INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

THE CHALLENGE OF MAINTAINING LONG-TERM EXTERNAL DEBT SUSTAINABILITY

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EXECUTIVE SUMMARY

1. This paper reviews experience with the first 22 countries that have reached a decision point under the enhanced Initiative for the Heavily Indebted Poor Countries (HIPC), and examines the extent to which HIPC debt relief provides a solid foundation for debt sustainability, and how these countries can build upon this foundation to maintain debt sustainability over the longer-term. The paper identifies three key determinants of sustainability: the existing stock of debt, the development of fiscal and external repayment capacity which is linked closely to economic growth, and the availability and concessionality of new external financing.

2. Based on evidence in the detailed debt sustainability analyses of the first 22 cases, the paper notes that by providing debt relief sufficient to reduce a country's level of debt in NPV terms at the decision point to either 150 percent of exports or 250 percent of government revenues, the HIPC Initiative provides a good basis for these countries to exit from rescheduling. However, long-term debt sustainability can only be achieved if the underlying causes that triggered the debt problem have been redressed. Hence, assuring debt sustainability depends not only upon the absolute level of debt, but also upon the successful implementation of a comprehensive set of policies that are expected to enhance economic growth and poverty reduction, on assuring access to adequate concessional flows from the international community, and on sound debt management.

3. The paper emphasizes the importance of establishing an environment conducive to growth and poverty reduction, particularly in the areas of macroeconomic policies, structural reforms, public sector management, governance, and social inclusion. Within that broad context, fiscal policies are particularly important for long-term debt sustainability because external debt management can only be achieved within a sound comprehensive fiscal framework. Reflecting the importance of the policy context, the Poverty Reduction Strategy Paper (PRSP) drawn up by HIPCs themselves signals a new and much greater level of effort on the part of HIPCs and on the part of the international community to strengthen the economic reform agenda and forge greater social cohesion which, together, constitute a potential "source of growth" that could be unlocked by the PRSP process.

4. An improved investment climate for private enterprise is particularly important to foster growth that is less dependent upon official financing in the longer-term. Projections for the 22 HIPCs envisage a significant increase in the productivity of investments. This in turn requires a much larger involvement over time of the private sector in domestic economic activity. It is therefore critical that the HIPCs begin to lay the groundwork for increasing the role of private capital in their economies.

5. The paper notes that HIPCs are typically dependent upon a narrow export base which makes them vulnerable to externally induced shocks. Projections indicate that most HIPCs are likely to run negative resource balances for many years to come and will continue to need financing on concessional terms. Consequently, the paper examines the sensitivity of long-term debt sustainability to possible shortfalls in export revenues and less concessional financing than currently assumed in the debt sustainability analyses (DSAs). It concludes that while the lower debt service levels resulting from enhanced HIPC debt relief will provide a safety margin in the event of shortfalls in export revenues for these countries, the room for a significant deterioration without impacting long-term debt sustainability and poverty reduction is limited.

6. Given the above, the paper stresses a number of actions that would reinforce long-term debt sustainability and help avoid a repetition of debt servicing problems in the future. In particular, debtor nations need to accelerate the implementation of structural reform and improve their overall performance with respect to macroeconomic management, governance and social sector policies. Both debtors and creditors need to adopt measures to better target external finance efficiently and productively to foster growth and poverty reduction. Creditor nations should ensure that further development assistance is made additional to HIPC debt relief and that it is furnished on appropriately concessional terms and targeted to countries implementing sound policies. They should also make their domestic markets more accessible so that developing countries can increase their export earnings and diversify their production and export base. Debtor nations need to accelerate the implementation of structural reform and improve their overall performance with respect to macroeconomic management, governance and social sector policies.

7. The paper notes that the current framework allows for the consideration of additional debt relief at the completion point if exogenous factors have caused a fundamental change in a country's economic circumstances. The paper recommends that a country's long-term debt sustainability prospects be discussed in the completion point document, and be monitored regularly thereafter.

I. INTRODUCTION

8. **This paper examines the prospects for long-term debt sustainability in the Heavily Indebted Poor Countries (HIPCs).** It assesses the extent to which the enhanced HIPC Initiative provides a solid basis for sustainability for these countries and what additional actions will be needed to ensure that debt sustainability is maintained over the longer term. The paper is based on the detailed Debt Sustainability Analyses (DSAs) for the 22 countries which have reached their decision points under the Initiative.

9. HIPC Initiative assistance is determined by bringing a single key measure – the net present value (NPV) of external public debt – down to a critical threshold as of the decision point. However, reducing debt to that level at a single point in time is no guarantee against future debt problems. **To assess long-term debt sustainability, the focus of attention must shift away from this single debt indicator to a more complex and comprehensive view of the development process in which policies, institutions, exogenous factors and debt management play an integral role over time.**

10. **In this context, amongst the six guiding principles that were adopted as a basis for HIPC debt relief,[1] three are particularly relevant to longer-term debt sustainability:** (1) a focus on overall debt sustainability as an exit strategy from the rescheduling process, (2) a focus on a country's track record to ensure that HIPC debt relief will be put to good use, and (3) a focus on the concessionality of new external finance, including grants, for countries benefiting from HIPC debt relief. While HIPC Initiative assistance will substantially reduce the debt service due on existing debt, maintaining external debt at sustainable levels will depend critically on future policies and growth performance of the HIPCs and on support from the creditor/donor community.

11. **The paper is organized as follows.** Section II discusses key elements of long-term debt sustainability, including the need to increase economic growth through sound macroeconomic and structural policies, reducing export vulnerability, and increasing the availability and concessionality of external capital. Section III reviews the medium-term prospects for debt sustainability and discusses the implications of the enhanced HIPC Initiative in the 22 HIPCs. Issues for discussion are presented in the final section.

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[1] "A Framework for Action to resolve the debt problem of the Heavily Indebted Poor Countries", DC/96/5, April 12, 1996.

II. KEY ASPECTS OF MAINTAINING EXTERNAL DEBT SUSTAINABILITY

12. **A country can be said to achieve external debt sustainability if it can meet its current and future external debt service obligations in full, without recourse to debt rescheduling or the accumulation of arrears and without compromising growth.** This definition, which the debt sustainability indicators in the HIPC Initiative (see Box 1) were meant to address, is quite narrow from an overall development perspective. It does not deal with issues of domestic debt, which are important for fiscal sustainability, nor does it measure the adequacy of public resources to address priority development programs after debt service has been paid. Nevertheless, this definition guides the current framework to better understand the external dimension of debt sustainability and establishes a methodology for determining debt relief, thereby ensuring equity of treatment among beneficiary countries and equitable burden-sharing among creditors.

13. **Analytically, there are three key determinants of debt sustainability**, regardless of which indicator of sustainability is used. These are: (i) the existing stock of debt and its repayment terms; (ii) the development of the country's fiscal and external repayment capacity, i.e. the growth of income, exports and fiscal revenues; and (iii) the growth, composition (the mix of grants and loans) and terms of new external financing. The susceptibility of a country to external shocks, although not a separate factor, has important implications for disruptions in repayment capacity.

14. **These key determinants are in turn, closely inter-related and are linked to domestic and external policies.** The existing stock of debt and associated debt service reflect past policies and are starting points for determining long-term debt sustainability. This existing stock of debt will necessitate a given level of future taxation to service the debt. A heavy initial debt service burden could discourage investment and reduce resources available for development expenditures and poverty reduction. The growth of income and exports and new flows of external finance are also important for long term debt sustainability, and depend to a large extent on present and future policies. Higher export growth typically leads to higher GDP growth, and the latter can lead to stronger revenue growth provided that adequate revenue collection mechanisms are in place. Similarly the terms under which new external financing is contracted will have an indirect effect on future growth through the returns to investment and the impact on taxation.

15. **The HIPC Initiative is designed to deal with the existing stock of debt**: by bringing the net present value (NPV) of external public debt down to about 150 percent of a country's exports or 250 percent of a country's revenues at the decision point, it aims to eliminate this critical barrier to longer term debt sustainability for these countries. Assuring debt sustainability for the longer term also requires a parallel focus on strengthening domestic policies and institutions, on assuring access to adequate concessional flows from the international community, and on increasing market access for HIPCs.

Box 1: Debt Indicators under the HIPC Initiative

Many indicators have been used in debt capacity analysis, including both stock concepts and debt service concepts relative to variables associated with a country's potential repayment capacity. While they are all related, the relationship is not straightforward. Broad indicators such as debt-to-GDP ratios and debt service-to-GDP ratios compare the burden of debt to the ability of the economy as a whole to generate income. Debt-to-exports ratios and the debt service ratio link the levels of debt and debt service to the availability of foreign exchange earnings in the economy as a whole. Debt- and debt service- to-fiscal revenue ratios link the debt burden more closely to the ability of the public sector to generate income. The net present values of debt is used to capture the concessionality of the debt stock and compare debts among creditors with different repayment schedules. However, no single indicator captures all of the elements of debt sustainability. For instance a country can have a low debt service ratio and a relatively high NPV of debt-to-exports ratio depending on the profile of debt repayment for the country. Alternatively, a very open economy may have a low debt-to-exports ratio and yet a high debt service burden relative to government revenue. Hence, the various public debt indicators need to be simultaneously considered in assessing long-term sustainability.

The debt sustainability thresholds used in the HIPC Initiative were derived from empirical analysis, although these thresholds are not a guarantee in either direction – there are countries with debt burdens over these limits which have managed to avoid rescheduling and others below these thresholds that have run into arrears (see Appendix I). [1/]

The thresholds for debt sustainability under the original HIPC framework were defined as an NPV of debt-to-exports ratio in the range of 200-250 percent, and a debt service ratio in the range of 20-25 percent. The original framework also included an additional indicator for countries with a large export base compared to other measures of debt servicing capacity, such as revenues-to-GDP. For these cases with a revenues-to-GDP ratio above 20 percent and an exports-to-GDP ratio above 40 percent, the sustainability threshold under the original framework was an NPV of debt-to-revenues ratio of 280 percent.

These targets were subsequently reduced in the enhanced framework to provide more of a cushion from exogenous shocks and to free up additional resources for poverty reduction. The amended sustainability thresholds under the enhanced HIPC framework are 150 percent NPV of debt-to-exports and a debt service ratio of 15-20 percent. The fiscal window threshold was lowered to 250 percent NPV of debt-to-revenues, with qualifying criteria reduced to 15 percent for the revenues-to-GDP ratio and 30 percent for the exports-to-GDP ratio.

1/ For a more detailed discussion of the indicators of sustainability used in the HIPC Initiative, see "Analytical Aspects of the Debt Problems of Heavily Indebted Poor Countries" and "Debt Sustainability Analysis for the Heavily Indebted Poor Countries." SecM96-94, SM/96/22, SM/96/23, January 31, 1996.

A. Increasing Economic Growth on a Sustainable Basis

16. **While the HIPC Initiative substantially reduces the existing stock of eligible countries' external debt, long-term debt sustainability will only be achieved if the fundamental causes that triggered the debt buildup in the first place have been redressed.** Those fundamental causes include weak macroeconomic management, inconsistent implementation of policy reforms and poor governance, as well as external factors such as worsening terms of trade and protectionist policies that restrict access to export markets. Also, HIPCs, typically the poorest members of the international community, have a narrow production and export base, heavily dependent upon a few primary commodities, which make them particularly vulnerable to external shocks. Finally, past borrowing on market terms exacerbated the debt burden of many of these countries.

17. **From the outset, the HIPC Initiative has been embedded in an overall framework of economic and social reform.** Qualifying countries would need to implement sound economic policies that establish an environment conducive to growth and poverty reduction. There are five aspects of the policy framework that merit particular attention: (i) Macroeconomic policies, including monetary, fiscal and exchange rate policies which, with timely adjustment in the face of economic shocks, provide a stable environment for economic activity; (ii) Structural policies, including trade, tax and sector policies and regulatory environments which affect incentives for private investment and production; (iii) Public sector management, whereby public sector institutions provide services complementary to private initiatives such as infrastructure and social services; (iv) Governance and market institutions, including the rule of law (the judiciary and the police) and reduction of corruption, and (v) Social inclusion, which embraces the full participation of society through social services that reach the poor and disadvantaged, including women and minorities.

18. **Within this broad context summarized above, fiscal policies are especially important.** Effective debt management can only be achieved within a comprehensive fiscal framework. To the extent to which external imbalances are the result of fiscal imbalances (which they often are), fiscal consolidation, including tax reform to strengthen the fiscal payments capacity, is a key factor in achieving debt sustainability. Prudent budgeting and reorienting of expenditures from nonproductive (such as military expenditures) to growth enhancing activities within a medium-term framework would also help achieve a sustainable fiscal position.

19. **The poor growth performance in HIPCs, especially those in Africa, has been extensively reviewed.**[2] Notwithstanding the complexities involved in explaining growth, the general lessons of experience suggest that countries with sound macroeconomic policies and market-friendly economic structures can expect higher economic growth rates and better results in their poverty reduction efforts than those countries with weaker economic management. Other

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[2] See e.g. World Bank, "*Can Africa Claim the 21st Century*", 2000; Collier, Paul and Jan-Willem Gunning, 1999, "*Explaining African Economic Performance*", Journal of Economic Literature, 37:1, pp. 64-111; Easterly, William and Ross Levine, "*Africa's Growth Tragedy: Policies and Ethnic Divisions*", Quarterly Journal of Economics, November, 1997; Ghura, Dhaneshwar and Michael T. Hadjimichael, "*Growth in Sub-Sharan Africa*", IMF Staff Papers, 1996; Huffier, Ankle, 1999, "*The Augmented Solow Model and the African Growth Debate*", Centre for the Study of African Economies, Oxford University; Sachs, Jeffrey and Andrew M. Warner, 1997, "*Sources of Slow Growth in African Economies*", Journal of African Economies, 6, pp. 335-76.

factors contributing to long-term growth include political stability and peace, and sustained investment in people and physical infrastructure. It should be noted that good policies tend to emerge and be enforced and sustained only when policy-making institutions are reasonably well-functioning and accountable. This highlights the importance of fundamental improvements in governance, public sector accountability and transparency.

20. **At the same time, longer-term growth prospects can be undermined by natural disasters, war, or health threats** such as the AIDS epidemic affecting many of the HIPCs, particularly several decision point cases such as Malawi, Rwanda, and Zambia.[3] In such cases, in the absence of adequate grant financing, external indebtedness (and the NPV-of-debt to exports ratio) may need to rise to accommodate the financing of reconstruction and rehabilitation.

21. **HIPCs are long-term importers of capital, mainly in the form of official concessional financing**, i.e. concessional loans and grants. Private transfers and foreign direct investment are typically small. Unless capital inflows are all non-debt creating, HIPCs will continue to accumulate debts in order to finance their development efforts. In this context, HIPCs with persistent resource gaps need to be concerned with a number of debt-related indicators such as the growth rate of debt in relation to the growth rate of exports and income, the size of the resource gap compared to debt or income, the availability of financing, and the concessionality of new borrowing.[4] Most critical in considering long-term debt sustainability is the often neglected requirement that the growth of debt and interest payments do not continuously exceed the growth of exports and income.

22. **Rates of return on investment in the HIPCs have typically been low.**[5] In assessing HIPCs' long-term debt sustainability and their capacity to borrow in the future, it is therefore also critical to determine whether these countries are addressing the factors that underlie low productivity.[6] An important indicator of overall efficiency is the strength and vitality of the private sector and this is one area where HIPCs have lagged behind many other developing countries. It is important, therefore, that HIPCs begin laying the groundwork for increasing the role of private capital in their economies.

23. **As far as the public sector is concerned, recent studies have highlighted the importance of the institutional and economic policy environment for increasing returns to capital.**[7] These studies demonstrate that more aid, either in the form of grants or loans, does not automatically translate into higher investment levels, resulting in higher rates of growth. The

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[3] See individual Decision Point Documents of the 22 countries on the IMF and World Bank websites. The Malawi Decision Point Document (IDA/R2000-234, December 8, 2000 and EBS/00/260. December 7, 2000.) quotes estimates of the impact of HIV/AIDS on economic growth. Depending on the assumptions underlying these models, these estimates range from 0.7 to 2 percentage points of GDP growth foregone per year. See also, UNAIDS, 2000, *Report on the Global HIV/AIDS Epidemic*, Geneva: Joint United Nations programme on HIV/AIDS.

[4] See also "Analytical Aspects of the Debt Problems of Heavily Indebted Poor Countries", IDA SecM96-94 and SM/96/23, January 31, 1996. Zubair Iqbal and Ravi Kanbur, "External Finance for Low-income Counties", IMF, 1997.

[5] World Bank, "*Can Africa Claim the 21st Century", 2000; Shantayanan Devarajan, William Easterly, and Howard Pack, "*Is investment in Africa Too High or Too Low? Macro and Micro Evidence*", World Bank, 1999.

[6] The 22 HIPCs had an average incremental capital output ratio (ICOR) of 7.5 in the 1990s which compares unfavorably with regional averages of 4.5 in East Asia, 4 in South Asia and 6 in Latin America.

[7] There is ample evidence of this on both the micro- and macro-level. See: Burnside, Craig and David Dollar, *"Aid Policies and Growth"* American Economic Review, September 2000; Collier, Paul and David Dollar, *"Aid Allocation and Poverty Reduction"* World Bank, revised 2000; Isham, J. and D. Kaufmann, *"The Forgotten Rationale for Policy Reform:The Productivity of Investment Project"* Quarterly Journal of Economics 114: pp 49-84.

enhanced HIPC framework provides for a more explicit link between debt relief and appropriate macroeconomic, structural and social policies through the Poverty Reduction Strategy Papers (PRSPs) that are drawn-up by HIPCs. The PRSP process is expected to enhance country ownership of HIPCs' economic adjustment and reform programs. Through improved accountability and implementation, the expectation is that it will enhance the efficiency of public spending and the use of foreign aid and thereby improve human capital and contribute to debt sustainability over the longer term. Since PRSPs are expected to identify public sector spending that is important for reaching the international development goals, they should also help donors and creditors better target aid flows.

