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Original: English

**EB 2000/71/R.12**  
**Agenda Item 8**

15 November 2000  
English

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**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Seventy-First Session**  
Rome, 6-7 December 2000

**IFAD'S PARTICIPATION IN THE ENHANCED HEAVILY-INDEBTED  
POOR COUNTRIES DEBT INITIATIVE (HIPC DI):**  
**BENIN, BURKINA FASO, HONDURAS, MALI AND SENEGAL**

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## **IFAD'S PARTICIPATION IN THE ENHANCED HEAVILY-INDEBTED POOR COUNTRIES DEBT INITIATIVE (HIPC DI):**

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### **INTRODUCTION**

1. The purpose of the present document is to:
  - (a) provide the Executive Board with a cumulative progress report on the implementation of the Heavily-Indebted Poor Countries Debt Initiative (HIPC DI), with a request that parts of the paper be submitted to the Governing Council for information; and
  - (b) request the Executive Board's decision on:
    - (i) debt relief under the enhanced HIPC DI for three new countries: **Benin**; and **Honduras** and **Senegal** under the fiscal criteria;
    - (ii) an increase in the debt relief approved by the Board under the original HIPC DI framework in order to meet the enhanced HIPC DI requirements for **Burkina Faso** and **Mali**; and
    - (iii) the general policy principle of incorporating **arrears** into the front-loaded debt-relief modality under well-specified limiting conditions.

### **PART I - STATE OF THE HIPC DI AND IFAD'S PARTICIPATION**

2. **State of the HIPC DI.** The implementation of the HIPC DI was launched at the annual meeting of the World Bank/International Monetary Fund (IMF) in late 1996. Soon after its start-up, concerns arose regarding: its slow rate of implementation; limited country coverage; inadequate levels of relief, especially in terms of front-loaded relief; and the weak link between debt relief and poverty eradication. To address these concerns, several members of the Organisation for Economic Co-operation and Development (OECD) drew up detailed proposals for improving the design of the HIPC DI, and the mid-1999 G-8 Summit held in Cologne, Germany, provided policy guidelines for the blueprint of an enhanced HIPC DI framework. In response to the G-8 Summit's call, the World Bank and IMF engaged in consultations with a view to designing the enhanced HIPC DI policy framework. On 26 September 1999, the co-chairpersons of the joint meeting of the Interim and Development Committees issued a statement endorsing the implementation start-up of the enhanced HIPC DI.

3. This enhanced framework consists of the following main elements: the lowering of relief eligibility thresholds and target debt ratios; the promotion of relief from the decision point onwards; and the requirement of a comprehensive country-owned poverty-reduction strategy, linked to agreed international development goals, with measurable indicators to monitor progress. Annex I describes the main parameters of the policy framework for the enhanced HIPC DI. As a result of the enhanced initiative, more countries will obtain faster relief that will enable them to overcome unmanageable debt in an effective and sustainable manner (see Annex II for an expanded list of countries). The linking of debt relief to the pursuit of specific poverty-reduction targets by the concerned governments is a matter that IFAD has pursued since the inception of the HIPC DI, and it is now at the centre of the dialogue. Details of one element of this important process, the poverty-reduction strategy paper (PRSP), are given in Annex III. Because of the enhancement of the HIPC DI policy

framework, the total cost of the HIPC DI has increased to USD 28.6 billion<sup>1</sup> (see Annex IV). A considerable contribution will be made by the bilateral creditors, and especially by the Paris Club under the long-standing proactive leadership of France, strongly supported by a number of other OECD countries. It should be noted that these currently available figures remain preliminary estimates.

4. As of mid-October 2000, enhanced HIPC DI debt relief has been agreed upon for 11 countries, totalling about USD 19 billion in debt-service relief, or USD 10.4 billion in net present value (NPV) terms. For countries that have reached their decision points (original and enhanced HIPC DI), it is estimated that, as a result of assistance under the HIPC DI from all creditors, on average after the completion point, total debt stock in NPV terms will be reduced by over 40%, debt-service-to-export ratios will fall to below 10%, and the debt-service-to-revenue ratios to below 12%. Taking assistance under the HIPC DI together with traditional relief mechanisms (provided by the Paris Club and other bilateral and commercial creditors, and unilateral debt cancellations by creditors over and above the HIPC DI relief), the debt of these countries will ultimately be reduced by about two thirds.

5. Table 1 shows the status of the country cases: six countries have reached the completion point under the original HIPC DI; and one – Uganda – under the enhanced framework. In addition, preliminary work has reached an advanced stage for another 13 countries: Chad, Ethiopia, The Gambia, Guinea, Guinea-Bissau, Guyana (enhanced), Madagascar, Malawi, Nicaragua, Niger, Rwanda, Sao Tome and Principe and Zambia. It is expected that about 20 countries could have debt-relief packages agreed upon by the World Bank/IMF by the end of 2000, amounting to more than USD 30 billion in debt-service relief (or about USD 17 billion in NPV terms).

**Table 1: Status of Approved Country Cases**

Country	Original HIPC DI	Enhanced HIPC DI	IFAD Executive Board Approved Relief (in USD million (NPV))	
			Original	Enhanced
<b>Benin</b>		Decision Point: July 2000		
<b>Bolivia</b>	Completion Point: September 1998	Decision Point: February 2000		8.52
<b>Burkina Faso</b>	Completion Point: July 2000	Decision Point: July 2000	3.84	
<b>Cameroon</b>		Decision Point: October 2000		
<b>Côte d'Ivoire</b>	Decision Point: March 1998		0.21	
<b>Guyana</b>	Completion Point: May 1999		0.82	
<b>Honduras</b>		Decision Point: June 2000		
<b>Mali</b>	Completion Point: September 2000	Decision Point: September 2000	2.04	
<b>Mauritania</b>		Decision Point: February 2000		9.84
<b>Mozambique</b>	Completion Point: June 1999	Decision Point: April 2000		13.85
<b>Senegal</b>		Decision Point: June 2000		
<b>Tanzania, United Rep. of</b>		Decision Point: April 2000		15.50
<b>Uganda</b>	Completion Point: April 1998	Completion Point: May 2000		16.58
<b>Total</b>			<b>71.20</b>	

SDR 1 = USD 1.29789 as of 29 September 2000.

