DEVELOPMENT COMMITTEE
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of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

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HEAVILY INDEBTED POOR COUNTRIES (HIPC) INITIATIVE: STATUS OF IMPLEMENTATION

Attached for the September 22, 2003, Development Committee meeting is a paper entitled "Heavily Indebted Poor Countries (HIPC) Initiative: Status of Implementation" prepared by the staff of the World Bank and the International Monetary Fund. This item will be considered under Item IV(b) of the Provisional Agenda. Ministers are requested to comment on this subject in their prepared statements.

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INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

Heavily Indebted Poor Countries (HIPC) Initiative—Status of Implementation

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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AFESD	Arab Fund for Social and Economic Development
AMF	Arab Monetary Fund
AsDB	Asian Development Bank
BADEA	Arab Bank for Economic Development in Africa
BCEAO	Central Bank of West African States
BDEAC	Banque de Développement des États de l'Afrique Centrale (Central African States Development Bank)
BDEGL	Banque de Développement des États des Grand Lacs (Development Bank of Great Lake States)
BEAC	Banque des États de l'Afrique Centrale (Bank of Central African States)
BOAD	Banque Ouest Africaine de Developpement (West African Development Bank)
CABEI	Central American Bank for Economic Integration
CAF	Corporación Andina de Fomento
CAS	County Assistance Strategy
CDB	Caribbean Development Bank
CIRR	Commercial Interest Reference Rate
CMCF	Caricom Multilateral Clearing Facility
DRC	Democratic Republic of Congo
DSA	Debt Sustainability Analysis
EADB	East African Development Bank
ECOWAS	Economic Community of West African States
EIB	European Investment Bank
EU	European Union
EUR	Euro
FEGECE	Fonds d'Entraide et de Garantie des emprunts du Conseil del'Entente
FOCEM	Fondo Centroamericano de Estabilización Monetaria
FONPLATA	Fund for the Financial Development of the River Plate Basin
FSID	Fund for Solidarity and Economic Development
GDF	Global Development Finance
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country
IDB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
IsDB	Islamic Development Bank
MDB	Multilateral Development Bank
MTEF	Medium-Term Expenditure Framework
NPV	Net Present Value
OPEC	OPEC Fund for International Development
PTA	Eastern and Southern African Trade and Development Bank
PEM	Public Expenditure Management
PERs	Public Expenditure Reviews
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SDR	Special Drawing Rights
SMP	Staff Monitored Program
U.A.E.	United Arab Emirates
ZESCO	Zambian Electricity Supply Company
ZNCB	Zambia National Commercial Bank

Executive Summary

Progress in implementation. Twenty-seven heavily indebted poor countries (HIPCs) or more than two-thirds of the 38 countries that potentially qualify for assistance under the HIPC Initiative have reached the decision point, the most recent being the Democratic Republic of Congo in July 2003. In net present value (NPV) terms, these 27 countries account for 85 percent of the total expected relief for the 34 HIPCs for which data are available. Eight HIPCs have reached the completion point, the most recent being Mali and Benin in March 2003. The process of reaching the completion point has generally taken longer than earlier envisaged. Cost estimates for the 34 HIPCs are little changed from estimates from September 2002.

Reductions in debt and debt service and increases in poverty-reducing expenditures. As a result of HIPC relief, debt stocks for the 27 HIPCs that have reached the decision point are expected to decline by about two-thirds in NPV terms. Debt service-to-exports indicators have also been substantially reduced in most of these HIPCs. Savings from lower debt-service payments have contributed to a substantial increase in poverty-reducing expenditures.

Additionality. A key premise of the HIPC Initiative is that the debt relief provided should be additional to other forms of external financing assistance. Revised figures on debt relief and net aid flows appear to suggest that this has been the case.

Progress in implementing the Poverty Reduction and Growth Facility (PRGF). Despite the challenge of maintaining macroeconomic stability, 11 of the 19 countries currently in the period between the decision point and completion point (the interim period) have satisfactory performance records in their macroeconomic programs. Four countries could resume their PRGF-supported programs over the next few months; the remaining countries will need more time to begin the process of establishing an adequate performance record. Extended interruptions to PRGF program implementation and macroeconomic stability reflect many factors, with fiscal policy slippages, primarily expenditure overruns, the most common. Weak budget execution and poor policy implementation are often associated with limited institutional capacity, weak governance and deteriorating political and security conditions.

Progress in implementing Poverty Reduction Strategies. The requirement to satisfactorily implement a Poverty Reduction Strategy for one year will not, *in itself*, be a constraint to most interim-period HIPCs. Among HIPCs that have prepared full Poverty Reduction Strategy Papers (PRSPs), this requirement could only affect the timing of completion point in four cases.

Progress in implementing structural and social triggers. Social and structural completion point triggers have not been the proximate cause of delays so far but they could become so in the future. Most countries have made substantial progress with respect to these triggers, although in some cases additional progress will be needed.

Progress in reaching the decision point. Reaching the decision point remains a substantial challenge for the 11 potentially eligible HIPCs that have not done so. Most of these countries are affected by conflict and several have protracted arrears. A few of these countries could start

establishing a policy performance record before the sunset clause takes effect by the end of 2004, in order to reach the decision point.

Debt sustainability. The HIPC Initiative was intended to deal with the overall debt burden of heavily indebted low-income countries by removing their debt overhang, but it cannot ensure debt sustainability into the future. As the recent World Bank Operations Evaluation Department Review of the HIPC Initiative stressed, reductions in the debt stock through the Initiative were expected to contribute to a more comprehensive development effort but not to supplant it. The Bank and Fund, together with other development partners, have organized a series of workshops on debt sustainability in the context of achieving the Millennium Development Goals (MDGs) in low-income countries, including HIPCs. By the end of the year staff of the Bank and the Fund are to produce a paper for the Boards that will address the policy implications of debt sustainability and will reflect many of the conclusions reached in these workshops.

Governance. Good governance is essential to the success of the HIPC Initiative. The current HIPC framework is fully supportive of good governance policies and includes related conditions and indicators. The Initiative forms part of a broader effort by the international community to support improvements in governance in these countries.

Creditor participation. The commitment by Libya in September 2002 to participate in the Initiative and the decision by India in June 2003 to write off loans to HIPCs has improved the level of participation in the Initiative by non-Paris Club bilateral creditors. Participation by commercial creditors has been limited, although their share of the outstanding debt stock in the 34 HIPCs is small (less than five percent of the total). The small share of commercial debt partly reflects the fact that much of the value of commercial debt in HIPCs has been eliminated through the Debt Reduction Facility for IDA-only Countries.

I. INTRODUCTION

1. This report reviews implementation of the Heavily Indebted Poor Countries (HIPC) Initiative since the last report of September 2002.[1] In addition to updating the information on the delivery of HIPC debt relief and associated assistance, it updates the estimated costs of the HIPC Initiative and the status of creditor participation. It examines the key factors affecting the pace of implementation of the Initiative including specific impediments in countries that have experienced difficulties making progress towards reaching the decision and completion points. The report briefly examines the issues of governance, maintenance of long-term debt sustainability and the calculation of additional debt relief at the completion point, issues that are treated more fully in separate papers.[2]

2. The key objective of the HIPC Initiative is to deal comprehensively with the overall external debt burden of eligible countries by removing their debt overhang within a reasonable period of time and providing a base from which to achieve debt sustainability and exit the rescheduling cycle.[3] The framework of the Initiative also provides a way forward for HIPCs to effectively use the resources released from lower debt-service payments toward poverty-reducing expenditures. The scope of the objectives of the HIPC Initiative and the use of HIPC savings for poverty-reducing expenditures were part of the focus of a review by the World Bank Operations Evaluation Department which highlighted the achievements of the initiative and pointed out potential areas for improvement.[4] In line with these objectives, those HIPCs committed to achieving and maintaining macroeconomic stability, and pursuing reforms aimed at improving governance, stimulating growth, and reducing poverty can benefit from substantial debt relief. To this end, over US$31 billion of debt relief in NPV terms has been committed to date to 27 countries that have reached the decision point. In conjunction with other resource flows, social and poverty reduction expenditures have increased significantly in most HIPCs. Nevertheless, in terms of countries reaching decision and completion points, progress has been slower than that originally envisaged by the international community and by the country authorities themselves.

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[1] A six-monthly statistical update was also issued in March, 2003. See IMF and World Bank, "Heavily Indebted Poor Countries (HIPC) Initiative—Statistical Update," March 11, 2003, SM/03/91, SUP. 1, http://www.imf.org/external/np/hipc/doc.htm, and March 10, 2003, IDA/R2003-0042, http://www.worldbank.org/hipc.

[2] See IMF, "Debt Sustainability in Low-Income Countries—Towards a Forward Looking Strategy," May 28, 2003, SM/03/185, http://www.dse.de/ef/debts/index.htm.

[3] See IMF and World Bank, "Modifications to the Heavily Indebted Poor Countries (HIPC) Initiative," July 23, 1999, EBS/99/138, http://www.imf.org/external/np/hipc, and July 26, 1999, IDA/SecM99-475, http://www.worldbank.org/hipc.

[4] See World Bank, Operations Evaluation Department, "Debt Relief for the Poorest – An OED Review of the HIPC Initiative," February 24, 2003, http://www.worldbank.org/oed.

II. Progress in Implementation

Debt stocks in the 27 HIPCs that had reached the decision point by July 2003 are projected to decline by about two-thirds once they reach their respective completion points. HIPCs in the interim period have benefited from Paris Club debt relief as well as relief from several multilateral creditors under the HIPC Initiative. This relief lowered debt-service ratios immediately after the decision point. The data suggest that HIPC relief delivered since 1998 has been additional to other forms of external financing assistance. Since September 2002 two HIPCs have reached their completion points and one has reached the decision point.

A. Reduction in Debt Stocks and Debt Service

3. **Debt stocks in the 27 HIPCs that have reached the decision point are projected to decline by about two-thirds.** In 2002 NPV terms, such debt stocks are projected to fall from an estimated US$77 billion before traditional relief to US$32 billion after the full delivery of traditional debt relief and assistance under the HIPC Initiative, and to US$26 billion after the delivery of additional bilateral relief committed by several creditors (Figure 1).[5] Debt-stock reduction in the eight countries that reached their completion points averaged more than 60 percent in 2002 NPV terms (Figure 2).[6]

4. **The HIPC Initiative is projected to substantially lower debt indicators at the completion point to levels comparable to other developing and low-income countries** (Table 1).[7] The weighted average NPV of the debt-to-exports ratio for the 27 decision point countries is projected to decline from almost 300 percent before HIPC relief at the decision point to 128 percent by 2005 when most HIPCs are expected to have reached their completion points. The weighted average NPV of the debt-to-GDP ratio is projected to decline from 60 percent before HIPC relief at the decision point to 30 percent in 2005. These projected levels are close to those of other low-income countries. By 2001, the average debt-service-to-exports ratio for HIPCs had already fallen to below the corresponding ratio in other low-income countries.

5. **HIPC relief is projected to substantially lower the debt-service-to-exports ratio for most HIPCs that have reached the decision point.** HIPCs in the interim period benefit from Paris Club debt relief as well as interim relief from key multilateral creditors. The debt-service-

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[5] Traditional relief refers to Naples terms stock-of-debt operations, involving a 67 percent NPV reduction.

