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**HEAVILY INDEBTED POOR COUNTRIES (HIPC) INITIATIVE -
LISTING OF RING-FENCED COUNTRIES THAT MEET THE INCOME AND
INDEBTEDNESS CRITERIA AT END-2004**

Attached for the April 23, 2006, Development Committee Meeting is a background report entitled "Heavily Indebted Poor Countries (HIPC) Initiative – Listing of Ring-Fenced Countries that Meet the Income and Indebtedness Criteria at End-2004", prepared by the staff of the World Bank and the International Monetary Fund.

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INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

Heavily Indebted Poor Countries (HIPC) Initiative — List of Ring-Fenced Countries that
Meet the Income and Indebtedness Criteria at end-2004

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April 11, 2006

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Executive Summary

In response to the Boards' request, this paper identifies the countries that meet the enhanced Heavily Indebted Poor Countries (HIPC) Initiative's income and indebtedness eligibility criteria based on end-2004 data.¹ It also updates the status of these countries toward qualifying for debt relief and presents cost estimates of debt relief.²

Staffs of IDA and the IMF have identified 11 countries that meet the income and indebtedness criteria at end-2004, which might wish to be considered for debt relief under the Initiative. These include seven countries that had been identified as HIPCs in previous HIPC Initiative reports (Central African Republic, Comoros, Côte d'Ivoire, Liberia, Somalia, Sudan, and Togo) and four other countries (Eritrea, Haiti, the Kyrgyz Republic, and Nepal).

As of April 7, 2006, three countries that technically meet the income and indebtedness criteria at end-2004 have indicated that they do not wish to avail themselves of the Initiative.³

While the implementation of IMF- and IDA-supported programs by the 11 identified countries is mixed, most have progressed with their poverty reduction strategies. Three are making significant progress in the implementation of their macroeconomic programs and structural reforms, while three other are experiencing difficulties. The remaining five countries have not had an IMF- and IDA-supported program since October 1996. All but two (Liberia and Somalia) have begun the poverty reduction strategy process.

The cost of HIPC Initiative debt relief for these 11 countries is estimated at US\$21 billion in 2004 NPV terms. Of this, the World Bank's and IMF's shares amount to about US\$2.9 billion and US\$2.1 billion, respectively. About 25 percent (US\$5 billion) of the total cost corresponds to the six countries that have met all HIPC Initiative eligibility requirements (Central African Republic, Côte d'Ivoire, Haiti, the Kyrgyz Republic, Nepal, and Togo). The three protracted arrears cases (Liberia, Somalia, and Sudan) account for more than 70 percent of the total cost. The estimated costs for official bilateral and multilateral creditors are roughly equal. These estimates would be affected if other countries choose not to avail themselves of the Initiative, as well as if the Boards decide to include new countries in the list at a later date. Additional donor resources would be required for the IMF and IDA to finance the costs of providing debt relief.

¹ All references to the "HIPC Initiative" or the "Initiative" in this document refer to the "enhanced HIPC Initiative."

² This report deals exclusively with the enhanced HIPC Initiative and does not consider the cost implications of the Multilateral Debt Relief Initiative (MDRI). Cost estimates for MDRI debt relief, as well as its implications in terms of financing, will be presented in forthcoming documents on financing and implementation of the MDRI prepared by the IMF and IDA.

³ Bhutan, Lao PDR, and Sri Lanka.

Staffs propose that the Boards endorse and close the list of countries meeting the assessed income and indebtedness eligibility criteria at this time. However, the Boards could decide to amend the list on a case-by-case basis to include countries whose data are verified to meet the relevant thresholds at end-2004.

The expiration of the sunset clause on December 31, 2006 could imply that some countries on the list may not be able to benefit from debt relief under the Initiative, since they would not have met the policy eligibility criterion. Staffs will examine the issue and propose some options to deal with it in the coming months.

I. INTRODUCTION

1. **In September 2004, the Executive Boards of the International Development Association (IDA) and the IMF extended the “sunset clause” of the enhanced HIPC Initiative to end-2006 and decided to “ring-fence” its application to countries satisfying the Initiative’s income and indebtedness criteria using end-2004 data.**⁴ This was the fourth extension of the sunset clause since 1998. Like the previous extensions of the sunset clause, the latest one was granted to allow countries more time to start establishing a track record of policy performance under IMF- and IDA-supported programs. However, unlike previous extensions, it also aimed at closing the HIPC Initiative to new entrants by binding the Initiative’s income and indebtedness criteria to the end-2004 date.

2. **In September 2005, staffs of IDA and the IMF presented to their respective Boards a preliminary list of 13 countries meeting the HIPC Initiative income and indebtedness criteria at end-2004.**⁵ The list included nine countries that were previously identified as potentially eligible HIPCs (Central African Republic, Comoros, the Republic of Congo, Côte d’Ivoire, Lao PDR, Liberia, Somalia, Sudan, and Togo) and four new countries (Eritrea, Haiti, the Kyrgyz Republic, and Nepal). For five other countries (Bangladesh, Bhutan, Myanmar, Tonga, and Sri Lanka), staffs could not conclude firmly on their potential eligibility because of inadequate data.

3. **This paper responds to the Boards’ request for a list of countries that meet the income and indebtedness criteria at end-2004.**⁶ Section II presents the list and provides refined debt indicators for the identified countries. Section III presents an overview of the countries’ status of implementation of IMF- and IDA-supported programs and poverty reduction strategies. Section IV updates the costs associated with providing HIPC Initiative assistance to these countries. Section V discusses the implications of closing the list at this time.

⁴ For IDA, both the income and indebtedness criteria are bound by the end-2004 deadline, hence countries that later change their IDA-only/PRGF-eligible status would not be considered “potentially eligible” for HIPC Initiative debt relief under the criteria approved by IDA (see “Enhanced HIPC Initiative: Proposals Concerning the Sunset Clause and Provision of Interim Relief” IDA/R2004-0234, September 15, 2004). However, the IMF Board decided that only the indebtedness eligibility criterion be applied to end-2004 data, and not the income criterion (see PRGF-HIPC Trust Instrument –Amendments to Eligibility Criteria, <http://www.imf.org/external/np/prsp/2004/100704.htm>). In practice, this difference is not expected to lead to divergence in assessments for a country’s eligibility for HIPC Initiative debt relief.

⁵ See IMF and IDA, “Heavily Indebted Poor Country (HIPC) Initiative—Status of Implementation,” August 22, 2005, SM/05/329, <http://www.imf.org/external/np/pp/eng/205/081905.htm>; and IDA/SecM2005-0442, <http://siteresources.worldbank.org/INTDEBTDEPT/Resources/081905.pdf>.

⁶ See “The Acting Chair’s Summing Up HIPC Initiative – Status of Implementation Executive Board Meeting 04/83,” September 8, 2004, BUFF/04/171, paragraph 6 of the September 2005 Development Committee Comunique.

II. ASSESSMENT OF COUNTRIES AGAINST THE HIPC INITIATIVE INCOME AND INDEBTEDNESS CRITERIA AT END-2004

4. **Staffs have further refined their calculations of debt indicators to assess the countries against the HIPC Initiative income and indebtedness criteria at end-2004.**⁷ To minimize the risk of misclassification, staffs have made every effort to gather comprehensive end-2004 debt data and supporting documentation either through missions, or otherwise maintaining close contact with the authorities. Emphasis was placed on countries for which data were deemed insufficient to assess potential eligibility in September 2005 or whose debt ratios were close to the HIPC Initiative thresholds. Macroeconomic data were also carefully scrutinized to ensure adherence to HIPC Initiative guidelines.

5. **Country assessments were based on a combination of loan-by-loan and aggregate debt data at end-December 2004 and macroeconomic data for 2002-2004.** Loan-by-loan debt data were obtained and analyzed for Bangladesh, Bhutan, Eritrea, Haiti, the Kyrgyz Republic, Nepal, Sri Lanka, and Tonga. Revised debt data were also obtained and analyzed for most of the remaining countries in the preliminary list. In addition the classification of Cape Verde, whose NPV of debt-to-export ratio was below, but relatively close to the HIPC Initiative threshold, was confirmed based on revised loan-by-loan data.⁸ For Afghanistan, there has been limited progress on the resolution of disputes and the verification of claims by some external creditors.⁹

6. **Staffs have identified 11 countries that satisfy the Initiative's income and indebtedness criteria at end-2004, which might wish to be considered for debt relief under the Initiative** (Table 1). These include seven countries that were part of the earlier list of 38 countries potentially eligible for HIPC Initiative debt relief (Central African Republic, Comoros, Côte d'Ivoire, Liberia, Somalia, Sudan, and Togo)^{10,11} and four additional countries (Eritrea, Haiti, the Kyrgyz Republic, and Nepal).