6. A series of initiatives have been taken to accelerate the implementation of the HIPC DI. These actions include: (a) ensuring that the policy requirements for reaching the decision point are those essential to the success of countries' poverty-reduction and growth strategies; (b) maintaining a flexible approach with respect to track-record requirements, so that countries whose economic performance is broadly on track can be brought expeditiously to their decision points<sup>2</sup>; (c) continuing

<sup>1</sup> In 1999 NPV terms.

<sup>2</sup> A major innovation under the enhanced HIPC DI was the adoption of a 'floating completion point'. Floating completion points have eliminated the fixed three-year period from the decision point and instead have



to stress the principle that interim PRSPs should be flexible and easy to prepare, so as not to hold up the availability of HIPC DI debt relief or additional concessional assistance during the interim period between the decision point and the completion point. However, as country-specific informal assessments indicate, whether the expected acceleration occurs or not depends on continued progress in pursuing macroeconomic, structural and social reforms in the countries concerned.

7. Countries have responded favourably to the invitation to prepare nationally owned poverty-reduction strategy documents. This favourable response includes in many cases: providing information that has substantially exceeded the minimum requirements for interim PRSPs; managing preparatory work at very high levels of political authority; and a much greater degree of participation in the preparatory process than had been envisaged for interim PRSPs. Countries have drawn on their own prior experience with poverty-reduction programmes in preparing interim and full PRSPs, and have identified as priorities for poverty reduction not only expected areas (such as broad-based growth, priority attention to social sectors, provision of public services to the poor, and a strong focus on rural development, including smallholder agriculture and microenterprise development) but also areas such as governance, anti-corruption, transparency and accountability. In addition, several countries have linked their priorities explicitly to the international development goals, and have highlighted special efforts to assist disadvantaged groups (notably women and the landless).

8. At the same time, countries are facing some problems as they move from interim to full PRSPs. Some countries have to rely on out-of-date or limited poverty data/information. In some cases, multilateral and bilateral development partners are involved in supporting countries' efforts to update their poverty analyses. Countries also have limited institutional and analytical capacity to prepare full PRSPs. While interim PRSPs have outlined the participatory processes countries intend to use in preparing full PRSPs, the depth and quality of these plans have varied. In particular, proposed participatory processes will need to deal with such issues as the capacity of civil society to participate meaningfully in strategy preparation, how best to ensure that the views of the poor themselves are fully taken into account, and the need to ensure that broad-based participation does not undermine national democratic processes and authority. The transition to full PRSPs is likely to present other problems, including effective costing of inputs and definition of expected outcomes, tracking of poverty-related public expenditure, and integration of medium-term poverty-reduction strategies into a consistent long-term macroeconomic framework.

9. In order to manage the transition from interim to full PRSPs, IFAD has recommended that the semi-annual Multilateral Development Bank (MDB) meeting (specifically for the HIPC DI) be formalized to some extent, and that it be given responsibility for: (a) collectively supporting countries in developing their PRSPs through a broad-based local participatory process; and (b) monitoring the PRSP implementation and its impact. These measures are expected to safeguard the programmatic additionality of HIPC DI relief, ensuring that debt relief is effectively used for agreed poverty-reduction priorities established in the PRSP.

10. **IFAD's participation.** IFAD's Executive Board endorsed the principle of IFAD's engagement in the original HIPC DI at its Fifty-Ninth Session in December 1996<sup>3</sup>; and the Governing Council, at its Twentieth Session in February 1997, approved the framework for IFAD's participation in the original HIPC DI in its Resolution 101/XX<sup>4</sup>. On the basis of documents GC 23/L.7 and GC 23/L.7/Corr.1, the Governing Council decided at its Twenty-Third Session in February 2000 that

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linked irrevocable debt relief to developing and implementing a PRSP, maintaining macroeconomic stability, and undertaking key reforms. The new arrangements strengthen countries' ownership of the debt-relief time table and support the sustained implementation of reforms, while making it possible to accelerate the completion point.

<sup>3</sup> On the basis of document EB 96/59/R.73.

<sup>4</sup> On the basis of document GC 20/L.6 and document GC 20/L.6/Add.1 (with document GC 21/L.6 establishing the IFAD Trust Fund).



IFAD will *fully participate in the enhanced HIPC DI*. As indicated in Annex IV, the World Bank estimates IFAD's total HIPC DI cost for 32 HIPCs at USD 228 million in end-1999 NPV terms.

11. IFAD's Executive Board has so far approved debt-relief packages for nine countries<sup>5</sup>: Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mali, Mauritania, Mozambique, the United Republic of Tanzania and Uganda (see Table 1). Thus the Fund is so far committed to providing a total of about USD 71.2 million (NPV) in relief. Bolivia, Guyana, Mozambique and Uganda have already benefited from significant levels of debt relief.

12. In support of IFAD's resource requirements for the HIPC DI, the Government of The Netherlands pledged an amount of NLG 26.62 million (at the time approximately USD 15.4 million) in complementary contributions within the framework of the Fourth Replenishment of IFAD's Resources. Beyond The Netherlands' contribution, IFAD's participation in the HIPC DI is currently being financed from internal resources that would otherwise be available for commitment to loans and grants under the programme of work. Efforts will be made to mobilize additional external resources to help fund IFAD's participation in the HIPC DI; in the meantime IFAD will continue to internalize the costs of its participation.

13. **IFAD's modality for debt relief.** IFAD's Executive Board deliberated on the debt-relief modality most appropriate to IFAD (see document EB 2000/70/R.12). Two options were under consideration. The first aimed at *spreading* the impact of the committed debt relief (on IFAD's resource base and its capacity to approve new loans) over the longer and commonly accepted time frame of 15 to 20 years, providing partial debt-service relief until the NPV of the debt-relief target is reached (e.g., 50% of semi-annual loan repayments). The second option amounted to *front-loading* the relief, providing 100% of debt-service relief until the NPV debt-relief target is reached. The second option, the front-loading modality, was finally retained because: (a) it is more consistent with the spirit of the enhanced HIPC DI of providing deeper and faster relief; (b) the total nominal cost for the same NPV amount is lower<sup>6</sup>; (c) it reduces the risk of arrears on partial debt-service requirements; and (d) loan administration is less complex. The disadvantage of this option is, however, that IFAD cannot minimize the impact of its participation in the HIPC DI on its annual lending programme, as was explicitly called for in the Governing Council resolution of February 2000. Under the front-loading option, the impact of debt relief on IFAD's resource base is a direct function of the amortization schedule of the loans eligible for debt relief.