[6] The 2003 projections for the eight completion point countries are based on the assumption of full creditor participation. This assumption tends to overstate the achieved debt reduction, but financing assurances already obtained for these countries average approximately 90 percent of total required HIPC relief.

[7] The comparability of NPV statistics derived from Global Development Finance (GDF) data (on developing countries) and HIPC documents and staff estimates (on HIPCs) is limited by the use of different methodologies to account for debt relief and differences in debt coverage. Debt relief is reflected in the GDF database only when actual debt relief agreements are signed, whereas debt relief estimates in HIPC country documents are based on the assumption of full creditor participation in the HIPC Initiative. Furthermore, debt indicators for HIPCs cover only public and public-guaranteed debt whereas debt indicators for developing countries cover total public and private debt. GDF debt-service data typically overstate debt service because grants associated with HIPC relief were accounted for separately until 2001.

to-exports ratio for the 27 decision point countries declined from an average of 15.7 percent in 1998 and 1999 to 9.9 percent in 2002. Significant debt-service reductions occur before the completion point due to the provision of interim relief; indeed, in 2002 the debt-service-to-exports ratio was 9.9 percent on average for both the group of HIPCs in the interim-period and HIPCs that reached the completion point.[8]

Table 1. Debt Indicators for Developing Countries and HIPCs
(Percent, weighted averages)

	Developing Countries		HIPC Countries 1/			
	Developing countries average 2001 2/	Non-HIPC low-income countries 2001	Before enhanced HIPC relief 3/	Debt indicators for 2001	Debt indicators for 2002	After enhanced HIPC relief at the completion point
NPV of debt-to-exports ratio 4/	120	143	274	275	214	128 5/
NPV of debt-to-GDP ratio	38	39	61	65	50	30 5/
Debt service-to-exports 6/	19	15	16 7/	10	10	8 5/

Sources: Global Development Finance (GDF), World Bank 2003; HIPC country documents; and staff estimates.

Note: Figures represent weighted averages. Former SFR Yugoslavia, Liberia, Somalia, and Turkmenistan have been excluded because of incomplete data.

1/ HIPC countries refers to the 27 countries that had reached the decision point by the end of July 2003 under the enhanced HIPC Initiative.
2/ Developing countries comprise low- and middle-income countries according to the World Bank income classification.
3/ Debt stocks are after traditional Paris Club relief before the decision point. Data refer mostly to end-1998 and end-1999; for the Democratic Republic of Congo, data refer to end-June, 2002.
4/ Exports are defined as the three-year average exports of goods and services up to the dates specified.
5/ Data are for 2005. Since the Democratic Republic of Congo is expected to reach its completion point only in 2006, the NPV of debt after enhanced HIPC relief assumed committed unconditionally is used.
6/ Exports are defined as exports of goods and services in the current year.
7/ Average over 1998 and 1999.

6. **Poverty-reducing expenditures in the 27 countries that have reached the decision point were almost four times as great as debt-service payments in 2002** (Figure 3).[9] Annual debt service by the 27 decision point countries is projected to be about 30 percent lower during 2001-05 than in 1998 and 1999, freeing about US$1.0 billion in annual debt-service savings.

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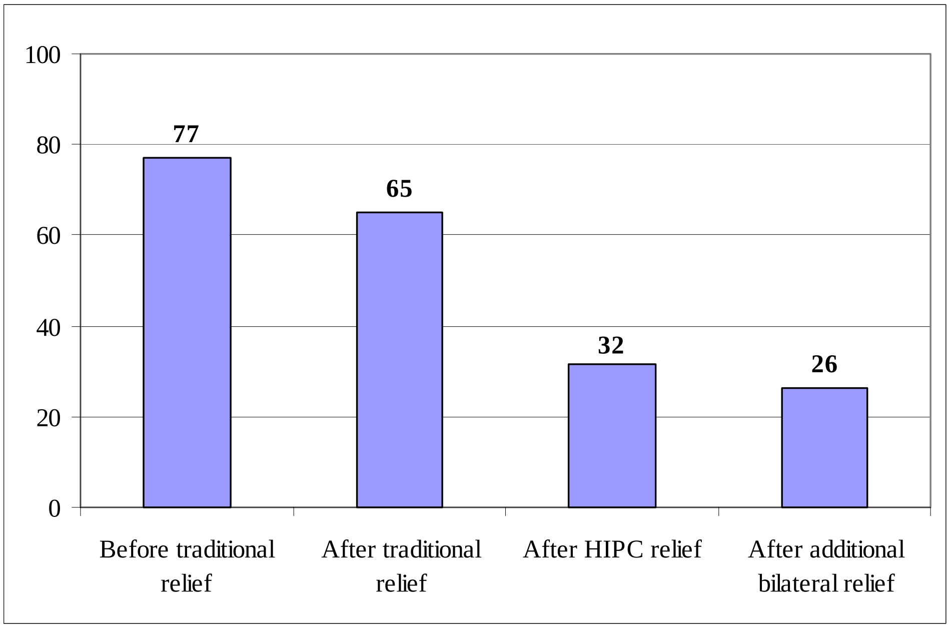
[8] An exception is the Democratic Republic of Congo, where debt-service ratios rise significantly after the enhanced decision point. The increase is partly due to the resumption of debt-service payments following the arrears clearance operation, as the Democratic Republic of Congo had not been servicing most of its debt in the previous period.

[9] The definition of poverty-reducing expenditures varies across countries although many countries include primary education and basic health as well as expenditures for rural development. Country-specific definitions are included in Appendix Table 5.

Poverty-reducing expenditures, meanwhile, increased from about US$6.1 billion in 1999 to US$8.4 billion in 2002 and are projected by staffs to increase to US$11.9 billion in 2005.[10]

Figure 1. NPV of Debt for the 27 Decision Point Countries
(In billions of U.S. dollars, in 2002 NPV terms)

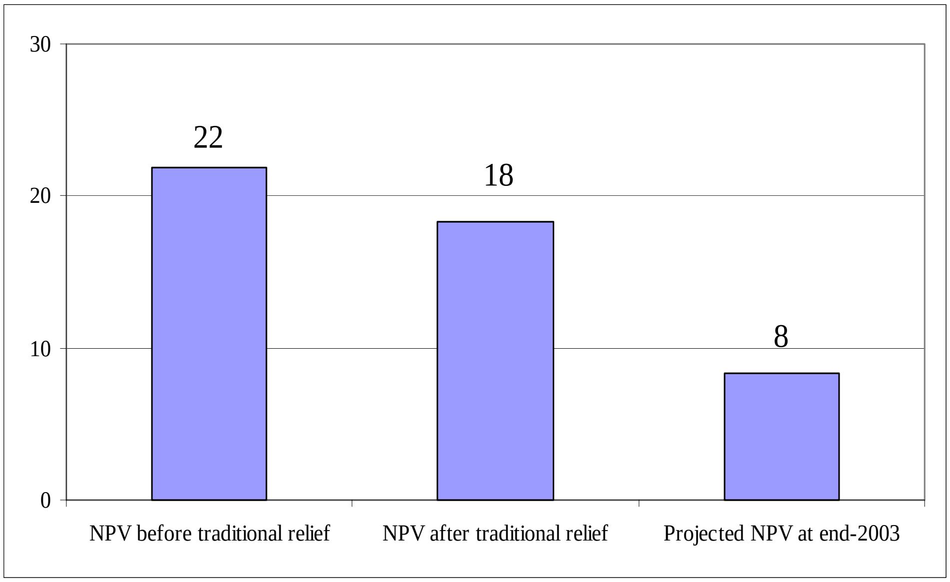


Source: HIPC Initiative country documents; and World Bank and IMF staff estimates.

[10] Country authorities are putting in place public expenditure management systems that would ensure the efficiency of poverty-reducing expenditures. See IMF and World Bank, "Actions to Strengthen the Tracking of Poverty Reducing Public Spending in Heavily Indebted Poor Countries (HIPCs)," March 22, 2002, SM/02/30 REV. 2, http://www.imf.org/external/np/hipc/doc.htm, and March 22, 2002, IDA SecM2002-30/2, http://www.worldbank.org/hipc.

Figure 2. NPV of Debt for the Countries that Reached the Completion Point by mid-2003

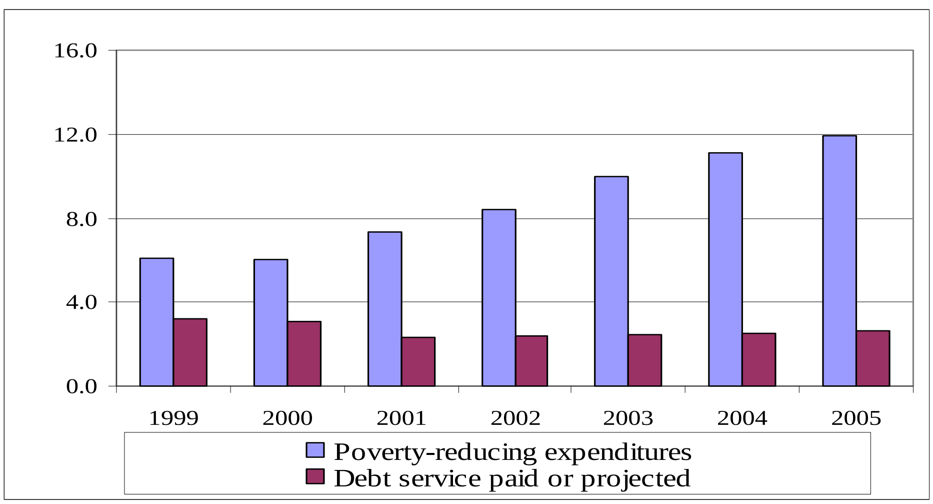
(In billions of U.S. dollars, in 2002 NPV terms)



Source: HIPC Initiative country documents; and World Bank and IMF staff estimates.

Figure 3. Poverty-Reducing Expenditures and External Debt Service in the 27 Decision Point Countries

(In billions of U.S. dollars)

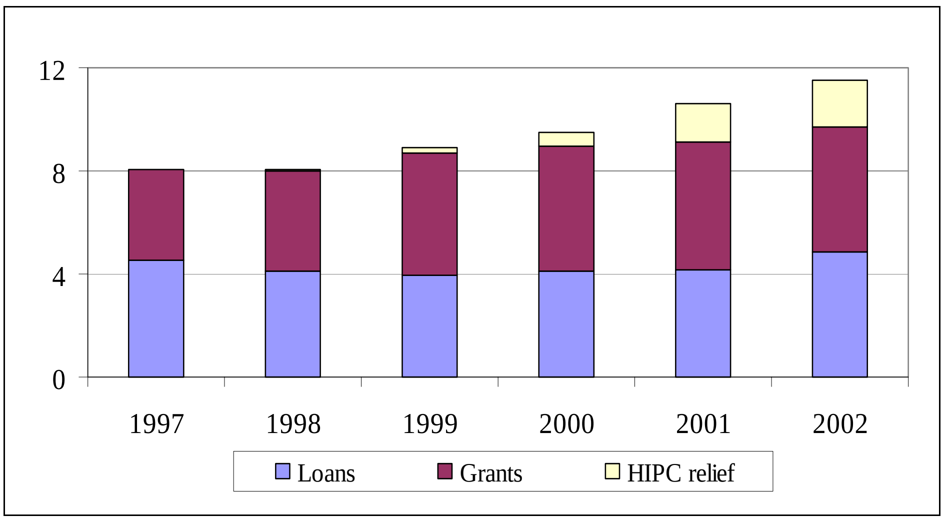


Source: HIPC documents and IMF staff estimates.