⁷ A country meets the indebtedness criterion if its debt ratios are above the relevant HIPC thresholds after the notional application of traditional debt relief mechanisms.

⁸ Details of the country assessments are provided in Annex II. No updates or further analyses were deemed necessary to confirm the classification of Georgia, Moldova, and Tajikistan, whose debt ratios were found to be significantly below the HIPC threshold in the September 2005 report.

⁹ In February 2006, the Russian authorities announced their intention to provide debt relief to Afghanistan.

¹⁰ One country that was on the preliminary list (the Republic of Congo) met all the qualification criteria and reached its decision point under the Initiative in March 2006.

¹¹ The list of 38 countries is mentioned in a number of HIPC Initiative documents, such as: "Heavily Indebted Poor Country (HIPC) Initiative—Statistical Update," April 11, 2005, <http://www.imf.org/external/np/hipc/2005/040405.htm>; <http://siteresources.worldbank.org/INTDEBTDEPT/ProgressReports/20446696/HIPCStatUpdate200504042>.

7. **In addition, three countries that technically meet the income and indebtedness criteria at end-2004 have indicated that they do not want to avail themselves of the Initiative.**¹²

Table 1. Countries Satisfying the HIPC Initiative Income and Indebtedness Criteria at End-2004 and that Might Wish to be Considered for Debt Relief under the Initiative 1/ 2/ 3/ (as of end-April 7, 2006)

| Country | NPV of Debt-to-Exports Ratio (In percent) 4/ | NPV of Debt-to-Revenue Ratio (In percent) 5/ | Revenue-to-GDP Ratio (In percent) 6/ | Exports-to-GDP Ratio (In percent) 6/ |
|------------------------------|---|---|---|--|
| Export Window | | | | |
| Liberia | 1,433 | 3,388 | 12 | 33 |
| Somalia 7/ | 1,091 | n.a | n.a | n.a |
| Central African Republic | 562 | 810 | 9 | 13 |
| Sudan | 561 | 368 | 17 | 16 |
| Eritrea | 522 | 191 | 31 | 11 |
| Comoros | 378 | 350 | 16 | 17 |
| Nepal | 198 | 261 | 12 | 18 |
| Haiti | 189 | 272 | 9 | 14 |
| Fiscal Revenue Window | | | | |
| Togo | 201 | 409 | 15 | 38 |
| Kyrgyz Republic | 184 | 376 | 15 | 37 |
| Cote d'Ivoire | 151 | 361 | 17 | 48 |

Data sources: Country authorities, multilateral creditors, Paris Club Secretariat, Global Development Finance and staff estimates.

1/ All countries considered are IDA-only and PRGF-eligible and have not benefited from assistance under the HIPC Initiative. If a country qualifies under both the exports and revenue windows, the criterion that maximizes the amount of debt relief to be provided is retained.

2/ Results reflect the information available to staffs but could change on the basis of additional or updated information.

3/ Bhutan, Lao PDR and Sri Lanka have been assessed to have met the end-2004 income and indebtedness criteria, but they have indicated to IMF and IDA staffs that they would not avail themselves of the Initiative.

4/ Exports refer to the last three-year average of exports of goods and non-factor services.

5/ Revenue refers to the current year revenue of the central government, excluding grants. A country qualifies under the revenue window if its exports-to-GDP and revenue-to-GDP ratios are above 30 percent and 15 percent, respectively.

6/ Both the numerator and the denominator are calculated as averages of the last 3 years.

7/ Data on central government revenue and GDP were unavailable.

¹² Bhutan, Lao PDR, and Sri Lanka.

8. **Staffs could not reach a conclusion on Afghanistan's classification because a large part of the country's potential external obligations is either unverified or in dispute.**¹³ Under the enhanced HIPC Initiative guidelines, only debt that has been verified and confirmed by the authorities can be treated under the Initiative. Afghanistan's debt burden indicators based on verified end-2004 debt are below the HIPC indebtedness thresholds. Staffs propose to reassess Afghanistan's debt indicators once the disputes are resolved. Should Afghanistan's end-2004 debt ratio be found to be above the relevant thresholds, staffs would then propose that Afghanistan be included in the list.¹⁴

9. **Tonga and Bangladesh were found to have debt ratios below the HIPC Initiative thresholds.** Loan-by-loan data for these two countries revealed that their NPV of debt-to-export ratios at end-2004 were 132 percent for Tonga and 146 percent for Bangladesh. In both cases, staff worked with the authorities to ensure that the debt data were comprehensively reconciled with information from their respective creditors to minimize the risk of misclassification.¹⁵ In line with the HIPC Initiative guidelines and the Boards' guidance, staffs propose that these countries not be included in the list.

10. **Myanmar could not be assessed due to lack of available data.** The authorities indicated that "at present Myanmar will not be participating in the Initiative and regret that they will not be able to provide" the required data to undertake the assessment of their indebtedness relative to the HIPC Initiative thresholds.¹⁶ Given the unavailability of data, staffs were not in a position to determine whether Myanmar met the indebtedness criterion, and, therefore, it is not included in the list.

11. **Staffs informed the authorities of all the countries assessed about their classification and elicited their reactions.** Letters were sent to the authorities of: Bangladesh, Bhutan, Central African Republic, Comoros, Côte d'Ivoire, Eritrea, Haiti, the Kyrgyz Republic, Lao PDR, Liberia, Nepal, Sri Lanka, Sudan, Togo, and Tonga.¹⁷ Eight of the 15 countries contacted (Bhutan, Haiti, the Kyrgyz Republic, Lao PDR, Nepal, Sri Lanka, Sudan, and Togo) have responded as of April 7, 2006, and their views are summarized below:

¹³ Afghanistan has unverified debts to a number of creditors, including Iraq, Bulgaria, the Czech Republic, and Saudi Arabia, and has debt in dispute with Russia (estimated at US\$10.8 billion).

¹⁴ To the best of staffs' knowledge, only Afghanistan has unverified debts and debts under dispute whose resolution could have an impact on the country's classification in terms of potential eligibility under the HIPC Initiative. If, in spite of staffs' efforts, other countries are found in the future to face a similar situation, it is proposed that they receive the same treatment as Afghanistan.

¹⁵ Details on the reconciliation process are provided in Annex II.

¹⁶ As per a letter from the Governor of the Central Bank of Myanmar on behalf of the Minister of Finance, dated January 24, 2006.

¹⁷ In the case of Somalia staff did not send a letter given that a majority of IMF's and IDA's membership (in terms of quota share) has not recognized either the Transitional Federal Government (TFG) or the authorities of Puntland and Somaliland as the government of Somalia.

- **Five respondents agreed with their inclusion in the list of countries potentially eligible for the HIPC Initiative.** Of these, four (Haiti, the Kyrgyz Republic, Sudan, and Togo) have additionally indicated their interest in pursuing possible debt relief under the HIPC Initiative. The Nepalese authorities indicated that they have not yet reached a decision on their participation in the HIPC Initiative, which will depend on how debt relief would affect other aid flows to Nepal.¹⁸
- **Three countries indicated that they do not wish to avail themselves of the HIPC Initiative.**¹⁹ The Bhutanese authorities pointed out that Bhutan's debt ratios are expected to decline significantly in the near future. The Laotian authorities indicated that Lao PDR is not ready to avail itself of debt relief under the Initiative. The Sri Lankan authorities indicated that, if provincial revenues were taken into account, their debt indicators at end-2004 would be below the relevant HIPC thresholds.²⁰ They also pointed out that all of their debt indicators have moved significantly below the HIPC Initiative thresholds in 2005, even without taking into account provincial revenues.

12. **Staffs will continue to approach the authorities of the remaining countries to ascertain their reaction to the classification of their respective countries and intention to avail themselves of the HIPC Initiative** and, in due course, will report to the Boards the result of these consultations.