14. Although the Executive Board needs to make high levels of irrevocable pluri-annual commitments at the time it considers a proposed country case, the actual costs will be incurred by IFAD on a yearly pay-as-you-go basis, as debt-service relief is being provided. As such, the Board makes commitments against future reflows, in a sense on an advanced commitment basis. Debt relief is therefore an issue of reduced inflows of resources, a future annual reduction in resources available for commitment, to be taken into account in all discussions related to the adequacy of IFAD's resource base. It is not directly an issue of the programme of work, and consequently it secures the additionality of the HIPC DI. IFAD's annual financial statements will account for the HIPC DI in a manner fully compatible with the international accounting standards in force. The IFAD HIPC DI Trust Fund will only be used to receive additional external contributions and, from time to time, the estimated amounts of annual resource requirements to finance IFAD's HIPC DI commitments.

<sup>5</sup> See documents: EB 97/61/R.14/Rev.1, EB 97/62/R.10/Rev.1, EB 98/64/R.11, EB 98/64/R.12/Rev.1, EB 98/64/R.13, EB 98/64/R.14, EB 98/65/R.8/Rev.1, EB 99/66/R.12, EB 99/68/R.11/Rev.1 and EB 2000/70/R.12 for overviews of several country cases.

<sup>6</sup> For example, for the six cases approved by the Executive Board in document EB 2000/70/R.12, the nominal amount of the front-loading modality was about SDR 11.4 million – USD 15 million – lower than the modality of spreading the costs over 20 years.



15. **Arrears.** Since its inception, the HIPC DI has been confronted with the issue of arrears, i.e., overdue *past* debt, as against *future* outstanding debt, the core object of the HIPC DI. Arrears are considered as inconsistent with the HIPC DI requirement of a sustained track record of good performance (under the original HIPC DI). Therefore, arrears need to be settled prior to the decision point, and at the latest by the completion point. However, recent World Bank/IMF assessments confirm the position taken by IFAD from the inception of the HIPC DI that arrears in several HIPCs are an integral part of the problem of unmanageable debt. Thus arrears settlement needs to be part of the solution offered by the HIPC DI, but in a manner that avoids creating a moral hazard and undesirable precedents. Indeed, not dealing with arrears as part of the solution for countries that have objective debt-servicing constraints will delay the decision point and certainly the completion point, depriving governments of the very resources required to implement their poverty-reduction strategies (during the critical interim period and thereafter).

16. Guinea-Bissau provides an example of this situation. The country has been declared eligible for debt relief under the HIPC DI. The World Bank and IMF assess Guinea-Bissau's annual MDB debt-servicing capacity at about USD 1.5 million per annum. The country currently owes an average of about USD 15 million per annum to MDBs in the next three years, and has accumulated about USD 22.5-35 million of arrears. The World Bank/IMF therefore recommend that the country be provided with 85% of the NPV of debt relief. The World Bank was informed that several MDBs (including IFAD), because of their current financial rules and regulations, would not be in a position to participate in the HIPC DI unless the arrears issue is addressed.

17. In order to address the issue (specifically for Guinea-Bissau, but also as a matter of general policy applicable to similar country cases), the World Bank formulated a comprehensive HIPC DI proposal and called for a meeting with MDBs involved in the HIPC DI to discuss the proposed approach<sup>7</sup>. In that meeting, the MDBs agreed that directly assisting deserving HIPC governments in dealing with their arrears has to be part of the debt-exit strategy to be provided at the HIPC DI decision point, and that such assistance should be consistent with the arrears clearance policy of the respective MDBs. With respect to the arrears, the specific World Bank/IMF proposal, endorsed by participating MDBs, consists of: (a) a significant level of cancellation of arrears; and/or (b) a substantial concessional rescheduling of the arrears. The NPV loss inherent in such cancellation and such concessional rescheduling will be accounted for against the respective MDB's NPV relief requirement for the country. The meeting also prescribed a bilateral process to work out the specific solutions between different MDBs and the concerned country.

18. In 1995, Guinea-Bissau started accumulating arrears with IFAD, and an arrears settlement plan was worked out in June 1996. As of 31 December 1999, Guinea-Bissau had accumulated SDR 0.6 million of arrears with IFAD. Because of reported difficulties, an IFAD mission visited the country in August 2000. The mission was informed that Guinea-Bissau is indeed facing acute debt-servicing constraints. In spite of these difficulties, however, a substantial portion (USD 300 000) has been paid against the arrears settlement plan, and the Government has committed itself to settle the balance as soon as the financial situation permits.

19. For IFAD three options are therefore theoretically available. The first consists of simply requiring *full arrears settlement* prior to a decision on IFAD's participation in the HIPC DI for the country. The second consists of the World Bank/IMF proposal of *concessional rescheduling of the arrears*. And the third option consists of the additional World Bank/IMF recommendation of *integrating the arrears into the NPV of debt relief under HIPC DI*, in recognition of the significant efforts made by the Government to settle arrears. The first option would result in delaying the HIPC DI for Guinea-Bissau for a long period of time, until the Government had mobilized the resources required to settle the arrears; in the meantime, no country portfolio development could be pursued,

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<sup>7</sup> 13 October 2000.





thereby depriving the country of the resources required to implement its poverty-reduction strategy. This is not a desirable option. The second option would indeed allow the HIPC DI to proceed, but the loan administration requirements would become extremely complex, which is equally undesirable. The third option (integrating arrears into the debt relief) both allows the HIPC DI to proceed and keeps loan accounting simple. In addition, it is also the most attractive option from a cost point of view. Under this option, the nominal amount of debt relief that IFAD needs to provide to reach its 85% debt-relief requirement for the country amounts to approximately SDR 1 688 000 less than the standard IFAD debt-relief modality<sup>8</sup> (SDR 4 263 000 against SDR 5 951 000), because the integration of arrears into the debt relief enhances the front-loading of the relief, and therefore the NPV of the same nominal amount of relief.

20. It is therefore proposed that the Executive Board approve the general policy principle<sup>9</sup> of incorporating arrears *accrued before IFAD's decision point*<sup>10</sup> into the front-loaded debt-relief modality for countries:

- that have been declared eligible for debt relief under the HIPC DI;
- that have accrued arrears with IFAD;
- that have made *demonstrated, concrete* efforts to settle these arrears and/or to adhere to the agreed arrears settlement plan, if any; and
- whose debt-servicing capacity in the short term is assessed by the World Bank/IMF as objectively inadequate to service debt and settle the arrears.