24. **Thus the PRSP represents a new and much greater level of effort both on the part of HIPCs and on the part of the international donor community. Raising the average annual growth rate by 2-3 percentage points (as projected in the scenarios underlying the DSAs) over a decade should be feasible by strengthening the economic reform agenda and forging greater social cohesion which, together, constitute a potential "source of growth" that could be unlocked by the PRSP process.** At the same time, it should be clear that "business as usual" will not get these countries onto a 5 to 6 percent growth path and that HIPC debt relief alone does not ensure long-term debt sustainability.

B. Reducing Export Vulnerability

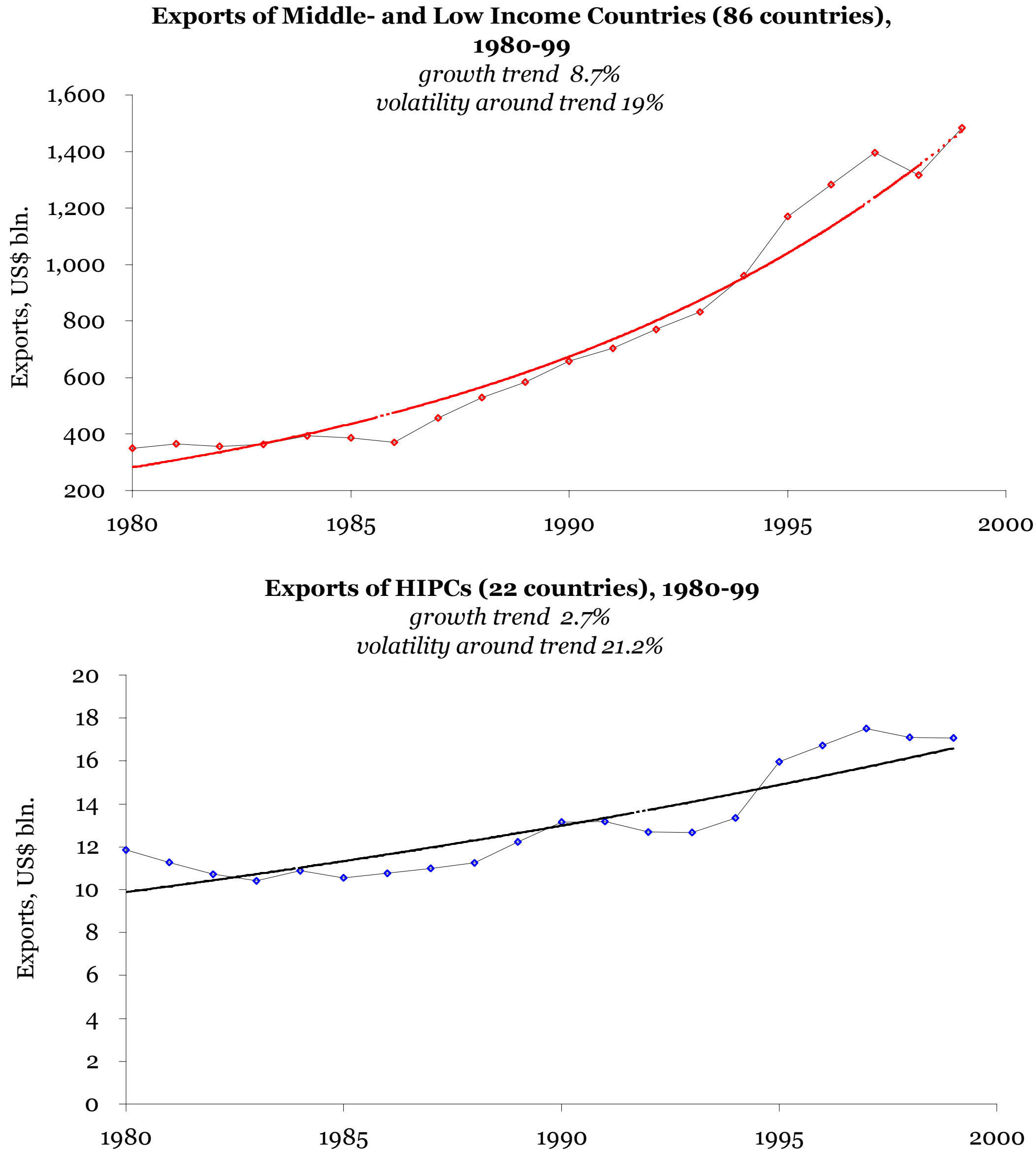
25. **The 22 HIPCs that have reached a decision point are dependent on a very narrow production and export base**, with three main export items accounting for over half of their total exports (see annex Table 1). This dependence has remained substantially unchanged during the last two decades. In addition, international prices for the main export items of many of these countries, such as coffee, cotton, or copper, have fluctuated widely creating uncertainty.

26. **The narrow export base of most HIPCs and their exceptional vulnerability to external shocks were key reasons for lowering the debt sustainability threshold under the enhanced HIPC Initiative in order to provide a safety cushion against unanticipated and extended declines in export earnings.**[8] At the same time, robust export growth is needed to strengthen HIPCs' external payment capacity and help create additional income and resources for growth and poverty reduction. Diversifying the export base remains HIPCs' best insurance against terms of trade shocks. While fluctuations in exports and terms-of-trade shocks are frequently cited as the reasons for HIPCs' vulnerability, these fluctuations also affect the non-HIPC developing countries (see Box 2, which compares the export growth trend and volatility of HIPCs to non-HIPC developing countries). However, HIPCs may be less well equipped to adjust to the same relative volatility because of the constraints imposed by low income levels.

[8] See "*Modifications to the Heavily indebted Poor countries (HIPC) Initiative*", IDA/SecM99-475, July 26, 1999 and IMF EBS99/138, July 23, 1999.

Box 2. Export Growth and Volatility in HIPCs and other Developing Countries

While volatile export earnings are a cause of serious concern, it is not the characteristic that sets the HIPCs as a group apart from other developing countries. As indicated in the figure below, HIPCs have not experienced more volatile exports than the group of low- and middle-income countries as a whole over the past two decades. Rather, the critical difference has been in the growth of exports: in US$ terms, the growth trend of the HIPCs has been less than 3 percent over the past two decades while that of the low- and middle- income countries as a group has been almost 9 percent. The developing countries have thus increased their exports fourfold while the HIPCs have only increased their exports by one and a half times since 1980. Decisively increasing the capacity and ability to export is thus one of the critical challenges facing the HIPCs over the coming decades. Meanwhile, it is important to note that the same relative volatility in exports is likely to be more detrimental for countries like the HIPCs with low export and income levels.



Source: *World Development Indicators* , World Bank.

27. **Increased market access for HIPCs also requires a reassessment of priorities on the part of their development partners.** Trade policies are an area where trade partners should focus their efforts. The share of HIPCs in international trade has been eroding since the 1970s, down from 2.2 percent of world exports to only 0.7 percent in 1997 (see Table 1). Even as a proportion of developing countries' exports, HIPCs' share has fallen from 8 percent to 2 percent over the same period. In part the relatively better performance of other (non-HIPC) developing country exports reflects their successful diversification into new export products and, in some cases, rising oil revenues. In part it also reflects a disruption of HIPC exports due to conflict situations. It is important that HIPCs make up the lost ground by expanding their exports to developed country markets. This would include maximizing the growth potential of regional integration. Opening up access to OECD markets has long been advocated by the Bank and the Fund as well as others, and recent statements at the Annual Meetings in Prague testify to the continuing importance attached to this goal.[9] The lowering of protectionism in key markets for HIPCs' exports will help in particular to attract private investment into the HIPCs' export sector.

Table 1. HIPCs' Trade Shares, 1970 - 1997
(in percent)

	1970	1980	1990	1997
41 HIPCs Exports				
as a share of world exports	2.2	1.2	0.8	0.7
as a share of developing countries exports	8.4	3.4	2.7	2.2
22 HIPCs at Decision Point				
as a share of world exports	1.0	0.4	0.3	0.2
as a share of developing countries exports	3.7	1.3	1.0	0.7

Source: IMF International Financial Statistics Yearbook, 2000.

[9] See *"Heavily Indebted Poor Countries (HIPC) Initiative and Poverty Reduction Strategy Papers (PRSP), A Joint Memorandum from the Managing Director of the IMF and the President of the World Bank and Reports on Progress in Implementation"* Development Committee DC/2000-18, September 8, 2000.

C. Increasing the Availability and Concessionality of External Capital

28. **The availability and efficient use of foreign capital is critical for the development prospects of these countries**, and in conjunction with the terms and conditions under which the foreign financing is obtained, for their ability to maintain a sustainable debt situation beyond the completion point under the HIPC Initiative. In the foreseeable future, HIPCs will continue to depend on substantial inflows of official external financing to attain the levels of investment required to spur economic growth and reduce poverty levels. It has been estimated that African HIPCs would need to increase their investment levels substantially in order to achieve the international development goals over the next 10-15 years.[10]

29. **Foreign direct investment is one important source of additional finance that is particularly sensitive to the policy and institutional environment.** Despite a strong need for private sector inflows, very few of the HIPCs have been able to attract foreign investors in the past other than for mineral extraction. Reversing this trend is important if HIPCs are to achieve sustained high growth and a continuous reduction in poverty levels as well as long term debt sustainability. The challenge for the HIPCs is to establish a favorable climate for private investment -- both domestic and foreign financed. The reduction of the existing debt burden is one step in this direction. Policy reforms to develop the financial sector, with the support of donors and creditors, would also help create a level playing field and facilitate private sector involvement. To the extent that foreign direct investment can substitute for the public sector in activities such as utilities and commodity production, the external borrowing requirements of the government will be reduced and prospects for external debt sustainability could be enhanced.

30. However, even with strong private sector growth, a very substantial part of HIPC's development expenditures will still remain to be financed externally by the public sector. To secure the financing needed for development and poverty-reduction — in the HIPCs as well the developing countries more generally—will require concerted efforts by creditors and donors as well as by debtors and recipients. **Those efforts should focus on the following issues which are central to both long-term debt sustainability and effective development: additionality, concessionality, and transparency.**

Additionality

31. It has been a fundamental principle of the HIPC Initiative from the very outset that new development financing and resource transfers are additional and be made available over and above HIPC debt relief. Creditor and donor agencies clearly have a primary responsibility to ensure that their governing bodies follow through with previous commitments in that respect. However, the principle of additionality can only be justified if HIPCs themselves are following sound economic and social policies. A vigorous program of structural and policy reform is also necessary in order that the domestic economies of HIPCs may attract additional resources to bridge the financing gap that will remain even after official development assistance.

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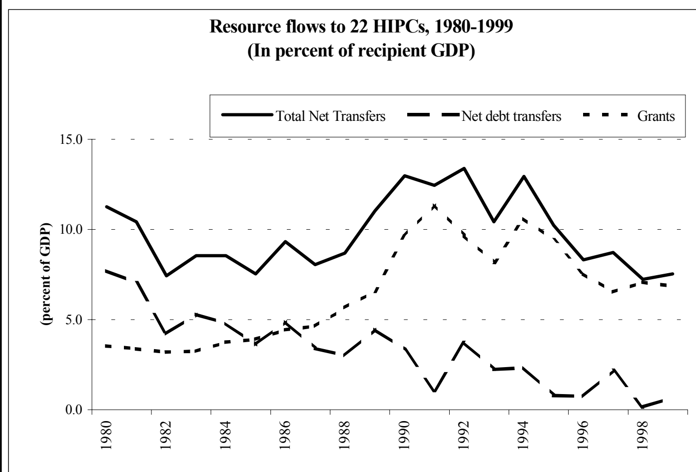
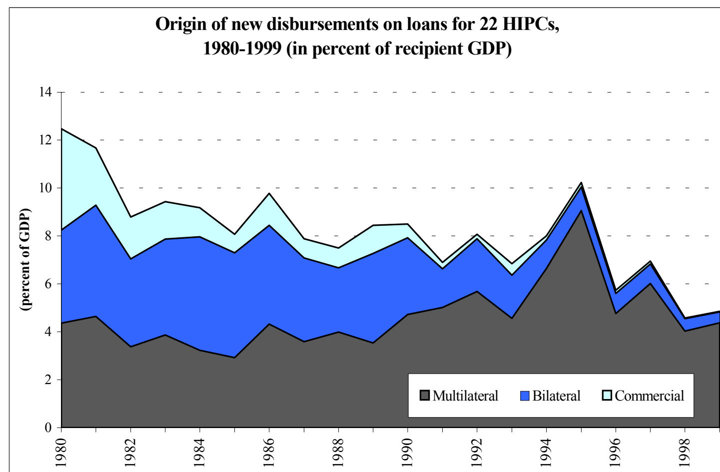
[10] This has been estimated at 30 percent of GDP in one study, "Can Africa Reclaim the 21st Century", World Bank, 2000.

Box 3: Resource Flows to 22 HIPCs, 1980-1999

During the 1980s gross disbursements of loans and grants to the 22 HIPCs amounted to about US$7 billion annually, increasing to about US$10 billion annually in the 1990s. In relative terms, this represents an increase from about 13.5 percent of GDP in the 1980s to 15.8 percent in the 1990s. Meanwhile, net transfers (i.e., net debt transfers plus grants) to the same group of countries averaged around US$4.5 billion or 9 percent of GDP per year in the 1980s, increasing to US$6.5 billion or about 10.5 percent of GDP in the 1990s.





Source: Global Development Finance, 2000; World Bank.

Note: Figures on grants within the GDF database are based on donor reporting from the Development Assistance Committee (DAC), and differ from data presented in Annex Table 8, which is based on balance of payments statistics. The substantial increase in disbursements in 1995 corresponds with a new loan provided by the IMF at the end of the Rights Accumulation Program (RAP) in Zambia.

Within this overall development a number of important changes are discernable:

- There has been an almost complete withdrawal of commercial creditors from lending to the HIPCs, with the share of commercial debt in total new disbursements down from one-third in 1980 to below 10 percent in 1990, and less than 1 percent by 1999.

- Most bilateral creditors gradually replaced loan-financing with grant-financing for HIPCs during the 1990s, and hence their share of loan disbursements was reduced from one-third of all disbursements in the early 1990s to about 10 percent in 1999. As a result of this switch, the average share of grants increased from about 30 percent of gross transfers (gross disbursements plus grants) in the 1980s to 55 percent in the 1990s.

- As a result, multilateral development banks have become the dominant lenders, with disbursements accounting for 85-90 percent of total disbursements in the second half of the 1990s compared to 55 percent in 1990 and one-third in 1980.

Concessionality

32. In order to keep the external debt situation sustainable and safeguard the benefits of HIPC relief, one of the guiding principles of the HIPC Initiative requires that external finance for the countries concerned be on appropriately concessional terms. The Development Committee in its April 1999 communiqué confirmed that new financing to HIPCs should be in the form of grants or on highly concessional terms. Subsequently, in discussing HIPC documents, a number of Executive Directors argued against non-concessional borrowing by HIPCs.[11]

33. **Creditor responsibilities.** The responsibility of creditor agencies is to ensure that the mix of available finance is kept in line with the debt servicing capabilities of debtor countries. Creditors also need to have sufficient flexibility to accommodate additional financing requirements when warranted by circumstances such as external shocks and natural disasters. This would help HIPCs adjust for terms of trade deterioration and its effect on debt service capacity which would otherwise increase the risk to the long-term sustainability of these countries, and jeopardize poverty reducing expenditures. A number of such flexible measures have been employed in dealing with these types of shocks in the past, including new financing, additional grant financing, or a temporary moratorium on debt service *vis-à-vis* bilateral creditors. If there is a longer-term deterioration, the international community would need to further support the debtor country in the pursuit of reform efforts set out in its PRSP to address structural problems.

34. Creditor nations also need to ensure that multilateral agencies are able to furnish development finance at appropriately concessional terms. As the result of a withdrawal of private financing flows and a shift in bilateral flows from loans to grants, multilateral institutions have become by far the most important source of loan financing (see Box 3). Their financial strength and agility is therefore critical for the HIPCs (along with other developing countries) to increase investment and growth and thereby help maintain a sustainable debt situation in the long term. Moreover, many of the multilateral creditors may also need additional support to enable them to increase the volume of their concessional lending and its grant element.

35. **The importance of debt management.** An important factor that contributed to the accumulation of unsustainable levels of external debt was poor debt management and imprudent borrowing practices of the debtor countries. Public sector external borrowing was not carefully managed both in terms of the amount and the terms. Borrowed resources were often used without regard to economic return and debt servicing in the future. In addition, a lack of macroeconomic policy adjustment in the face of shocks led to excessive borrowing for consumption and greatly exacerbated debt problems. To maintain external debt sustainability therefore will require significant strengthening of HIPCs' debt management capacity, and implementation of prudent policies on non-concessional and concessional borrowing.

36. An effective debt strategy would ensure (i) coordination with monetary and fiscal policies, particularly when economic shocks occur and a timely adjustment of domestic policies is needed

[11] Also, legislation passed in October 2000 by the U.S. Congress that provided funding for the U.S. contribution to the HIPC Trust Fund requires, among other things, that countries benefiting from the U.S. contribution must commit not to borrow, at least for two years, nonconcessional loans from the relevant MDB that benefits from the U.S. contribution. H.R. 5526 of the 106th Congress. The MDBs affected by this provision are Inter-American Development Bank, African Development Bank, African Development Fund, and Central American Bank for Economic Integration.

for speedy recovery; (ii) transparency, including public disclosure, and accountability; (iii) monitoring, analytical, and negotiation capabilities.[12]

37. Debtor nations clearly have an important role in assuring that the overall concessionality of public debt is appropriate to their needs. The PRSP provides an appropriate vehicle for communicating clearly to the international community the financing requirements of a country's strategy for growth and poverty reduction.

38. **Non-concessional borrowing.** Generally, macroeconomic programs supported by the Fund and the World Bank in HIPCs have endeavored to limit non-concessional borrowing by the government or the public sector. Under current and recent PRGF arrangements, very limited external borrowing on non-concessional terms is permitted for only five countries, Bolivia, Côte d'Ivoire, Senegal, Yemen and Mali.[13] (Appendix III). While strictly limiting or prohibiting non-concessional borrowing, present PRGF arrangements for 22 countries set no quantitative limits on concessional borrowing. The only restriction (applying to Mali and Senegal) is that the Ministry of Finance responsible for debt management approves all loans contracted or guaranteed by the government.