III. STATUS OF IMPLEMENTATION OF IMF- AND IDA-SUPPORTED PROGRAMS AND POVERTY REDUCTION STRATEGIES

13. **Six of the 11 identified countries (Central African Republic, Côte d'Ivoire, Haiti, the Kyrgyz Republic, Nepal, and Togo) have met the policy criterion for eligibility under the enhanced HIPC Initiative** (Table 2 and Box 1). These countries meet all the eligibility criteria for the HIPC Initiative and could qualify for debt relief at the time of their decision points, provided that they have established a track record of performance and have put in place a satisfactory poverty reduction strategy.

¹⁸ As per letter from the Nepalese Ministry of Finance dated March 21, 2006.

¹⁹ As per letters from the Sri Lankan, Bhutanese and Laotian Ministries of Finance and Planning, dated March 1 and 23, 2006, March 20, 2006, and April 7, 2006, respectively.

²⁰ Provincial revenues, accounting for about 4 percent of total government revenue in Sri Lanka, are not taken into account in staffs' calculations. This is in line with the HIPC Initiative methodology uniformly used for all assessed countries.

Box 1: HIPC Initiative - Eligibility and Qualification Criteria

Assessment of potential eligibility: A country is considered potentially eligible for debt relief under the HIPC Initiative if the following conditions are satisfied: (a) it is IDA-only and PRGF-eligible (see footnote 3) and (b) its end-December 2004 debt burden indicators are above the thresholds established under the HIPC Initiative after full application of traditional debt relief mechanisms. The thresholds are 150 percent for the ratio of the net present value of debt (NPV) to exports of goods and services and 250 percent for the ratio of NPV to fiscal revenue. To qualify under the second criterion a country must have ratios of exports of goods and services to GDP and fiscal revenue to GDP above 30 percent and 15 percent, respectively.

Determination of eligibility: To become eligible for debt relief under the HIPC Initiative, a country not only has to satisfy the two criteria above, but must also have begun a reform program supported by the IMF and IDA between October 1, 1996 and December 31, 2006, when the sunset clause of the Initiative expires. Countries satisfying the three eligibility criteria could qualify for debt relief under the HIPC Initiative even after the sunset clause expires.

Qualification for debt relief (decision point): At the decision point, the Executive Boards of IDA and the IMF determine whether an eligible country qualifies for debt relief under the HIPC Initiative. To qualify for debt relief under the HIPC Initiative an eligible country must have (a) debt burden indicators above the HIPC Initiative thresholds using the most recent data for the year immediately prior to the decision point; (b) established a satisfactory track record of policy performance under respective IMF- and IDA-supported programs; (c) in place a poverty reduction strategy. A satisfactory poverty reduction strategy paper (PRSP) could be in the form of an Interim-PRSP, PRSP preparation status report, full-PRSP, or PRSP-Annual Progress Report (APR).

At the completion point, the Executive Boards of IDA and the IMF determine whether or not a country has met the requirements established at the decision point. If so, all creditors are expected to start providing debt relief on an irrevocable basis. Moreover, upon reaching the completion point, countries become eligible for 100 percent debt relief on their eligible obligations toward the AfDB, IDA, and the IMF under the MDRI.

14. **The Central African Republic, Haiti, and the Kyrgyz Republic are making progress toward meeting the qualification criteria for HIPC Initiative debt relief (Annex I).** The Kyrgyz Republic is advancing with the implementation of its program supported under the Poverty Reduction and Growth Facility (PRGF) arrangement and is in the process of completing the second annual report on its PRSP. The Central African Republic and Haiti have been implementing satisfactorily their Emergency Post Conflict Assistance (EPCA)-supported programs and are preparing their PRSP and Interim-PRSP (I-PRSP), respectively.

Table 2. Countries that Might Wish to be Considered for Debt Relief under the Initiative and Satisfy the HIPC Initiative Policy Performance Eligibility Criterion

| Countries that meet the Policy Performance Criterion | Countries that do not meet the Policy Performance Criterion |
|--|---|
| Central African Republic | Liberia |
| Nepal | Somalia |
| Haiti | Sudan |
| Togo | Eritrea |
| Cote d'Ivoire | Comoros |
| Kyrgyz Republic | |

Data sources: IMF and IDA.

15. **The remaining three currently eligible countries (Côte d'Ivoire, Nepal, and Togo) are experiencing different degrees of difficulties in implementing macroeconomic policies and/or structural reforms, but have made progress with their poverty reduction strategies.** Nepal has had protracted interruptions in program implementation. Continuing domestic conflict or unsettled transitions from conflict have hampered effective policy implementation and institution building in Côte d'Ivoire and Togo. The authorities of both countries have expressed their willingness to seek support for their programs as soon as security conditions stabilize.²¹ On poverty reduction strategies, Nepal has completed its full PRSP, Côte d'Ivoire has completed its I-PRSP, and Togo has recently prepared its I-PRSP.

16. **Five countries (Comoros, Eritrea, Liberia, Somalia, and Sudan) have not had an IMF- and IDA- supported program since 1996.**²² This group includes the three protracted arrears cases (Liberia, Somalia, and Sudan).²³ These three countries, as well as Eritrea, have been affected by conflict, which has complicated the design and implementation of viable policy adjustment and reform programs. Notwithstanding these difficulties, Sudan is making progress toward establishing a track record of macroeconomic performance that could eventually pave the way for IMF- and IDA-supported programs. The authorities of Liberia and Comoros have stated their willingness to engage with the IMF in order to put in place PRGF-supported programs. On poverty reduction strategies, Comoros has prepared its I-PRSP, while Eritrea and Sudan are in the process of preparing their I-PRSPs. Liberia and Somalia have not yet started the PRSP process.

²¹ In discussions with staff during recent Article IV consultations.

²² As noted in Box 1, these six countries must have begun a reform program supported by the IMF and IDA between October 1, 1996 and December 31, 2006, when the sunset clause of the Initiative expires, to be eligible for HIPC Initiative debt relief.

²³ A concerted international effort would be needed to resolve the situation of countries with significant outstanding arrears.

IV. ESTIMATED COST OF HIPC INITIATIVE DEBT RELIEF

17. **The cost of HIPC Initiative debt relief for the 11 identified countries is estimated at US\$21 billion in 2004 NPV terms** (Table 3).²⁴ This amount is about US\$1.5 billion lower than the estimated total cost presented in the September 2005 report, mainly because the Republic of Congo has reached its decision point and the cost estimate attributed to it has been excluded (US\$1.5 billion). The three protracted arrears cases (Liberia, Somalia, and Sudan) represent the largest share of the estimated debt relief (US\$15 billion, or more than 70 percent of the total).²⁵ The bulk of the remainder is accounted by the six countries that have already met all eligibility requirements.

Table 3. Estimated Costs of Debt Relief for the 11 Countries that Meet the HIPC Initiative Income and Indebtedness Criteria and Might Wish to be Considered for Debt Relief under the Initiative 1/
(In billions of U.S. dollars, in end-December 2004 NPV terms)

| | Countries that may access debt relief under the Initiative (11 countries) | Countries Meeting all Eligibility Criteria (6 countries) | Remaining Countries | |
|-------------------------------------|--|--|------------------------|---|
| | | | Total (5 countries) | <i>Of which</i> : Liberia, Somalia and Sudan |
| Total costs | 21.0 | 5.3 | 15.7 | 15.3 |
| Official bilateral creditors | 10.2 | 2.1 | 8.1 | 8.1 |
| Paris Club | 6.8 | 1.8 | 4.9 | 4.9 |
| Other official bilateral | 3.5 | 0.2 | 3.2 | 3.2 |
| Commercial creditors | 2.5 | 0.8 | 1.7 | 1.7 |
| Multilateral creditors | 8.3 | 2.4 | 5.8 | 5.5 |
| World Bank | 2.9 | 1.3 | 1.7 | 1.5 |
| IMF | 2.4 | 0.2 | 2.2 | 2.2 |
| AfDB Group | 1.0 | 0.4 | 0.6 | 0.6 |
| AsDB | 0.4 | 0.4 | 0.0 | 0.0 |
| Other | 1.6 | 0.2 | 1.3 | 1.3 |
| Memorandum item: | | | | |
| In percent of total cost | 100.0 | 25.3 | 74.7 | 72.9 |

Sources: Country authorities, multilateral creditors, Paris Club Secretariat, Global Development Finance, and IMF and IDA staff estimates.