21. IFAD's contribution to the debt relief in such country cases will therefore be structured as follows:

- at the *decision point*: immediate integration of the eligible arrears<sup>10</sup> into the NPV of debt relief to be provided to the country by IFAD under HIPC DI;
- during the *interim period*:
  - (a) the government will remain current on its loan-service obligations as the norm<sup>11</sup>; and
  - (b) IFAD will first (and upon government request) support the government in developing its PRSP and subsequently support the implementation of the poverty-reduction strategy with programme assistance, including the immediate reactivation of the country portfolio. IFAD's 'arrears integration' and scope for relief of debt-service requirements during the interim period will directly depend on the quality of the collaboration between the government and IFAD for the PRSP process; and

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<sup>8</sup> Which assumes arrears have been cleared up front.

<sup>9</sup> Also applicable to other similarly deserving cases of HIPCs listed in IFAD's periodic report to the Executive Board on arrears.

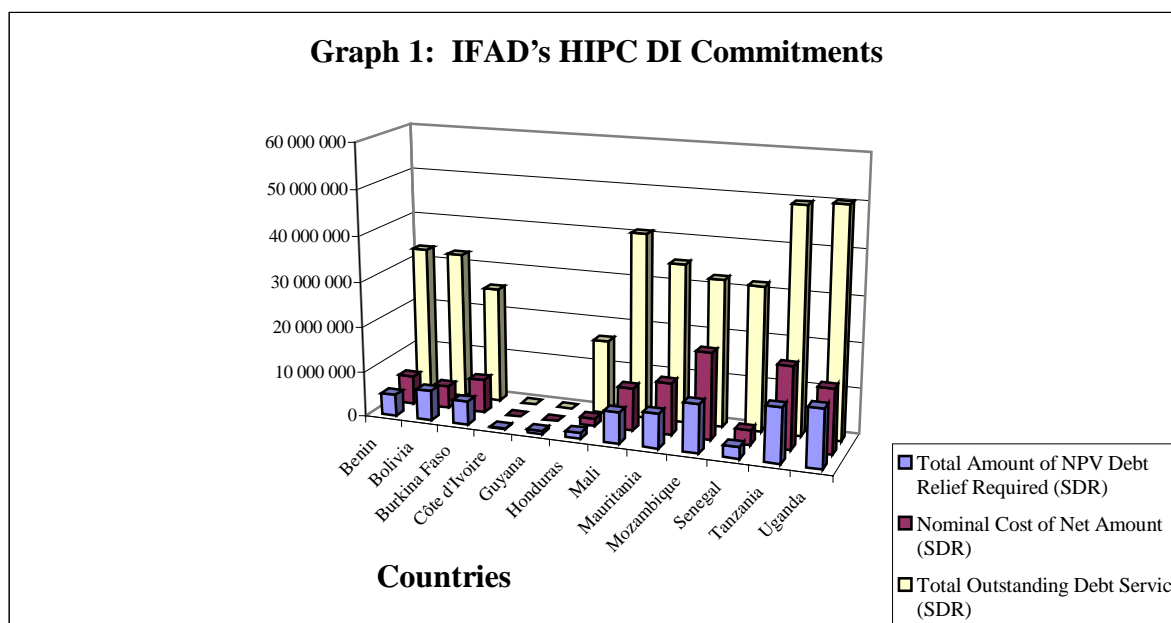
<sup>10</sup> Calculated at 'present value', in accordance with IFAD's policy on arrears-settlement packages (see document GC 21/L.7). Arrears exceeding the level of debt relief to be provided under the HIPC DI will be subject to IFAD's normal policy of arrears settlement. It should be noted that arrears incurred before the cut-off point of eligible debt will not be included in the debt stock to be relieved, as this would unduly inflate the country's debt stock to be treated by the HIPC DI.

<sup>11</sup> As the norm, IFAD will expect 100% debt service during the interim period. However, based on the World Bank/IMF assessment of an individual country's debt-servicing capacity during this period, IFAD may request the Executive Board to consider lower debt-servicing requirements, for example 50% or, as for instance in the case of Guinea-Bissau, 0% of the debt-servicing requirement during the interim period.

- at the *completion point*: on condition of a successful interim period, 100% of debt-service relief until the NPV relief target is reached.

## PART II - COUNTRY CASES FOR CONSIDERATION BY THE EXECUTIVE BOARD

22. The Executive Board is invited to consider HIPC DI decisions for: Benin, Burkina Faso, Honduras, Mali and Senegal. Table 2 summarizes the technical data for the proposals. Benin, Honduras and Senegal are new country cases directly under the enhanced HIPC DI. Burkina Faso and Mali are country cases for which the Executive Board is requested to approve IFAD's participation in the enhanced HIPC DI after an earlier approval to participate in the original HIPC DI. Enhanced HIPC DI cases become effective once the 'floating completion point' has been reached and once agreement has been reached with the government concerned. IFAD will not provide interim relief, but will continue to sustain its original modality of front-loaded debt relief: 100% debt-service relief until the NPV target is reached.



23. **Benin.** Benin was first considered for debt relief under the original HIPC DI framework in July 1997, and it was determined at the time that other sources of debt relief were sufficient for Benin to attain a sustainable debt position as defined under the terms of the original HIPC DI framework. However, Benin's debt situation has been reviewed in the light of the enhancement of the HIPC DI endorsed by the international community in September 1999.

24. Benin has been declared eligible for debt relief under the enhanced HIPC DI framework in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms, and achieving poverty reduction. Since the mid-1990s, Benin has been implementing an ambitious programme of economic reforms, which has received broad support from the international community. Overall, progress has been made in re-establishing financial stability, restoring economic growth and strengthening the efficiency of the economy.