B. Resource Flows to HIPCs

7. **A key premise of the HIPC Initiative--that debt relief should be additional to other forms of external financing assistance--appears to be borne out by the facts.** For the 27 decision point countries, both gross and net flows increased during 1997–2002.[11] On a gross basis, official flows increased from about US$8 billion in 1997 to almost US$12 billion in 2002 with half of the increase due to HIPC relief (Figure 4). Net resource flows (i.e., difference between gross resource inflows and debt service payments) also increased substantially once the enhanced HIPC Initiative got under way (Figure 5). It should be noted however, that official external financing flows to the 27 decision point countries declined substantially in the mid-1990s (as they did to other low-income countries).[12] The recent increase in these flows restores external financing to levels of the early 1990s.[13]

Figure 4. Gross Flows of Official External Resources to the 27 Decision Point Countries
(In billions of U.S. dollars)



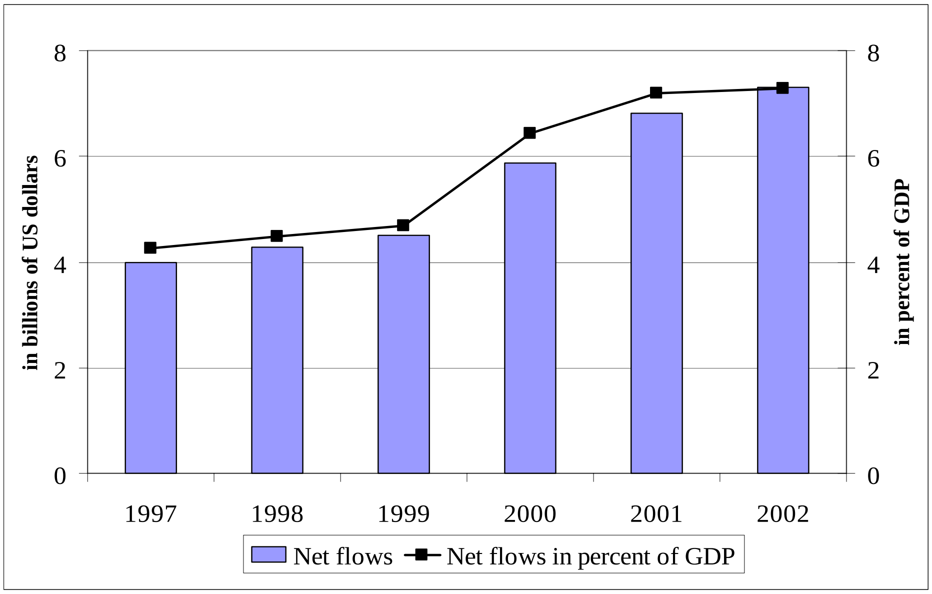
Source: HIPC documents and IMF staff estimates.

[11] Gross official resource flows are defined as the sum of all external loans and grants disbursed from official sources and HIPC debt relief provided by official creditors. Net official resource flows are defined as the difference between gross official resource flows and debt-service payments. Debt service payments and loan and grant disbursements are based on Balance of Payments data. HIPC debt relief is calculated as the difference between debt service due after traditional relief (obtained from HIPC documents) and debt service payments after HIPC relief. The World Bank Operations Evaluation Department also examines this issue. See World Bank Operations Evaluation Department, “Debt Relief for the Poorest,” op. cit.

[12] The decline in aid flows during this period is discussed in Global Development Finance (1999). Fiscal consolidation in many donor countries is identified as an important reason for the decline in aid budgets.

[13] For a discussion of recent developments in aid flows see Global Development Finance (2003).

Figure 5. Net Flows of Official External Resources to the 27 Decision Point Countries 1/



Source: HIPC documents and IMF staff estimates.

1/ Gross official resource flows are defined as the sum of all external loans and grants disbursed from official sources and debt relief provided by official creditors. Net official resource flows are defined as the difference between gross official resource flows and debt service payments.

8. **The overall increase in resource flows masks differences across countries and the important role that program and policy performance may have played in attracting official resources.** Average external financing flows in 2000–02 increased for most of the 27 decision point countries relative to average levels in 1997–99 but this was not the case in eight HIPCs. Five of these countries (Guinea-Bissau, Malawi, Nicaragua, São Tomé and Príncipe, and Senegal) went through protracted interruptions in their PRGF-supported programs, which dampened aid inflows. Two other countries (Mali and Mauritania) experienced delays in grant or loan disbursements. Rwanda benefited from very high inflows during the late 1990s, though they ebbed somewhat in the following years.

C. Implementation and Cost Update

9. **Since September 2002, Benin and Mali reached their completion points and the Democratic Republic of Congo (DRC) reached its decision point**. Côte d'Ivoire did not reach its decision point, as anticipated in September 2002, because of civil strife that began in September 2002 and continued into 2003. For similar reasons a preliminary document could not be completed for the Central African Republic. Looking ahead, Ethiopia, Guyana, Nicaragua, Niger, Rwanda, and Senegal could reach their completion points by the end of 2003 or early in 2004 and the Republic of Congo could have a preliminary document prepared in the next few months, barring unanticipated complications.

10. **The total cost of the HIPC Initiative for 34 HIPCs is estimated at US$39.4 billion in 2002 NPV terms.** This estimate does not include the costs for Liberia, Somalia, Sudan, or Lao PDR due to data problems and in some cases protracted arrears. In 2001 NPV terms, costs for the 34 countries are estimated at US$37.3 billion, little changed from the September 2002 estimate of US$37.2 billion.[14] Of the total cost in 2002 NPV terms, US$33.3 billion is associated with the 27 countries that have reached the decision point. These costs are about equally divided between bilateral and multilateral creditors. In nominal terms, these costs represent about US$51.1 billion in debt-service relief over time.

11. **Preliminary calculations suggest that including Sudan, Liberia, Somalia, and Lao PDR could increase the cost of HIPC relief by more than 25 percent or US$10.6 billion to US$50.0 billion in 2002 NPV terms.** Most of these additional costs are concentrated in Sudan. These estimates do not include Angola, Kenya, Vietnam, or Yemen, which are estimated to have debt ratios below the HIPC thresholds.

[14] The underlying assumptions and caveats are detailed in Annex I. The cost revisions are due to a change in the discount rate from 6.0 percent to 5.45 percent (to reflect the decline in world interest rates) and to new debt sustainability analyses for the Democratic Republic of Congo and Mali. The effect of the change in the discount rate on the cost estimate is small, having almost no effect on costs in 2001 NPV terms and reducing costs in 2002 NPV terms by approximately US$230 million. For the Democratic Republic of Congo the revisions resulted in an increase in HIPC debt relief costs of about US$170 million in 2001 NPV terms. Revisions to costs resulting from Mali's debt sustainability analysis were marginal.

12. **The cost of HIPC debt relief could increase by an estimated US$729 million because of topping up of HIPC assistance at the completion point.**[15] Under the enhanced HIPC Initiative, in exceptional cases consideration can be given to providing additional debt relief at the completion point beyond that committed at the decision point. Eligibility for additional relief at the completion point is determined on a case-by-case basis and may be applied in cases where countries suffer from an exogenous shock that leads to a fundamental change in the country's economic circumstances.[16] The fact that a country's debt burden exceeds the HIPC ratios at the completion point neither indicates eligibility for additional assistance nor the existence of serious debt sustainability problems. Current estimates suggest that 7 of the 19 interim period countries could have debt above the HIPC thresholds when they reach their completion points.

III. Challenges in Reaching Completion Points and Decision Points

Debt relief under the enhanced HIPC Initiative is provided on an irrevocable basis at the completion point after satisfactory completion of measures in three broad areas: maintaining macroeconomic stability, implementing a poverty reduction strategy developed through a broad participatory process, and implementing a pre-defined set of social and structural reforms. Delays in reaching the completion point have been attributed to the challenge of maintaining macroeconomic stability and preparing and implementing Poverty Reduction Strategies. Most countries that faced such challenges have either adopted the necessary policy changes or are making efforts toward doing so. Preparing fully participatory PRSPs has taken longer than expected, but 15 of the 19 countries in the interim period have finalized them and will likely not be constrained by the one-year satisfactory implementation requirement from reaching the completion point in 2004. Good progress has been made in satisfying social and structural triggers. Although these triggers have not been the proximate cause of delays so far, they could cause delays in some countries in the future. Although the process of reaching the completion point has taken longer than anticipated and challenges remain in reaching the decision point, existing standards for policy performance are being maintained to ensure that the Initiative's objectives are reached.[17]

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[15] Updated projections for the nineteen HIPCs between the enhanced HIPC decision and completion points suggest that the possible NPV of external debt above the HIPC thresholds at the completion point after assuming full delivery of HIPC relief and additional bilateral assistance would stand at US$729 million. These cost estimates are very sensitive to changes in discount rate and exchange rate assumptions.

[16] HIPCs can be considered for topping up if either their NPV debt-to-export ratio is greater than 150 percent or, if they qualified as a fiscal case at the decision point, their NPV debt-to-fiscal revenues ratio is greater than 250 percent. See IMF and World Bank, "The Enhanced HIPC Initiative-Completion Point Considerations," August 21, 2001, EBS/01/141, http://www.imf.org/external/np/hipc, and September 10, 2001, IDA/R2001-152, http://www.worldbank.org/hipc. Also see IMF "Update on the Financing of PRGF and HIPC Operations and the Subsidization of Post-Conflict Emergency Assistance," March 20, 2003 SM/03/100, http://www.imf.org/external/np/hipc.

[17] This is consistent with the recommendation of the World Bank Operations Evaluation Department review which suggested maintaining standards for policy performance, and when the established criteria are to be relaxed, the rationale for doing so should be clear and transparent to ensure that Initiative's objectives are reached. See World Bank, Operations Evaluation Department, "Debt Relief for the Poorest" op. cit.

A. Challenges in Reaching Completion Points

Achieving Macroeconomic Stability

13. **Macroeconomic stability is necessary for underpinning sustainable growth and poverty reduction.** The HIPC Initiative requires countries to have established a track record for macroeconomic performance and that appropriate macroeconomic polices be in place at the time of the completion point. As of the end of July 2003, more than half of the countries in the interim period—including the Democratic Republic of Congo, which reached the decision point in July 2003—were satisfactorily implementing their macroeconomic programs, despite challenging global economic environment (Table 2). The remaining countries have either recently experienced problems in program implementation (Cameroon, The Gambia, Guinea, and Zambia) or do not have an IMF-supported program in place after protracted delays in establishing a satisfactory record of performance (Guinea-Bissau, Honduras, Malawi, and São Tomé and Príncipe).

