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Heavily Indebted Poor Countries (HIPC) Initiative— Perspectives on the Current Framework and Options for Change

Prepared by the Staffs of the IMF and World Bank

Approved by Jack Boorman and Masood Ahmed

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I. INTRODUCTION

1. The launch of the Heavily Indebted Poor Countries (HIPC) Initiative in the fall of 1996 represented a major departure from past practice in dealing with debt problems of developing countries; it focused on achieving overall external debt sustainability with comprehensive participation by all external creditors for the most heavily indebted countries with good track records. Since the fall of 1996, the eligibility of twelve HIPCs has been reviewed by the Boards of the Bank and Fund,[1] and work is well underway in four additional countries. Seven countries have already qualified for debt-relief packages, and three more would be expected to qualify based on preliminary discussions. Debt relief totaling US$6 billion in nominal terms, or US$3 billion in net present value, has been committed to these countries. Assistance for two countries—Uganda and Bolivia—has already been released.[2]

2. As the implementation has progressed, there has been widespread interest in the issue of debt relief and possible changes to the Initiative among religious groups, non-governmental organizations, the media, international organizations, and governments.[3] More recently, five G-7 governments have made proposals for changes to the Initiative that would be discussed at the Cologne Summit in June. The staffs of the Bank and Fund have prepared a technical note describing tentative costings of some illustrative changes to the Initiative in order to facilitate an informed discussion.[4] This paper is intended to provide further information on the specific proposals which have been made, and to suggest some considerations for assessing them.

3. The paper is organized as follows. Section II summarizes the various proposals for changes that have been received from non-governmental organizations (NGOs) and other interested groups, and from member countries of the IMF and IDA. In general, these proposals seek to deliver deeper, broader, and faster debt reduction and to link debt relief more tightly to poverty reduction programs. Section III assesses these proposals. (The costs of alternative scenarios for debt relief and financing implications for creditors, especially multilateral institutions, will be set out in a supplement to this paper.) Issues for discussion are presented in the last section.

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[1] These are Benin, Bolivia, Burkina Faso, Côte d'Ivoire, Ethiopia, Guyana, Guinea-Bissau, Mali, Mauritania, Mozambique, Senegal, and Uganda.

[2] See Annex 1 for a fuller description of progress to date and related trends in resource flows.

[3] In the summer of 1998 the Boards of the IMF and IDA reviewed progress under the HIPC Initiative during its first two years. See *The Initiative for Heavily Indebted Poor Countries—Review and Outlook*, (EBS/98/152 and IDA/SecM98-480, August 25, 1998), and Summing Up by the Acting Chairman of the IMF (Buff/98/88). [3] The Development Committee called for another review of the Initiative to occur as early as 1999.[3]

[4] *HIPC Initiative—Tentative Costing of Illustrative Alternatives to the HIPC Initiative Framework*, (EBD/99/32 and IDA/R99-19, February 16, 1999).

II. Proposals for Changing the HIPC Initiative

4. This section describes the consultative process for gathering comments on the HIPC Initiative. It then goes on to summarize the comments and proposals themselves, taking in turn those from civil society, member governments, multilateral creditors, and other international organizations.

A. The Consultative Process

5. In response to the call for a comprehensive HIPC Initiative review, and in light of the discussion of the HIPC Initiative expected at the Cologne Summit in June, a two-stage review process has been initiated. Phase 1 addresses concerns about, and modifications to, the current framework, including debt sustainability targets, timing of decision and completion points, and performance under economic and social reform programs. An extended timeframe for Phase 2 will allow for more in-depth consultations regarding the link between debt relief and social development.

6. The World Bank and IMF have posted on their websites a questionnaire asking the public for suggestions.[5] In addition, the review process has included consultation meetings with members of the NGO community, religious groups, the media, governments, international organizations, and multilateral development banks. The HIPC websites at the World Bank and IMF have each been visited about 1,500 times per month in 1999. Participation in the consultation process has been widespread. To date Bank and Fund staff have received about 65 written comments and proposals for improvements to the framework. It is estimated that through eight consultation meetings for the 1999 review in Africa, Europe, North America and Latin America, an audience of more than 500 was reached, facilitating an open and constructive exchange of opinions (see Annex 2).