Table 2: Summary of Technical Data

Country	Cut-Off Date for Eligible Debt	Total Outstanding Debt Service (SDR)	Discount Rate (%)	NPV of Total Outstanding Debt Service (SDR)	Target NPV-Debt/Export Ratio (%)	Target Fiscal Ratio of Debt (%)	Common Debt Reduction Factor (%)	Total Amount of NPV Debt Relief Required (SDR)	NPV Debt Relief Already Approved by the Executive Board (SDR)	Debt Relief Already Provided (nominal SDRs) (as of 30/9/2000)	Estimated Time Period for Debt Relief (years)	Required Reduction of Future Nominal Repayments (% of debt service)	Tentative Estimate of Nominal Cost of Net Amount (SDR) <sup>b</sup>
Benin	Dec-98	33 005 137	5.25	15 081 277	150		31.3	4 720 440			7	100	6 243 790
Bolivia	Dec-98	32 610 471	5.25	18 754 998	150		35.0		6 564 249	2 574 649	4	100	4 926 359
Burkina Faso	Dec-99	25 533 651	5.59	11 193 315	150		46.3	5 182 505			10	100	7 343 223
Côte d'Ivoire						280	6.0		164 300				100
Guyana						280	24.0		630 000	404 132			100
Honduras <sup>a</sup>	Dec-99	16 317 725	5.59	7 482 666		250	17.8	1 331 915			3	100	1 527 819
Mali	Dec-98	40 757 521	5.25	18 430 543	150		37.0	6 819 301			8	100	9 303 302
Mauritania <sup>a</sup>	Dec-98	34 912 948	5.25	15 158 293		250	50.0		7 579 147		12	100	11 400 148
Mozambique	Dec-98	32 271 650	5.25	14 801 914	150		72.1		10 672 180	629 414	20	100	18 951 262
Senegal <sup>a</sup>	Jun-98	29 603 818	5.25	12 079 036		250	19.3	2 331 354			4	100	3 073 314
Tanzania, United Republic of	Jun-99	49 530 777	4.87	22 121 593	150		54.0		11 945 660		14	100	17 932 401
Uganda	Jun-99	50 181 004	4.87	23 655 279	150		54.0		12 773 851	2 481 275	10	100	14 170 254
<b>Total</b>		<b>344 724 702</b>		<b>158 758 914</b>				<b>20 385 515</b>	<b>50 329 387</b>	<b>6 089 469</b>			<b>94 871 872</b>
<b>USD</b>		<b>447 414 743</b>		<b>206 051 606</b>				<b>26 458 156</b>	<b>65 322 008</b>	<b>7 903 461</b>			<b>123 133 254</b>

Exchange rate: SRD 1 = USD 1.29789, as of 29 September 2000

<sup>a</sup> Eligible under the fiscal criteria.<sup>b</sup> The time frame and these nominal amounts of relief are indicative and will be based on the NPV-relief requirements, net of the NPV of arrears (consistent with IFAD's arrears policy) and the relief already provided at the time of the completion point, when that point is reached.



25. Under the enhanced HIPC DI, countries are eligible for assistance provided that NPV of external debt exceeds 150% of exports. In order to achieve the enhanced debt sustainability target, all creditors are expected to provide a reduction of 31.3% in the NPV of their outstanding claims as of end-1998. Total relief from all Benin's creditors would amount to USD 265 million in NPV terms. The Executive Board is requested to approve IFAD's contribution to debt relief for Benin in the amount of SDR 4.72 million in 1998 NPV terms (SDR 6.24 million in nominal terms, spread over seven years).

26. The completion point will be reached when the following conditions have been met: (a) completion of a PRSP through a participatory process; (b) maintenance of a stable macroeconomic environment, as evidenced by satisfactory performance under a programme supported by an arrangement through IMF's poverty-reduction and growth facility (PRGF), and specific structural reform measures as part of the policy dialogue with the International Development Association (IDA); (c) satisfactory implementation of a number of key structural and social reforms with high poverty impact in the areas of governance, government financial management, liberalization of the cotton sector, immunization rates, the fight against HIV/AIDS, and school enrolment and learning outcomes in primary education; and (d) confirmation of the participation of other creditors in the debt-relief operation.

27. **Burkina Faso.** IFAD's basic decision to participate in debt relief for Burkina Faso under the original HIPC DI was made by the Executive Board on the basis of the strategy document EB 97/62/R.10/Rev.1, and document EB 2000/70/R.12 for the completion point top-up.

28. The international community has now declared Burkina Faso eligible for debt relief under the enhanced HIPC DI framework, in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms, and achieving poverty reduction. Burkina Faso has made determined efforts to address key social areas such as primary health care (by increasing access to generic drugs and training more health personnel) and education (by giving renewed priority to basic education and improving enrolment and completion rates).

29. In order to achieve the 150% target ratio of NPV of external debt to exports, all creditors are expected to provide a total reduction of 46.3% (i.e., an additional 26.8% after the full application of assistance under the original HIPC framework) in the NPV of their outstanding claims as of end-1999. Total relief from all of Burkina Faso's creditors under the enhanced initiative would amount to a total of USD 398 million in end-1999 NPV terms (including the USD 229 million under the original HIPC DI framework). The Executive Board is requested to approve IFAD's contribution to debt relief for Burkina Faso in the amount of SDR 5.18 million in 1999 NPV terms (SDR 7.34 million in nominal terms, spread over ten years), which includes the amount approved earlier under the original HIPC DI framework.

30. Burkina Faso will reach its floating completion point when the following conditions have been met as part of overall progress in poverty reduction: (a) maintenance of a stable macroeconomic environment, with performance to be monitored under IMF's PRGF arrangement; and (b) satisfactory implementation of a set of agreed measures identified in the Government's PRSP, focusing on improving education and health indicators and governance.

31. **Honduras.** Honduras constitutes a new country case and has been reviewed within the framework of the enhanced HIPC DI. The international community has declared Honduras eligible for debt relief under this framework in recognition of the substantial progress made in implementing a comprehensive programme of macroeconomic, structural and social reforms, and achieving poverty



reduction. This progress has been particularly impressive in the context of the challenges facing Honduras in the wake of Hurricane Mitch.

32. In order to achieve the target NPV of debt-to-government revenue ratio of 250% provided under the enhanced HIPC DI, all creditors are expected to provide a reduction of 17.8% in NPV of their outstanding claims as of end-1999. Total relief from all of Honduras' creditors would amount to USD 556 million in NPV terms. The Executive Board is requested to approve IFAD's contribution to debt relief for Honduras in the amount of SDR 1.33 million in 1999 NPV terms (SDR 1.53 million in nominal terms, spread over three years).

33. Honduras will reach its completion point under the enhanced HIPC DI framework when the following conditions have been met: (a) continued commitment to the financial and economic programme supported by IMF's PRGF; (b) completion of a PRSP through a participatory process and a first annual implementation report of the strategy; (c) implementation of an agreed set of measures in the context of the Government's poverty-reduction strategy, including the preparation of a participatory anti-corruption strategy, social security reform, strengthening of the financial sector, improvements in the quality of education, delivery of health services to the poor and the efficiency of safety nets; and (d) confirmation of the participation of other creditors in the debt-relief operation.