1/ These costs do not include estimates for Bhutan, Lao PDR and Sri Lanka that have indicated that they do not want to participate in the Initiative.

18. **The estimated costs for official bilateral and multilateral creditors are roughly equal** (Table 3). Among multilateral creditors, the World Bank's share is the largest, at about US\$2.9 billion.²⁶ Of this, US\$0.5 billion represent the cost related to Eritrea, Haiti, the

²⁴ The total cost is estimated on the basis of end-2004 debt data. However, the actual cost of HIPC Initiative assistance will be determined when these countries reach their decision points, on the basis of data available at that time.

²⁵ Including the costs for the decision point HIPC's, the total costs of the HIPC Initiative would amount to US\$61 billion in end-2004 NPV terms (see Spring 2006 HIPC Initiative Statistical Update).

²⁶ As is the practice, debt relief from the World Bank will be delivered by IDA.

Kyrgyz Republic, and Nepal. These costs would require additional donor resources and are expected to be financed in the context of future IDA replenishments.²⁷ The IMF's share amounts to approximately US\$2.4 billion.²⁸ Of this, about 91 percent corresponds to the three protracted arrears cases. For the IMF, no provision has been made for financing Somalia, Liberia, and Sudan as well as for Eritrea, Haiti, the Kyrgyz Republic and Nepal in the resources mobilized for the PRGF-HIPC Trust in 1999. New bilateral grant resources will need to be mobilized to enable the IMF to provide HIPC Initiative assistance to these countries at an appropriate time. The cost to the AfDB group would be around US\$1.0 billion. Paris Club creditors account for two thirds of the US\$10.2 billion attributable to official bilateral assistance. Commercial creditors account for about 12 percent (US\$2.5 billion) of the total cost, a share that is significantly higher than that observed in HIPCs that have already reached their decision points.²⁹

V. IMPLICATIONS OF CLOSING THE LIST OF COUNTRIES THAT MEET THE HIPC INITIATIVE INCOME AND INDEBTEDNESS CRITERIA AND ISSUES RELATED TO THE SUNSET CLAUSE

19. **In September 2004, the Executive Boards decided to “ring-fence” the list of countries that meet the income and indebtedness criteria at end-2004.** Directors thought that “ring-fencing” would prevent the HIPC Initiative from being seen as a permanent facility open to new entrants, and remove uncertainties regarding the countries that could potentially benefit from the HIPC Initiative. It would also help obtain a better estimate of the total costs not only of the HIPC Initiative but also of the MDRI, and hence of the associated financing needs.

20. **Staffs propose that the list of countries that meet the income and indebtedness criteria at end-2004 be closed.** At the time of the introduction of the end-2004 HIPC Initiative eligibility criteria, it was envisioned that the list of countries that staffs assessed to have met these criteria would be provided for information of the Boards.³⁰ However, staffs see operational advantages in the Boards explicitly endorsing and closing the list at this time. Countries that staffs have not assessed as satisfying the thresholds (based on the final data or because adequate data are unavailable) would not be treated as potentially eligible for the Initiative.

21. **Although this list will be closed at this time (in the sense explained in paragraph 20), the Boards could decide to amend it on a case-by-case basis to include countries**

²⁷ From IDA14 onwards, IDA's debt relief costs under the HIPC Initiative will be funded by donors' contributions as these costs are incurred.

²⁸ This estimate does not include the cost of debt relief for the IMF under the Multilateral Debt Relief Initiative. For an estimate of this cost and its implications for IMF financing, see the upcoming "Review of Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries."

²⁹ This, and other issues related to the participation of commercial creditors in the HIPC Initiative were discussed in SM/05/329 and IDA/SecM2005-0442.

³⁰ See PRGF-HIPC Trust Instrument—Amendments to Eligibility Criteria, EBS/04/145, October 8, 2004.

whose data are verified to meet the relevant end-2004 thresholds. For example, staffs recognize that upon reconciliation of Afghanistan's debt, it is possible that Afghanistan's debt indicators could be above the relevant thresholds, warranting inclusion of Afghanistan on the list.

22. **Meeting the income and indebtedness criteria at end-2004 does not guarantee that a country would qualify for HIPC Initiative debt relief.** To qualify for HIPC Initiative debt relief, countries would need to satisfy a number of conditions (see Box.1). Even if those conditions were satisfied, qualification for debt relief under the Initiative would only be assessed at the request of the country. Accordingly, each country on the list can decide to avail itself of the HIPC Initiative or not. To the extent that a country has informed staffs in writing that it does not wish to avail itself of the HIPC Initiative, staffs will not proceed with any HIPC Initiative-specific preparations for that country.

23. **Following the Boards' discussions and guidance, staffs will approach the authorities of the countries that have not yet informed the IMF and IDA of their intention to avail themselves of the HIPC Initiative.** The Bhutanese, Laotian, and Sri Lankan authorities have already informed staffs that they are not interested in seeking HIPC Initiative debt relief. Indications are that some other countries may not wish to avail themselves of the HIPC Initiative, and may prefer to be excluded from the list.³¹ Staffs will inform the Boards of the authorities' expressed views. Future documents on the HIPC Initiative will reflect the Boards' decisions, as well as any changes in the authorities' expressed intentions.

24. **In view of the scheduled expiration of the Initiative's sunset clause at end-2006, a number of countries that are now on the list may not be able to benefit from debt relief under the HIPC Initiative.** As mentioned above, five of the identified countries have not yet begun an IMF and IDA-supported program since October 1996 and only have until December 2006 to do so in order to become eligible for debt relief under the Initiative. Most of these countries are likely to experience problems in doing so. In their September 2004 discussions of the sunset clause, Directors emphasized that there was no certainty that the concerned countries could meet the eligibility requirements within two years.³² Staffs will closely monitor the evolution of these countries and, based on the Executive Directors' guidance, will return to the Boards to discuss possible options related to the expiration of the sunset clause in the next months.

³¹ The intentions of countries regarding their participation in the Initiative would be duly noted; however this would not alter staffs' assessment of the countries meeting the HIPC Initiative income and indebtedness criteria.

³² See IMF "The Acting Chair's Summing Up Enhanced HIPC Initiative – Possible Options Regarding the Sunset Clause Executive Board Meeting," August 6, 2004, BUFF/04/157.

ANNEX I. COUNTRY STATUS

Political Developments and Status of Adjustment Programs and PRSP Performance in Countries that May Access Debt Relief under the Initiative Status as of end-February 2006