39. Debt repayment capacity of HIPCs is projected to strengthen only gradually even after HIPC debt relief. For this reason, both HIPCs and donors/creditors have supported the stringent policy on non-concessional borrowing. Generally speaking, the policy of strictly limiting non-concessional borrowing should continue to be vigorously pursued after the completion point. The same prudence in new borrowing should apply to the public sector as a whole - including public enterprises - as for the central government. [14]

40. The issue of non-concessional borrowing is particularly relevant for public enterprises, especially those that have the ability to borrow without the approval of the central government. As long as the enterprises are majority owned by the government, the debts that they incur will be public debt even if they do not carry an explicit government guarantee. Even where the government may be a minority owner, an implicit contingent liability for the government corresponding to its equity participation cannot be ignored. However, some public enterprises, particularly those with management contracted out to the private sector, are both efficient and profitable corporations. In such circumstances the merits of non-concessional borrowing have been considered on a case by case basis. There should be a high degree of transparency regarding the rationale for any exceptions to the non-concessional borrowing limits. Privatization of public enterprises could allow viable enterprises to access credit without prejudice to the external debt sustainability of the public sector.

41. **Concessional borrowing.** Although concessional borrowing will have less of an impact on the NPV of debt than an equal amount of non-concessional borrowing because of its grant element, a large volume of new borrowing over a short time span even on concessional terms could quickly raise the NPV of debt-to-exports ratio. In some cases where the capacity to repay external debt is expected to remain comparatively weak even after the completion point, conditionality has been introduced to permit borrowing only on highly concessional terms, for

[12] Debt management issues for individual countries as described in the decision point documents are summarized in Appendix II.
[13] For this purpose, a loan is considered concessional if its grant element is at least 35 percent, calculated using a discount rate based on the OECD's Commercial Interest Reference Rates (CIRRs).
[14] In four recent cases (Chad, Cameroon, Mauritania, and Senegal) nonconcessional borrowing has been permitted based on the merits of each case.

example, in the case of Guinea-Bissau and São Tomé and Príncipe, with a grant element of at least 50 percent.[15] This, however, raises potential problems as some multilateral creditors' lending terms do not currently meet this level of concessionality. In other countries, the share of grants in overall financing may need to be increased. For instance, in Rwanda, grants are assumed to constitute about 75 percent of new external financing for the government over the next five years. The limitations on concessional borrowing, therefore, will have to be tailored to each country in the context of its debt servicing capacity, prospective lenders and donors, and present and projected debt service obligations.

Transparency

42. HIPCs need to strengthen the transparency and accountability of public debt management through improved information disclosure and public oversight. Better public insight and understanding, often through parliament and regular publication of debt statistics could therefore help reduce the scope for corruption and increase the effectiveness of debt management. Staff training and institutional reforms to improve debt monitoring and analysis would be critical for developing and implementing consistent debt management strategies.

43. Creditor nations also have an important role to play in fostering transparency and enhanced public accountability. In the past it has often been difficult to obtain creditor information on the number, size and terms of their loans. At best, this kind of information has been made available only after a considerable delay and it is frequently incomplete. In many cases, the very first published account of exposure by individual creditors appears only in documents prepared for the HIPC Initiative. The goal should be regular publication of creditor exposure in all cases and not just when debt serving difficulties are encountered. The prompt, regular and full disclosure of all loans, including loans in the pipeline, would be an important step forward.

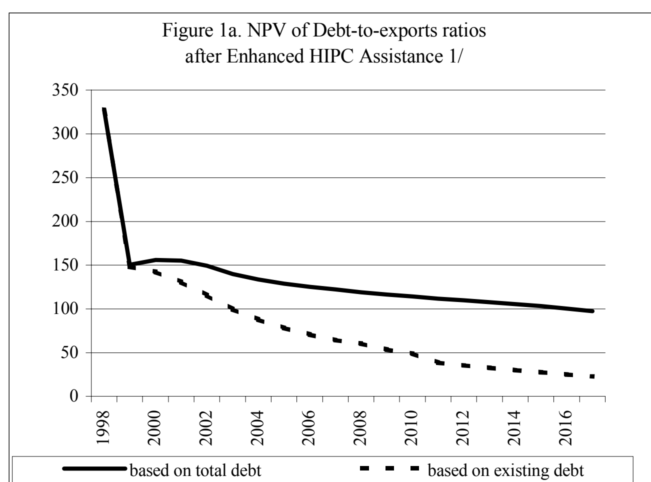
[15] This excluded IMF lending under the PRGF (which contains a grant element of about 35 percent) due to its importance as a catalyst for other funding.

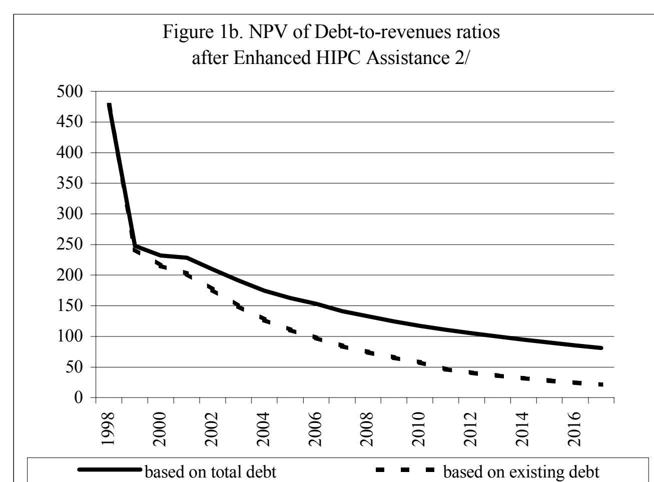
III. EXTERNAL DEBT SUSTAINABILITY ISSUES AND THE ENHANCED HIPC INITIATIVE

44. **Last year, 22 countries reached a decision point under the enhanced HIPC Initiative**, with the objective of bringing down the level of external public debt to sustainable levels. Total committed assistance amounts to almost half of these countries' external debt prior to HIPC Initiative assistance. Together with traditional and additional debt reduction, these countries can expect that their external indebtedness will be reduced by about two-thirds. All of these countries have started receiving cash flow debt relief, enabling them to increase expenditures on development and poverty reduction programs.

45. **In Board discussions of the 22 HIPC decision point documents during 2000, a number of issues relating to long-term debt sustainability were highlighted**, including the projected debt trends and new borrowing requirements, the realism of export and revenue projections, and hence the confidence with which it could be assumed that these countries would achieve a lasting exit from debt rescheduling after the completion point. Annex Table 2 summarizes the progress achieved in the 22 HIPCs thus far.

46. Consistent with the enhanced HIPC framework, the amount of debt relief for each of the HIPCs was established to bring down the NPV of debt at the decision point to 150 percent of exports or, for fiscal window cases, to 250 percent of government revenues. **On average, the debt indicators will continue to fall based on projections used in the Debt Sustainability Analysis (see Figures 1a and 1b).**





1/ Weighted average, based on a 3-year backward looking average of exports, and unconditional delivery of HIPC relief at the decision point for 18 cases qualifying under the exports criteria.

2/ Weighted average, based on a unconditional delivery of HIPC relief at the decision point for 4 cases qualifying under the fiscal opennes criteria.

Source: HIPC Decision Point Documents

A. HIPC Debt Relief as the Basis for Debt Sustainability

47. The 22 HIPCs that have reached their decision points to date give a fairly robust sample to assess the impact of the HIPC Initiative on prospects for long-term sustainability. In this context, **it is useful to compare HIPCs' debt indicators before and after HIPC debt relief with those of other developing countries.** In the broader group of developing countries, the average NPV of debt-to-exports ratio in 1999 was 133 percent. The enhanced HIPC Initiative would bring down the NPV of debt-to-exports ratio for the 22 HIPCs that have reached their decision points from 260 percent in 1999 to 126 percent in 2003 (see Table 2), below the average (128 percent) for all non-HIPC developing countries and well below the empirical threshold of 200 percent that triggered a sharp increase in the incidence of debt rescheduling in the past (see Appendix I). Although the projected NPV of debt relative to exports is similar to that of other developing countries, the average terms of that debt in HIPCs will be more favorable and therefore, in the coming years the eligible HIPCs will have their debt service ratios reduced to less than half that of developing countries in general.

Table 2. Debt Indicators in Developing Countries and HIPCs in 1999 [1/]

(In percent)

				Memorandum items: 22 Decision Point HIPCs	
	Developing Country Average	Non-HIPC Developing Countries	39 HIPCs	before HIPC relief [2/]	after HIPC relief
NPV of debt-to-exports ratio	133	128	249	260	126 [3/]
NPV of debt-to-GDP ratio	38	36	84	59	29 [3/]
Debt service-to-exports	20	21	14	17 [4/]	8 [5/]

Sources: Global Development Finance, World Bank, and Decision Point Documents for 22 HIPCs.

1/ Excludes Liberia and Somalia due to incomplete data; all figures based on weighted averages.

2/ Debt stocks are after traditional mechanisms.

3/ Refers to 2003.

4/ Average for 1998-99.

5/ Average for 2001-2003.

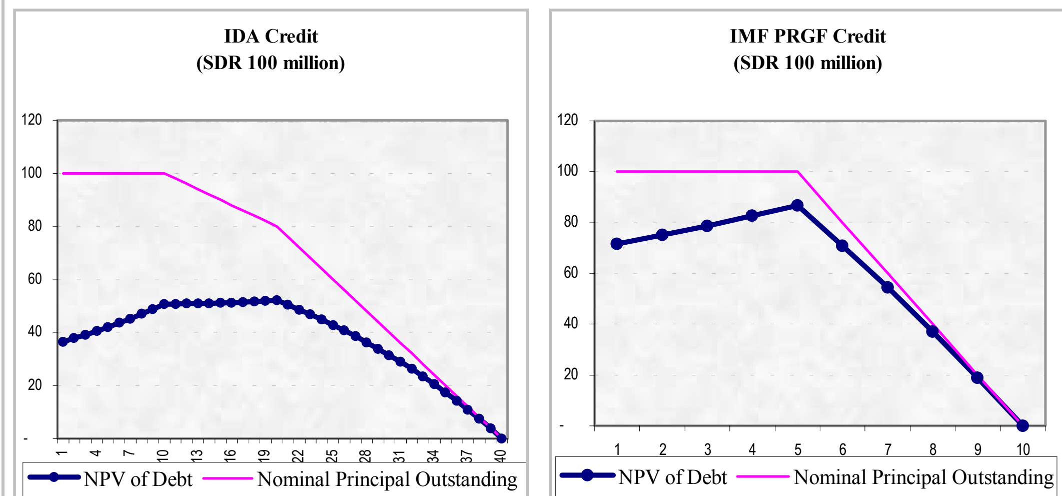
48. **Four countries - Guyana, Honduras, Mauritania, and Senegal – qualified under the fiscal criterion.** The projections foresee that the NPV of debt in all of these countries stays below 250 percent of revenues and substantially below 150 percent of exports throughout the projection period (see Annex Tables 3a, 3b and 4).

49. **For most of the 18 countries which qualified under the exports criteria the NPV of debt-to-exports ratio will be at or below 150 percent at the completion point and beyond** (see Annex Table 3a). In fact, the NPV of existing debt-to-exports, i.e. based on debt disbursed by the decision point, falls very quickly for all countries (see Annex Table 3c), indicating the importance of prudent new borrowing after the decision point, as well as export developments, for the maintenance of sustainable debt levels.

Box 4: Profile of the Net Present Value of Debt

Net present value (NPV) of debt is the value in today's terms of debt service (principal and interest) due in the future, where each payment is discounted back to the present. The concept of NPV has been used in the HIPC Initiative as it captures the concessionality of debt to enable comparisons with other creditors and countries. It differs from the nominal debt concept, as it involves both principal and interest. As long as the interest rate applicable to the debt is below the discount rate, the NPV of debt remains lower than the nominal debt. The difference between the nominal value and NPV of debt is referred to as grant element. The grant element of debt erodes over time, with the speed of erosion depending on (i) the difference between the interest rate and the discount rate, and (ii) the repayment profile of the debt including the length of the grace period.

Trends in Nominal Principal Stock and NPV of New Debt



IDA credits are repaid over 40 years, including a 10-year grace period, at 0.75% annual interest.	PRGF credits are repaid over 10 years, including a 5½-year grace period, at 0.5% annual interest.

One can discern some stylized patterns in the evolution of the NPV of new debt. First, where there is a grace period specified in a new loan, the NPV of the loan will increase until the grace period has been completely exhausted. Therefore, in a few HIPCs (e.g., Rwanda) the NPV of debt rises following the decision point primarily due to the fact that the grace period on loans/credits contracted in the past is growing shorter.

Second, the NPV, measured over time, is expressed in terms of value at specific points in time. As there are changes in the discount rates over the life of a loan, the NPVs will vary inversely with the discount rates. For example, a half a percentage point drop in the discount rate for SDRs from 6 percent to 5.5 percent will result in an increase in the NPV of about 10 percent for the IDA credit, and about 4 percent for the PRGF credit.

50. **In three cases (Burkina Faso, Rwanda, and Tanzania) the NPV of debt-to-exports level is brought close to 150 percent within a few years after the completion point, and below this level over the medium term.** The higher debt level in the early years for these cases reflect mainly high levels of anticipated new borrowing immediately following the decision point, and in one case an increase in the NPV of existing debt as the grace period of recent borrowing expires (see Box 4). The weight of debt on these economies over time is reduced, among other factors, by the anticipated growth in exports.

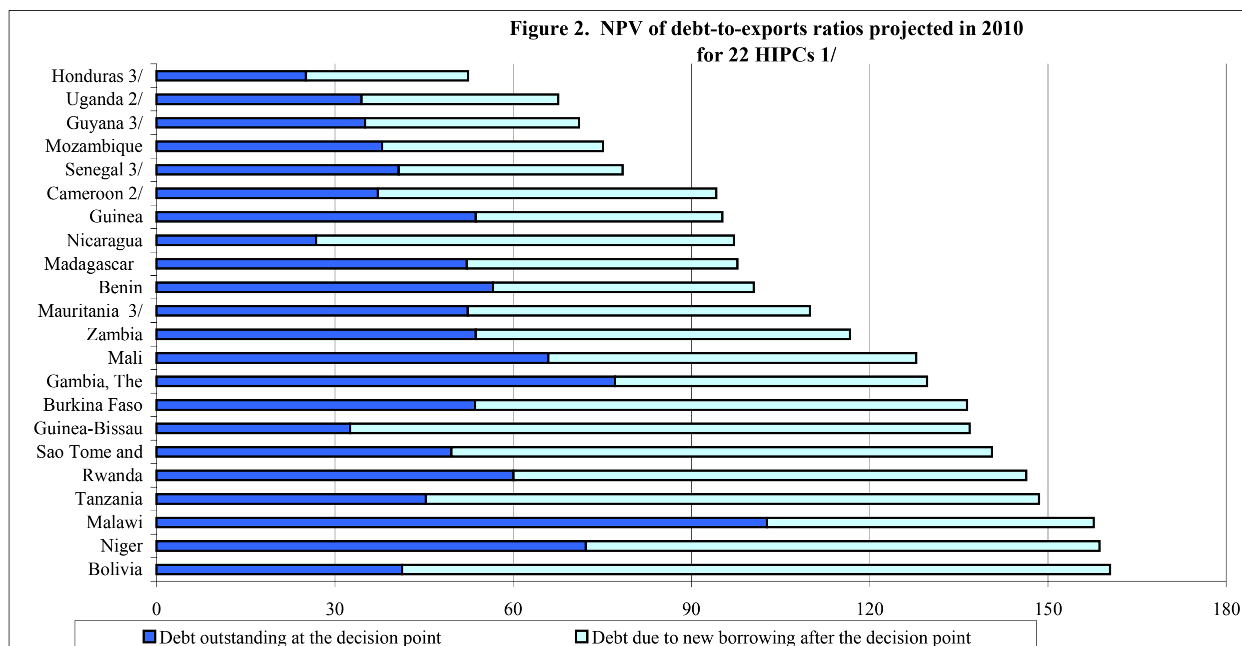


Figure 2. NPV of debt-to-exports ratios projected in 2010 for 22 HIPCs 1/

1/ For the HIPCs having reached their decision points, after Enhanced HIPC relief.
2/ Fiscal year data, 2009-2010.
3/ Eligible under the fiscal openness criteria.

Source: HIPC Decision Point Documents.

51. **For three countries (Bolivia, Malawi and Niger) the NPV of debt-to-exports ratio is projected to remain above 150 percent for 10 years or more.** A continued high level of new borrowing (see Figure 2) drives the trend. For Niger and particularly for Malawi, export trends are also important explanatory factors: Malawi had high tobacco exports before the decision point [16], while Niger is expected to face a continued decline in its main export, uranium. For Bolivia a reduced level of concessionality in new borrowing is also an important explanatory factor. [17]

52. **Projections for the 22 HIPCs that have reached a decision point indicate that their NPV of debt levels would all remain below 200 percent of exports - the lower threshold of the original HIPC Initiative - throughout the 20-year projection period, with most near or below 150 percent.** Moreover, the debt levels are likely to be even lower than these figures in view of the announcements of unilateral debt forgiveness on the part of many bilateral creditors. Additional voluntary bilateral debt forgiveness already announced by the G7 and other bilateral

[16] Malawi experienced unusually high export revenues from tobacco in the 3 years prior to the decision point (the years on which assistance was based) that has subsequently returned to more usual levels.
[17] With a per capita GNP of over US$1,000 Bolivia will have less recourse to highly concessional financing than other HIPCs.

creditors could reduce the NPV of debt-to-exports ratio for the 22 HIPCs on average by 23 percentage points below the post-HIPC relief levels (see Table 3).