34. **Mali.** IFAD's basic decision to participate in debt relief for Mali under the original HIPC DI framework was made by the Executive Board on the basis of the strategy document EB 99/66/R.12. The international community has declared Mali eligible for debt relief under the enhanced HIPC DI framework in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms, and achieving poverty reduction.

35. In order to achieve the 150% target ratio of NPV of external debt to exports, all creditors are expected to provide a total reduction of 37% (i.e., an additional 28% after the full application of assistance under the original HIPC DI framework) in the NPV of their outstanding claims as of end-1998. Relief from all of Mali's creditors under the enhanced initiative would amount to a total of USD 530 million in end-1998 NPV terms (including the USD 128 million under the original HIPC DI framework). The Executive Board is requested to approve IFAD's contribution to debt relief for Mali in the amount of SDR 6.82 million in 1998 NPV terms (SDR 9.30 million in nominal terms, spread over eight years), which includes the amount approved earlier under the original HIPC DI framework.

36. Mali will reach its floating completion point under the enhanced HIPC DI framework when it has been determined that the following conditions have been met as part of overall progress in poverty reduction: (a) as part of the PRSP, maintenance of a stable macroeconomic environment, with performance to be monitored under IMF's PRGF arrangements and IDA's lending programme; (b) satisfactory implementation of a set of agreed structural reforms, including continued implementation of reforms under the cotton-sector restructuring plan, and pursuit of the privatization programme, especially of public utilities and banks; (c) satisfactory implementation of reforms in the educational sector, as defined in the Government's ten-year education programme; and (d) preparation of a full PRSP through a participatory process.

37. **Senegal.** Senegal constitutes a new country case that has been reviewed within the framework of the enhanced HIPC DI. Senegal was first considered for debt relief under the original HIPC DI framework in 1998, and it was determined at the time that Senegal did not qualify for HIPC DI assistance because its external debt appeared to be sustainable with respect to the prevailing criteria, i.e. traditional debt relief was sufficient for Senegal to obtain a sustainable debt position. However, Senegal's debt situation has been reviewed in the light of the enhancement of the HIPC DI endorsed by the international community in September 1999, and under the revised criteria that currently apply, the external debt was found to be unsustainable.



38. The international community has declared Senegal eligible for debt relief under the enhanced HIPC DI in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms, and achieving poverty reduction.

39. In order to achieve the NPV of debt-to-government revenue ratio of 250% provided under the enhanced HIPC DI, all creditors are expected to provide a reduction of 19.3% in NPV of their outstanding claims as of end-1998. Total relief from all of Senegal’s creditors would amount to USD 488 million in NPV terms. The Executive Board is requested to approve IFAD’s contribution to debt relief for Senegal in the amount of SDR 2.33 million in 1998 NPV terms (SDR 3.07 million in nominal terms, spread over four years).

40. The actual delivery of HIPC DI assistance will be contingent upon Senegal’s fulfilling a number of monitorable actions. It should, in particular: (a) maintain a satisfactory macroeconomic framework as supported by the ongoing IMF PRGF arrangement; (b) have fully defined its poverty-reduction strategy in a participatory manner and designed, within the context of the PRSP, a comprehensive set of indicators to monitor progress in poverty reduction; and (c) have satisfactorily implemented key structural reforms.

41. **Total cost to IFAD.** As may be concluded from Table 2, the total amount of debt service being treated under this proposal amounts to SDR 147.26 million (USD 191.12 million), or SDR 65.59 million (USD 85.13 million) in NPV terms. The total amount of debt relief required for the five countries amounts to SDR 20.60 million (USD 26.74 million) in NPV terms.

42. The tentatively estimated total nominal cost to IFAD of the debt relief for the five countries concerned, and including the relief approved earlier by the Executive Board (minus the relief already provided, if any), amounts to SDR 27.6 million (USD 35.82 million), spread over a period of three to ten years – depending on the country – and assumed to start in 2001 (as illustrated in Graph 2 and Table 3). The annual nominal cost for the five new cases together will reach its highest level, SDR 4 million, in 2003.

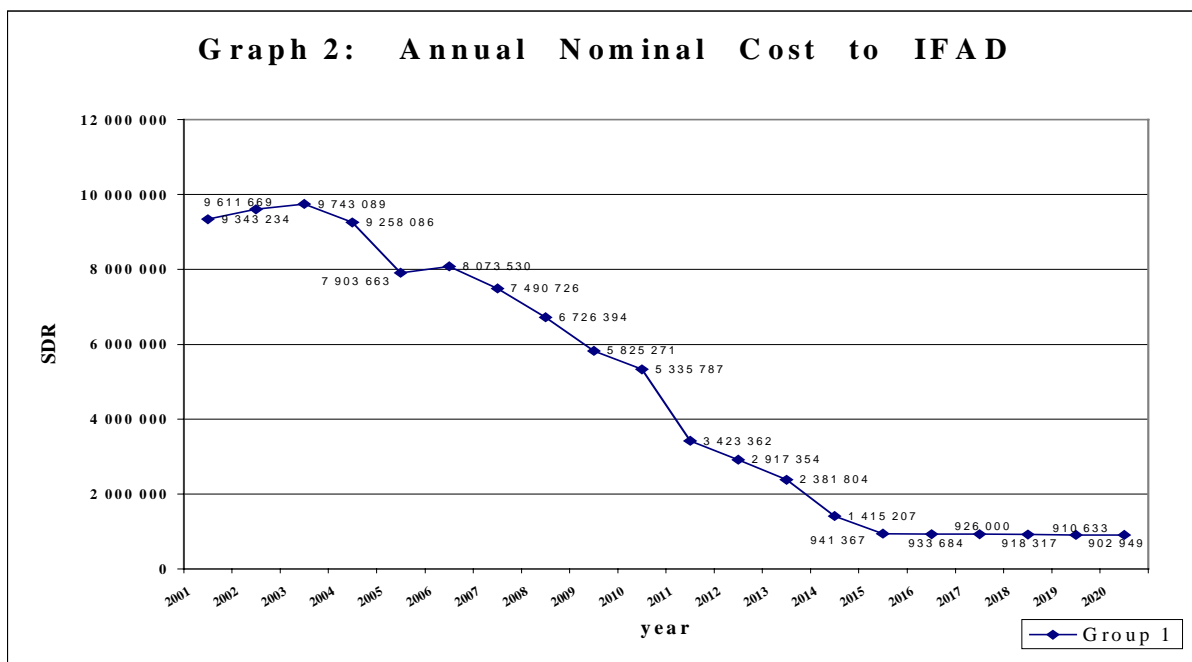


Table 3: Annual Nominal Cost to IFAD (in SDR)