| Country | Political Developments | Status of Adjustment Programs and PRSP Performance |
|--|--|---|
| Countries that have had a Fund-supported economic program of adjustment and reform since 1995 | | |
| Central African Republic | The political transition following the coup d'état of March 2003 was completed with the conclusion of the presidential and parliamentary elections in May 2005. The incumbent president Bozizé won the widely contested election which was considered by international observers as fair. Thereafter, a government of national unity was put in place and the political situation has been generally peaceful. However, tensions remain particularly due to the persistent economic difficulties and the recurrent problem of wage arrears, which led to a civil service strike during the fourth quarter of 2005. | The PRGF arrangement, which was approved in July 1998, went off track in 2001 after the completion of the first review and the endorsement of the I-PRSP by the Boards of IDA and the IMF. A first EPCA-supported program was approved in July 2004 and a second one on January 27, 2006. Policy performance under the second EPCA will determine the course toward the HIPC decision point, which the authorities would like to reach in 2007. Accordingly, the preparation of the preliminary document should begin in the near future. Efforts are under way to clear external arrears toward multilateral creditors, hopefully by end 2006. Preparation of the final PRSP has resumed and its completion is expected in 2006. |
| Cote d'Ivoire | In 2005, some progress toward peace was made, but the security situation remained fragile. Presidential elections did not take place, as originally intended, on October 30, 2005. Following international mediation, a new transition government was formed in December 2005. Presidential elections are expected by October 2006, as recommended by the UN Security Council and African Union. Sustained international mediation and the new government's ability to fully function will continue to be critical for political normalization and progress in the peace process in 2006. | Currently, there is no IMF program in place. The March 2002 PRGF arrangement became inoperative later that year because of civil conflict and expired in March 2005. Assuming normalization of the security and political situation, IMF's reengagement could be in the context of an EPCA, which, upon satisfactory implementation, could lead to a new PRGF arrangement and a possible HIPC decision point in 2007. An I-PRSP was endorsed in March 2002, but the conflict delayed the completion of the full PRSP. The country has large external arrears. |
| Haiti | Presidential and parliamentary elections are scheduled to take place in February-March 2006. | A PRGF-supported program was approved in October 1996, but a review was never completed. In October 2005, the IMF Board approved Haiti's request for a second EPCA purchase following broadly satisfactory performance under the first EPCA-supported program--approved in January 2005. Once an elected government takes office, the authorities are expected to request a PRGF-supported program. The authorities have completed a first draft of an I-PRSP. |
| Kyrgyz Republic | The new government that took office in the wake of the regime change in March 2005 is seeking to strengthen its power base, especially by improving its relations with parliament but the political situation is tense. A possible move toward a parliamentary system, which is under consideration, will be put to a national referendum in late 2006. | A new PRGF-supported arrangement was approved by the Executive Board in March 2005, following the satisfactory completion of the predecessor arrangement approved in December 2001. The Board completed the first review under the arrangement in October 2005. An agreement and referendum has been reached on an economic program for 2006, which is expected to be considered by the Board in May 2006 in the context of the second review. A full PRSP was completed and endorsed by the Boards in February 2003, and the first annual progress report was endorsed by the Boards in June 2004. The authorities have completed a draft of the second APR, which could be sent to the Boards---jointly with the staffs' JSAN, for information--- in conjunction with the staff report for the second review. |
| Nepal | King Gyanendra took over executive powers in February 2005. The political situation remains difficult. | A PRGF arrangement was approved in November 2003, and the first review was completed in October 2004. A full PRSP was completed and endorsed by the Boards in November 2003. The second and third reviews of the PRGF are currently overdue. |
| Togo | In April 2005, a new president took office after a period of political turmoil. A new government was formed in late June. | The 1994 PRGF-supported arrangement went off track in 1998. The country has not had an IMF arrangement since, but the authorities are eager to enter into a new SMP. Satisfactory performance under the SMP could pave the way for agreement on a possible new PRGF. An I-PRSP was approved by the Council of Ministers in November 2004 but has not been submitted to the Boards. Assuming a satisfactory track record of policy implementation under a Fund-supported program, Togo could then reach its decision point by late 2007. |

**Political Developments and Status of Adjustment Programs and PRSP Performance in Countries that May Access Debt Relief under the Initiative
Status as of end-February 2006**

| Country | Political Developments | Status of Adjustment Programs and PRSP Performance |
|--|---|---|
| Countries that have not had a Fund-supported economic program of adjustment and reform since 1995 | | |
| Comoros | The political situation has improved, reflecting national reconciliation and enhanced cooperation between the island governments. Importantly, agreement was reached on the division of competences and on the sharing of revenues which led to the adoption of the first consolidated budget since the separatist crisis. Donors pledged some \$200 million in external assistance during a roundtable conference in December 2005. Presidential elections are scheduled for April 2006. | Comoros has not had a Fund arrangement since 1991. Performance under the 2005 SMP was mixed - in particular with respect to fiscal targets - and additional time will be needed to build the track record necessary to move to a PRGF arrangement. An I-PRSP has been transmitted to the Fund and the Bank and is expected to be issued to the two Boards alongside a JSAN in April 2006. |
| Eritrea | Eritrea remains in a state of mobilization over the border demarcation dispute with Ethiopia. Following several unsuccessful mediation efforts by the UN and bilateral partners, the US has started in January 2006 another initiative to facilitate the border demarcation and reduce tensions. Prospects for success are uncertain at this time, and the ongoing "no war/no peace" impasse is likely to continue. | Eritrea has never had an IMF arrangement and has not graduated to development policy lending from IDA. An I-PRSP had been drafted in June 2003 in collaboration with development partners but has not been finalized. Discussions during the 2005 Article IV consultations focused on Eritrea's preparedness to qualify for external debt relief under the Enhanced HIPC Initiative; economic reform options and the required next steps to arrive at an IMF supported program before end-2006 were discussed. The Government has not yet committed to such a program but indicated its intention to invite IMF/WB back for more detailed discussions in April/May 2006. |
| Liberia | In light of the increasing concerns on economic governance under the previous government, Liberia's international partners agreed on a long-term international assistance program in September 2005 to improve economic governance and financial management in Liberia. The new President, inaugurated on January 16, 2006, expressed a strong desire to work with the international community to rebuild Liberia's economy and institutions and endorsed the program. | Nearly all of the debt is in arrears. Monthly token payments to the IMF resumed in early 2004. The new government is interested in a SMP to build a track record that could lead to the start of de-escalating the IMF's remedial measures against Liberia and to an eventual resolution of the debt overhang. Negotiations on a 6-month SMP can commence in February 2006, once sufficient progress is made on the short-term key actions to improve budget management and the financial health of the central bank. Liberia could reach its decision point by mid-2007 once: (i) it satisfactorily completes the SMP and establishes a track record of policy implementation under a Fund-supported program, and (ii) sufficient financing assurances for its arrears clearance and the debt relief are made available. Liberia has not begun the PRSP process. |
| Somalia | A Transitional Parliament was inaugurated in August 2004, and a cabinet forming the Transitional Government of Somalia (TFG) was appointed in January 2005. Following relocation in June from Nairobi, factions of the TFG have been divided over where to locate the seat of government. President Ahmed, Prime Minister Gedi, and their supporters relocated to the town of Jowhar, while a significant portion of the parliament set up operations in Mogadishu. The two sides have recently signed a reconciliation agreement (the Aden Declaration), but true reconciliation between the various factions has yet to emerge. While the security situation remains turbulent in south-central Somalia, neighboring Puntland and Somaliland are relatively stable. | Somalia has not had a Fund-supported arrangement since 1987. Arrears are substantial, and Somalia was declared ineligible to use the general resources of the Fund in 1988. The TFG has made initial contacts with the Fund, but the TFG currently lacks sufficient international recognition to exercise the rights of membership. There is no PRSP process in place. The World Bank is engaged with Somalia under the LICUS approach, and is currently working in tandem with the UNDP on a reconstruction needs assessment. |
| Sudan | An Interim National Constitution was passed in July 2005, followed by the establishment of the Government of National Unity and Government of Southern Sudan in fall 2005. However, the situation on the ground in Darfur remains critical and progress toward resolution of the conflict has been slow. Several rounds of discussion have been completed in Abuja and particular progress has been noted with respect to wealth sharing arrangements. The first Sudan Consortium will be held on March 9-10, 2006, with the objective of reviewing progress in implementation of commitments and increasing national and international funding for development purposes. | Sudan's external debt is quite large and most of it is in arrears. Restoring Sudan's external viability would require wide international support and exceptional debt relief, including under the HIPC Initiative. Performance under the 2004 SMP was satisfactory, and a new SMP has been presented to the Board in April 2005. An I-PRSP is being prepared. A Rights Accumulation Program could be in place as soon as appropriate financing assurances are in place. Financing assurances are needed to clear about US\$1.5 billion of arrears to the Fund. |

Source: IDA and IMF Country Documents

ANNEX II. METHODOLOGY AND DATA ISSUES

I. Introduction

1. This annex outlines the steps taken to prepare the list of countries meeting the HIPC Initiative income and indebtedness criteria at end- 2004.³³ Section II of the annex describes briefly the approach taken by staffs to identify such countries. Section III discusses the data sources, methods of estimation, and quality of the results.

II. Methodology

2. Staffs followed a three-stage approach to determine the list.³⁴

Stage 1: Defining a short-list of countries based on end-2003 debt burden indicators

3. IDA-only/PRGF-eligible countries as of end-December 2004, excluding those countries that reached the decision point under the HIPC Initiative, were short-listed when their estimated end-2003 debt ratios before traditional debt relief were above 120 percent for the NPV of debt-to exports ratio and 200 percent for the NPV of debt-to-revenue ratio. Annex Table 1 presents the classification resulting from the short-listing exercise.