Table 3. Additional Bilateral Debt Forgiveness and its Impact on the NPV-of-Debt-to-Export Ratio [1/]

	NPV-of-Debt-to Exports Ratio (In percent)			*Memorandum Item: NPV reduction in US$ millions*		
	After HIPC assistance 2/	After possible additional bilateral forgiveness	Percentage point reduction	After HIPC assistance	After possible ODA forgiveness	Possible additional bilateral forgiveness
Benin	150	139	11	583.1	541.0	42
Bolivia	150	138	12	2,041.0	1,878.0	163
Burkina Faso	150	144	6	461.9	442.9	19
Cameroon	150	117	33	3,431.0	2,669.0	762
Gambia	150	148	2	178.2	176.2	2
Guinea	150	129	21	1,182.0	1,020.0	162
Guinea-Bissau	150	131	19	71.0	62.0	9
Guyana	70	57	13	500.1	410.0	90
Honduras	110	78	32	2,559.0	1,933.0	626
Madagascar	150	103	46	1,244.0	858.0	386
Malawi	150	126	24	826.0	693.0	133
Mali	150	139	11	908.1	839.7	68
Mauritania	137	103	34	620.8	465.1	156
Mozambique	150	98	52	761.5	496.0	265
Nicaragua	150	116	34	1,259.0	973.0	286
Niger	150	137	13	452.7	414.8	38
Rwanda	150	139	11	181.8	167.9	14
Senegal	134	115	19	2,010.1	1,771.1	239
Sao Tome and Principe	150	134	16	21.0	18.7	2
Tanzania	150	129	21	1,742.9	1,503.1	240
Uganda	150	147	3	1,092.3	1,069.2	23
Zambia	150	88	62	1,491.5	877.6	614
Simple Average	**143**	**121**	**23**			**4,340**
Weighted Average	**138**	**113**	**25**			

Sources: HIPC documents and World Bank and IMF staff estimates.

[1/] Calculated for illustrative purposes at each country's respective decision point based on creditor indications thus far.

[2/] Assuming unconditional delivery of assistance at the reference year.

53. Table 4 summarizes the impact of HIPC assistance on the debt service indicators. It is noteworthy that, **after HIPC debt relief, all 22 countries are projected to have a debt service ratio below 15 percent, with most countries' ratios in the single digits.** Even in cases such as Zambia and Niger where the projected NPV of debt-to-exports ratio remains high for a while, the debt service ratios are below 15 percent. Similarly, with few exceptions (Zambia), these countries' debt service to revenue ratios are below 15 percent by 2004-05 (see Annex Table 7). In addition, debt service will be significantly lowered once the full effect of additional voluntary bilateral debt relief is factored in.

54. **Finally, it is important to recall that debt service would be more than offset by grants, and thus net transfers will continue to be positive** (see Annex Table 8). Net transfers, which are grants plus disbursements on new lending minus debt service paid, increased from $3.5 billion or 4.7 percent of GDP in 1998-99 to $6.2 billion or 7.8 percent of GDP in 2000-01. Net transfers are projected to remain at about 8-9 percent of GDP on average for the 22 HIPCs throughout the 2000-10 period.

Table 4. Debt Service Indicators for HIPCs that Have Reached Their Enhanced Decision Points, 1998-2003
(In percent)

	Debt service as a percentage of exports		Debt service as a percentage of government revenues		Debt service as a percentage of GDP	
	Before HIPC relief 1998-1999	After HIPC relief 2001-2003	Before HIPC relief 1998-1999	After HIPC relief 2001-2003	Before HIPC relief 1998-1999	After HIPC relief 2001-2003
Benin	16.5	9.4	17.5	7.8	2.8	1.4
Bolivia	24.1	12.1	15.9	9.0	3.7	2.2
Burkina Faso	17.3	9.2	15.7	7.2	2.2	1.1
Cameroon	16.2	8.2	26.1	12.2	4.5	2.3
Gambia, The	13.3	8.5	20.2	13.4	3.6	2.7
Guinea	14.8	8.7	30.8	21.4	3.3	2.9
Guinea-Bissau	61.0	5.4	87.6	9.3	9.7	1.7
Guyana	14.7	5.2	48.8	14.9	14.3	5.3
Honduras	11.5	5.8	23.5	13.3	5.2	3.1
Madagascar	11.7	5.5	25.0	10.2	3.6	1.3
Malawi	16.7	10.5	30.2	10.7	5.0	3.2
Mali	12.2	8.1	17.9	12.0	3.0	2.1
Mauritania	22.7	13.4	35.2	20.0	9.0	4.5
Mozambique	17.0	4.8	19.9	7.4	2.3	1.0
Nicaragua	18.4	13.4	19.8	19.1	7.0	5.2
Niger	9.1	14.1	16.2	20.2	1.4	1.9
Rwanda	19.4	7.7	11.1	5.6	0.9	0.6
Sao Tome & Principe	35.1	7.4	44.1	12.2	11.0	3.2
Senegal	14.3	7.4	27.7	14.1	4.7	2.5
Tanzania	18.5	8.6	24.4	11.2	2.5	1.4
Uganda	13.2	4.7	14.4	4.8	1.7	0.7
Zambia	16.1	11.1	24.4	22.3	4.4	4.1
Simple average	**18.8**	**8.6**	**27.1**	**12.7**	**4.8**	**2.5**
Weighted average	**16.8**	**8.2**	**27.4**	**11.9**	**3.7**	**2.1**

Source: HIPC Documents and World Bank/IMF staff estimates.

B. Debt-to-Exports Profiles and their Sensitivity to Projections of Exports and New Borrowing

55. **The debt indicators, including the NPV of debt-to-exports ratios, depend upon future borrowing and future trends in exports and government revenues.** For the years following the decision point under the enhanced HIPC Initiative, the debt ratios presented in the DSAs are based on projections of GDP growth, export growth, revenue growth and the level of new borrowing. Table 5 summarizes the main projections underlying the DSAs. In most cases, these projections anticipate some improvement in future economic performance compared with the 1990s, reflecting a combination of better national policies, the removal of the debt overhang and adequate flows of concessional financing. However, it is important to note that the projected improvement varies considerably across countries and is most marked in those countries which are recovering from conflict, periods of poor economic management, or terms of trade deterioration. During the Board discussions of the first 22 HIPCs to reach decision points, concerns were raised that small deviations from these projections could jeopardize debt sustainability.

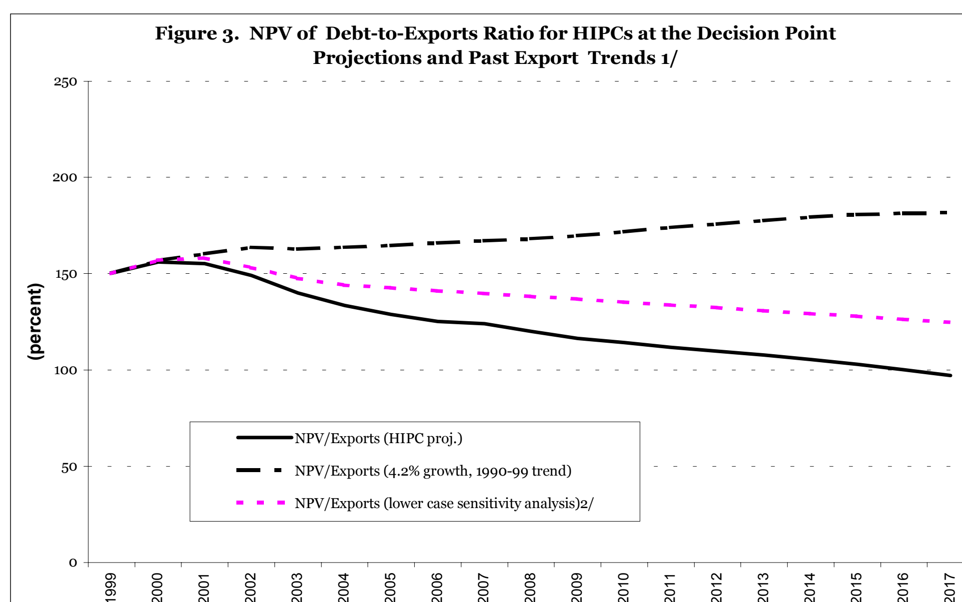


Figure 3. NPV of Debt-to-Exports Ratio for HIPCs at the Decision Point Projections and Past Export Trends 1/

1/ Excludes countries which qualified under the fiscal openness criteria.
2/ Impact of 1% lower export growth, based on sensitivity analyses from Decision Point Documents.
Source: Global Development Finance; World Bank and IMF staff estimates.

56. **Since the 22 HIPCs are all undertaking reforms supported by the Bank and the IMF, export projections contained in DSAs are based on a policy scenario that assumes a country will strengthen its growth potential by sustaining sound macroeconomic, structural and social policies and that the financing requirements associated with this scenario will materialize on the envisaged terms.** In addition, a relatively neutral external environment was assumed. Figure 3 provides an illustration of the sensitivity of the future NPV of debt-to-exports profile to the export projections. It shows the path of NPV of debt-to-exports ratios assuming export growth based on (i) HIPC decision point debt sustainability analyses, (ii) an extrapolation

of average export growth rates in the 1990s, and (iii) the impact of a 1 percent lower export growth rate based on the sensitivity analysis.

57. **In the event that the external environment turns out to be less favorable than assumed in the DSA projects, the HIPCs would have to undertake additional economic adjustment with appropriate external support.** The DSA projections, predicated upon a systematic implementation of structural reforms and sound policies, would provide the best assurance of long-term debt sustainability (the bottom line of Figure 3). However even if countries were to fall short of the higher growth targets, and do no better than maintain the export growth rates of the past 10 years (the middle line) the aggregate NPV of debt-to-exports ratio of the 22 HIPCs, while above the 150 percent, would stay well below 200 percent during the projection period. There is, therefore, a safety margin that would protect HIPCs from debt servicing difficulties even if the DSA projections were not to materialize fully. The impact of lower growth targets would, of course, vary from country to country.

58. **In addition to lower export growth, the assumed level of new finance can have a significant impact on the debt stock ratios, and the terms of new borrowing can have a significant impact on the debt service ratios.** Based on the DSA scenarios presented in individual country decision point documents, there would still remain a high level of required external financing. It is projected that the external non-interest current account deficit excluding official transfers, will average almost 12 percent of GDP per year over the period 2000-05 amounting to about US$ 7.3 billion on average per year (see Table 5).

59. **The assumptions contained in the DSAs, including the volume of grants, and the terms and concessionality of new borrowing, have important implications for long-term sustainability in the HIPCs.** While the average grant element of existing debt as of end-1999 for the 22 HIPCs was 30 percent, the DSAs assume that the average grant element in new borrowing for 2000 to 2010 is twice as high at 58 percent albeit with wide variations between countries ranging from 26 percent for Bolivia to 80 percent for Niger. This reflects the fact that the overall concessionality of new financing is already increasing as bilateral creditors switch from loans to grants, leaving most of the new lending to multilateral creditors (see Box 3), and the expectation that HIPCs beyond their decision point will generally refrain from all non-concessional borrowing and seek new financing only on highly concessional terms. In order to achieve the assumed degree of concessionality necessary to maintain debt sustainability, bilateral donors/creditors would need to complement their lending with an appropriate amount of grants, and there would hardly be any room for non-concessional borrowing.

60. **Half of the 22 DSAs explored the sensitivity of the debt indicators to the concessionality of new financing, with a variety of downside scenarios.** The impact of the assumed deterioration in financing terms varies considerably on average over the projection period. The NPV of debt-to-exports ratio would be 3 percentage points higher in the case of Nicaragua and 50 percentage points higher in the case of Benin (see annex Table 9). The impact of a lower grant element in new borrowing is even more pronounced on the debt service ratio. The range varies considerably from 0.5 percentage points in the case of Madagascar to 15 percentage points in the case of Guinea-Bissau, which could potentially consume most of the budgetary resources freed up by HIPC relief.

Table 5. HIPCs that have Reached a Decision Point
Main Assumptions in Projections of External Debt Indicators
(In percent, unless otherwise indicated)

	Real GDP Growth 1/		Export Growth 1/ 2/		Terms of Trade Change 3/		New Borrowing 3/ (In percent of GDP)		Grant Element in Borrowing (Percent)		Noninterest Current Account (In percent of GDP)	
	1990-99	2000-10	1990-99	2000-10	1990-99	2000-10	1990-99	2000-10	Existing debt at end-99	New borrowing 2000-10	19995-99	2000-05
Benin	4.3	5.5	4.9	7.4	1.7	4.0	3.1	2.0	31.8	52.8	-9.2	-5.3
Bolivia	4.1	5.3	5.7	9.1	1.0	0.9	5.9	3.0	22.2 4/	26.3	-9.0	-5.0
Burkina Faso	3.6	5.9	2.4	9.7	-0.3	1.3	4.3	3.3	40.0	55.2	-14.1	-10.6
Cameroon	1.2	6.0	-0.5	7.1	-2.5	-3.4	1.9	2.8	15.4	41.5	-3.3	-0.2
The Gambia	3.0	5.6	4.2	6.9	-0.8	0.2	7.5	5.5	42.9	52.1	-13.1	-9.2
Guinea	3.9	5.3	0.6	7.8	-0.6	-0.3	4.9	4.7	28.4	70.3	-7.1	-4.4
Guinea Bissau	0.3	7.0	7.3	12.1	-1.1	1.5	21.6	3.5	25.0	53.4	-23.9	-20.6
Guyana	6.0	4.2	4.0	4.4	-1.4	-0.3	19.3	8.4	23.3 4/	51.2	-14.8	-11.6
Honduras	3.2	5.9	5.4	11.4	0.6	0.3	8.3	4.3	23.1	50.7	-7.8	-8.7
Madagascar	1.8	6.2	8.0	8.4	-0.2	0.0	3.0	3.0	32.5	51.3	-7.9	-6.2
Malawi	4.0	4.4	5.5	4.3	-0.6	0.5	10.2	5.2	43.2	71.5	-13.7	-11.0
Mali	3.4	5.0	5.8	6.3	-2.7	1.6	7.5	4.1	…	55.5	-13.9	-8.6
Mauritania	4.3	7.3	2.1	6.0	-1.6	0.8	12.0	5.5	24.0	50.6	-23.6	-7.4
Mozambique	6.3	5.9	10.1	13.0	0.3	0.3	8.6	4.5	57.1 4/ 8/	77.5	-23.3	-11.5
Nicaragua	2.6	5.6	11.9	9.1	2.4 5/	0.0	13.4	8.6	16.0	48.6	-33.0	-29.0
Niger	2.4	4.4	-3.9	5.4	-4.1	-1.1	1.5	7.2	32.5	79.5	-9.8	-8.3
Rwanda	-1.6	6.1	-2.3	13.7	1.9	-0.4	3.9	15.6	44.8	67.1	-17.5	-12.3
São Tomé and Príncipe	-0.5	4.1	3.4	9.5	-1.6	3.3	40.8	12.8	35.2	70.0	-7.6	-59.2
Senegal	3.0	5.0	2.8	6.7	-0.5	-0.4	5.4	2.3	32.1	63.4	-7.4	-3.7
Tanzania	3.1	5.9	10.8	10.3	-0.5	0.8	0.9	4.7	27.7	57.9	-16.0	-13.5
Uganda	6.7	5.6	14.6	10.3	-3.0	...	12.1	3.1	10.1	69.2	-7.7	-5.6
Zambia	1.0	5.2	-2.3	9.6	-1.3	1.1	12.7	6.5	22.6	53.6	-14.0	-8.5
Simple average	3.0	5.5	4.6	8.6	-0.7	0.5 6/	9.5	5.5	30.0 7/	57.7	-13.5	-11.8
Weighted average	3.1	5.6	4.2	8.9	-0.7	0.0 6/	6.0	4.2	27.6 7/	56.6	-11.2	-7.9

Sources*:* Calculations based on Decision Point documents, IMF WEO database, and Bank and Fund staff estimates.

1/ Annual averages based on trend estimates.
2/ Growth in nominal U.S. dollars for exports of goods and nonfactor services.
3/ Annual averages
4/ End-1998.
5/ 1991-99.
6/ Excludes Uganda.
7/ Exlcudes Mali.
8/ After traditional debt relief.

C. Current Approach Toward Debt Relief

61. **In assessing the adequacy of HIPC debt relief, it is important to recall that the sustainability target range of 200-250 percent for the NPV of debt-to-exports ratio under the original Initiative was based on lessons learned from past experience with debt reschedulings.** Under the original framework, this target range was to be achieved at the completion point, with assistance based on projections of debt and exports at the completion point. The original framework also called for a reassessment of assistance at the completion point with an option of topping-up assistance in cases where a country would not otherwise be within 10 percentage points of its sustainability target. As the final amount of assistance would not be determined until the completion point, this made it difficult for creditors to confirm their assistance under the Initiative.

62. **The enhanced framework resolved many of these problems by fixing the amount of assistance at the decision point.** The reduction of the threshold to determine the amount of assistance to 150 percent for the NPV of debt-to-exports ratio and 250 percent for the NPV of debt-to-revenues ratio also incorporated a "cushion"[18] for sustainability compared to the original framework, as well as creating additional fiscal space for poverty reducing expenditures. The enhanced HIPC framework envisaged no automatic re-assessment of the amount of assistance at the completion point but provided for reconsideration in cases where there is a fundamental change in a country's economic circumstances as a result of exogenous shocks.[19]

63. **The reasons for proposing no automatic reassessment of HIPC relief were fourfold:**

- **Moral hazard**: While HIPCs are normally under continuous Fund and Bank-supported programs, some countries may be off track either temporarily or for a protracted period of time. The prospect of additional debt-relief could encourage irresponsible borrowing between the decision point and the completion point.

- **Burden-sharing and financing**: An automatic topping up of assistance at the completion point would necessitate a reexamination of burden-sharing, and would require additional commitments from all creditors and donors. During the 1999 review process, MDBs expressed a preference for final debt relief amounts to be specified at the decision point so that they could plan ahead to generate the necessary internal and external resources to cover their costs under the HIPC Initiative. Leaving open the final debt relief numbers until the completion point would create uncertainty about the adequacy of their financing as well as affect their lending decisions.

- **Fluctuations in the NPV of debt**: The NPV of debt is sensitive to changes in the discount rate. It also increases during the grace period of a concessional credit even though the nominal value and the terms of the credit remains unchanged. Creditors should not be required to provide additional assistance because of extended grace periods on new credits.

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[18] The "cushion" refers to the at least 50 percentage point lowering of the o*riginal* sustainability threshold range of 200-250 percent to provide a greater margin of safety that HIPCs' debt levels would remain sustainable.