	New Cases					Approved Cases					Total
	Benin	Burkina Faso	Honduras	Mali	Senegal	Bolivia	Mauritania	Mozambique	Tanzania, United Republic of	Uganda	
2001	884 213	619 928	624 103	1 207 580	607 022	1 355 107	840 888	898 863	1 047 135	1 233 297	9 343 234
2002	1 007 406	615 678	611 195	1 198 717	788 962	1 328 019	854 424	892 387	1 040 525	1 224 898	9 611 669
2003	999 879	611 429	292 521	1 189 854	854 969	1 300 932	979 043	908 681	1 167 450	1 381 535	9 743 089
2004	992 352	607 179	-	1 180 991	822 362	942 301	1 015 319	956 417	1 292 372	1 469 896	9 258 086
2005	984 824	828 036	-	1 218 547	-	-	1 051 106	980 911	1 283 091	1 557 149	7 903 663
2006	1 018 770	832 936	-	1 230 038	-	-	1 043 290	973 503	1 429 373	1 545 619	8 073 530
2007	356 346	837 715	-	1 220 671	-	-	1 035 473	1 002 836	1 491 017	1 546 668	7 490 726
2008	-	831 611	-	856 903	-	-	1 027 657	995 153	1 480 026	1 535 044	6 726 394
2009	-	825 507	-	-	-	-	1 019 841	987 469	1 469 034	1 523 419	5 825 271
2010	-	733 204	-	-	-	-	1 012 025	979 786	1 458 043	1 152 730	5 335 787
2011	-	-	-	-	-	-	1 004 208	972 102	1 447 052	-	3 423 362
2012	-	-	-	-	-	-	516 875	964 418	1 436 060	-	2 917 354
2013	-	-	-	-	-	-	-	956 735	1 425 069	-	2 381 804
2014	-	-	-	-	-	-	-	949 051	466 156	-	1 415 207
2015	-	-	-	-	-	-	-	941 367	-	-	941 367
2016	-	-	-	-	-	-	-	933 684	-	-	933 684
2017	-	-	-	-	-	-	-	926 000	-	-	926 000
2018	-	-	-	-	-	-	-	918 317	-	-	918 317
2019	-	-	-	-	-	-	-	910 633	-	-	910 633
2020	-	-	-	-	-	-	-	902 949	-	-	902 949
<b>Total</b>	<b>6 243 790</b>	<b>7 343 223</b>	<b>1 527 819</b>	<b>9 303 302</b>	<b>3 073 314</b>	<b>4 926 359</b>	<b>11 400 148</b>	<b>18 951 262</b>	<b>17 932 401</b>	<b>14 170 254</b>	<b>94 871 872</b>



### PART III - RECOMMENDATION

43. It is recommended that the Executive Board approve:

- (a) the proposed contribution to the reduction of the debt to IFAD of Benin, Burkina Faso, Honduras, Mali and Senegal within the framework of the enhanced HIPC DI in terms of the following resolution:

**RESOLVED:** that the Fund, upon declaration at the completion points by the World Bank and the International Monetary Fund that Benin, Burkina Faso, Honduras, Mali and Senegal have satisfied the conditions for their respective debt relief under the HIPC DI, shall reduce the value of the debt to IFAD for Benin, Burkina Faso, Honduras, Mali and Senegal through **forgiving their respective semi-annual debt-service obligations** to IFAD (principal and service-charge/interest-rate payments) as these fall due after their respective completion points, and up to the aggregate SDR net present values listed in Table 4.

**Table 4: Summary of Decisions Requested from the Executive Board**

	Benin	Burkina Faso	Honduras	Mali	Senegal	Total
Total outstanding debt service (SDR million)	33.00	25.53	16.32	40.76	29.60	<b>145.21</b>
NPV of total outstanding debt service (SDR million)	15.08	11.19	7.48	18.43	12.08	<b>64.26</b>
Total % of NPV of debt relief	31.3	46.3	17.8	37.0	19.3	
<b>Total amount of NPV debt relief required, including amounts earlier approved by the Executive Board (SDR million)*</b>	<b>4.72</b>	<b>5.18</b>	<b>1.33</b>	<b>6.82</b>	<b>2.33</b>	<b>20.38</b>

\* The corresponding nominal amounts of relief are indicatively provided in Table 2 above. Also see Note b to that same table.

- (b) the general policy principle of **incorporating arrears** into the front-loaded debt-relief modality, under the limiting conditions specified in paragraphs 20 and 21.



## **PARAMETERS OF THE POLICY FRAMEWORK FOR THE ENHANCED HIPC DI**

### **(a) Deeper Debt Relief:**

- by lowering the NPV debt-to-exports target from 200-250% to 150%;
- by lowering the NPV debt-to-fiscal revenues target from 280% to 250%, and by lowering the qualifying thresholds from 40% to 30% for the exports-to-GDP ratio, and from 20% to 15% for the revenues-to-GDP ratio; and
- by calculating debt relief based on actual data at the decision point rather than on projections for the completion point.

### **(b) Faster Debt Relief:**

- by providing interim relief between the decision and completion points;
- by introducing floating completion points, permitting strong performers to reach the completion point earlier; and
- by front-loading the delivery of debt relief, subject to the debt-service profile due to creditors.