14. **Maintaining macroeconomic stability has been a challenge for HIPCs during the interim period and several countries have put corrective policies in place** (Table 2).[18] Most of the HIPCs in the interim-period that experienced problems in maintaining a satisfactory track record of macroeconomic performance have had difficulties implementing fiscal policy. Some have also had difficulty implementing key structural reforms (e.g., banking sector reforms in Ethiopia, public sector reforms in Guyana, and privatization in Zambia) (Table 3). Of the eight countries that had program interruptions of less than a year, Ghana, Ethiopia, Madagascar and Rwanda were able to implement corrective measures that facilitated program continuation and Cameroon, The Gambia, Guinea and Zambia are currently making efforts to implement measures that would allow them to do so. Among the seven countries that experienced interruptions of more than one year, Nicaragua and Senegal made intensified efforts to reduce their fiscal deficits and move forward on agriculture and other structural reforms, leading to approval of new PRGF-supported programs. In Guyana, the authorities are currently implementing measures to contain the public sector wage bill and restructure the sugar and bauxite sectors, measures that may pave the way for reaching the completion point.

15. **Currently four interim-period HIPCs remain with protracted program interruptions.** Guinea-Bissau, Honduras, Malawi, and São Tomé and Príncipe have experienced severe difficulties in implementing their economic reform programs since reaching their decision points and currently face serious challenges in the areas of public resource management, governance, and in some cases, structural reforms (Table 3). Discussions of policies needed to establish a track record have failed in Guinea-Bissau due to changes in government. Regarding São Tomé and Príncipe discussions on a new three-year PRGF-supported program had been hampered by political tensions that culminated in an attempted coup d'état in July 2003. In Malawi the authorities have embarked on a strategy to strengthen public expenditure

[18] The assessment in this section excludes the Democratic Republic of Congo, which recently reached the decision point.

management. In Honduras the authorities are in the process of developing a program for fiscal sustainability based on a social pact with political parties, unions and the private sector.

Table 2. HIPCs in the Interim Period:
Policy Performance Under PRGF-Supported Programs Since the Decision Point 1/
(As of end-July 2003)

No Interruption	Interruptions of less than 6 months	Interruptions of between 6 and 12 months	Interruptions of between 1 and 2 years	Interruptions of more than 2 years
Chad	Cameroon 2/	The Gambia 7/	***Guyana*** *10/*	Guinea-Bissau 15/
Congo, Dem. Rep	***Ethiopia*** 3/	Guinea 8/	Honduras 11/	Malawi 16/
Niger	***Ghana*** *4/*	***Madagascar*** *9/*	***Nicaragua*** *12/*	
Sierra Leone	***Rwanda*** *5/*		São Tomé and Príncipe 13/	
	Zambia 6/		***Senegal*** 14/	

Source: IMF country documents.

Note. Countries shown in italics have been currently satisfactorily implementing their macroeconomic programs

1/ Interruptions of policy performance under PRGF-supported programs are defined as the period starting from the sixth month following the completion of a semi-annual program review or approval of a new PRGF arrangement by the Fund's Executive Board to the time when a PRGF program review is completed or a new PRGF arrangement is approved.
2/ The fourth review of the 2000/03 PRGF arrangement was delayed from March 2003.
3/ The 2001/04 PRGF program review was delayed from March to August 2003.
4/ The 1999/02 PRGF arrangement expired in November 2002 without completion of the final review. A new PRGF arrangement was approved in May 2003.
5/ The 1998/02 PRGF arrangement expired in April 2002 without completion of the final review. A new PRGF arrangement was approved in August 2002.
6/ The 1999/03 PRGF arrangement expired in March 2003 without completion of the final review. A new PRGF arrangement has not yet been established as of July 2003.
7/ The first review of the PRGF arrangement approved in July 2002 was delayed.
8/ The 2001/04 PRGF arrangement has been off track since December 2002.
9/ A political crisis in late 2001 led to an interruption of the 2001 PRGF supported program until December 2002.
10/ In early 2001, slippages in fiscal and structural policies led to interruption in the 1998/01 PRGF arrangement. A new PRGF arrangement was approved in September 2002 but the first review has been delayed owing to slow implementation of agreed structural reform actions. Most prior actions for the review have been completed and the remainder is expected to be completed shortly.
11/ The 1999/02 PRGF program has been interrupted twice. There was a 14-month lapse between the second and third reviews in June 2000 and October 2001. The PRGF expired at end 2002 and discussions are underway on a successor arrangement.
12/ The 1998/02 PRGF arrangement went off track in early 2001. Successive SMPs were implemented eventually leading to a new PRGF arrangement in December 2002.
13/ The 2000/03 PRGF arrangement went off track at end 2001.
14/ The 1998/02 PRGF arrangement expired in April 2002 without completion of the final review. A new PRGF arrangement was approved in April 2003.
15/ The 2000/03 PRGF arrangement has been off track since early 2001.
16/ The 2000/03 PRGF arrangement has been off track since early 2001.

16. **Extended interruptions to PRGF program implementation and macroeconomic stability reflected a confluence of factors** (Table 3 and Box 1). Fiscal policy slippages have been the most common, generally stemming from overruns in the public sector wage bill, military expenditures, and other non-priority public spending often exacerbated by tax revenue shortfalls. Weak budget execution is often attributed to limited institutional capacity and adverse exogenous developments.[19] Poor policy implementation also seems to have been associated with weak governance (e.g., large errors and omissions in the fiscal accounts of Guinea-Bissau and problems related to oil sector contracts in São Tomé and Príncipe) and political events (e.g., disruption of economic activity in Madagascar following a contested presidential election) or worsening political and security conditions that made it difficult to implement macroeconomic policies and structural reforms. Recently, difficult domestic political choices in São Tomé and Príncipe were compounded by an attempted coup d'état. Discussions have been underway to establish new PRGF arrangements with Honduras and São Tomé and Príncipe and to conclude the first PRGF review with Malawi.

[19] For a recent analysis of the impact of natural disasters and other shocks to export prices of low-income countries, see IMF, "Fund Assistance for Countries Facing Exogenous Shocks," SM/03/288, August 11, 2003. Adjustment mechanisms are typically built into PRGF-supported programs and program targets to accommodate exogenous shocks.

Table 3. HIPCS in the Interim Period: Key Factors Affecting Policy Performance in Countries That Have Had Delays in the Implementation of PRGF Programs (As of end-July 2003)

	Macroeconomic Policies	Structural Reforms (incl. on governance)	Political/Security Factors	Exogenous Shocks
Countries with interruptions/delays in PRGF-supported programs of less than six months				
Cameroon	Difficulties in reconciling fiscal data provided by the Ministry of Finance and the Central Bank and weak tax revenue performance in 2003.			
Ghana	Expenditure overruns in part due to significant increase in wage bill; shortfall in tax revenue			
Rwanda	Expenditure overruns in the wage bill and a shortfall in tax revenue			
Ethiopia		The completion of the financial audit of the Commercial Bank of Ethiopia was delayed		Terms of trade deteriorated resulting from lower export prices for coffee and major crop failure due to drought
Zambia	Expenditure overruns in the wage bill	Delays in implementation of measures to divest Zambia National Commercial Bank	Exports adversely affected by political turmoil in regional trading partners	Low agricultural output in 2002 because of poor and uneven rainfall
Countries with interruptions/delays in PRGF-supported programs of between six and twelve months				
The Gambia	Expenditure overruns due to debt service payments and revenue shortfalls related to weak tax administration. Monetary expansion with credit growth far in excess of targets		Border closures with Senegal that impeded transit trade and higher petroleum prices	Major crop failure due to delayed rains.
Guinea	Expenditure overruns due to defense and election spending as well as weak budgetary management		Security situation along borders deteriorated	
Madagascar			Prolonged political crisis in 2002 had substantial adverse economic effects and delayed the second review	
Countries with interruptions/delays in PRGF-supported programs of between one and two years				
Guyana	Expenditure overruns in wage bill and shortfall in tax revenue	Delays in public sector reform, tax system reforms, restructuring of the state-owned bauxite and sugar companies	Domestic security situation deteriorated in 2002 and political instability adversely affected the decision-making process	
Honduras	Expenditure overruns in the wage bill and a shortfall in tax revenue	Delays in implementation of civil service reform and reform of the electricity sector		Hurricane Mitch in 1998 and later a significant decline in coffee prices and slow down in the U.S. economy
Nicaragua	Public sector deficit substantially exceeded targets in 2001 due to weak taxpayer compliance and increases in expenditure prior to the elections. Monetary expansion with credit growth far in excess of targets	Delays in the privatization of the telecommunications company and electricity generation plants.	Commitments beyond 2002 were not possible because of imminent Presidential elections	Hurricane Mitch in 1998 and later a terms of trade shock—significant decline in coffee prices and higher oil prices
São Tomé and Príncipe	Expenditure overruns in the civil service wage bill, utility and election costs	Governance issues related to oil-sector contracts, and delays in the reform measures for the utility sector and the civil service		
Senegal	Weak public finances due to problems with the operations of the state-owned electricity and groundnut enterprises	Delays in reforms in the pension system and the groundnut sector		Low agricultural output in 2002 because of poor and uneven rainfall
Countries with interruptions/delays in PRGF-supported programs of more than two years				
Guinea–Bissau	Fiscal policy slippage—loss of budgetary control in 2000, due to expenditure overruns largely on defense spending. Monetary expansion with credit growth far in excess of targets	Large errors and omissions in budget execution; measures to address weaknesses in public resource management were not observed	Transition after 1999 civil conflict has been difficult. Parliament dissolved since 11/02—adversely affects the decision-making process	30 percent decline in cashew nut prices in 2001
Malawi	Expenditure overruns related to the bail out of parastatals, increased wage bill and reduced income taxes	Delays in the implementation of public sector reform and privatization		Food crises because of uneven rainfall, drought and floods. Terms of trade deteriorated due to lower export prices

Source: IMF country documents.

Box 1. Some Cases of Interim Period Countries with Current and Extended Interruptions of Policy Track Records

Guinea Bissau. Guinea-Bissau's PRGF-supported program went substantially off-track soon after approval in December 2000. The reasons included a loss of budgetary control and large unauthorized expenditures equivalent to about 10 percent of GDP (mainly on defense) that were partly financed by credit from the banking system. By end-June 2001, the primary deficit was 3.5 percent of GDP higher than targeted and domestic arrears had increased by 2 percent of GDP. Moreover, measures to address weaknesses in financial administration were not implemented. In 2002, economic activity declined by more than 4 percent, adversely affecting the fiscal situation. Revenue declined 20 percent and there was a build-up in arrears. Efforts to revive the PRGF-supported program ceased in September 2002 despite attempts to institute corrective measures through two short-term macroeconomic programs in 2001 and 2002. Since then, discussions have ensued on an extended staff monitored program for 2003. These discussions were not completed because of the dissolution of parliament and the dismissal of the Government in November 2002. A caretaker government has been appointed until Parliamentary elections have been held which have been thrice delayed and now are expected by October 2003.