Stage 2: Establishing a preliminary list of countries based on end-2004 debt ratios

4. Staffs then prepared a preliminary list. based on end-2004 external debt and macroeconomic data provided by the authorities of the short-listed countries, supplemented with debt information obtained from creditors, the Paris Club Secretariat, and Global Development Finance. Annex Table 1 summarizes the Stage 2 results.

Stage 3: Defining the list and solving data deficiencies

5. Staffs put a priority on collecting the data necessary to assess the countries not yet classified at Stage 2 – Bangladesh, Bhutan, Myanmar, Sri Lanka and Tonga – and to confirm the classification of the four newly identified countries –Eritrea, Haiti, the Kyrgyz Republic and Nepal. Staffs also took the necessary steps to resolve the data deficiencies identified at Stage 2 for the remainder of the countries in the preliminary list.

³³ Hereafter “the list” refers to the “list of countries that meet the income and indebtedness criteria at end-2004,” unless otherwise specified.

³⁴ For a detailed description of Stages 1 and 2 please refer to Annex III of “Heavily Indebted Poor Country (HIPC) Initiative—Status of Implementation,” August 22, 2005, SM/05/329, <http://www.imf.org/external/np/pp/eng/2005/081905.htm>; and IDA/SecM2005-0442, <http://siteresources.worldbank.org/INTDEBTDEPT/Resources/081905.pdf>.

Annex Table 1. Evolution of the Results under the Ring-Fencing Exercise

| Countries Considered at "Stage 1" | Countries Considered at "Stage 2" | Countries Considered at "Stage 3" |
|--|--|--|
| <p>1. Countries included in the short-list (23)</p> <p><i>1.1 Countries previously identified as HIPCs (10)</i> Central African Republic Comoros Côte D'Ivoire Lao, PDR Liberia Myanmar Republic of Congo Somalia Sudan Togo</p> <p><i>1.2 New countries (13)</i> Afghanistan Bangladesh Bhutan Cape Verde Eritrea Georgia Haiti Kyrgyz Republic Moldova Nepal Sri Lanka Tajikistan Tonga</p> <p>2. Countries excluded from the short-list (16) Albania Angola Armenia Cambodia Djibouti Kenya Kiribati Lesotho Maldives Mongolia Samoa Solomon Islands Timor-Leste Vanuatu Vietnam Yemen</p> | <p>1. Countries included in the preliminary list (13)</p> <p><i>1.1 Countries previously identified as HIPCs (9)</i> Central African Republic Comoros Côte D'Ivoire Lao, PDR Liberia Republic of Congo Somalia Sudan Togo</p> <p><i>1.2 Other countries (4)</i> Eritrea Haiti Kyrgyz Republic Nepal</p> <p>2. Countries for which an assessment was not possible (5) Bangladesh Bhutan Myanmar Sri Lanka Tonga</p> <p>3. Countries excluded from the preliminary list (5) Afghanistan 1/ Cape Verde Georgia Moldova Tajikistan</p> | <p>1. Countries meeting the income and indebtedness criteria (14)</p> <p><i>1.1 Countries previously identified as HIPCs (8) 2/</i> Central African Republic Comoros Côte D'Ivoire Lao, PDR 3/ Liberia Somalia Sudan Togo</p> <p><i>1.2 Other countries (6)</i> Bhutan 3/ Eritrea Haiti Kyrgyz Republic Nepal Sri Lanka 3/</p> <p>2. Countries not meeting the income and indebtedness criteria (7) Afghanistan 4/ Bangladesh Cape Verde Georgia Moldova Tajikistan Tonga Myanmar 5/</p> |

1/ A substantial share of Afghanistan's debt is unverified or under dispute with external creditors. Based on verified debt only, Afghanistan's estimated debt burden indicators were below the HIPC Initiative thresholds.

2/ Republic of Congo was excluded from the analysis at stage 3 because it reached its decision point under the HIPC Initiative in February 2006.

3/ The authorities of Bhutan, Lao PDR and Sri Lanka have indicated in writing to IMF and World Bank staff that they do not wish to avail themselves of the HIPC Initiative.

4/ A final assessment on Afghanistan will depend on the verification of its external obligations and a resolution of disputes with external creditors.

5/ A letter from the Governor of the Central Bank of Myanmar on behalf of the Minister of Finance dated January 24, 2006, indicated that the authorities could not provide the data needed to finalize the assessment and that they do not want to benefit from debt relief under the HIPC Initiative at this time.

6. Staffs requested macroeconomic and loan-by-loan external debt data from the authorities of the nine countries for which no conclusion could be reached or which had been identified as meeting the HIPC Initiative income and indebtedness criteria at end- 2004. Staffs also offered technical assistance for the reconciliation of the debt with creditor statements (see Box 1).³⁵ Technical missions, either in the context of this exercise or in the context of the preparation of low-income country debt sustainability analyses, were organized to facilitate data collection and reconciliation, including to Bangladesh, Bhutan, Eritrea, Nepal, and Sri Lanka. In all cases, except Myanmar, country authorities provided loan-by-loan data and comprehensive supporting creditor documentation.³⁶ In the case of Myanmar, the authorities indicated in an official letter to the IMF that they were not able to provide the required data.

7. Staffs also took steps to improve the robustness of the debt ratio estimates for a number of countries. For Cape Verde, where the NPV of debt-to-export ratio was below but relatively close to the HIPC Initiative threshold, loan-by-loan data were analyzed. Based on these data, the initial classification of Cape Verde was confirmed. In the case of Afghanistan, staff received additional information on its verified debt and exports data. However, Afghanistan's obligations toward a number of its creditors remain unreconciled or under dispute, preventing staffs from reaching a conclusion on the country's classification. Staffs considered that data reviews were not necessary to confirm the classification of Georgia, Moldova and Tajikistan, since their debt ratios had earlier been found to be significantly below HIPC thresholds.

III. Data Sources, Method of Estimation and Data Quality

8. An assessment of the quality of the data used to prepare the preliminary list was provided in the methodological annex of the September 2005 Status of Implementation Report.

The following concerns were identified regarding data quality:

- bilateral debt data were insufficiently disaggregated in terms of currency composition, which hindered the estimation of NPVs;

³⁵ The data requested included (a) loan-by-loan external debt data as at end December 2004, and (b) data on exports of goods and non-factor services, central government revenues and GDP for the calendar years 2002-04. Loan-by-loan data was required to: (i) reconcile the authorities' data with the information submitted by creditors, and (ii) accurately estimate the country's NPV of debt after traditional debt relief as per the HIPC Initiative guidelines.

³⁶ In the case of Haiti, supporting creditor information on bilateral debt was not provided by the authorities. Statements from multilateral creditors were obtained at stage 2 allowing for a full reconciliation of the country's multilateral debt. Staff determined that given the unavailability of bilateral creditor statements field work would not improve the coverage or reliability of data.

- the macroeconomic and bilateral debt data provided by some countries were not on a calendar basis, and hence did not satisfy the requirement under the extension of the sunset clause;
- the macroeconomic data provided were preliminary and subject to future revision;
- the coverage of external debt data was incomplete for some countries.

Annex Box 1. Technical Aspects Related to HIPC Debt Burden Indicators

Potential eligibility for HIPC Initiative debt relief is assessed considering the NPV of debt-to-exports ratio or, alternatively under certain circumstances, the NPV of debt-to-revenue ratio, in both cases after full delivery of traditional debt relief. Below are the main definitions and technical aspects for the calculation of the ratios.

Debt: Debt covered under the Initiative is limited to medium and long-term public and publicly guaranteed external debt with the following exceptions: short-term debt that has been in arrears for more than one year; private sector debt that has previously been covered by Paris Club agreements; debt of public enterprises (defined as at least 50 percent owned by the government) regardless of whether the debt is formally publicly guaranteed; and debt of public enterprises being privatized if that debt remains a liability of the government. Only disbursed and outstanding debt is considered: future disbursements are excluded even if they relate to existing commitments.

Debt Service: Debt service is projected on a loan-by-loan basis and reflects the disbursed and outstanding portion of the loans. When loans are repaid on a commitment basis, debt service is projected using the contractual repayment profile pro-rated by the disbursed amount.