[19] See "*Modifications to the Heavily Indebted Poor Countries (HIPC) Initiative"*, IDA/SecM99-475, July 26, 1999 and IMF EBS/99/138.

- **Rule of thumb**: The NPV target of 150 percent of exports is simply a guideline for determining HIPC debt relief rather than an absolute level for sustainability beyond which countries would automatically face debt servicing problems. Both the original and enhanced HIPC frameworks acknowledge that debt sustainability involves other factors such as debt service ratios both in terms of exports and relative to fiscal capacity.

64. **Since there are many aspects that influence long-term debt sustainability, the completion point document will include a section which discusses the longer-term debt sustainability issues confronting a HIPC and these will be monitored on an ongoing basis through regular tripartite DSAs.** The NPV of debt-to-exports ratio and the debt-to-revenues ratios are only two of the indicators of sustainability and the lowering of these ratios under the enhanced framework was meant to provide a cushion for sustainability and additional fiscal space for poverty-reducing expenditures. The announced additional voluntary bilateral assistance has increased this cushion for sustainability by an additional 23 percentage points on average. As indicated in chapter II, other aspects of sustainability also need to be taken into consideration including macroeconomic, structural and social policies as well as political developments, terms of trade impacts, new borrowing policies, and the availability of grants and concessional loans, all of which will have an important impact on long-term sustainability of a country after HIPC relief.

65. **The current framework allows for the consideration of additional assistance at the completion point if a broad assessment of a country's debt sustainability shows that exogenous elements have caused a fundamental change in a country's economic circumstances.** It is envisaged that this provision would only need to be invoked in exceptional circumstances.

Table 1. HIPC Initiative: Summary Vulnerability Indicators for 22 HIPCs having reached their Decision Points1/

Country	GNP/Capita (US$)	Main export product	Percent Share in Exports[2]	
			Main product	Three main products
Benin	380	Cotton	84	94
Bolivia	1010	Soybeans	12	33
Burkina Faso	240	Cotton	39	55
Cameroon	580	Oil	27	47
Gambia, The	340	Groundnuts	10	13
Guinea	510	Bauxite	37	58
Guinea-Bissau	160	Cashew	69	79
Guyana	760	Sugar	21	49
Honduras	760	Coffee	22	46
Madagascar	250	Coffee	12	26
Malawi	190	Tobacco	61	75
Mali	240	Cotton	47	75
Mauritania	380	Fish	54	94
Mozambique	230	Prawns	15	24
Nicaragua	430	Coffee	14	27
Niger	190	Uranium	51	69
Rwanda	250	Coffee	43	72
Sao Tome & Principe	270	Cocoa	78	79
Senegal	510	Fish	27	51
Tanzania	240	Coffee	20	40
Uganda	320	Coffee	56	63
Zambia	320	Copper	48	67
Simple average	389		39	56
Weighted average	…		30	50

Sources: World Bank World Development Report; and IMF PRGF documents.

[1]All data refer to 1999 (1998/99) unless otherwise indicated and are consistent with the latest debt sustainability analysis (DSA) documents.

[2] Most recent available data.

Table 2: Debt Relief Committed under the HIPC Initiative

Status as of end February 2001

(in million US$)

Country	Debt relief: NPV Reduction: Original Framework 1/	NPV Reduction: Enhanced Framework	NPV Reduction: Total	Nominal Debt Service Relief: Original Framework 1/	Nominal Debt Service Relief: Enhanced Framework	Nominal Debt Service Relief: Total	*Approval Date*
				COUNTRIES THAT HAVE REACHED THEIR DECISION POINTS (22)			
TOTAL	**3,117**	**17,201**	**20,319**	**6,170**	**27,460**	**33,630**	
African Countries	**2,413**	**12,195**	**14,609**	**4,970**	**20,170**	**25,140**	
Benin	…	265	265	…	460	460	Jul.00
Burkina Faso	229	169	398	400	300	700	Jun.00
Cameroon	…	1,260	1,260	…	2,000	2,000	Oct.00
The Gambia	…	67	67	…	90	90	Dec-00
Guinea	…	545	545	…	800	800	Dec-00
Guinea-Bissau	…	416	416	…	790	790	Dec-00
Madagascar	…	814	814	…	1,500	1,500	Dec-00
Malawi	…	643	643	…	1,000	1,000	Dec-00
Mali	121	401	523	220	650	870	Sep.00
Mauritania	…	622	622	…	1,100	1,100	Jan.00
Mozambique	1,716	254	1,970	3,700	600	4,300	Apr.00
Niger	…	521	521	…	900	900	Dec-00
Rwanda	…	452	452	…	810	810	Dec-00
São Tomé and Príncipe	…	97	97	…	200	200	Dec-00
Senegal	…	488	488	…	850	850	Jun-00
Tanzania	…	2,026	2,026	…	3,000	3,000	Apr-00
Uganda	347	656	1,003	650	1,300	1,950	Jan.00
Zambia	…	2,499	2,499	…	3,820	3,820	Dec-00
Latin American Countries	**704**	**5,006**	**5,710**	**1,200**	**7,290**	**8,490**	
Bolivia	448	854	1,302	760	1,300	2,060	Jan-00
Guyana	256	329	585	440	590	1,030	Nov-00
Honduras	…	556	556	…	900	900	Jul-00
Nicaragua	…	3,267	3,267	…	4,500	4,500	Dec-00

Sources: HIPC country documents; and staff estimates.

Note: NPV means net present value.

Table 3a. HIPCs that have Reached Their Enhanced Decision Points:
NPV of Debt-to-Exports Ratio 1/ 2/

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	(In percent)																	
Benin	212.5	147.9	143.3	133.6	126.2	120.3	114.2	110.4	106.9	103.3	100.5	97.1	93.5	89.6	85.5	80.5	75.4	70.7
Bolivia	229.7	164.5	160.0	155.8	152.8	150.3	151.5	152.7	154.7	157.4	160.4	163.7	165.7	166.7	167.4	167.3	164.7	161.3
Burkina Faso	208.1	185.7	187.5	177.1	168.7	158.5	151.1	144.1	140.4	138.0	136.4	134.9	132.5	130.0	127.5	125.0	122.7	120.4
Cameroon 3/	261.1	192.5	186.0	116.0	113.1	108.6	104.8	102.2	99.3	96.8	94.2	91.5	88.6	86.2	84.1	82.1	80.0	78.1
The Gambia	201.1	202.4	145.3	141.0	140.8	140.8	139.8	137.4	134.6	132.2	129.6	128.2	127.2	124.8	122.2	119.4	116.5	113.6
Guinea	215.8	202.1	133.6	124.9	118.6	113.4	108.0	103.3	99.7	97.1	95.2	93.8	93.0	92.7	92.7	92.8	92.5	92.5
Guinea-Bissau	758.9	596.0	547.7	119.0	125.5	131.4	134.6	136.6	138.0	139.0	136.8	134.6	132.5	130.7	129.2	128.0	126.4	124.5
Guyana 4/	120.5	76.9	80.4	81.5	81.8	81.2	79.9	78.0	74.8	72.5	71.1	70.1	69.2	67.8	66.1	64.1	61.7	59.1
Honduras 4/	118.2	118.6	95.4	83.9	76.9	70.1	64.8	60.9	58.0	55.2	52.4	50.0	47.9	46.1	44.5	43.0	41.6	40.1
Madagascar	282.1	217.7	136.7	133.2	125.2	118.3	112.1	108.1	104.4	100.8	97.7	95.8	94.0	92.2	90.5	88.6	86.5	84.4
Malawi	276.9	309.1	180.7	176.9	171.9	169.0	166.7	164.1	161.8	159.6	157.7	155.5	152.6	149.4	145.2	141.0	136.9	133.0
Mali	205.7	150.1	147.9	138.0	131.1	128.7	128.0	129.6	130.8	130.0	127.8	127.1	128.2	129.9	128.2	124.4	119.8	115.1
Mauritania 4/	296.8	290.4	136.4	132.3	129.8	127.4	124.7	120.7	116.4	113.0	109.9	107.4	105.8	104.7	103.8	103.1	102.4	101.3
Mozambique	163.4	149.9	120.8	99.1	89.6	88.5	86.3	83.7	80.7	77.9	75.1	73.2	71.3	69.3	66.9	64.4	59.9	55.5
Nicaragua	536.6	461.5	128.0	122.9	118.7	114.8	111.4	108.9	105.4	101.3	97.1	93.4	89.5	85.6	81.5	77.5	72.9	68.4
Niger	346.6	367.1	184.8	189.8	186.8	182.9	178.1	172.9	167.9	163.0	158.6	155.5	152.4	150.0	148.1	145.7	142.6	139.4
Rwanda	576.3	524.9	197.0	193.1	178.3	167.5	155.8	152.1	149.1	147.2	146.3	145.6	145.2	144.6	143.8	142.8	141.3	139.3
São Tomé and Príncipe	920.8	684.6	666.2	145.5	142.4	139.7	147.4	148.3	145.5	142.7	140.6	138.1	135.5	132.1	130.6	130.7	132.7	135.4
Senegal 4/	159.5	142.6	128.9	119.8	108.0	101.5	96.1	90.8	86.2	82.1	78.4	75.1	72.3	69.3	66.3	63.2	60.1	57.1
Tanzania 3/	228.7	224.0	177.9	174.9	166.3	160.8	157.6	154.8	152.5	150.4	148.5	146.6	145.0	143.5	142.0	140.2	138.1	136.7
Uganda 3/	138.0	127.9	116.6	108.8	102.0	96.1	90.5	84.4	78.4	72.7	67.6	63.0	59.2	55.8	52.4	49.0	45.3	41.7
Zambia	446.2	387.6	346.0	161.0	148.0	140.0	135.9	130.6	125.4	120.6	116.7	113.3	110.9	109.6	108.7	108.1	107.6	107.4
Simple average	313.8	269.3	197.6	137.6	131.9	127.7	124.5	121.6	118.7	116.0	113.6	111.5	109.6	107.8	105.8	103.7	101.3	98.9
Weighted average	238.2	204.5	155.2	126.0	119.2	114.2	110.2	106.9	103.8	101.1	98.5	96.3	94.2	92.3	90.3	88.1	85.6	83.0

Sources: Country Decision Point documents and staff estimates and projections.

1/ Indicators refer to public and publicly guaranteed debt after enhanced HIPC assistance.
2/ Exports of goods and services as defined in IMF Balance of Payments Manual, 5th edition (1993). Based on a three-year backward-looking average of exports.
3/ Fiscal year data (e.g., FY 1999/2000 is 2000 column).
4/ HIPC relief provided through the fiscal window.
Marked values indicate working assumption of the completion point year.

Table 3b. HIPCs that have Reached a Decision Point:
NPV of Debt-to-Exports Ratio 1/ 2/
Assuming Hypothetical Delivery of Assistance at the Reference Year

(In percent)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Benin	150.0	153.8	148.8	147.9	143.4	133.6	124.6	120.3	114.2	110.4	106.9	103.3	100.6	97.1	93.5	89.6	85.5	80.5	75.4	70.7
Bolivia	150.0	154.4	159.6	164.5	160.0	155.8	152.8	150.3	151.5	152.7	154.7	157.4	160.4	163.7	165.7	166.7	167.4	167.3	164.7	161.3
Burkina Faso	313.0	150.0	161.0	185.6	186.8	177.1	168.7	158.5	151.1	144.1	140.4	138.0	136.4	134.9	132.5	130.0	127.5	125.0	122.7	120.4
Cameroon 3/	260.9	150.0	143.3	137.6	134.4	116.0	113.1	108.6	104.8	102.2	99.3	96.8	94.2	91.5	88.6	86.2	84.1	82.1	80.0	78.1
The Gambia	328.5	150.0	151.0	154.9	145.3	141.0	140.8	140.8	139.8	137.4	134.6	132.2	129.6	128.2	127.2	124.8	122.2	119.4	116.5	113.6
Guinea	339.2	150.0	146.9	143.6	133.5	124.8	118.5	113.4	108.0	103.3	99.7	97.1	95.2	93.8	93.0	92.7	92.7	92.8	92.5	92.5
Guinea-Bissau	1660.1	150.0	145.9	134.1	125.8	119.0	125.5	131.4	134.6	136.6	138.0	139.0	136.8	134.6	132.5	130.7	129.2	128.0	126.4	124.5
Guyana 4/	69.7	72.4	74.4	76.9	80.4	81.5	81.8	81.2	79.9	78.0	74.8	72.5	71.1	70.1	69.2	67.8	66.1	64.1	61.7	59.1
Honduras 4/	125.3	110.3	107.2	106.4	95.4	83.9	76.9	70.1	64.8	60.9	58.0	55.2	52.4	50.0	47.9	46.1	44.5	43.0	41.6	40.1
Madagascar	392.3	150.0	146.1	140.4	136.7	133.2	125.2	118.3	112.1	108.1	104.4	100.8	97.7	95.8	94.0	92.2	90.5	88.6	86.5	84.4
Malawi	342.6	150.0	164.4	180.1	180.7	176.9	171.9	169.0	166.7	164.1	161.8	159.6	157.7	155.5	152.6	149.4	145.2	141.0	136.9	133.0
Mali	150.0	144.9	153.6	157.4	153.9	138.0	131.1	128.7	128.0	129.6	130.8	130.0	127.8	127.1	128.2	129.9	128.2	124.4	119.8	115.1
Mauritania 4/	137.1	144.5	144.5	140.6	136.4	132.3	129.8	127.4	124.7	120.7	116.4	113.0	109.9	107.4	105.8	104.7	103.8	103.1	102.4	101.3
Mozambique	155.1	151.4	163.4	149.9	120.8	99.1	89.6	88.5	86.3	83.7	80.7	77.9	75.1	73.2	71.3	69.3	66.9	64.4	59.9	55.5
Nicaragua	508.5	150.0	154.5	144.9	128.0	122.9	118.7	114.8	111.4	108.9	105.4	101.3	97.1	93.4	89.5	85.6	81.5	77.5	72.9	68.4
Niger	381.3	150.0	154.6	177.1	184.8	189.8	186.8	182.9	178.1	172.9	167.9	163.0	158.6	155.5	152.4	150.0	148.1	145.7	142.6	139.4
Rwanda	826.7	150.0	192.5	196.0	197.0	193.1	178.3	167.5	155.8	152.1	149.1	147.2	146.3	145.6	145.2	144.6	143.8	142.8	141.3	139.3
São Tomé and Príncipe	1477.2	150.0	157.2	153.3	155.4	145.5	142.4	139.7	147.4	148.3	145.5	142.7	140.6	138.1	135.5	132.1	130.6	130.7	132.7	135.4
Senegal 4/	133.0	134.2	131.0	142.6	128.9	119.8	108.0	101.5	96.1	90.8	86.2	82.1	78.4	75.1	72.3	69.3	66.3	63.2	60.1	57.1
Tanzania 3/	434.3	150.0	165.4	171.9	177.9	174.9	166.3	160.8	157.6	154.8	152.5	150.4	148.5	146.6	145.0	143.5	142.0	140.2	138.1	136.7
Uganda 3/	382.1	150.0	138.0	127.9	116.6	108.8	102.0	96.1	90.5	84.4	78.4	72.7	67.6	63.0	59.2	55.8	52.4	49.0	45.3	41.7
Zambia	466.6	150.0	187.0	182.8	168.1	161.0	148.0	140.0	135.9	130.6	125.4	120.6	116.7	113.3	110.9	109.6	108.7	108.1	107.6	107.4
Simple Average	417.4	143.9	149.6	150.7	145.0	137.6	131.9	127.7	124.5	121.6	118.7	116.0	113.6	111.5	109.6	107.8	105.8	103.7	101.3	98.9
Weighted Average	314.6	143.4	147.5	142.7	135.4	126.0	119.4	114.4	110.5	107.1	104.1	101.3	98.6	96.5	94.5	92.5	90.4	88.2	85.6	85.6

Sources: Country Decision Point documents and staff estimates and projections.

1/ Indicators refer to public and publicly guaranteed debt after enhanced HIPC assistance.

2/ Exports of goods and services as defined in IMF Balance of Payments Manual, 5th edition (1993). Based on a three-year backward-looking average of exports.

3/ Fiscal year data (e.g., FY 1999/2000 is 2000 column).

4/ HIPC relief provided through the fiscal window.

Note: Marked values indicate reference year prior to the decision point. Simulates the delivery of the committed assistance as of the reference year prior to the decision point. This is the year based on which HIPC assistance is calculated. These data are the same as the projections in table 3a from the completion point onwards.