Honduras. Honduras's economic reform program has been off-track since end-2001 owing to weak fiscal policy implementation, primarily due to an overrun in the wage bill coupled with tax revenue shortfalls, and slow civil service reforms. Lower tax collections reflected weaknesses in tax and customs administration whilst wage increases granted to teachers and health workers contributed to the substantial growth in the wage bill to 10.7 percent of GDP, beyond the 9.3 percent of GDP specified in the PRGF-supported program. Progress on civil service reform, a key structural reform measure since October 2000 was slow, and legislation presented to congress at end-2001 did not meet the conditions envisaged in the program for strengthening the government's wage policy. The PRGF-supported program expired at end-2002. The authorities intend to develop a strategy to achieve fiscal sustainability on the basis of a social pact with political parties, labor unions, the private sector and civil society.

Malawi. Malawi's PRGF-supported program, approved in December 2000, went off track in 2001 before the conclusion of the first review because of increasing fiscal imbalances mostly from policy decisions to support loss-making parastatals, augment civil servants' wages, increase other low-priority public spending, such as travel and representation, and reduce income taxes. The slippages were also exacerbated by a rising interest bill and weak revenue collections. Remedial fiscal measures proposed to reduce expenditure and enhance revenue through the remainder of 2001/02 were not implemented and resulted in a further deterioration in the fiscal situation. Program targets for the domestic budget deficit were exceeded by 3.5 percent and 7 percent of GDP in 2000/01 and 2001/02, respectively. The authorities have embarked on a strategy of measures to strengthen public expenditure management and a budget for 2003/04 consistent with the macroeconomic framework and reform agenda.

São Tomé and Príncipe. São Tomé and Príncipe's PRGF-supported program, approved in April 2000, went off track during 2001 because of poor governance in public resource management, delays in implementing structural reforms including much needed reforms of the civil service and the utilities sector, and governance problems in the oil sector. Strong revenue mobilization was offset by expenditure overruns related to wage increases, payment of an oil sector contract and extra budgetary expenditures and resulted in a primary budget deficit of 3.0 percent of GDP in 2001 compared to the targeted surplus of 2.7 percent of GDP. Monetary targets (for net domestic assets and net international reserve targets) were not observed. Implementation of the subsequent IMF staff monitored program during the first half of 2002 was disappointing, as key program targets for end-June 2002 were not observed. There were spending overruns owing to trade union wage demands, higher energy and utility costs and the legislative elections of March 2002. The staff monitored program was extended through end-December 2002 leading to the reestablishment of a broadly satisfactory track record of policy implementation. This laid the basis for discussions on an economic program that could be supported by a PRGF arrangement. The understandings that were reached with staff on a new PRGF-supported program in early July 2003 will need to be reassessed in light of the attempted coup d'état of July 16, 2003.

Source: IMF country documents.

17. **The HIPC Initiative has built in flexibility to prevent protracted delays in macroeconomic programs impeding countries from reaching the completion point**. In cases where a review under a PRGF–supported program is delayed or the PRGF-supported program is otherwise interrupted for a period of less than six months, the completion point could be reached at the same time that the PRGF review is completed or a new PRGF arrangement is approved. In the case of a delay or interruption of a PRGF-supported program of more than six months, the country is required to establish an uninterrupted track record of satisfactory performance for at least six months immediately before the completion point.[20] Where PRGF programs have either lapsed or been discontinued, IMF staff have sought to work with the respective country authorities to implement Staff Monitored Programs that would facilitate the resumption of financial support from the international community. In principle therefore countries with protracted interruptions in their macroeconomic programs could be back on track within a short period of time and reach the completion point provided other conditions are met.

Implementing Poverty Reduction Strategies

18. **The requirement to satisfactorily implement a PRSP for one year will not, *in itself*, be a constraint to most HIPCs in the interim period.**[21] Among HIPCs that have prepared PRSPs, the implementation requirement could affect the timing of the completion point in only four cases. At the end of July 2003, only four interim period HIPCs (the Democratic Republic of Congo, Guinea-Bissau, São Tomé and Príncipe, and Sierra Leone), some of which faced serious internal political constraints, had yet to complete a full PRSP. Sierra Leone reached its decision point only in 2002; preparations for the completion of a PRSP are underway there. The Democratic Republic of Congo reached its decision point only in July 2003. Of the 15 HIPCs in the interim period that had completed PRSPs, 11 had implemented their PRSPs for more than one year.

19. **In most HIPCs, preparation of PRSPs through a broad participatory process has taken longer than initially anticipated.** Most countries had expected to adopt full PRSPs within a year of adoption of the Interim Poverty Reduction Strategy Papers (I-PRSPs). The actual time between the I-PRSP and the full PRSP has averaged 1½ to 2 years for HIPCs in the interim

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[20] See IMF and World Bank, "Heavily Indebted Poor Countries (HIPC) Initiative: Status of Implementation," March 25, 2002, SM/02/94, http://www.imf.org/external/np/hipc/doc.htm, and March 22, 2002, IDA/SecM2002-0155, http://www.worldbank.org/hipc.

[21] Floating completion point triggers require the satisfactory implementation of the PRSP for at least one year. This requirement ensures the PRSP's integration with the macroeconomic framework and the effective spending of debt relief. The framework does provide that those countries indicated as retroactive cases do not have the one-year satisfactory implementation requirement. See IMF and World Bank, "Heavily Indebted Poor Countries (HIPC) Initiative—Strengthening the Link between Debt Relief and Poverty Reduction," August 26, 1999, EBS/99/168; SUP. 1, http://www.imf.org/external/np/hipc/doc.htm, and August 26, 1999, IDA/SecM99-545, http://www.worldbank.org/hipc.

period (Table 4). A lesson that has emerged from PRSP reviews is that initial timetables were overly ambitious.[22]

Table 4. HIPCs in the Interim Period:
Time Taken from Interim PRSP to Full PRSP 1/

Full PRSP Prepared (1 to 1½ years)	Full PRSP Prepared (1½ years to 2 years)	Full PRSP Prepared (More than 2 years)	Full PRSP Not Yet Prepared
The Gambia	Ethiopia	Cameroon	Congo, Dem. Rep. of
Guinea	Malawi	Chad	Guinea-Bissau
Guyana	Senegal	Ghana	São Tomé and Príncipe
Honduras	Zambia	Madagascar	Sierra Leone
Nicaragua		Rwanda	
Niger			

Source: IMF country documents.

1/ Time taken is calculated on the basis of submission of a full PRSP to the Bank and the Fund relative to the adoption of the Interim PRSP.

20. **PRSP preparation status reports provide some explanations for the delays.** Fully engaging all stakeholders in a participatory process, collecting and analyzing data, establishing priority objectives and sectoral strategies and undertake their costings have taken longer than expected. Difficulties in establishing public expenditure management systems and transparent mechanisms for monitoring the spending of debt relief, as well as the lack of institutional and human resource capacity have constrained the timely preparation of PRSPs in several countries in the interim period (Table 5).

21. **Delays in PRSP preparation have been accompanied by improved country ownership and quality of the PRSP process.** These developments have been consistent with prevailing views since the launching of the PRSP approach. Authorities and stakeholders in HIPCs and the international community have emphasized the importance of country ownership and the quality of the PRSP process. The Boards of both the Fund and the Bank as well as development partners have stressed that ownership and quality should not be sacrificed for speed in reaching the completion point. Bank and Fund staff have been working with others to alleviate

[22] See IMF and World Bank "Review of the Poverty Reduction Strategy Paper Approach: Early Experience with I-PRSPs and Full PRSPs," March 27, 2002, SM/02/54, REV. 1, http://www.imf.org/external/np/hipc/doc.htm, and March 26, 2002, IDA/SecM2002-174, http://www.worldbank.org/poverty/strategies; and, "Poverty Reduction Strategy Papers—Progress in Implementation," August 8, 2003, SM/03/279, August 14, 2003, IDA/SecM2003-0468.

Table 5: HIPCs in the Interim Period:
Some Factors Delaying PRSP Preparation

Participatory Process	Data Collection and Monitoring	Public Expenditure Management 1/	Costing and Prioritizing	Other
Cameroon	Chad	The Gambia	The Gambia	Cameroon 2/
Chad	Cameroon	Ghana	Ghana	Madagascar 3/
Ghana	The Gambia	Malawi	Madagascar	Sierra Leone 4/
Malawi	Guinea	Madagascar		Zambia 5/
Senegal	Guyana	Senegal		
Sierra Leone	Rwanda			
Zambia	Zambia			

Source: PRSP Preparation Status - Country Reports. Excludes The Democratic Republic of Congo.

1/ Includes improving PERs, MTEFs, budget transparency and HIPC relief tracking systems.
2/ Needed more time to prepare the medium to long-term macroeconomic framework.
3/ Change of government.
4/ Shortage of financial and lack of human resource and technical capacity.
5/ Lack of human resource and technical capacity.

constraints facing countries in PRSP design and implementation. Recent PRSPs reveal a greater focus on improving the realism of economic growth projections and the macroeconomic frameworks underpinning PRSPs.[23] PRSP preparation status reports have helped identify bottlenecks and the need for technical assistance. More generally, PRSPs have increased the focus on public expenditure management although progress in this area remains a challenge.[24]

22. **Looking ahead, a number of countries are well placed to reach their completion points in 2003 or early 2004.** In terms of meeting the conditions related to macroeconomic stability and the one-year satisfactory implementation of a PRSP, twelve countries are either pursuing or making efforts to continue the implementation of IMF–supported macroeconomic programs (Table 6). If these efforts succeed and the countries remain on track, reaching the completion point in either 2003 or early 2004 would be possible provided two other conditions are met: the Joint Staff Assessments report has been discussed at the Boards of the Bank and the Fund, and the countries successfully complete the predefined social and structural conditions. Progress toward implementing the predefined social and structural conditions is discussed further below.

[23] See IMF and World Bank, “Poverty Reduction Strategy Papers—Progress in Implementation,” op. cit.

[24] See IMF and World Bank, “Actions to Strengthen the Tracking of Poverty Reducing Spending in HIPCs,” March 22, 2002, SM/02/30, REV. 2, http://www.imf.org/external/np/hipc/doc.htm, and March 20, 2002, IDA/SecM2002-30/2, http://www.worldbank.org/hipc.

Table 6. HIPCs in the Interim Period:
Status of Macroeconomic Policies and PRSP Preparation
(As of July 2003)

Countries On Track With Macroeconomic Policies		Countries With Macroeconomic Policies Off Track	
PRSP Finalized	***Date Plus One Year 1/***		PRSP Finalized in:
Cameroon	Apr-04	Guinea	Jan-03
Chad	Jun-04	Honduras	Aug-01
Ghana	Feb-04	Malawi	Apr-02
Madagascar	Jul-04		
Ethiopia	Jul-03		
Gambia, The	Apr-03		
Guyana	Nov-02		
Nicaragua	Jul-02		
Niger	Jan-03		
Rwanda	May-03		
Senegal 2/	Mar-03		
Zambia	Mar-03		
PRSP Not Finalized			
Sierra Leone		Guinea-Bissau	
Democratic Republic of Congo		São Tomé and Príncipe	

Source: IMF Staff estimates.

1/ Date is one year after the submission of the full PRSP. In addition, the Joint Staff Assessments would need to be approved by the Boards of the Bank and Fund.

2/ Senegal is a retroactive case, not subject to the one-year satisfactory implementation requirement.