Net Present Value: The NPV is the discounted value of the projected debt service payments. It is used as the basis for calculating the amount of debt relief once full delivery of traditional debt relief is assumed. The currency-specific discount rates used under the HIPC Initiative are the average OECD Commercial Interest Reference Rates (CIRRs) calculated over the six-month period leading up to the cutoff date for the debt stock. For units of account from various multilateral creditors, the discount rate is the weighted average of the CIRRs for the currencies in the basket. The SDR discount rate is used for those currencies for which a CIRR is not available, unless they are pegged to a currency for which a CIRR is available, in which case the CIRR of the peg is used.

Traditional Debt Relief: This refers to a Paris Club stock-of-debt operation on Naples terms (with a 67 percent NPV reduction on non-ODA debt) and action on at least comparable terms on other official bilateral and commercial debt. It is the basis for which qualification for debt relief is assessed in HIPC Initiative documents even when a country has never rescheduled its debts.

Cut-off date: The date (established at the time of a country's first Paris Club rescheduling) before which loans must have been contracted in order for their debt service to be eligible for rescheduling. New loans extended after the cut-off date are not subject to future rescheduling. A June 1999 cut-off date (the effective date of the Cologne Agreement) is applied to countries that have not had a Paris Club rescheduling.

Annex Box 1. Technical Aspects Related to HIPC Debt Burden Indicators (continued)

Official Development Assistance (ODA): ODA is defined by the OECD as credits (including grant and loan packages) (a) aimed at promoting economic development and welfare of developing countries and, (b) that are concessional in character and contains a grant element of at least 25 percent (using a fixed discount rate of 10 percent). ODA is provided to developing countries and to multilateral institutions by OECD/DAC members and other countries through their official agencies, including state and local governments, or by their executive agencies; ODA is also provided to developing countries by multilateral institutions. Excluded from this category and therefore considered non-ODA are defense related lending, lending on commercial terms and by export credit agencies.

Exports: The exports denominator corresponds to the three-year backward-looking average exports of goods and non-factor services, consistent with the IMF Balance of Payments Manual, 5th edition, 1993. The export base is gross and is not adjusted to reflect any netting out of imported inputs, debt service payments, etc. Worker's remittances and transit trade (goods that cross frontiers without changing ownership) are excluded from the denominator

Revenue: Revenue is defined as current central government revenue excluding grants. This is consistent with the objective of releasing government resources from external debt service, which in HIPCs is mostly undertaken by the central government, to spending in priority areas. Information on revenue on a wider basis is not available for most of these countries and use of a broad revenue base only when available would tend to penalize countries with better statistical systems.³⁷

Exchange rates: The NPV of debt is converted from its currency-specific components into U.S. dollars using the exchange rates prevailing at the end of the base year for the debt stock. In cases where the balance of payments is presented in a currency other than the U.S. dollar, exports are converted to U.S. dollars using the average exchange rate for the corresponding year. The three-year export average used as the denominator for the NPV of debt-to-exports ratio is derived as a second step after annual exports have been converted into U.S. dollars. For the calculation of the NPV of debt-to-revenue ratio, current central government revenue is converted into U.S. dollars using the average exchange rate for the year.

9. Staffs attempted to resolve these data gaps on the basis of additional data submissions, including loan-by-loan debt data, from country authorities. The availability of loan-by-loan data allowed staff the opportunity to apply cut-off dates to the debts of those countries which have not had a Paris Club rescheduling (see Box 1), thus improving the simulation of traditional debt relief mechanisms. Overall, these efforts led to improvements in data quality and consequent revisions to the debt indicators of some countries (Table 2). In addition, the robustness of the NPV estimates of multilateral debt used in the preliminary list

³⁷ The Sri Lankan authorities have indicated that since the method used to calculate the NPV of debt-to-revenue ratio does not take into account revenue from provinces, it may overstate Sri Lanka's debt burden.

was confirmed, as the discrepancy with reconciled multilateral debt data was less than one tenth of a percent. Additional or updated information, however, could lead to changes in the estimates.

Annex Table 2. Revisions to the Estimated Debt Burden Indicators since September 2005

Export Window

| Country | NPV/X Ratio | | Difference | Data Revisions |
|--------------------------|-------------|--------|------------|--|
| | Sep-05 | Apr-06 | | |
| Liberia | 1,433 | 1,433 | 0 | |
| Somalia | 1,091 | 1,091 | 0 | |
| Central African Republic | 546 | 562 | 16 | Currency specific loan-by-loan bilateral debt data was obtained. This resulted in an 8 percent increase in the NPV of bilateral debt after traditional debt relief. |
| Sudan | 561 | 561 | 0 | |
| Eritrea 1/ | 362 | 522 | 160 | Data on exports of goods and services were revised downwards to correct for the over estimation of travel receipts credits in the Service Account of the Balance of Payments. As a result, the 3-year average of exports of goods and services declined by 40 percent and increased the debt ratio by 146 percentage points. Improvements in bilateral debt data resulting from a country mission and the application of a June-1999 cutoff date added the remaining 2 percentage points. |
| Comoros | 378 | 378 | 0 | |
| Nepal 1/ | 201 | 198 | -3 | Currency specific loan-by-loan bilateral debt data at end-December 2004, which incorporated the debt relief (\$202 million in nominal terms) provided by the government of Japan, and the application of a June-1999 cutoff date improved the estimates. Consequently, the NPV of bilateral debt after traditional debt relief declined by 13 percent. |
| Haiti | 190 | 189 | -1 | Currency specific loan-by-loan bilateral debt data was obtained allowing for a more robust estimation of the debt ratio. |
| Lao, PDR | 197 | 221 | 24 | Currency-specific data, recently provided by the Asian Development Bank, allowed for a precise estimation of the NPV of the debt owed to this creditor. Earlier NPV estimates, calculated using the SDR discount rate, underestimated the share of Yen-denominated debt. The revision increased the ratio by 19 percentage points. Data on exports of goods and services were revised upwards to correct for the under estimation of goods exports. As a result the 3-year average of exports of goods and service increased by 7.5 percent and reduced the debt ratio by 13.8 percentage points. A 32 percent upward revision to the amount of outstanding bilateral and commercial debt outstanding at end-December 2004 resulted in a further increase of 11.4 percentage points. |
| Bhutan 1/ 2/ | 148 | 299 | 151 | Data on exports of goods and services were revised upwards to correct for the under estimation of goods. As a result the 3-year average of exports of goods and services increased by 6.5 percent and reduced the debt ratio by 9 percentage points. Additionally, the 221 percent increase in the amount of outstanding bilateral debt at end-December 2004 (due to the use of currency specific loan-by-loan debt data, the reclassification of loans by ODA and non-ODA category, the inclusion of interest accrued on some loans and the application of a June-1999 cutoff date) added 172 percentage points. Multilateral debt was revised downwards by 2.3 percent and had a 1.6 percentage point reduction in the debt ratio. |

Fiscal Revenue Window

| Country | NPV/R Ratio | | Difference | Data Revisions |
|--------------------|-------------|--------|------------|---|
| | Sep-05 | Apr-06 | | |
| Togo 1/ | 394 | 409 | 14 | Currency specific loan-by-loan bilateral debt data was obtained and resulted in a 6 percentage point increase in the debt ratio. Additionally, the preliminary 2004 data on central government revenue after grants was revised downward by 2 percent and resulted in the remaining increase in the debt ratio. |
| Cote d'Ivoire | 361 | 361 | 0 | |
| Kyrgyz Republic 1/ | 345 | 376 | 31 | Currency specific loan-by-loan bilateral debt data at end-December 2004 was obtained and resulted in a 37 percent increase in the estimated NPV of bilateral debt after traditional debt relief. |
| Sri Lanka 1/ | 238 | 258 | 20 | Currency specific loan-by-loan bilateral debt data at end-December 2004 as well as the application of a June-1999 cutoff date allowed for a 16 percent increase in its estimated NPV of bilateral debt after traditional debt relief. |

Countries with Debt Ratios Below the HIPC Thresholds

| Country | NPV/X Ratio | | Difference | Data Revisions |
|------------------|-------------|--------|------------|--|
| | Sep-05 | Apr-06 | | |
| Bangladesh 1/ 2/ | 158 | 146 | -12 | Currency specific loan-by-loan bilateral debt data at end-December 2004, including the treatment of debt relief (\$1.52 billion in nominal terms) provided by the government of Japan, as well as the application of a June-1999 cutoff date allowed for a more robust estimation of the debt ratio. This reduced the NPV of bilateral debt after traditional debt relief by 31.6 percent. |
| Tonga 2/ | 126 | 132 | 5 | Currency specific loan-by-loan bilateral debt data as well as the application of a June-1999 cutoff date allowed for a 40 percent increase in its estimated NPV of bilateral debt after traditional debt relief. |

Countries for which an Assessment is not Possible

| Country | NPV/X Ratio | | Difference | Data Revisions |
|----------------|-------------|--------|------------|--|
| | Sep-05 | Apr-06 | | |
| Afghanistan 3/ | 83 | 67 | -16 | Data on exports of goods and services were revised upwards to correct for the under estimation of exports of goods. As a result the 3-year average of exports of goods and service increased by 39 percent and reduced the debt ratio by 23.3 percentage points. Upward revisions to the amount of outstanding bilateral debt arrears at end-December 2004 and more precise data on the implied interest rate added 7 percentage points. |

1/ Debt data for multilateral creditors was revised marginally. The impact of such revisions on the debt ratio is negligible.

