Case-by-case and careful application, considering quality of project selection
- Three cases so far: Angola (hardened terms); Mali (no action); Ghana (actions under consideration)
- The policy does not aim to “punish borrowers”, but ensure that IDA's resources are used effectively towards the objective of debt sustainability in LICs

Creditor Outreach

- IDA's efforts would be undermined unless there is a coordinated action in addressing debt sustainability concerns
- Outreach to other creditors has been productive:
 - Several multilaterals have harmonized their financing provision with that of IDA
 - OECD Export Credit and Guarantees working party has adopted sustainable lending principles
- World Bank/IMF in coordination with regional partners have provided training to over 40 LIC governments

DeMPA and MTDS

- Debt Management Performance Assessment (DeMPA)
 - Tool for assessing public debt management performance
 - Objectives:
 - (i) guiding the design of actionable reform programs,
 - (ii) facilitating the monitoring of performance over time, and
 - (iii) enhancing donor harmonization based on common understanding of priorities
 - Set of performance indicators covering the full span of the Government's debt management activities
 - Implemented to date in 12 LICs

- Medium Term Debt Strategy (MTDS)
 - World Bank/IMF are jointly developing a harmonized approach and a toolkit for debt strategy formulation in LICs

The Debt Reduction Facility for IDA-only Countries

- Proven instrument for catalyzing commercial creditor's participation in the HIPC Initiative.
 - Reduces HIPC's exposure to commercial creditors
- Established by the Boards of IBRD and IDA in 1989
- With approval of the IDA Board, DRF provides:
 - preparation grants to fund legal and financial advisers
 - implementation grants to finance debt buybacks
- In April 2007, the IDA Board extended the DRF until 2012
- Financed from IBRD transfers, grant contributions from donors and investment income earned on contributions

The Debt Reduction Facility for IDA-only Countries

- To date:
 - 24 buybacks in 21 countries, extinguishing over US\$9 billion of external commercial debt
- Over the last year:
 - Two buybacks successfully closed (Mozambique and Nicaragua)
 - US\$1.5 billion of commercial external debt extinguished
 - Terms comparable with that provided by any other class of creditors under the HIPC Initiative.
 - High participation: 100% for Mozambique and more than 95% for Nicaragua (100% percent for judgment creditors)
- Three other operations under discussion

Conclusions

- Debt relief: significant progress over the last few years, advancing Finance for Development agenda
- IDA supports HIPCs in overcoming their challenges through a variety of instruments
- The end tail of potential HIPC beneficiaries poses special challenges (fragile states)
- Long-term debt sustainability requires continued attention from governments and IFIs
- WBG responses include DSF and MTDS (in close collaboration with the IMF), DeMPA, and the creation of a new TA mechanism (the Debt Management Facility for LICs, DeMFLIC)