Satisfying Social and Structural Completion Point Triggers

23. **Social and structural completion point triggers support pro-poor growth and poverty alleviation including a reorientation of public expenditures.** One aim of these triggers is to ensure the effectiveness of debt relief through the establishment and strengthening of implementing agencies and public expenditure monitoring mechanisms. Another aim is to ensure the use of savings resulting from HIPC debt relief is used to finance expenditures supporting poverty reduction and growth.[25] These measures are aligned with the framework of the I-PRSP and pre-defined at the decision point. Policy measures have been supported in the areas of governance, public expenditure management, fiscal transparency, financial restructuring and privatization, health (including HIV/AIDS) and education, and rural and agricultural reform. In some HIPCs, development of a system for the tracking expenditures has also been required.

24. **The enhanced Initiative provides flexibility in applying these triggers**.[26] The Executive Boards of the Fund and the Bank make judgments at the completion point as to whether progress on individual triggers is sufficiently satisfactory to indicate that the trigger has been met. In addition, the Board of the Bank can take a broad view of progress across triggers to reach overall conclusions of whether they have been met; the Board of the Fund can grant waivers as necessary where a particular condition has not been met or has been superceded by events, when the thrust of the overall performance is satisfactory.[27]

25. **Progress in meeting these triggers varies across countries during the interim period.** Although lack of satisfactory progress in meeting these triggers has not been the proximate cause for delay in reaching completion points, implementation has generally been slower than envisaged. In many cases, progress is broadly satisfactory. In eight countries (Ethiopia, Ghana, Guinea, Honduras, Malawi, Rwanda, São Tomé and Príncipe, and Sierra Leone), progress in meeting the structural and social completion point triggers is generally satisfactory or good, although a final determination can be made only at the time of the completion point. In the remaining 11 HIPCs in the interim period no consistent pattern of performance emerges—performance may be strong in several areas but not in others. In many cases, within specific sectors such as health and education, performance on most triggers has been satisfactory but one or more triggers may not have been met or insufficient information is available to make a determination (see Box 2). Difficulties with key triggers could prove to be obstacles to reaching the completion point in the future though they have not been in the past.

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[25] In this context, the review by the World Bank's Operations Evaluation Department highlighted the importance of focusing on pro-poor growth and balancing such development priorities relative to social expenditures. See World Bank, Operations Evaluation Department, "Debt Relief for the Poorest," op. cit.

[26] See IMF and World Bank, "Modifications to the Heavily Indebted Poor Countries (HIPC) Initiative," July 23, 1999, EBS/99/138, http://www.imf.org/external/hp/hipc, and July 26, 1999, IDA/SecM99-475, http://www.worldbank.org/hipc.

[27] To date the Fund Board has granted waivers to Mauritania and Tanzania.

Box 2: Examples of Structural and Social Completion Point Triggers

Chad: Progress on meeting conditions in the areas of governance, health (including HIV/AIDS), education, and rural infrastructure has been uneven, with continuous deterioration of some indicators in the health sector. Overall, most indicators in the social sectors and in rural development remain far from the target. This could delay the completion point. Corrective actions are being planned within the framework of the preparation of the 2004 program budgets.

Ghana: Triggers have been met in the areas of education and local-government service bill. Progress has also been made toward meeting triggers in the use of budgetary savings, procurement reform, installation of a computer-based financial management system, and electricity and petroleum pricing. Corrective measures will need to be discussed for five pending conditions: (i) full staffing of internal audit functions, (ii) monthly publishing in the government gazette of reports on cash expenditures and commitments by ministry departments and agencies, (iii) development of a district composite budget, (iv) expanding rural water coverage to 46 percent, and (v) raising recurrent health expenditures at district and lower-level governments to 45 percent of the total health budget.

Niger: Most of the completion point triggers in the areas of governance, education, and health have been met. Corrective measures will need to be discussed for five pending conditions: (i) evaluating the impact of public spending on the poor in the health sector; (ii) the completion of a report on impediments to primary school enrollment; (iii) limiting grade 6 repetition rate to at most 15 percent; (iv) adopting a plan to improve the availability of essential drugs in rural health centers; and (v) increasing national immunization rates of children aged 12–24 months for DPT3 to 40 percent. An evaluation of the impact of public spending on the poor also remains to be done.

B. Challenges in Reaching Decision Points

26. **Domestic conflict is a dominant factor in most HIPCs yet to reach the decision point**. In most of these countries, continuing domestic conflict or unsettled transitions from post-conflict situations have hampered effective policy implementation and institution building. Last year a socio-political crisis interrupted progress toward reaching the decision point in Côte d’Ivoire. Preparation of a preliminary HIPC document was derailed in the Central African Republic by a resurgence of domestic conflict. Elsewhere, a lack of political consensus on important issues such as revenue sharing (Comoros) or lack of effective implementation of economic and financial policies has been a key impediment in reaching the decision point.

27. **In several countries, a period of stabilization has been followed by renewed conflict.** As a result, efforts toward stabilizing domestic security conditions and establishing a track record of policy performance have been derailed. In Burundi, the Central African Republic and Côte d’Ivoire, for example, staff monitored programs or PRGF-supported programs were in place or discussions on PRGF-supported programs had commenced but they were aborted as conflict reemerged. Domestic conditions need to stabilize and security conditions need to be maintained before pre-decision point countries can move forward quickly toward the decision point.

28. **Another potential impediment is the settlement of protracted external payments arrears, including arrears to multilateral creditors.** In several HIPCs, such as Liberia, Somalia and Sudan, a concerted international effort would be needed to resolve outstanding arrears. Such an effort appears to be emerging in Sudan. In a special meeting in February 2003 to review arrears clearance arrangements in HIPCs, representatives of multilateral development banks endorsed the principle of providing positive or at least non-negative net resource transfers

to HIPCs in arrears clearance operations in the context of the HIPC Initiative. They also agreed on a stronger process of early consultation and communication.

29. **The HIPC Initiative is open to all eligible countries that establish a performance record leading to the decision point by the end of 2004 when the sunset clause takes effect.** The sunset clause stems from the 1996 Program of Action, which established a time limit in order to prevent the HIPC Initiative from becoming a permanent facility and to encourage HIPCs to adopt adjustment programs that could be supported by the IMF and IDA. The Boards subsequently agreed to two-year extensions in 1998, 2000, and 2002. Some HIPCs could start establishing a policy performance record before the sunset clause takes effect by the end of 2004, in order to reach the decision point. The approach to engagement in LICUS contained in the World Bank Task Force Report on Low Income Countries Under Stress (LICUS) may be useful in supporting HIPCs that face conflict-related, governance or capacity obstacles to reaching decision points.[28]

IV. Observations on Governance and Debt Sustainability

The international community has underscored the importance of good governance to achieving pro-poor growth in HIPCs. The current HIPC framework strongly supports improved governance, especially in strengthening public financial management and is part of a broader framework of international assistance to improve governance in these countries. The Bank and Fund, together with development partners, have organized a series of workshops on debt sustainability in the context of achieving the Millennium Development Goals (MDGs) in low-income countries, especially HIPCs. Staffs will prepare a joint Board paper by the end of the year that will reflect many of the conclusions reached in these workshops.

A. Governance

30. **Governance is a key issue in the policy agenda in PRSPs which provide an overarching country-owned governance strategy that can be supported by the international community.**[29] Governance problems are wide-ranging, but nonetheless, some countries through the PRSP process have made a promising start to address them. PRSPs provide a strategic framework for improved governance and enhance country ownership of these reforms.

31. **Public expenditure management (PEM) measures support efforts to improve governance in HIPCs.** PRSPs for HIPCs in many cases reinforce these measures. The IMF and

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[28] See World Bank, "World Bank Group Work in Low-Income Countries Under Stress: A Task Force Report," July 8, 2002, SecM2002-0367, http://www.worldbank.org/operations/licus.

[29] *Governance* is the exercise of economic, political, and administrative authority to manage a country's affairs through formal rules and processes. It comprises mechanisms, processes, and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations, and mediate their differences. *Public sector governance* includes government administration, civil service, decentralization, tax administration, legal and judicial reform, anti-corruption, and public expenditure management.

World Bank have supported the PRSP process through periodic assessments of each of these areas. A recent Bank-Fund review found that PEM reforms in HIPCs are increasingly being addressed in PRSPs. The average number of PEM measures rose from eight in 2001 to over 16 in PRSPs produced during 2002-03. Further, the Bank and Fund have had an on-going effort for the past 3 years to strengthen PEM in HIPCs. In February 2002 staff assessments of public expenditure management systems in 24 HIPCs were reported, including development of action plans for improvement.[30] Of the 24 countries included in the assessment, nine require some upgrading to be able to track poverty-reducing spending satisfactorily, and the remaining fifteen require substantial upgrading. A more recent review examined country progress in implementing action plans of 21 HIPCs to strengthen the capacity to track poverty-reducing expenditures.[31] The update found that more than three-fourths of measures in the action plans have either been fully implemented or are under implementation.

32. **Good governance practices are supported in HIPCs through structural benchmarks in PRGF programs, Bank Poverty Reduction Support Credits and institution-building projects, and in most cases through social and structural completion point triggers**. Governance is also an integral part of IDA's performance-based allocation system. Good governance practices (including those related to public expenditure management) are also supported through multiple donor and creditor instruments. Structural completion point triggers have supported governance reforms in HIPCs. For example, completion point triggers have required: (i) Most HIPCs to establish *tracking systems to monitor the use of HIPC relief*; (ii) Rwanda and Cameroon to implement an *integrated financial management information system* on a pilot basis; (iii) Establishment and implementation of *anti-corruption strategies* in Benin, Guinea, Cameroon, and Honduras; (iv) Reform of the *public procurement system in* Cameroon, Chad, Ghana, Guyana, Guinea-Bissau and Nicaragua; and (v) *reforms to Government audit office or national audit standards* in Ghana and São Tomé and Príncipe.

33. **Governance is a process requiring continued efforts by HIPCs as well as external support from the international community**. Governance will continue to be a strong focus of the instruments and programs of the Bank, Fund and international community. This focus extends beyond the HIPC Initiative. Staffs will continue to work to strengthen the reporting on governance of HIPCs at the completion point.

B. Debt Sustainability

34. **There is increasing appreciation in the international community of the challenges of mobilizing the financing necessary to help achieve the MDGs in low-income countries while ensuring long-term debt sustainability.** The global economic downturn, declines in many

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[30] See IMF and World Bank, "Actions to Strengthen the Tracking of Poverty-Reducing Spending in Heavily Indebted Poor Countries (HIPCs)," March 21, 2002, IMF SM/02/30, http://www.imf.org/external/np/hipc/doc.htm, and March 22, 2002, IDA SecM2002-30/2, http://www.worldbank.org/hipc/hipc-review/hipc-review.html.

[31] See IMF and World Bank, "Update on Implementation of Action Plans to Strengthen Capacity of HIPCs to Track Poverty-Reducing Spending," March 7, 2003, http://www.imf.org/external/np/hipc/doc.htm, and March 7, 2003 IDA/R2003-0043, http://www1.worldbank.org/publicsector/pe/HIPCUpdate.pdf.

international commodity prices, and additional debt accumulation have raised debt-burden indicators in some low-income countries, including HIPCs. This has occurred, regardless of where HIPCs have been in the debt-relief process. At the same time, there is a recognized tension between the need to finance the MDGs in these countries and the need to avoid accumulating unsustainable external debt. These developments have led the Fund, the Bank, and other members of the international community to initiate a process to assess the criteria and standards for evaluating debt sustainability as well as the policy implications for the countries themselves and for the international community.