Table 3c. HIPCs that have Reached a Decision Point:
NPV of Debt-to-Exports ratio of Existing Debt 1/ 2/
Assuming Hypothetical Delivery of Assistance at the Reference Year

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
								(In percent)												
Benin	150.0	149.1	139.0	132.0	121.7	107.8	96.5	87.3	79.6	73.1	67.3	61.9	56.7	51.7	47.0	42.7	38.1	33.5	29.3	25.7
Bolivia	150.0	139.8	128.3	118.6	102.7	87.8	75.8	66.1	59.3	53.8	49.3	45.2	41.3	37.9	35.0	32.4	30.1	27.9	25.1	22.2
Burkina Faso	313.0	150.0	145.3	150.2	137.0	118.8	103.9	89.5	78.5	69.4	62.9	57.7	53.6	49.9	45.4	40.9	36.8	33.1	29.7	26.6
Cameroon 3/	260.9	150.0	137.5	128.0	118.3	92.7	82.9	72.4	63.0	55.4	49.0	43.5	38.5	34.0	30.0	26.8	23.8	21.1	18.6	16.4
The Gambia	328.5	150.0	141.4	134.9	120.5	111.9	106.6	101.5	96.7	91.7	86.7	82.0	77.1	72.7	68.3	63.0	57.8	52.7	48.0	43.4
Guinea	339.2	150.0	142.8	135.0	120.5	108.2	98.4	89.9	81.0	72.7	65.6	59.3	53.7	48.6	44.3	40.6	37.2	33.9	30.4	27.2
Guinea-Bissau	1660.1	150.0	130.3	97.7	76.6	58.8	52.4	47.7	43.9	40.6	37.7	35.1	32.6	30.2	28.1	26.2	24.4	22.8	21.4	20.1
Guyana 4/	69.7	68.2	65.2	59.4	56.4	53.5	50.6	47.9	45.5	43.0	39.8	37.1	35.1	33.2	31.2	29.1	26.8	24.4	21.7	19.0
Honduras 4/	125.3	110.3	104.0	99.7	85.6	68.2	57.6	48.7	41.7	36.3	32.1	28.5	25.2	22.2	19.6	17.3	15.4	13.6	12.1	10.7
Madagascar	392.3	150.0	135.3	120.9	110.7	101.8	91.2	81.8	73.7	67.6	62.1	56.8	52.2	48.4	44.9	41.8	38.8	36.0	33.2	30.5
Malawi	342.6	150.0	157.2	161.7	156.0	147.6	138.6	131.5	125.1	118.9	113.1	107.6	102.7	97.9	93.1	88.3	82.8	77.6	72.6	68.0
Mali	150.0	144.9	143.1	135.9	123.3	108.0	96.0	88.0	82.0	78.1	74.6	70.4	65.9	62.3	58.3	54.5	49.7	44.6	39.6	34.8
Mauritania 4/	137.1	139.7	131.0	119.7	108.2	99.0	91.8	84.7	78.0	71.1	64.5	58.3	52.4	49.3	45.0	41.0	37.3	33.8	30.6	27.6
Mozambique	155.1	146.4	141.8	120.3	89.9	69.4	59.2	55.1	51.3	47.6	44.0	40.9	37.9	35.3	32.7	30.1	27.4	24.9	22.4	20.0
Nicaragua	508.5	150.0	137.6	111.5	82.9	68.2	57.9	49.1	42.1	37.4	33.5	30.0	26.9	24.6	22.6	20.7	19.0	17.5	16.1	14.9
Niger	381.3	150.0	147.2	154.0	144.6	135.0	123.8	112.7	102.3	93.0	85.0	78.3	72.2	67.3	62.5	58.2	54.3	50.3	46.0	42.0
Rwanda	826.7	150.0	163.3	150.5	138.7	125.6	112.0	98.8	87.5	78.3	70.7	64.7	60.1	56.3	53.2	50.5	48.1	45.9	43.9	41.9
São Tomé and Príncipe	1477.2	150.0	129.9	109.7	97.9	83.9	77.3	71.2	66.0	61.1	56.8	52.9	49.6	46.5	43.6	40.9	38.6	36.9	35.5	34.2
Senegal 4/	133.0	128.9	117.4	122.9	106.2	94.0	79.2	70.3	62.6	55.9	50.2	45.3	40.8	36.7	33.2	29.9	26.8	23.9	21.2	18.8
Tanzania 3/	434.3	150.0	147.6	134.8	125.5	110.8	94.9	82.5	72.6	64.1	57.0	50.8	45.3	40.6	36.4	32.6	29.3	26.2	23.5	21.0
Uganda 3/	382.1	150.0	127.9	111.9	96.3	84.7	74.5	65.8	58.2	51.1	44.8	39.3	34.5	30.3	26.8	23.7	20.9	18.3	15.7	13.5
Zambia	466.6	150.0	172.6	149.0	122.2	108.7	90.5	76.4	70.3	64.8	60.7	57.0	53.7	50.6	47.8	45.1	42.8	40.6	38.6	36.8
Simple Average	417.4	142.1	135.7	125.4	111.0	97.5	86.9	78.1	70.9	64.8	59.4	54.7	50.4	46.7	43.1	39.8	36.6	33.6	30.7	28.0
Weighted Average	314.6	137.6	131.3	122.6	107.9	92.5	81.0	71.8	64.5	58.2	52.9	48.2	43.8	40.0	36.6	33.5	30.5	27.8	25.2	22.8

Sources: Country Decision Point documents and staff estimates and projections.

1/ Indicators refer to public and publicly guaranteed debt after enhanced HIPC assistance. Based on the stock of debt outstanding at the reference year, and excludes new borrowing assumptions.
2/ Exports of goods and services as defined in IMF Balance of Payments Manual, 5th edition (1993). Based on a three-year backward-looking average of exports.
3/ Fiscal year data (e.g., FY 1999/2000 is 2000 column).
4/ HIPC relief provided through the fiscal window.

Note: Marked values indicate working assumption of the completion point year.

Table 4. HIPCs that have Reached a Decision Point:
NPV of Debt-to-Revenue Ratio 1/ 2/

	2000	2001	2002	2003	2004	2005
			(In percent)			
Benin	198.1	115.5	107.5	101.2	95.5	91.3
Bolivia	149.7	108.1	107.5	107.5	107.4	106.4
Burkina Faso	172.1	132.9	128.5	124.9	121.6	117.8
Cameroon 3/	381.2	280.7	282.4	162.7	150.7	138.4
The Gambia	288.9	282.6	208.4	208.8	210.7	212.1
Guinea	492.2	390.3	248.1	224.6	204.1	187.0
Guinea Bissau	972.7	891.0	850.6	183.2	194.2	205.1
Guyana 4/	348.4	216.3	222.9	218.0	212.7	205.1
Honduras 4/	255.4	236.8	191.4	170.4	156.7	142.3
Madagascar	511.6	388.4	232.8	217.5	201.6	187.3
Malawi	400.5	333.2	174.5	158.0	142.4	132.1
Mali	300.7	204.1	195.1	186.2	178.4	171.9
Mauritania 4/	437.7	422.8	194.5	183.4	172.6	166.1
Mozambique	169.3	160.1	151.0	138.7	127.4	117.3
Nicaragua	734.2	608.6	165.5	156.6	152.9	149.2
Niger	675.4	569.4	246.3	231.4	218.3	206.1
Rwanda	359.0	338.5	124.5	123.8	117.5	115.2
São Tomé and Príncipe	1353.2	1023.6	973.8	218.8	221.5	225.2
Senegal 4/	286.7	247.6	225.9	208.6	185.9	174.8
Tanzania 3/	266.0	251.0	198.4	204.4	200.3	195.0
Uganda 3/	130.1	115.8	101.0	91.3	82.6	77.8
Zambia	643.4	638.6	616.0	302.1	281.7	264.8
Simple average	433.0	361.6	270.3	178.3	169.9	163.1
Weighted average	323.1	268.8	202.5	164.2	153.6	145.3

Sources: Country Decision Point documents; and IMF and World Bank staff estimates and projections.

1/ Indicators refer to public and publicly guaranteed debt after enhanced HIPC assistance.
2/ Government revenue, excluding grants.
3/ Fiscal year data (e.g., FY 1999/2000 is 2000 column).
4/ HIPC relief provided through the fiscal window.
Marked values indicate working assumption of the completion point year.

Table 5. HIPCs that have Reached a Decision Point:
NPV of Debt-to-GDP Ratio 1/

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
									(In percent)									
Benin	34.3	22.2	20.8	19.7	18.4	18.0	17.1	16.5	15.9	15.3	14.8	14.3	13.8	13.2	12.6	11.9	11.2	10.6
Bolivia	35.4	25.5	25.8	26.0	26.3	26.4	26.7	26.9	27.1	27.5	27.9	28.4	28.7	28.8	28.8	28.7	28.2	27.6
Burkina Faso	24.7	19.3	19.1	18.8	18.5	18.1	17.8	17.3	16.9	16.5	16.2	15.9	15.5	15.1	14.7	14.3	13.9	13.5
Cameroon 2/	71.1	54.1	51.6	30.6	29.0	27.5	26.1	25.0	23.8	22.7	21.6	20.6	19.6	18.7	18.0	17.3	16.6	15.9
The Gambia	57.9	57.2	42.4	42.4	42.6	42.9	43.1	42.8	42.4	42.0	41.4	40.9	40.7	40.0	39.2	38.4	37.6	36.8
Guinea	58.6	60.6	40.7	38.0	35.5	33.1	31.3	29.7	28.5	27.6	26.9	26.3	26.0	25.7	25.5	25.4	25.2	25.0
Guinea-Bissau	175.8	166.8	158.5	34.0	32.7	34.3	34.9	36.0	36.8	37.5	37.3	37.0	36.6	36.3	36.1	35.9	35.6	35.2
Guyana	117.9	75.1	79.4	78.7	77.6	75.6	72.4	69.3	65.9	62.6	59.8	57.2	54.8	52.2	49.5	46.6	43.6	40.6
Honduras	51.1	51.3	43.8	40.7	39.1	37.0	35.0	33.3	31.9	30.5	29.2	28.0	26.9	26.1	25.3	24.6	23.9	23.1
Madagascar	64.5	49.5	30.1	28.7	27.2	25.9	24.6	23.4	22.3	21.3	20.4	19.8	19.1	18.5	17.8	17.2	16.6	16.0
Malawi	82.2	95.0	52.8	50.6	48.9	47.2	45.5	43.8	42.1	40.5	39.0	37.5	35.8	34.1	32.3	30.4	28.7	27.1
Mali	51.1	35.3	34.5	33.1	31.8	30.6	29.8	28.9	28.1	27.4	26.8	26.1	25.5	24.8	24.0	23.0	22.0	21.1
Mauritania	131.5	134.2	59.8	55.3	51.2	48.2	46.3	44.0	41.9	40.3	39.0	37.9	37.1	36.6	36.0	35.5	35.1	34.5
Mozambique	20.9	20.6	19.9	19.1	18.5	17.9	17.1	16.2	15.3	14.5	13.6	12.9	12.3	11.6	11.0	10.3	9.4	8.6
Nicaragua	205.1	176.2	50.4	49.9	48.7	47.5	45.9	45.1	43.9	42.6	41.1	39.9	38.6	37.8	36.4	35.0	33.3	31.6
Niger	55.2	51.1	23.3	23.3	22.6	22.0	21.5	21.0	20.3	19.7	19.1	18.7	18.3	18.1	17.8	17.6	17.2	16.9
Rwanda	37.5	36.8	14.5	14.9	14.6	14.5	14.3	14.6	14.8	15.0	15.1	15.2	15.2	15.2	15.1	15.0	14.8	14.6
São Tomé and Príncipe	306.3	262.0	252.7	56.8	57.5	58.0	62.4	64.0	64.0	63.7	63.6	63.3	62.8	62.0	61.5	61.2	61.3	61.7
Senegal	49.7	43.3	40.0	36.9	32.9	30.9	29.2	27.4	25.9	24.4	23.2	22.0	21.1	20.2	19.2	18.3	17.4	16.5
Tanzania 2/	29.9	29.1	23.8	24.7	25.1	24.8	24.2	24.4	22.4	22.4	22.3	22.1	22.0	21.8	21.7	...	...	...
Uganda 2/	16.2	15.0	13.6	12.8	12.0	11.5	10.9	10.2	9.5	8.7	8.1	7.6	7.1	6.6	6.2	5.7	5.2	4.8
Zambia	122.7	116.9	116.5	55.0	51.8	49.3	48.0	46.4	44.7	43.2	42.0	41.0	40.3	40.0	39.9	39.9	39.9	40.0
Simple average 3/	81.8	72.6	55.2	35.9	34.7	33.7	32.9	32.1	31.1	30.3	29.5	28.8	28.1	27.4	26.8	26.3	25.6	24.8
Weighted average 3/	54.5	47.0	36.4	30.0	28.8	27.6	26.6	25.8	24.6	23.8	23.1	22.8	22.2	21.6	21.1	20.6	20.0	19.4

Sources: Country Decision Point documents and staff estimates and projections.

1/ Indicators refer to public and publicly guaranteed debt after enhanced HIPC assistance.
2/ Fiscal year data (e.g., FY 1999/2000 is 2000 column).
3/ Averages for 2015-17 exclude Tanzania.
Marked values indicate working assumption of the completion point year.

Table 6. HIPCs that have Reached a Decision Point: Debt Service-to-Exports Ratio 1/ 2/

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
										(In percent)								
Benin	16.9	11.0	9.3	7.8	7.0	6.2	6.0	5.7	5.5	5.3	5.2	5.1	5.2	5.3	5.5	5.7	5.6	5.5
Bolivia	20.7	13.2	13.6	13.6	13.2	13.6	13.5	13.5	13.6	14.1	14.5	14.9	15.5	16.3	17.2	18.3	20.0	21.1
Burkina Faso	11.7	9.0	9.6	9.0	8.5	7.7	7.9	8.1	8.1	7.3	6.7	6.2	7.0	7.1	7.1	7.0	6.9	6.8
Cameroon 3/	22.4	11.3	7.9	7.9	8.8	9.3	9.2	8.5	8.2	8.0	7.9	7.0	6.7	6.1	5.8	5.5	5.4	5.1
The Gambia	16.2	11.1	9.7	4.8	5.1	5.4	6.3	7.0	7.0	7.0	7.6	7.0	6.4	7.6	7.7	7.7	7.7	7.6
Guinea	16.2	8.3	8.9	9.1	7.9	7.1	7.8	7.4	6.6	5.9	5.4	5.2	4.8	4.4	4.3	4.5	4.9	4.8
Guinea-Bissau	…	6.3	6.9	7.9	4.2	3.1	3.0	3.5	4.1	5.0	5.7	5.6	5.3	5.3	5.1	5.0	5.2	5.3
Guyana	10.1	6.3	4.5	4.8	5.0	5.0	5.4	5.9	5.5	4.8	4.6	4.4	4.3	4.5	4.7	4.9	5.1	5.2
Honduras	6.4	4.4	6.0	7.0	5.5	5.2	4.8	4.2	3.7	3.9	4.1	4.2	4.3	4.2	4.2	4.2	4.3	4.3
Madagascar	10.7	6.2	5.0	5.5	5.6	5.3	6.0	6.0	5.9	5.8	5.4	4.6	4.8	4.9	4.9	4.9	5.1	5.0
Malawi	…	12.3	11.0	8.1	7.9	7.8	7.8	8.0	7.8	7.6	7.2	7.5	8.0	8.2	8.7	8.9	8.7	8.3
Mali	14.1	9.0	7.9	7.5	7.1	6.7	6.7	7.0	7.0	6.3	6.0	6.1	6.3	6.2	7.0	7.7	7.6	7.4
Mauritania	20.2	17.8	12.6	9.9	8.5	8.2	8.4	8.4	8.4	7.9	7.4	6.5	5.5	4.8	4.8	4.8	4.7	4.8
Mozambique	9.1	5.8	4.2	4.2	4.0	4.1	4.3	4.5	4.5	4.5	4.8	3.4	3.4	3.5	3.5	3.5	3.4	3.4
Nicaragua	13.5	11.4	16.6	12.2	9.2	8.8	8.1	6.3	6.3	6.4	6.1	5.5	5.4	5.2	5.0	4.8	4.5	4.4
Niger	35.8	17.9	16.8	8.4	8.6	8.0	7.7	7.2	6.5	5.4	5.1	4.2	4.5	4.3	4.3	4.5	5.1	5.1
Rwanda	31.4	10.8	7.8	4.3	4.8	4.4	4.1	4.0	3.8	3.6	3.3	3.7	4.0	4.3	4.5	4.5	4.5	4.6
São Tomé and Príncipe	24.2	10.5	6.1	5.8	3.5	3.5	5.1	6.5	7.6	7.8	7.4	6.6	5.8	4.9	4.5	4.7	4.9	5.1
Senegal	10.0	8.5	7.2	6.6	9.8	5.5	5.4	5.0	4.2	3.9	4.0	3.6	3.0	2.8	2.6	2.4	2.2	2.0
Tanzania 3/	19.8	11.9	9.5	8.4	7.8	7.3	7.0	7.0	6.6	6.4	6.2	6.2	6.0	5.8	5.8	5.9	6.0	5.1
Uganda 3/	11.1	6.0	5.7	5.6	6.0	7.5	7.5	7.2	6.4	5.8	5.1	4.7	4.7	4.7	4.9	5.0	5.0	4.9
Zambia	16.3	12.8	10.5	10.1	13.2	11.8	5.2	6.2	6.3	6.2	5.7	5.6	4.5	3.6	3.3	3.4	3.5	3.5
Simple average	15.3	10.1	9.1	7.9	7.5	7.1	6.8	6.8	6.5	6.3	6.2	5.8	5.7	5.7	6.6	6.0	5.7	5.7
Weighted average	14.9	9.3	8.5	8.0	8.0	7.5	7.0	6.7	6.4	6.3	6.2	5.9	5.8	5.6	5.7	5.8	5.9	5.8

Sources: Country Decision Point documents and staff estimates and projections.

1/ Indicators refer to public and publicly guaranteed debt after enhanced HIPC assistance.
2/ Based on current-year exports of goods and non-factor services.
3/ Fiscal year data (e.g., FY 1999/2000 is 2000 column).
Marked values indicate working assumption of the completion point year.

Table 7. HIPCs that have Reached a Decision Point:
Debt Service-to-Revenue Ratio (in percent) 1/ 2/

	2000	2001	2002	2003	2004	2005
Benin	11.8	9.5	7.8	6.8	5.7	5.2
Bolivia	13.7	10.0	10.5	10.6	10.2	9.9
Burkina Faso	8.9	7.1	7.4	7.1	6.9	6.5
Cameroon 3/	36.9	17.6	12.3	11.7	12.6	12.7
The Gambia	23.0	17.3	15.3	7.5	8.1	8.6
Guinea	39.0	17.7	17.8	17.6	14.6	12.5
Guinea-Bissau	…	11.0	11.8	13.4	7.2	5.4
Guyana	30.7	18.7	12.7	13.5	13.6	13.0
Honduras	14.6	10.1	13.8	16.0	12.6	11.7
Madagascar	21.1	11.8	9.2	9.7	10.0	9.2
Malawi	…	13.3	11.3	7.7	6.8	6.3
Mali	20.1	13.1	11.9	11.1	10.4	9.5
Mauritania	22.4	20.3	13.6	10.2	8.5	8.1
Mozambique	9.4	8.0	7.4	6.9	6.0	5.8
Nicaragua	19.9	16.4	26.3	21.4	12.9	12.3
Niger	60.5	27.1	23.6	10.9	10.8	9.7
Rwanda	21.4	8.0	5.5	3.1	3.7	3.5
São Tomé and Príncipe	40.9	17.5	9.9	9.6	6.0	6.2
Senegal	19.4	16.3	13.6	12.3	18.0	10.0
Tanzania 3/	24.1	14.5	11.9	11.2	10.5	9.7
Uganda 3/	10.5	5.5	4.9	4.7	4.9	6.1
Zambia	26.1	25.1	21.5	20.5	26.7	23.8
Simple average	21.6	14.3	12.7	11.1	10.3	9.3
Weighted average	21.0	13.4	12.2	11.4	11.1	10.1

Sources: Country Decision Point documents and staff estimates and projections.