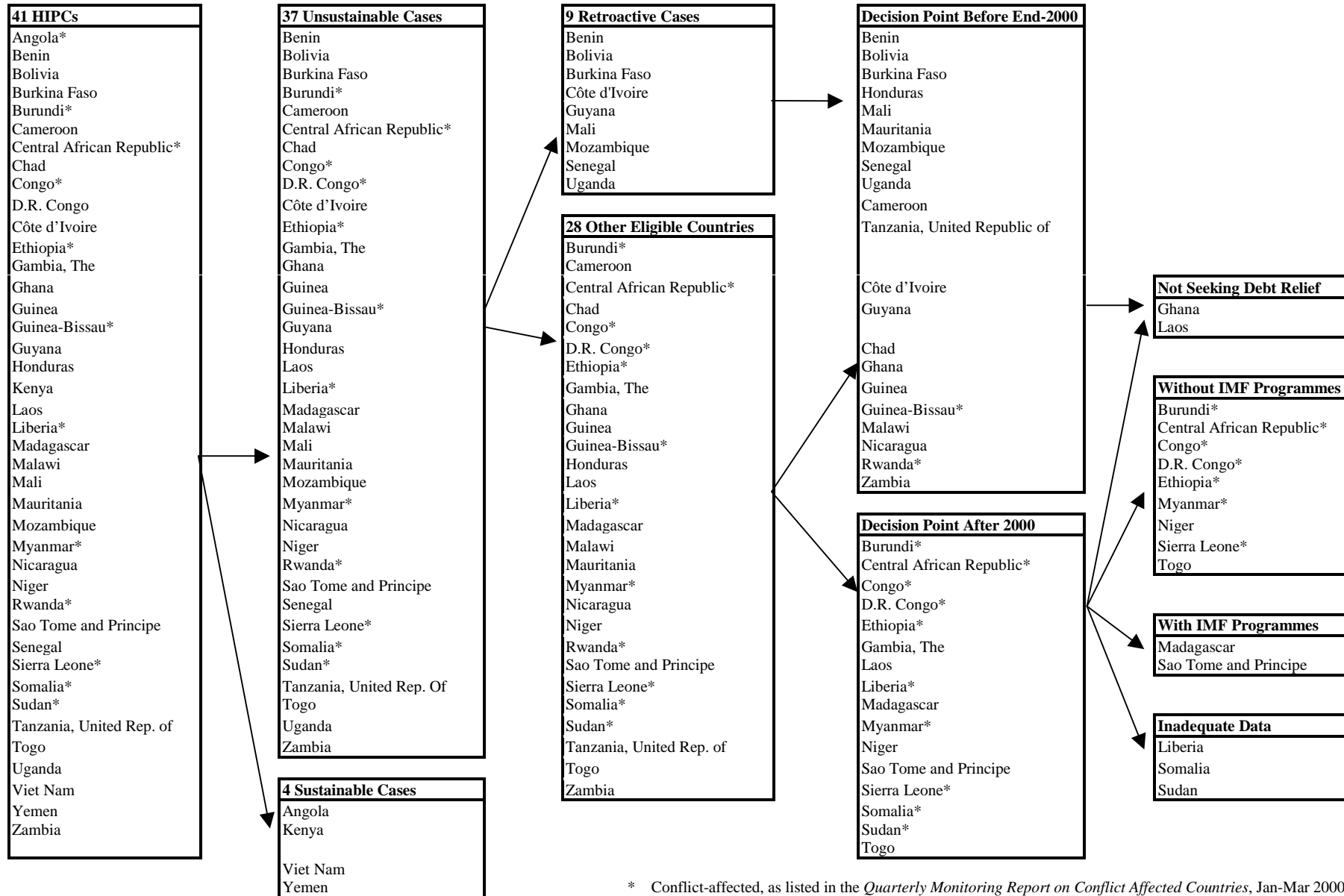
### **(c) Stronger Link to Poverty Reduction:**

- through the requirement of a poverty-reduction strategy paper (Annex III); and
- by making decisions on the basis of interim PRSPs, in order to accelerate access to debt relief without compromising both the quality of the participatory process and the result of the countries' poverty-reduction strategy efforts.

### **(d) Results:**

- greater safety margin for the achievement of debt sustainability;
- more freeing-up of resources earlier for enhanced focus on poverty reduction;
- stronger impact on poverty eradication;
- expansion of eligibility from 29 to 36 HIPCs, and possibly other countries; and
- increase in overall costs.

## LIST OF HIPC DI COUNTRIES AND TIME FRAME



\* Conflict-affected, as listed in the *Quarterly Monitoring Report on Conflict Affected Countries*, Jan-Mar 2000.

## POVERTY-REDUCTION STRATEGY PAPER<sup>1</sup>

### (a) Characteristics:

- It must be cogent, highly strategic and action-oriented documents that describes the priorities in the government's poverty eradication strategy, and that spells out the budgetary implications of this prioritization.
- It must ensure consistency between a country's macroeconomic, structural and social policies and the goals of poverty reduction and social development.
- It should serve as the basis for designing World Bank and IMF lending operations, and as a framework with which all PRGF- and World Bank-supported programmes should be consistent.

### (b) Contents:

- medium- and long-term goals for poverty reduction and social development, with a range of relevant results-oriented indicators for monitoring progress in poverty reduction;
- a macroeconomic framework consistent with the poverty-reduction and social development goals, over at least a three-year time frame;
- structural reforms and priorities, sectoral strategies (three-year agenda) and associated funding needs (domestic and external) necessary to deliver the growth and poverty-reduction objectives;
- anti-poverty and other social policies, linked to an analysis of the social impact of macroeconomic and structural policies, and associated funding needs (domestic and external); and
- overall external financing needs for each year of the programme.

### (c) Process:

- It must be produced in a way that ensures transparency and broad-based participation in the choice of goals, the formulation of policies and the monitoring of implementation – with the ultimate ownership by the government:
  - governments take the lead;
  - participation of civil society and other stakeholders (e.g., donors) is secured;
  - with possible facilitation by and technical assistance from the World Bank and IMF;
  - annual reviews and reworking of the PRSP, e.g., every three years, to ensure that the framework remains sufficiently current.
- Where possible, it should be linked to the community development fund (and the common country assessment).

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<sup>1</sup> Subject to availability of human resources, IFAD may want to play a proactive role in supporting HIPCs to enhance the quality of their poverty-reduction strategy, at least in some strategically important countries, and in close cooperation with its strategic partners.

**THE ENHANCED HIPC DI:  
WORLD BANK/IMF ESTIMATES OF POTENTIAL COSTS BY CREDITOR**

**32 Countries**

(USD billion in end-1999 NPV terms)

	<b>Updated Costing Exercise for 32 Countries*</b>	<b>Details</b>
<b>Total costs</b>	<b>28.6</b>	
<b>Bilateral and commercial creditors</b>	<b>14.6</b>	
<b>Multilateral creditors:</b>	<b>14.0</b>	
World Bank		6.2
IMF		2.2
AfDB/AfDF		2.3
IDB		1.1
Other		2.2
<i>(of which IFAD)</i>		<b>0.228</b>

AfDB - African Development Bank  
 AfDF - African Development Fund  
 IDB - Inter-American Development Bank

Source: "HIPC Initiative: Update on Costing the Enhanced HIPC Initiative", World Bank.

\* Excluding Ghana and Laos; and Liberia, Somalia and The Sudan.