35. **There is also recognition by the international community that debt relief provided by the HIPC initiative can reduce the debt burden significantly but not guarantee debt sustainability. For debt to remain at sustainable levels requires continued efforts by creditors and debtors to ensure an appropriate level and concessionality of new resource flows, including through strengthening HIPC debt management capacity.** Moreover, translating debt reduction into poverty reduction will require continued measures to use fiscal savings towards poverty-reduction and growth within the PRSP framework (See Box 3).[32]

36. **The Boards of the Bank and Fund have asked staffs to suggest a way forward in developing a framework for debt sustainability and development financing.** Bank and Fund staffs have consulted through joint workshops with French, German, and Commonwealth Secretariat partners to explore long-term debt sustainability issues in low-income countries.[33] The results of these workshops and analysis have been used as inputs for briefings to the IMF and World Bank Boards. A workshop sponsored by the Bank and Fund will be held in Washington on September 11–12 and a multilateral development bank workshop is scheduled for late October. In December 2003 a joint paper for the Bank and Fund Boards will present proposals on policy and operational options on how to approach long-term debt sustainability in low-income countries.

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[32] The World Bank Operations Evaluation Department review suggests that the focus of development priorities should be more on pro-poor growth relative to social expenditures. See World Bank Operations Evaluation Department, “Debt Relief for the Poorest,” op. cit.

[33] The French Development Agency organized a workshop in Paris May 14, 2003. The German agency InWEnt organized a workshop in Berlin May 19–20, 2003. The Commonwealth Secretariat organized a workshop in Accra, Ghana, June 9–10, 2003.

Box 3: World Bank Operations Evaluation Department Review of the HIPC Initiative

In February 2003, the World Bank Operations Evaluation Department reviewed the HIPC Initiative in a report entitled "Debt Relief for the Poorest – An OED Review of the HIPC Initiative." The report found the HIPC Initiative highly relevant in reducing the excessive debt burden of qualifying countries, noting that, "relative to past efforts, it is more concerted across creditors and more comprehensive in its attempt to reduce the high external debt—including, for the first time, multilateral debt—of many of the poorest countries. It has made the processes surrounding the sovereign debt regime more open and accountable." (Executive Summary, p. xii) At the same time, the OED review found that the legitimizing process that helped make the initiative a reality also expanded its objectives – including not just a 'permanent' exit from debt rescheduling but also promotion of growth, and releasing of resources for social expenditures targeted at poverty reduction (See Forward, p. ix). The HIPC Initiative is a limited instrument, according to the OED review, and it now runs the risk of promising more than it can deliver by itself. Instead, the OED argues that the HIPC Initiative is "an important but small part of the overall development assistance framework. Having provided the HIPCs with an opportunity for a 'fresh start,' the international community still faces a challenge in helping these countries set out on a sustainable path for growth and poverty-reduction. This requires actions by the HIPC governments to adopt sound policy frameworks and a balanced development strategy. It also requires actions by the international community to assist the countries to enhance their exports and build needed institutional capacities" (Forward, p. ix).

The report therefore recommends the Bank to: (i) clarify the purposes and objectives of the Initiative, ensure that its design is consistent with these objectives, and both the objectives and how they are to be achieved be clearly communicated to the global community; (ii) improve the transparency of the methodology and economic models underlying the debt projections and the realism of economic growth forecasts in debt sustainability analyses; (iii) maintain the standards for policy performance, and when the established criteria are to be relaxed there should be a clear and transparent rationale to ensure that the risks to achieving and maintaining the Initiative's objectives are minimized; and (iv) focus more on pro-poor growth and provide a better balance among development priorities relative to the current focus on social expenditures.

Work is underway to implement these recommendations by: (i) continuing to work with relevant stakeholders to clarify and communicate the objectives of the HIPC Initiative by noting that reductions in the debt stock through the Initiative was expected to contribute to a more comprehensive development effort but not to supplant it; (ii) working to improve the realism of growth projections and to apply stress tests that assess risks to baseline scenarios; (iii) continuing to ensure that policy performance standards are maintained; and (iv) assisting HIPCs ensure that the use of savings of debt relief are allocated to expenditures for pro-poor growth consistent with the PRSP framework.

Source: World Bank, Operations Evaluation Department, "Debt Relief for the Poorest," op. cit.

37. **Key issues being reviewed are the definition of the debt burden and when it is sustainable, the impact of volatility and shocks, and the role of country-specific policies and circumstances.** There is agreement on the need to base sustainability assessments on a range of indicators, to monitor and assess the level and composition of both domestic and external public debt, and to adopt a country-specific approach. There has been some debate over how to treat non-guaranteed state enterprise debt in these calculations. There is also recognition of the importance of economic volatility and the prevalence of exogenous shocks in low-income countries. Staffs are evaluating the prevalence of volatility, the severity and frequency of shocks, economic growth and impact on debt sustainability of each. Even more important, staffs are examining how grants and other financing mechanisms could potentially be made more counter-cyclical, more predictable and better coordinated to address volatility. Staffs are also reviewing concessional lending instruments and strategies to help manage shocks. Finally, staffs are exploring how country-specific policies and circumstances have affected growth and debt sustainability.

V. CREDITOR PARTICIPATION

A. Multilateral Creditors: Costs, Commitments and Delivery

38. **Costs attributable to multilateral creditors are little changed over the past year, while participation has increased with almost all creditors participating.** In NPV terms, multilateral creditors accounted for US$19.0 billion, or 48 percent of total HIPC costs for 34 countries of US$39.4 billion. This represents an increase of US$0.1 billion in 2001 NPV terms. Twenty-three of 30 multilateral creditors have indicated their intention to participate in the Initiative, representing more than 99 percent of the total debt relief required. In October 2002, the East African Development Bank agreed to participate in the HIPC Initiative and the Arab Monetary Fund reconfirmed its participation in early 2003. The large multilateral creditors, including the IDA, the IMF, the African Development Bank (AfDB), the Inter-American Development Bank (IDB), the European Investment Bank/European Union (EIB/EU), and the Central American Bank for Economic Integration (CABEI) are providing relief to most countries in the interim period. So far multilateral creditors have delivered more than US$3.8 billion in relief.

39. **The total cost to the World Bank Group remains largely unchanged since September 2002.** The cost of the Initiative for 34 countries is estimated to be US$8.7 billion in 2002 NPV terms. The 27 HIPCs that have reached their decision points account for US$7.7 billion (NPV) of this figure (US$12.4 billion in nominal terms).[34] As of the end of May 2003, the World Bank had delivered a total of US$2.5 billion in nominal terms to these 27 HIPCs. Of this, US$101 million in nominal terms is relief to Cameroon and Honduras, two IDA-only countries with significant IBRD debt outstanding. IDA debt relief under the HIPC Initiative to the 27 decision point HIPCs is projected to total more than US$400 million in 2003 and the average for the period 2003–09 is estimated to exceed US$500 million. Given average annual World Bank Group net transfers of US$1.3 billion to these 27 countries during 1998–2002, the HIPC Initiative could, with sustained IDA flows, increase IDA's net transfers to HIPCs by more than 40 percent. IDA is providing interim relief to 17 of 19 countries in the interim period.[35] It also delivers irrevocable debt relief to all eight countries that reached the completion point under the enhanced Initiative.

40. **IDA's financing needs have been met through the IDA-13 period.** The HIPC Trust Fund has two components. The first is the management of funds to reimburse IDA for HIPC debt relief. The Bank has pledged to provide US$2.15 billion (NPV) or US$2.4 billion (nominal) in IBRD net income transfers to the HIPC Trust Fund to reimburse IDA for HIPC debt relief. To date, US$1.64 billion of such transfers has been approved. Covering IDA's costs through IDA-13 would require estimated annual transfers of US$240 million per year on average for this year and the following two years. This level of estimated transfers would fully utilize this pledge. Donors have reaffirmed that the cost of IDA's debt relief, estimated to exceed US$500 million

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[34] The figures include debt relief on interest payments related to stock operations.

[35] In Cameroon and Honduras, the cumulative limit of one-third of the total NPV of relief has been reached. Senegal will reach the cumulative limit in September 2003 and The Gambia will do so in December 2004.

for a decade or more beyond IDA-13, should not be permitted to compromise IDA's resources. They agreed during the IDA-13 discussions that the financing of IDA's HIPC debt relief costs would be addressed in 2004 at back-to-back meetings with the IDA-14 replenishment discussions.

41. **IDA debt relief grants and credits are being used to finance debt relief for Cameroon and Honduras** because IBRD net income transfers to the HIPC Trust Fund cannot be used to provide debt relief for these countries which have substantial levels of outstanding IBRD debt.[36] These grants and loans were estimated to total about US$333 million at the time of their decision points. Funding for this debt relief was provided as part of the IDA-13 funding arrangement.

42. **Additional contributions have been pledged by donors to the IDA-administered HIPC Trust Fund for Regional and Subregional Creditors**. The second component of the HIPC Trust Fund supports the provision of debt relief to eligible HIPCs by regional and subregional multilateral creditors using donors' funds. In October 2002 donors made additional pledges of about US$850 million to the HIPC Trust Fund to support the debt relief to be provided by eligible creditors. This brought total pledges to about US$3.4 billion. Several uncertainties could affect future debt relief costs and corresponding HIPC Trust Fund financing requirements. They include the timing and level of debt relief that will be required for countries that have not yet reached their decision points, the level of topping up that may be approved and the potential eligibility of countries not currently included in the costing estimates such as Sudan. Paid-in contributions reached about US$2.6 billion on June 30, 2003. HIPC Trust Fund resources have helped finance the participation of the AfDB US$1,010.2 million, the IDB US$84.3 million, the CABEI US$81.9 million, the Corporación Andina de Fomento (CAF) US$55.6 million, Banque Ouest Africaine de Developpement (BOAD) US$24.9 million, the Fund for the Financial Development of the River Plate Basin (FONPLATA) US$18.7 million, the Nordic Development Fund (NDF) US$12.8 million, the International Fund for Agricultural Development (IFAD) US$9.7 million, and the Caricom Multilateral Clearing Facility (CMCF) US$2.5 million.

43. **The cost to the IMF for 34 countries is estimated at US$2.9 billion in 2002 NPV terms, little changed from previous estimates.** Of this amount, US$2.7 billion in NPV terms have already been committed to 27 decision point countries, which is equivalent to SDR 1.8 billion on a cash basis, of which SDR 1.1 billion has been disbursed. Based on current projections and the current methodology for calculating the IMF's share of HIPC Initiative topping up assistance, HIPC grant resources are estimated to be sufficient.[37]

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[36] Côte d'Ivoire was also identified as a country with substantial IBRD exposure where this modality would be applied. Because Côte d'Ivoire has not reached the decision point under the enhanced HIPC Initiative, nor reached the completion point under the original HIPC Initiative, the Bank has not yet provided any relief under the HIPC Initiative.