1/ Indicators refer to public and publicly guaranteed debt after enhanced HIPC assistance.
2/ Government revenue, excluding grants.
3/ Fiscal year data (e.g., FY 1999/2000 is 2000 column).

Table 8. HIPCs that Have Reached a Decision Point: Flows of Official External Resources

	New Borrowing 1/		Grants 1/ 2/		Debt Service Paid/Due 1/		Net Flows 1/ 3/	
	1990-99	2000-10	1990-99	2000-10	1990-99	2000-10	1990-99	2000-10
(In millions of U.S. dollars)								
Benin	60.5	70.7	81.0	144.9	47.3	34.6	92.0	179.1
Bolivia	375.9	352.8	208.3	125.9	121.1	294.8	459.6	186.4
Burkina Faso	109.9	133.5	120.5	64.5	154.5	32.3	74.4	167.9
Cameroon	174.3	410.3	57.8	43.1	423.3	353.2	(195.3)	106.2
The Gambia	27.1	23.5	36.0	28.4	27.5	10.7	35.8	34.4
Guinea	169.7	197.7	130.9	111.6	181.9	108.6	124.2	207.7
Guinea-Bissau	52.5	11.3	26.9	40.9	7.6	4.8	71.3	39.3
Guyana	91.4	71.1	11.5	18.3	90.7	46.2	10.3	42.3
Honduras	306.3	442.7	183.9	173.7	373.5	285.2	105.1	381.8
Madagascar	98.3	175.6	98.8	228.7	107.0	85.8	88.8	294.3
Malawi	175.8 4/	100.9	119.0	116.8	86.1	48.0	206.5	160.7
Mali	188.1	158.7	188.1	161.6	127.9	69.8	248.3	247.2
Mauritania	123.7	58.1	102.8	111.6	108.0 6/	40.9	121.0	110.7
Mozambique	231.1	251.5	415.1	353.4	54.3	53.6	602.5	505.9
Nicaragua	251.5	262.7	273.9	234.9	190.6	126.8	337.0	370.1
Niger	29.7	175.2	133.5	112.4	38.1	66.6	116.8	207.2
Rwanda	68.5 4/	437.5	252.8 4/	111.0 5/	24.1 6/	13.7	362.4	570.1
São Tomé and Príncipe	19.9	10.3	17.7	16.5	1.4	2.9	37.5	29.1
Senegal	263.0	158.5	288.5	122.9	232.0	142.6	321.1	133.3
Tanzania	59.0	644.9	376.3	1016.9	143.4 7/	120.9	382.8	1,563.8
Uganda	455.1	309.5	103.8	394.2	211.6	69.5	340.9	632.7
Zambia	428.9 8/	263.0	323.6 9/	220.3	438.1 8/	139.7	347.6	323.8
Total	**3,759.9**	**4,720.0**	**3,550.5**	**3,952.3**	**3,189.9**	**2,151.2**	**4,290.4**	**6,494.0**
(In percent of GDP)								
Benin	3.1	2.0	4.0	4.0	2.4	1.0	4.7	5.0
Bolivia	5.9	3.0	3.2	1.1	1.9	2.5	7.2	1.6
Burkina Faso	4.3	3.3	4.7	1.6	6.1	0.8	2.9	4.1
Cameroon	1.9	2.8	0.6	0.3	4.5	2.4	-2.1	0.7
The Gambia	7.5	5.5	10.1	5.1	7.7	2.5	10.0	8.1
Guinea	4.9	4.7	4.0	2.8	5.3	2.6	3.6	4.9
Guinea-Bissau	21.6	3.5	10.8	10.3	3.1	1.5	29.3	12.3
Guyana	19.3	8.4	2.0	2.1	19.1	5.4	2.2	5.0
Honduras	8.3	4.3	4.7	2.2	10.2	2.8	2.9	3.7
Madagascar	3.0	3.0	3.0	3.5	3.3	1.4	2.7	5.0
Malawi	10.2 4/	5.2	6.8	5.6	5.0	2.5	12.0	8.3
Mali	7.5	4.1	7.5	4.1	5.1	1.8	10.0	6.4
Mauritania	12.0	5.5	10.2	8.8	10.4 6/	3.9	11.7	10.4
Mozambique	8.6	4.5	15.8	5.5	2.0	1.0	22.3	9.0
Nicaragua	13.4	8.6	14.8	7.7	10.2	4.2	18.0	12.2
Niger	1.5	7.2	6.5	4.0	2.0	2.7	6.0	8.5
Rwanda	3.9 4/	15.6	18.2 4/	5.2 5/	1.4 6/	0.5	20.8	20.3
São Tomé and Príncipe	40.8	12.8	38.9	26.9	2.8	3.6	76.9	36.1
Senegal	5.4	2.3	6.0	1.7	4.8	2.1	6.6	1.9
Tanzania	0.9	4.7	7.1	7.7	2.2 7/	0.9	5.8	11.5
Uganda	12.1	3.1	2.6	4.0	5.6	0.7	9.1	6.4
Zambia	12.7 8/	6.5	10.6 9/	5.0	13.0 8/	3.5	10.3	8.0
Simple average	**9.5**	**5.5**	**8.7**	**5.4**	**5.8**	**2.3**	**12.4**	**8.6**
Weighted average	**6.0**	**4.2**	**5.7**	**3.6**	**4.9**	**1.9**	**6.8**	**5.9**

Sources*:* Calculations based on Decision Point documents, WEO database and staff estimates.

1/ Annual averages.
2/ Official transfers.
3/ Defined as new loans plus grants minus debt service paid.
4/ 1992-99.
5/ 2000-06.
6/ 1994-99.
7/ 1993-98
8/ Reflects clearance of arrears to the IMF in 1995. Excluding this operation, the ratios would be 8.2 and 8.4 percent for borrowing and debt service paid, respectively.
9/ 1990-98.
Note: These figures are based on Balance of Payments statistics reporting by the debtor countries. They will differ from figures shown in Box 3.

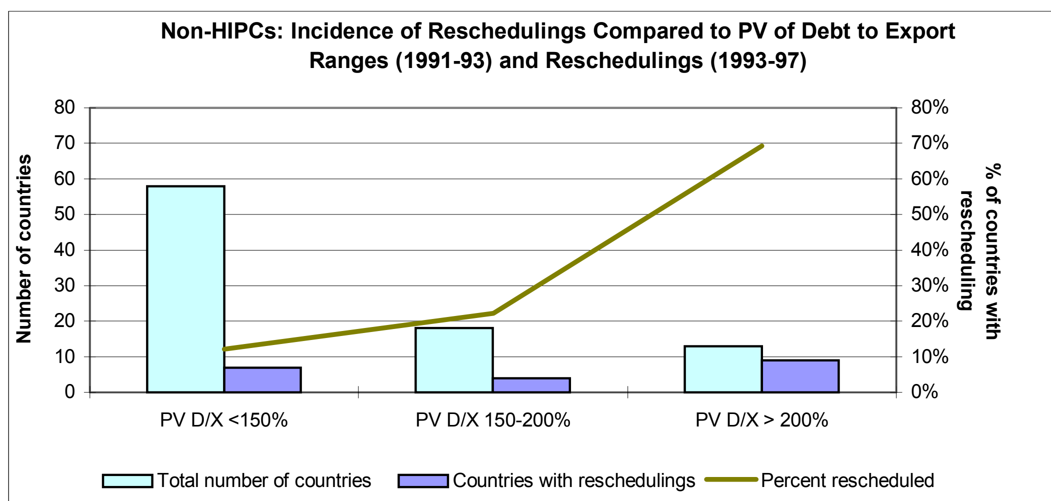
Table 9. HIPCs that have Reached a Decision Point: Sensitivity Analysis of New Borrowing Assumptions

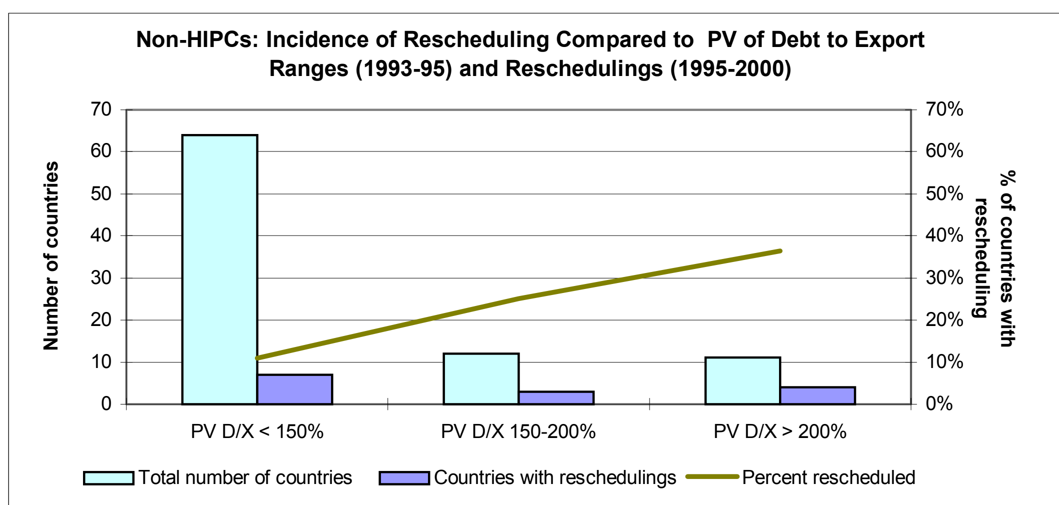
Country	Assumption	Average increase over projection period		2010		End of Projection Period	
		NPV ratio 3/	Debt Service ratio 4/	NPV ratio 3/	Debt Service ratio 4/	NPV ratio 3/	Debt Service ratio 4/
		(In percent)					
Benin	50% less grants, replaced by concessional financing	50.0	3.0	57.0	4.9	41.6	3.4
Cameroon	Average grant element of new borrowing of 35% (44%)	8.0	3.0	4.5	1.7	34.9	0.8
Guinea	Reduction of average grant element in new borrowing throughout projection period from 68.3 to 50 %	47.7	4.1	52.9	4.0	93.6	10.2
Guinea Bissau	50% of financing gap financed on non-concessional terms (up from 0%)	48.5	14.5	89.0	21.0	90.0	23.0
Madagascar 2/	Gradual decline of grant share in public external investment financing from 60% in 2003 to 50% in 2010	12.6	0.5	5.3	0.1	...	...
Malawi	Financing on IDA terms reduced from 90% of total to 60% of total	22.0	2.3	24.2	3.2	18.6	2.2
Mauritania 1/	15% less grants; interest rate 3.0% (0.75%); maturities 20years (40years)	16.3	0.6	...	...	...	...
Nicaragua	Bilateral financing on less favorable terms: interest rate 4% (2%); maturity 10years (25years); grace 2y (5years)	3.0	...	...	...	...	...
Niger	Less favorable public external financing: grants 50% (70%) of total financing, remainder on terms half as concessional as IDA terms (IDA)	40.0	4.4	47.6	5.8	54.3	8.2
Sao Tome and Principe	Average grant element of new borrowing 35% (70%)	25.7	5.3	25.3	1.2	4.0	2.4
Senegal 1/	20% lower official transfers replaced by concessional financing	6.4	...	...	...	...	...

Source: HIPC decision point documents.
1/ Countries eligible for enhanced HIPC assistance under the fiscal openness criteria.
2/ Data for 2010 are actually from 2009.
3/ Net present value to exports ratio.
4/ Debt service to exports ratio.

Incidence of Rescheduling compared to debt-to-exports ratios

The charts below show a retrospective analysis of the incidence of rescheduling of non-HIPCs compared to their PV of debt-to-exports ratios in the preceding years. Based on the earlier time period (NPV of debt-to exports ratios in 1991-1993 and incidence of rescheduling in 1993-1997), for those countries with an NPV of debt-to-exports ratio below the 150 percent level - the sustainability threshold under the enhanced HIPC framework - the incidence of rescheduling was only 12 percent For the group of countries with NPV of debt-to-exports ratios between 150 and 200 percent, the incidence increased to 22 percent. For those with ratios over 200 percent, the incidence of rescheduling rose to 70 percent.[20]





Note: Reschedulings refer to reschedulings within the Paris Club and debt and debt servicing reduction (DDSR) agreements concluded with commercial creditors.

Source: World Bank *Global Development Finance*, various issues.

[20] Because of the small sample size in this category the actual results may vary according to the time period considered, hence two time periods were assessed. It is important to note, however, that individual countries will differ in their ability to manage any given level of debt.

For the more recent period, the NPV of debt ratios between 1993-1995 were compared to incidence of rescheduling in the subsequent period 1995-2000. In this sample the incidence of rescheduling for the group of countries with debt ratios between 150 and 200 percent increased slightly to 25 percent, while the incidence of rescheduling for the group of countries above 200 percent decreased markedly to 36 percent.

The sample size of these two illustrations, particularly the limited number of observations of countries above 150 percent NPV of debt-to-exports makes these illustrations particularly vulnerable to the choice of years, thus these estimates should be treated with some caution. However, empirical work done by Underwood (1990) found that in a sample of 111 developing countries, all except one of the countries that avoided rescheduling had NPV of debt-to-exports ratios below 200 percent.[21] In a similar exercise focusing exclusively on African countries, Cohen (1995) also found an NPV of debt-to-exports ratio below 200 percent to be consistent with debt sustainability, broadly defined.[22] While these ratios can potentially serve as useful rules of thumb regarding debt sustainability, any projection of debt sustainability over longer horizons requires assumptions regarding the growth rates of the main macroeconomic variables in the indebted country over a given time horizon, together with estimates of future voluntary inflows of foreign capital. Work done by Cline (1995) suggests that some projection models reached the conclusion that Latin American debt was sustainable in part because they failed to predict the sharp drop in commodity prices that occurred in the mid-1980s.[23] Hence, projected NPV debt-to-exports ratios are only useful insofar as the assumptions underlying them are reasonably realistic and prudent.

[21] Underwood, J., "The Sustainability of International Debt", International Finance Division, The World Bank, mimeo, 1990.
[22] Cohen, D., "The Sustainability of African Debt," mimeo, Ecole Normale Superieure, 1995.
[23] Cline, W., "International Debt Reexamined," (Washington: Institute for International Economics), 1995.

Debt Management Issues in HIPCs

This Appendix describes current debt management practices and issues in the 22 HIPCs that reached their decision points by end-2000, based on information from either their preliminary, decision point or completion point documents.[24] It should be noted that, due to data not always readily available, the coverage of described practices and issues may be uneven across countries. In an effort to better monitor debt indicators' evolution and try to keep debt at sustainable levels, these countries have been involved in a process oriented towards improving their debt management capabilities and external debt strategies. The information we present below indicates that they have recently made notable progress in debt management although, several countries still need to improve their debt management capabilities. Only a minority of the these HIPCs seem to have sound external debt management in place.

Although those countries lagging behind can be expected to reduce the gap, there appears to be wide differences in debt management capacities across these HIPCs. Some of them, such as Honduras, have recently implemented external debt strengthening programs, and have even gone as far as establishing laws prohibiting the contracting of non-concessional (grant element of less than 35 percent based on OECD's CIRR) new public external debt. Other countries (e.g. Benin and Tanzania) have systems in place for appropriate monitoring of external debt, while some others still need to improve theirs.

Benin. The debt database is comprehensive, up to date and fully reconciled with creditor data. The country's management capabilities are improving steadily and a system for the modernization of operations of the debt management entity has been functioning since 2000. Benin is also receiving assistance for building technical capacity through staff training in debt analysis, strategy and negotiations, and upgrading hardware and software, which should contribute to further improve its debt management capacity.

Bolivia. At present, debt management is housed within the Central Bank of Bolivia and coordinated with other ministries through an External Debt Management Committee. Transactions are tracked through SYGADE the latest excel-compatible version of the UNCTAD computerized system by the debt management unit within the central bank. Information from SYGADE is integrated into the country's balance of payments and fiscal accounts. This enables consistency between public sector borrowing and macroeconomic polices, and ensures that new borrowing conforms with the required degree of concessionality.

Burkina Faso. Burkina Faso's debt-monitoring system provides a comprehensive accounting of external loans on a loan by loan basis, including information on disbursements. The government established in 1996 a Public Debt Management Committee to coordinate debt management at the operational and policy level. The Committee has been functioning and instrumental in limiting new borrowing to concessional terms and reducing inappropriate new borrowing.

Cameroon. The country's debt management practices have been improving steadily in terms of the software, hardware and accuracy of their large database, and their preparation for

[24] Since the HIPC documents for Bolivia and Uganda did not specifically address debt management issues, only factual information is presented in this appendix for these countries.

negotiations. Officials are now able to prepare their own debt analysis and strategy and simulate alternative debt relief scenarios, with access to regular training in such areas. More work needs to be done in order to improve domestic debt management, which is a critical component in the country's efforts to strengthen its public finances.

The Gambia. Progress in handling debt-related issues has been made since 1999 through the acquisition of hardware and software, and staff training, and the reorganization of the debt management department. However, The Gambia's external debt database does not presently cover all debt by public enterprises. As part of the PRGF arrangement, the mandate of the entity responsible for debt management is being extended to include all such debt and government contingent liabilities. Some other weaknesses in processing capacity will, however, remain to be resolved by technical assistance. In addition, The Gambia has been receiving training on debt rescheduling and analysis, and will receive funding for a debt capacity-building advisor.

Guinea. Guinea's external debt is managed by the Ministry of Finance, the Ministry of Planning and the Central Bank, with the former being responsible for keeping records of outstanding debts and debt service due. The Ministry of Finance has recently begun to monitor the overall level of debt guaranteed by the government and has improved communications with bilateral creditors. Nevertheless, the computerized debt recording system is outdated and has a number of limitations. The Ministry of Finance has established a wider program to enhance technical capacity, which should be supported by installation of a modern debt recording system to provide up-to-date information, once donor funding can be secured.

