

**COMMONWEALTH DEBT SUSTAINABILITY
MINISTERIAL FORUM (CDSMF)
WASHINGTON DC, 9 APRIL, 2008**

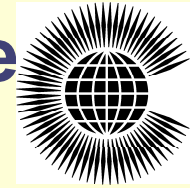


**HIPC, MDRI & DSF
ISSUES & APPRAISAL**

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Implementation of the HIPC Initiative



Four key issues

- *Challenges of reaching the Completion Point*
 - Timetable slipping in all cases: partly institutional weaknesses & insufficient political support for reforms.
 - Need for more proactive approach: identifying bottlenecks & additional institution-building programmes.
- *Difficulties of Reaching the Decision Point*
 - Difficulties in policy formulation compounded by internal conflict, governance issues and substantial arrears
 - Liberia closest to reaching DP as substantial arrears cleared through exceptional measures & need for similar approaches in other cases
 - Establishment of fragile states facilities in OIDA/AFDF: important priority capacity enhancement for reaching DP



Implementation of the HIPC Initiative:

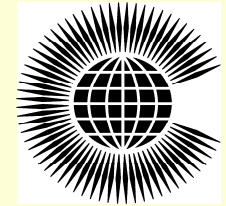
Four key issues



- *Continued Limited Participation of Non-Paris Club Creditors*
 - Issue on CHMF agenda for more than five years: lack of progress due to factors on both creditors' and debtors' side
 - Efforts so far: Paris Club comparability of treatment clause in agreements with HIPCs. & IMF World Bank sharing technical information with creditors & scoreboard
 - But granting debt relief high level political decision in creditor countries: CHMF's repeated calls for collective diplomatic initiatives, comprising Bretton Woods Institutions, key donors and HIPCs themselves & for donor assistance to cancel HIPC to HIPC debt.



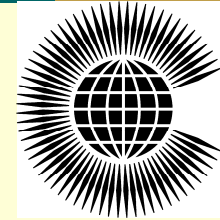
Implementation of the HIPC Initiative: *Four key issues*



- *Commercial Creditors & Litigation*
 - Growing cases of litigation & court judgments against HIPCs,
 - Although efforts to discourage litigation, little achieved
 - IMF/World Bank should not regard their proactive support for HIPCs in debt litigation as compromising their neutrality
 - CHMFs repeated calls for changes in the laws by governments of countries where commercial creditors reside to ensure HIPCs receive comparable debt relief



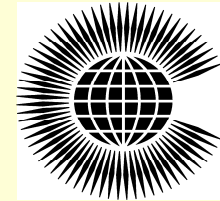
MDRI & Related IADB Initiative



- All 23 post-completion-point HIPCs qualified for MDRI & IADB initiative:
- **Two key issues:**
- Need for predictable & adequate financing:
 - Although IDA-15 & AfDF-11 replenishments' additional donor contributions to cover MDRI costs, need for predictable compensation over 40-50 years: revisiting proposal of up-front capital contribution equivalent to PV of debt servicing cancelled over period
 - cost of IADB FSO debt cancellation met internally & need for immediate negotiations for FSO replenishment
 - For IMF, original framework did not include 8 countries & need for additional funding: possible gold sales.



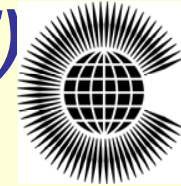
MDRI & Related IADB Initiative



- **Need for MDG-related allocation of MDRI induced compensatory finance**
 - IDA-15 and AfDF-11 simplified PBA formula, but did not give consideration to the CHMF proposal for allocating MDRI-induced donor compensatory finance with the objective of reaching the MDGs be weighted equally with country performance ratings. Need for revisiting
 - IDA/AFDF Fragile States Facilities will provide significant additional resources above those allocated by the PBA formula: ensure directed towards meeting MDG needs



Debt Sustainability Framework (DSF) and Non-Concessional Borrowing



● Annual DSAs

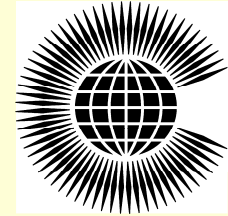
- available for majority of IDA-only countries,
- significant improvement in analytical rigour, and
- a clear process translating DSF-risk ratings into IDA traffic lights for grant/credit allocation.
- But need for greater awareness raising & country input

● **Key issue borrowing space does not lead to rapid re-accumulation of debt & undermine debt sustainability.**

- donors need to maintain the momentum to translate their Gleneagles aid targets into definite pledges and commitments to reduce pressure on non-concessional borrowing



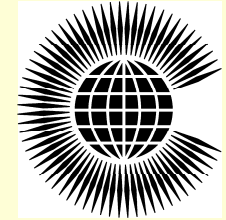
Debt Sustainability Framework & Non-Concessional Borrowing



- importance of DSF to assess whether non-concessional borrowing can be undertaken without undermining debt sustainability
 - Ghana & Uganda baseline & alternative scenarios include significant amount of non-concessional borrowing & demonstrate continuing low risk of debt distress
- IDA's (& AFDF's) Non-Concessional Borrowing Policy (NCBP):
 - includes disincentives where borrowing not transparent or unwarranted:
 - Hardened terms for Angola:
 - Limited use where IDA financing small relative to other sources



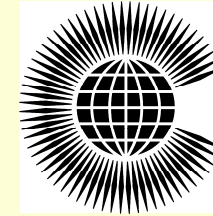
Debt Sustainability Framework & Non-Concessional Borrowing



- Critical importance of promoting greater outreach of DSF:
 - Multilaterals incorporating DSF
 - ongoing dialogue with OECD ECG & emerging creditors: sharing of technical information, but need for sound & sustainable lending practices by these creditors using DSF
- Country's own final responsibility for judicious borrowing
 - Need for greatly enhanced debt management capacity.
 - No systematic approach for international technical support
 - therefore World Bank proposal for a global partnership to strengthen debt and macroeconomic management in LICs:
 - CHMF's idea for its institutionalisation



Postscript



- World economy facing imminent slowdown amidst a global credit crunch: could have significant implications for commodity prices and aid & financial flows to low income countries
- Responses needed at several levels
 - Alternative DSAs need to integrate & emphasise possible impact of commodity & aid shocks
 - Careful fiscal & debt management by borrowing countries to ensure future debt sustainability
 - Need for donors not to retract from their aid pledges and commitments
 - Need for the IMF to use its Exogenous Shocks Facility (hitherto unused) flexibly as the global economic situation unfolds