2/ Earlier estimates for these countries includes data provided by the authorities on bilateral debt as of end of their respective fiscal years. Also, the estimates were calculated based on macroeconomic data provided on a fiscal year basis.

3/ Estimates for Afghanistan include only debt that is verified and not under dispute.

10. The data improvements for countries identified as potentially eligible for HIPC Initiative debt relief before September 2005 are detailed below.

- For Comoros, Côte d'Ivoire, Liberia, Somalia, and Sudan, there were no revisions to the data collected at Stage 2.³⁸
- For Central African Republic, Lao PDR and Togo, the revised data led to an increase in their debt indicators by about 8 percent on average. In the case of Central African Republic, bilateral debt estimates were improved as loan-by-loan data from the authorities were used. Currency-specific data from the Asian Development Bank and bilateral creditors were used to improve the NPV estimates for Lao PDR.³⁹ For Togo, estimates of debt burden indicators were revised to reflect new debt data provided by the authorities for three multilateral creditors (BOAD, FECECE, and FSA), revised bilateral debt data, and updated estimates of economic variables.

11. For countries identified in September 2005 as new potential HIPC countries and countries for which an assessment was not possible at that time, the main data improvements are as follows:

- Authorities' loan-by-loan debt data for Bangladesh, Bhutan, Eritrea, Haiti, Kyrgyz Republic, Nepal, Sri Lanka and Tonga were reconciled with supporting creditor documentation to ensure that the final assessment was based on accurate debt data. In the case of Bangladesh and Nepal, this also involved confirmation of the outstanding debt owed to the Japan Bank for International Cooperation (JBIC) following the implementation of its December 2002 decision to cancel part of its ODA claims. Currency-specific data from the African Development Bank and the Asian Development Bank were used to calculate the NPV of debt for Eritrea and Tonga.
- In other cases where creditor information was unavailable, authorities' data was used after validation by staff. The validation process involved continuous exchanges with the authorities on inconsistencies in their submissions. Most inconsistencies in the data were satisfactorily minimized.

12. Overall, the level of reconciliation between country authorities' debt data and creditor information ranged from 90 percent in the case of Eritrea and Kyrgyz Republic to close to 100 percent in the case of Bhutan, Nepal and Tonga.⁴⁰ In staffs' view these reconciliation

³⁸ A summary of the sources of information, quality of the data and method of estimation used for those countries is presented in Annex III of the September 2005 HIPC Initiative Status of Implementation Report.

³⁹ Earlier estimates were based on loan-by-loan data in the currency of commitment (SDR) rather than currency of repayments, which were not available at the time. Using the SDR discount rate for the calculation of the NPV of these obligations did not reflect adequately its currency composition, in particular the significant share of Japanese Yen.

⁴⁰ For the IMF, a minimum 70 percent reconciliation of total debt is required for decision point documents.

levels are sufficient to allow for the final assessment of the potential eligibility of these countries. Table 3 presents a country-specific assessment of data quality and the progress made on debt reconciliation.

Annex Table 3. Sources of Information and Quality of the Data Used to Estimate End-December 2004 Debt Burden Indicators

| Country | Debt Data Sources 1/ | Progress on Debt Data Reconciliation (%) | | Quality of Data | | |
|-----------------|----------------------------------|--|----------------|-----------------|-----------------------|--|
| | | | | Assessment | Gaps/Issues Remaining | |
| Afghanistan 2/ | Authorities | √ | Multilateral | 99 | Satisfactory | Unverified debts to a number of creditors, including Iraq, Bulgaria, the Czech Republic, and Saudi Arabia, and has debt in dispute with Russia (estimated at US\$10.8 billion). |
| | Multilateral creditor | √ | Bilateral | n.a. | | |
| | Paris Club creditors/Secretariat | √ | Overall | n.a. | | |
| | Other | | | | | |
| Bangladesh | Authorities | √ | Multilateral | 100 | Satisfactory | Guaranteed loans and loans from China have not been reconciled because of unavailable supporting creditor information. |
| | Multilateral creditor | √ | Bilateral | 87 | | |
| | Paris Club creditors/Secretariat | √ | Overall | 97 | | |
| | Other | √ | | | | |
| Bhutan | Authorities | √ | Multilateral | 100 | Satisfactory | |
| | Multilateral creditor | √ | Bilateral | 100 | | |
| | Paris Club creditors/Secretariat | √ | Overall | 100 | | |
| | Other | √ | | | | |
| Eritrea 3/ | Authorities | √ | Multilateral | 100 | Satisfactory | Validation checks showed discrepancies between the authorities data and creditor information for a number of loans. Supporting creditor information for several loans was unavailable. |
| | Multilateral creditor | √ | Bilateral | 68 | | |
| | Paris Club creditors/Secretariat | √ | Overall | 90 | | |
| | Other | √ | | | | |
| Haiti | Authorities | √ | Multilateral | 100 | Satisfactory | On the bilateral side, France, Canada and Spain have been reconciled accounting for 47 % of the outstanding stock. |
| | Multilateral creditor | √ | Bilateral | 47 | | |
| | Paris Club creditors/Secretariat | √ | Overall | 91 | | |
| | Other | √ | | | | |
| Kyrgyz Republic | Authorities | √ | Multilateral | 100 | Satisfactory | On the bilateral side, loans to Russia and China were not reconciled because of unavailable supporting documentation. |
| | Multilateral creditor | √ | Bilateral | 68 | | |
| | Paris Club creditors/Secretariat | √ | Overall | 90 | | |
| | Other | √ | | | | |
| Nepal | Authorities | √ | Multilateral | 100 | Satisfactory | |
| | Multilateral creditor | √ | Bilateral | 99 | | |
| | Paris Club creditors/Secretariat | √ | Overall | 100 | | |
| | Other | √ | | | | |
| Sri Lanka | Authorities | √ | Multilateral | 100 | Satisfactory | Some guaranteed loans have not been reconciled because of unavailable supporting creditor information. |
| | Multilateral creditor | √ | Bilateral | 98 | | |
| | Paris Club creditors/Secretariat | √ | Overall | 99 | | |
| | Other | √ | | | | |
| Tonga 4/ | Authorities | √ | Multilateral | 100 | Satisfactory | |
| | Multilateral creditor | √ | Bilateral | 100 | | |
| | Paris Club creditors/Secretariat | √ | Overall | 100 | | |
| | Other | √ | | | | |

1/ Other debt data sources refer to creditor statements and other documentation from Non-Paris club and commercial creditors allowing for the reconciliation of the debt.

2/ In the case of Afghanistan aggregated figures provided by the authorities did not allow for a loan-by-loan reconciliation for multilateral creditors. However both datasets had a discrepancy of less than one percent.

3/ Authorities did not provide currency-specific data on the debt owed to the African Development Fund. 100% reconciliation includes the data provided by the AfDB, which proved 100% accurate for the remaining African countries, as part of the reconciled debt.

4/ Authorities did not provide currency-specific data on the debt owed to the Asian Development Bank. 100% reconciliation includes the data provided by the AsDB, which proved 100% accurate for the remaining Asian countries, as part of the reconciled debt.