Guinea-Bissau. Substantial progress has been made since 1999 in improving the debt database and reconciling debt data with creditors. Some deficiencies in data processing still remain, however, and there is room to improve projections on debt service obligations. Training and technical assistance has been provided in many areas of debt management, particularly sustainability analysis, but the country is still in need of both. The government is determined to pursue a prudent external debt policy, and is committed to not contracting or guaranteeing loans with a grant element of less than 50 percent.

Guyana. Past staff-shortage problems have recently been solved and extensive staff-training programs (including on the use of adequate software for debt sustainability analysis) were undertaken in 1999-2000. Additional training to include debt negotiations, debt management tools and macroeconomic modeling and forecasting is envisaged for 2001. Coordination of debt management through the establishment (in 1999) of a Debt Strategy Technical Working Group to formulate and implement debt strategy has improved. Some basic problems, however, remain: computer equipment is in short supply and work facilities are still being upgraded.

Honduras. An explicit strategy to limit external borrowing to concessional borrowing is in place. There are in fact legally binding constraints on the contracting of public debt: new borrowing can be contracted only if the grant element is at least 35 percent, and the maturity and grace period at least 14 and 6 years, respectively. Debt management is sound and continues to improve. Efforts to get additional debt relief from bilateral creditors, and buy back commercial debt in arrears are also part of the debt management strategy by the Honduran government. Honduras has benefited from substantial technical assistance and continuous training on debt management issues (particularly debt sustainability and negotiations issues) for staff in both the Finance Ministry and the Central Bank.

Madagascar. A comprehensive and detailed database on medium- and long-term public and publicly guaranteed debt is in place. Improvement is, however, needed in data processing capacity, debt management techniques and the extension of the current debt database to private and short-term debt. There are plans to set up a new debt management system and train government staff in their use. In addition to this, debt managers will need training in the evaluation of new loans, rescheduling agreements, analysis, strategy and negotiations.

Malawi. There have recently been substantial improvements in debt management capacity, but there are still notable deficiencies in data processing, forecasting and analysis. Reconciliation of the government debt databases between the institutions responsible for them (the Reserve Bank of Malawi and the Ministry of Finance) has still to improve, and a system that allows the government to be proactive in meeting their external debt obligations needs to be developed. Central government monitoring of debt service payments by parastatals needs also to be in place.

Mali. Mali's debt-monitoring system provides for a comprehensive accounting of medium- and long-term public and public-guaranteed debt on a loan-by-loan basis. Nevertheless, there are some areas where improvement is still needed, including data processing capacity, and the extension of data coverage to include non-guaranteed debt of public and mixed enterprises, private non-guaranteed and short-term debt, so as to provide a comprehensive view of debt obligations. However, the authorities have integrated the debt management function into macroeconomic policy making and are enhancing their ability to make medium-term macroeconomic projections.

Mauritania. Mauritania's debt management capacity has improved recently, but needs to improve further. Existing debt databases are quite comprehensive, but a better coverage of the debt portfolio of public enterprises is still needed. The different entities responsible for external debt management have made progress in upgrading their software for debt monitoring, and steps are being taken to train staff in its use. Staff have also been trained extensively in debt sustainability analysis and external debt negotiations, and acquired appropriate debt sustainability analysis software. However, coordination among these institutions needs to continue to improve, and a unified debt database needs to be created.

Mozambique. The debt database is generally adequate for debt monitoring purposes, but some basic problems needs to be addressed. These include staff training in the uses of debt recording software, updating of the database (a number of loans already forgiven by creditors are still in the database) and closer monitoring of debt service payments falling due so that these are made on a timely basis. A more flexible software for debt monitoring is also needed. Mozambique has received some limited training in debt sustainability analysis but a much wider training program is required to offset problems of staff turnover.

Nicaragua. A 1998 law created a technical debt committee to consolidate debt management responsibilities and improve inter-agency coordination on debt management, and shifted the core responsibility for debt management from the Central Bank of Nicaragua toward the Ministry of Finance. These changes have ensured consistency between public sector borrowing and macroeconomic polices, and that new borrowing conforms with the required degree of concessionality. Nicaragua has recently received considerable capacity-building assistance on many aspects of debt management, and as a result is relatively well equipped to carry out debt analysis and strategy formulation, although it would still benefit from a stronger linkage between such analysis and macroeconomic programming.

Niger. An outdated mainframe system still in use for debt recording is an obstacle to adequate debt management, as it is unable to project debt data, prone to data-entry error, not user-friendly, and intensive in training. The system is also incompatible with other ministerial platforms. Niger has adequate systems for coordination of debt management and has received considerable training in debt sustainability analysis and debt negotiations. However. apart from replacing the current debt database system (for which government is already in search of donor financing), progress in debt management will also require additional staff training on analysis, and improved office space for staff.

Rwanda. There have recently been improvements in debt management capabilities, but these are still far from adequate. Software and hardware for basic debt management are in place, but human resources are a constraint. Rwanda has recently begun to benefit from a comprehensive program of staff training and technical assistance on debt management, which will enhance basic debt management capacity, including data reconciliation with creditors, data quality and timeliness, and debt sustainability analysis and negotiation skills.

São Tomé and Príncipe. The Ministry of Finance is legally responsible for debt management, and has in the last two years made major progress in transferring this capacity from the Central Bank of São Tomé and Príncipe, having benefited from extensive capacity-building and training assistance in operational debt management and debt sustainability analysis. To improve inter-institutional coordination, a debt management committee (and its attendant technical group) were created in 1999. The Central Bank and Ministry of Finance have recently acquired adequate software for debt sustainability analysis simulations and staff has been trained in its use. The current database provides relatively accurate debt stock data and service projections, but it would be desirable to reinstall a superior system acquired in 1998 in order to make data more precise. This will require further technical assistance.

Senegal. The current system used for debt recording cannot provide adequate projections, is too complicated to use, and needs to be upgraded or replaced. Work has been under way on the creation of a new computerized database, although the materialization of this will depend on finding financing to cover start-up costs and a new server. The staff in charge of public debt management needs to be increased in number; training for new and existing staff is also needed. Although some debt management training has been recently provided and more is planned, and a debt strategy simulation tool has been acquired, a comprehensive debt management program has still to be established.

Tanzania. The country's debt management capacity has improved substantially in recent years. Progress has been made in data processing so as to ensure the comprehensiveness and accuracy of the database on external debt. The entities responsible for debt management now have up-to-date hardware and software, including adequate systems for debt sustainability analysis. Recent efforts to further improve debt management have sought to strengthen coordination among government agencies, as well as to ensure that external disbursements and payments are recorded and processed on a timely basis. As a result of a rigorous training program, the country has the capacity to conduct its own debt sustainability analyses. This complements its proven capacity to both, renegotiate the existing debt and secure new borrowing on highly concessional terms.

Uganda. Uganda's Constitution mandates that all public borrowing be channeled through the Ministry of Finance, Planning and Economic Development (MFPED) and be approved by

Parliament. In addition, each development proposal, whether financed through loans or grants, must be scrutinized to determine if its objectives meet the development and antipoverty goals as expressed in the Poverty Eradication Action Plan. At present, debt management is housed within the Bank of Uganda (BOU). Transactions are tracked through the UNCTAD computerized system by the debt management unit within the BOU.

Zambia. The country's debt management capabilities have been hindered by various operational and administrative deficiencies. Until recently, there have been a shortage of qualified staff and a lack of adequate computer software, resulting in significant delays in data processing. The external debt databases are not appropriately integrated (external-loan information is handled both by the Ministry of Finance and Economic Development and the Bank of Zambia), and their consolidation is needed. Furthermore, they do not contain enough detail to fully assess the government's contingent liabilities.

Borrowing Limits in IMF Arrangements

The main rationales for performance criteria on external borrowing in Fund arrangements are to ensure the overall consistency of the monetary and financial program so that restraint of domestic demand is not threatened by unforeseen foreign borrowing, and to prevent an undue build-up of external debt during the arrangement period leading to debt-servicing problems in the medium term. Additional arguments for borrowing ceilings include the encouragement that they give to members to monitor and control the borrowing (or guaranteeing) activities of the government or the broader public sector, and the confidence given to potential creditors that the member is pursuing a sound debt strategy, so that debt ceilings may improve access to, or the terms of, foreign credits.

A specific guideline governing performance criteria on foreign borrowing was adopted by the Executive Board in August 1979 in the context of a general discussion on issues relating to external debt management.[25] The guidelines summarized policies to be followed in the design of limits on external debt. It stated that when the size and the rate of growth of external indebtedness is a relevant factor in the design of an adjustment program, a performance criterion relating to official and officially guaranteed foreign borrowing would be included in upper credit tranche arrangements. The criterion included foreign loans with maturities of over one year with upper limit including loans with maturities in the range of 10 to 12 years in order to effectively monitor the maturity structure of the external debt it was recommended that the performance criterion also include a sub ceiling on foreign loans with maturities of over one and up to five years. Flexibility was to be exercised in implementing the limits to ensue that the use of the performance criterion did not discourage capital flow of a concessional nature by excluding from the coverage of debt limits loans defined as concessional under the OECD's Development Assistance Committee (DAC) criterion.[26] Before the 1979 guidelines, the standard practice was to include under debt limits only loans made on "commercial" terms and to distinguish such loans by final maturity alone rather than other characteristics such as the present discounted value of contractual debt service.

In a subsequent review of issues of external indebtedness in 1983, the Executive Board, encouraged the staff to include short-term debt of a maturity of less than one year in the performance criteria on foreign borrowing; expressed a general preference for ceilings on disbursed rather than contracted or guaranteed short-term, medium- and long-term debt, though stressed the need for flexibility; and suggested that loans with maturities of between 12 and 15 years should sometimes be included within ceilings, and discouraged a broadening of exclusions from the limits beyond concessional loans and restructuring and refinancing loans specifically associated with multilateral reschedulings with either official or private creditors. [27]

[25] Guidelines on Performance Criteria with Respect to Foreign Borrowing: Board Decision No. 6230-(79/140), August 3, 1979.
[26] According to this criterion a loan with a grant element of 25 percent was defined as concessional using a fixed discount rate of 10 percent.
[27] EBM/83/57 (4/6/83) and EBM/83/58 (4/6/83).

A further review of the use of external debt limits in 1988 [28] covered a number of issues relevant to the implementation of the guideline, including the sectoral coverage of borrowing (usually the non-financial public sector) and normal exclusions from the ceilings, such as debts arising from reschedulings and other debt reorganizations. In their discussion of the paper, Directors made no specific changes to the policy.

The Fund in its policy on external debt limits followed the DAC criterion of concessionality up to 1996. Earlier in March 1987 recognizing the problems associated with the use of the DAC criterion official creditors in the context of the OECD Group on Export Credits and Credit Guarantees whose members adhere to the Arrangement on Guidelines for Officially Supported Export Credits agreed that for the purpose of their calculations of the degree of concessionality of subsidized or mixed export credits, a system giving more weight to market interest rates in various currencies would replace the previous use of the uniform 10 percent discount rate used by the DAC. It was also agreed that their minimum concessionality level would be raised from 25 percent to 35 percent and, for the least developed countries (LLDCs), a category of countries established by the United Nations General Assembly, to 50 percent.

The OECD policy on determining the concessionality of external loans was further refined in the context of "Schaerer Package" agreed by Participants in the Arrangement in August 1994, the OECD agreed that from September 1, 1996, the discount rate would be calculated using only market-related "Commercial Interest Reference Rates" (CIRRs) adding a margin reflecting the length of the loan.[29] In September 1995 the Executive Directors approved a change in the methodology used to assess borrowing limits in line with the change in OECD policy [30]. In formulating debt limits in future arrangements, the Fund followed the method of calculating the discount rate that has been used by the OECD from September 1, 1996. This raised the level of grant element required for a loan to be excluded from the borrowing ceilings in Fund arrangements from 25 percent to 35 percent. This change ensured that new lending excluded from the borrowing ceilings incorporated significant concessionality. Directors also agreed that in some extremely difficult cases consideration could be given to a higher grant element requirement for exclusion from ceilings, but 35 percent would be the norm. At the same time, Directors agreed to abolish the exclusion from debt limits of loans above an upper maturity limit of 10-12 years provided in 1979 guidelines. The rationale for these maturity limits was that they would correspond to the maximum maturity available in the market, and that loans with a longer maturity—mainly from multilateral organizations—would not be a source of concern. However, experience showed that even loans with maturities above these limits, including non-concessional lending from multilaterals, could cause serious debt-servicing problems albeit over a longer-term period. [31] Abolishing the upper maturity limit achieved the goal of a comprehensive coverage of debt limits, bringing all

[28] The Use of Limits on External Debt in Fund Arrangements, EBE/88/51 (3/2/88).
[29] The aim was to prevent agencies from undercutting each other in offering commercial export credits.
[30] SM/95/225 (9/6/95).
[31] The maturity period for the purpose of debt limits is calculated from the time of loan commitment; hence when there is a substantial delay between commitment and disbursement, there can be cases where commercial credits on standard terms can fall outside the debt limits. Such delays are particularly common in case of military exports.

borrowing, irrespective of maturity, within the purview of the borrowing limits. The principal result of this change was to bring non-concessional lending from multilateral institutions within the coverage of debt limits for the first time.

In August 2000 the Executive Board amended the 1979 guidelines on performance criteria on external debt (see EBS/00/128) by introducing a definition of "debt" that encompassed a broader array of financial instruments than was the case under the original guidelines. The 1979 Guidelines were established at a time when external debt was normally incurred by governments through loans. Thus, performance criteria on official and officially guaranteed external debt were traditionally set with coverage limited to loans. This narrow definition of debt was considered to be increasingly inadequate in light of the developments in financial markets and products widening the range of financial instruments that gave rise to external liabilities. It was further considered by the Executive Board that relying on an explicit list of specific debt instruments in the performance criterion would also be ineffective as such a list may turn out to be incomplete.

The revised Guidelines define the term "debt" in comprehensive terms to include all current (not contingent) liabilities, which are created under a contractual arrangement and which require the obligor to make payments in the form of assets (including currency) or services, at some future point(s) in time to discharge liabilities incurred under the contract. At the same time, the revised Guidelines maintain the flexibility provided for under the original guidelines, i.e., where appropriate, financial instruments might be excluded or included when explicitly specified in the arrangement.[32]

In the context of the HIPC Initiative an important factor in accumulation of unsustainable levels of external debt was imprudent borrowing policies both in terms of how much and at what terms to borrow; some responsibility here lies also with creditors. Cognizant of the past mistakes and in order to keep the external debt situation sustainable over the medium-term and safeguard the benefits of deep debt relief envisaged under the HIPC Initiative, one of the six guiding principles on which the HIPC Initiative framework is based includes the condition that external finance for the countries concerned will be on appropriately concessional terms. [33] The injunction on non-concessional borrowing by the HIPCs has been reinforced by the desire of many Executive Directors expressed in this regard during a number of discussions, by the statement of the Development Committee in its April 1999 communiqué that new financing to HIPCs be in the form of grants or on highly concessional terms, and most recently, by the U.S. legislation that

[32] The revised Guidelines will apply exclusively to performance criteria on external debt formulated after the date of the adoption of such guidelines. They will not retroactively apply to existing performance criteria. However, in the context of the first review under an existing arrangement that follows the effective date of the Guidelines, existing performance criteria will need to be modified to incorporate the new definition set forth in the Guidelines. As stated above, these Guidelines will be applied flexibly, and specific instruments can be explicitly excluded or included, such as financial derivatives, where deemed appropriate.

[33] The HIPC Debt Initiative – Elaboration of Key Features and Proposed Procedures. EBS/96/135, August 26, 1996.

provides funding for a U.S. contribution to the HIPC Trust Fund requiring, among other things, that countries benefiting from the U.S. contribution must commit not to borrow, at least for two years, nonconcessional loans from the relevant MDB that benefits from the U.S. contribution.

The Fund policy on limits on external borrowing in PRGF arrangements does not always envisage zero non-concessional borrowing. The mission teams are expected to set limits on new nonconcessional borrowing , after evaluating, on a case-by-case basis, the impact of new borrowing in the overall context of the debt sustainability and a country's capacity to service debts. Also, as the table below shows, the coverage of these ceilings can be narrower than that of the debt assessed under the HIPC Initiative (i.e. government and government-guaranteed debt and that of the rest of the public sector).

HIPCs—Nonzero Ceilings on Nonconcessional Borrowing 1/
Under PRGF-Supported Programs

(In millions of U.S. dollars)

Country	Time Period Covered	Maturity		Note	Coverage of debt
		Less than one year 2/	More than one year 3/		
Bolivia	2000	10	10	Limit set on net disbursements of any maturity including short term.	Nonfinancial public sector (central government, public sector social security institutions, local governments, other decentralized agencies, and public enterprises); central bank; and private sector with official guarantee.Excluded from ceiling are changes in central bank liabilities and debt renegotiation with official creditors.
Mali	2000	0	30 4/		Government and public enterprises.Non-concessional loans in 2000 are from WADB, ADB, and the Caisse de Cooperation Francaises.
Of which : Public enterprises		0	15 4/		
Senegal	2000	0	8 4/		Government; public administrative institutions; public institutions of a scientific, technical, and professional nature; and local administrations. Ceiling applied for a non-concessional loan contracted in 2000 from the WADB.
Yemen	2001	30	75/35	Over one year maturity/of which up to 5 year maturity.	Public sector and publicly guaranteed debt. Excluding restructuring and refinancing loans undertaken in multilateral restructuring of official bilateral debt; and use of AMF and IMF resources.
Cote d'Ivoire	1999	0	20 4/		Government. Excludes normal import-related credit.

Source: IMF staff reports.

1/ Excludes concessional loans with a grant element of 35 percent or more.
2/ Typically, the ceiling is set on the net change in short-term debt excluding normal import financing.
3/ Typically, the ceiling is set on the contracting or guaranteeing of nonconcessional loans on a gross basis.
4/ In billions of CFA francs.