[37] The implications for financing of the topping up assistance for the IMF are discussed in detail in IMF "Update on the Financing of PRGF and HIPC Operations and the Subsidization of Post-Conflict Emergency Assistance," March 21, 2003, SM/03/100, http://www.imf.org/external/np/tre/pledge/2003/023003/pdf.

44. **The IMF may provide interim assistance to HIPCs.** IMF interim assistance is provided for a period of up 12 months at a time; additional tranches of interim assistance can be provided if the conditions for interim assistance are met (in particular, performance under the PRGF arrangement is satisfactory and financing assurance from other creditors are in place). In 2002, prolonged program interruptions prevented Guinea-Bissau, Honduras, and Malawi from receiving IMF interim assistance throughout the year, whereas the remaining HIPCs that had not yet reached the completion point benefited from interim assistance.

45. **The cost to the African Development Bank (AfDB) of the 23 African countries that have reached the decision point is US$2.8 billion in 2002 NPV terms.** The AfDB has committed US$1.6 billion in NPV terms at the decision point (US$2.2 billion in nominal terms) to the 22 countries that have reached their decision points in the AfDB, of which US$320 million (NPV) will be contributed from internal resources.[38] As of the end of 2002, the AfDB had delivered US$493 million in relief to 22 countries under the HIPC Initiative. It is delivering relief to 14 of 15 HIPCs in Africa in the interim period. In Senegal, the AfDB delivered its cumulative limit of 40 percent of the total NPV during the interim period; Senegal is therefore not receiving additional interim relief. It is anticipated that Cameroon, The Gambia, Guinea, Madagascar, and Zambia will also reach their cumulative limits for interim relief over the next six months.

46. **The cost to the InterAmerican Development Bank (IDB) of the four HIPCs in the region is US$1.3 billion in 2002 NPV terms**. Between 1998 and the end of 2002, IDB delivered US$111.3 million in nominal terms under the original framework and US$150.5 million under the enhanced framework. IDB is delivering interim relief to Guyana and Nicaragua but stopped providing interim relief to Honduras in 2002 when one-third of the total NPV of relief required had been delivered.

47. **The 26 other multilateral creditors bear costs of US$2.8 billion in 2002 NPV terms, US$2.4 billion of which goes to the 27 decision point countries**. Seven small creditors have not indicated a willingness to participate in the Initiative due mainly to financial constraints. Providing HIPC relief has posed a substantial challenge to some multilateral creditors, including some that are participating fully. Such creditors have found it difficult to reconcile their interest in participating in an international initiative with the need to maintain their financial integrity. In some cases, multilateral creditors have also had difficulties ensuring that the amount of relief provided is sufficient to meet the NPV reduction required.

B. Official Bilateral Creditors: Costs, Commitments and Delivery

48. **Since September 2002, Paris Club creditors have agreed to stock-of-debt operations on Cologne terms for Benin and Mali at their completion points and flow reschedulings for Nicaragua and The Gambia (Cologne terms), and the Democratic Republic of Congo (Naples terms).** The flow rescheduling for the Democratic Republic of Congo was instrumental in clearing arrears to external creditors. In addition, many Paris Club creditors offered terms for

[38] The Executive Board of the AfDB has not yet met to decide on its modality for delivering HIPC assistance to the Democratic Republic of Congo.

the arrears clearance that went beyond Naples terms. The Paris Club agreed to consider topping-up the Naples flow rescheduling amounts to Cologne terms once the Democratic Republic of Congo reaches the decision point, which would reduce the country's debt-service obligations by another 70 percent.

49. **Most of the costs attributable to official bilateral creditors are borne by members of the Paris Club.** Paris Club creditors account for US$15.2 billion, or 39 percent of the total HIPC costs of US$39.4 billion for 34 countries in 2002 NPV terms. All Paris Club creditors have committed to deliver their share of HIPC relief to the 27 countries that have reached the decision point totaling about US$12.5 billion in 2002 NPV terms. Many Paris Club creditors are providing interim relief and relief over and above that required under the HIPC Initiative.

50. **The participation of non-Paris Club bilateral creditors has improved since September 2002.** The fifty-one non-Paris Club official bilateral creditors account for US$3.4 billion of HIPC relief costs to 34 countries in 2002 NPV terms, of which the costs for the 27 decision point countries represent US$3.3 billion. In September 2002 Libya agreed to fully participate in the Initiative and deliver US$225 million (in 2002 NPV terms) in HIPC relief to 16 countries.[39] In June 2003 India announced its decision to write off all claims on HIPCs, thereby benefiting Ghana, Guyana, Mozambique, Nicaragua, Tanzania, Uganda, and Zambia.

51. **Delivery of relief by non-Paris Club official bilateral creditors can be fully measured only after their debtors reach the completion point.** Because non-Paris Club bilateral creditors typically deliver relief only after the completion point, delivery of relief becomes an issue only once countries to which they have outstanding loans reach the completion point. Of the 51 non-Paris Club bilateral creditors, 13 have indicated commitments to deliver full debt relief under the HIPC Initiative framework and 14 have made commitments to deliver HIPC relief on some but not all claims on HIPCs. Twenty four non-Paris Club creditor countries representing about 21 percent of the total cost attributable to this group have not yet agreed to deliver HIPC relief.

52. **In March 2003 the Boards of the Bank and the Fund reviewed measures to provide relief by HIPC creditors to HIPC debtors**.[40] Based on the input received from the Board discussion staffs have been working with bilateral creditors and donors to further explore options to resolve this issue.

[39] Libya has also agreed to participate in the enhanced HIPC Initiative. Staff estime that traditional debt relief, i.e. a stock-of-debt operation on Naples terms, could cost around US$900 million in 2002 NPV terms.

[40] See IMF and World Bank, "Enhanced HIPC Initiative—Creditor Participation Issues," February 28, 2003, SM/03/82, http://www.imf.org/external and February 28, 2003, IDA/SecM2003-092, http://www.worldbank.org/hipc.

C. Commercial Creditors and Creditor Litigation

53. **The size of commercial debt owed by HIPCs has already been substantially reduced as a result of the Debt Reduction Facility for IDA-only Countries**. HIPC relief from commercial creditors required under the Initiative accounts for about 5 percent of HIPC relief. In some HIPCs, however, commercial creditors account for a significant proportion of outstanding debt. Encouraging commercial creditors to deliver HIPC relief is complicated by their limited interaction with the World Bank and the IMF. As discussed in the September 2002 report, although the claims of commercial creditors are small in NPV terms, they are nevertheless a cause of concern because debtors fear the impact of litigation and impairment of creditor-debtor relationships.

54. **In a number of cases commercial creditors and some non-Paris Club bilateral creditors have resorted to threats of or actual litigation as a means of debt recovery.** The Boards of the IMF and World Bank asked staffs to further monitor creditor litigation against HIPCs. Staffs have conducted a follow-up on the August 2002 survey of the 28 HIPC governments for countries that have had Board documents prepared. Table 7 below was updated based on information provided by 20 respondents. Of 28 HIPCs that have had Board documents prepared, 12 indicated that they were not facing any lawsuits. Nine responded that they were facing litigation on credits held by commercial creditors and Iraq. Although in many cases debtors have not remitted payments after creditors have received judgments, in some cases debtors have made payments in excess of that required if the creditor had provided HIPC relief. Pending litigation and outstanding court judgments also prevent HIPCs from regularizing financial relationships with the international community.

Table 7. Creditors Involved in Litigation against HIPCs

Creditor 1/	**Domicile of Creditor**	**HIPC Debtor**	**Original Claim 2/** (million of U.S. dollars)	**Status of Legal Action**	**Judgment for Creditor** (millions of U.S. dollars)
Salah Turkmani	--	Bolivia	0.3	Pending.	
Winslow Bank	Bahamas	Cameroon	8.9	Action instituted by Cameroon to appeal lower court ruling.	
Del Favaro Spa	Italy	Cameroon	--	--	
Sub-total			9.2		
Red Mountain	U.S.	Congo, Dem. Rep. of	8.6	Resolved.	25.4
ENERGOINVEST	--	Congo, Dem. Rep. of	30.2	Judgment issued by International Court of Arbitration in Paris.	
Sub-total			38.8		
Yugoimport	Former SFR Yugoslavia	Ethiopia	122.7	--	
Kintex	Bulgaria	Ethiopia	8.7	--	
Sub-total			131.4		
Laboratorios Baco	Argentina	Honduras	3.5	Pending.	
LNC Investments	U.S.	Nicaragua	26.3	Judgment pronounced.	87.1
GP Hemisphere Associates	--	Nicaragua	30.9	Judgment pronounced.	126.0
Van Eck Emerging Markets	U.S.	Nicaragua	13.0	Judgment pronounced.	62.5
Sub-total			70.2		275.6
Banque Belgolaise	France	Niger 3/	4.2	Legal action in process.	
Exim Bank	Taiwan, Province of China	Niger 3/	60.0	Judgement to pay.	72.3
Sub-total			64.2		
J&S Franklin Ltd.	United Kingdom	Sierra Leone	1.2	Action instituted in the High Court of England; independent of court action, Sierra Leone has paid US$1.7 million.	
UMARCO	France	Sierra Leone	0.6	Action instituted in the High Court of England; independent of court action, Sierra Leone has paid US$0.1 million.	
Executive Outcome, International Inc.	United States	Sierra Leone	19.5	Action instituted in the High Court of England; independent of court action, Sierra Leone has paid US$0.7 million.	
Chatelet Investment Ltd..	Sierra Leone	Sierra Leone	0.4	Action instituted in the High Court of England.	
Industrie Biscotti	Italy	Sierra Leone	5.3	Action instituted in the High Court of England.	
Scancem International	Norway	Sierra Leone	3.7	Action instituted in the High Court of England; independent of court action, Sierra Leone has paid US$ 0.6 million.	
Sub-total			30.7		
Banco Arabe Espanol	Spain	Uganda	1.0	Judgment to pay.	2.7
Transroad Ltd.	United Kingdom	Uganda	5.6	Resolved	9.4
Industry of Construction Machinery and Equipment	Former SFR Yugoslavia	Uganda	8.4	Resolved	8.9
Sours Fab Famous Rz Promet	Former SFR Yugoslavia	Uganda	1.4	Resolved	1.4
Iraq Fund For External Development	Iraq	Uganda	4.6	Appeal in progress.	6.4
Shelter Afrique	Kenya	Uganda	0.9	Out of court settlement.	0.1
Sub-total			21.9		28.9
Total			**370.1**		**402.2**

Source : HIPC country authorities

The following exchange rates were used in the cases where amounts were not given in US dollars; 1 Euro=$1.134 USD;1 CHF=$0.7271 USD.

The following 12 countries have reported to have no creditor lawsuits: Benin, Chad, Cote d'Ivoire, Ghana, Guyana, Madagascar, Malawi, Mauritania, Mali, Rwanda, São Tome & Príncipe, and Tanzania.

Note: The following 8 countries have not provided updated information since September, 2002: Burkina Faso, Gambia, Guinea, Guinea-Bissau, Mozambique, Niger, Senegal, and Zambia.

1/ Either original creditor or holder of current claim.

2/ Excludes accumulated interest and charges.

3/ Data obtained from September 2002, Status of Implementation Report, Table 8.

-- Not available.