7. Along with these proposals, the review process itself has prompted considerable interaction among NGOs, and broadened the dialog on the HIPC Initiative issues with multilateral development banks (MDBs) and other international organizations. The accessibility of information through the websites and inclusion of civil society in the debate has brought about an open process that was appreciated by all involved. A set of documents submitted by NGOs, religious organizations, and international institutions will be circulated separately to the Boards. Summaries of the consultation meetings are under preparation by rapporteurs.

B. Summary of Comments from Civil Society

8. There was a general acknowledgement by most commentators that the HIPC Initiative is a positive step forward towards a solution to unsustainable debt—primarily, in that it provides a comprehensive framework for debt relief from all creditors and aims to bring debts down to a sustainable level. However, most commentators expressed their

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[5] See http://www.imf.org/external/np/hipc/Review.htm at the IMF website and http://www.worldbank.org/html/extdr/hipc/99review.htm at the World Bank website.

disappointment with the depth of debt relief as well as with the pace of implementation, which, in their opinion, has been too slow. This point is often summarized as “too little, too late”.

9. The objective of the HIPC Initiative was frequently considered to be too narrow. Some argue that the definition of debt sustainability should encompass the full range of development needs of the HIPCs. In the course of the discussions, it was observed that there is a strong desire to discuss broader issues of development, aid flows, and poverty reduction.

10. The HIPC Initiative and its ongoing consultations with civil society have been catalytic in facilitating a debate that goes beyond the confines of debt relief. The call for a broader and regular debate on development and poverty reduction with the Bank and the Fund has become increasingly pronounced, especially during the 1998 Lambeth conference of the Anglican Church and the Seton Hall conference[6] as well as during the current consultations.

11. The linking of the HIPC Initiative with the broader development debate has raised, in virtually all meetings, concerns about the current state of development assistance. A number of the criticisms of the Initiative reflected disappointment with the general thrust of development policies. In this connection, commentators voiced concern over reduced aid flows (see Annex 1). Others would wish to see the HIPC Initiative used more to encourage poverty alleviation policies.

12. Critiques of the Initiative reflect different perceptions of the **rationale for debt relief**:

- Debt should be forgiven because it perpetuates the dependency of the poorest countries. The Jubilee 2000 campaign describes this dependency as "chains of debt” and uses this image as its official logo.

- Debt should be forgiven since it came about from historical circumstances beyond the control of current governments (i.e., in the context of the cold war, corrupt former regimes, etc.). Some debt is categorized as immoral or illegitimate (for example, apartheid-related debt). Current governments should not be penalized for the mistakes of their predecessors and inappropriate lending from creditors.

- A related moral and biblical argument is advanced by some, connected to the coming millennium. In particular, policy makers are requested to “heed the Biblical call to ‘proclaim Jubilee’ by the year 2000”.

- The burden of debt falls on those least able to pay—the poorest countries in the world where the bulk of the population has income of less than $1 per day. This is considered by many commentators to be immoral and/or unjust.

[6] The Conference on “The Ethical Dimensions of International Debt,” co-sponsored by the U.S. Catholic Conference, Seton Hall University, and the Pontifical Council for Justice and Peace, October 1998.

- The resources were borrowed to finance economic growth, but these loans did not produce the expected capacity to pay, and therefore should be forgiven. A bankruptcy procedure for countries like that for firms is sought by some.

- Cashflow constraints caused by debt servicing hamper development. Specifically, debt service obligations are contrasted with expenditures on health and education. Given the large developmental challenges in HIPCs, many commentators recommend that more resources be made available for social development and hence, debt relief needs to be provided in a much more generous fashion than under the current framework.

13. The main proposals from NGOs and religious groups are summarized in a matrix in Annex 3. Proposals from civil society ranged from those advocating changes which build on the existing framework such as modifications to timing, conditionality, targets, fiscal thresholds, and sustainability ratios, to those advocating a completely different approach to debt relief, including the complete elimination of all debt for HIPCs.

Proposals advocating a different approach

14. Some proposals advocate replacing the current framework in its entirety with another mechanism. The two principal proposals for changing the HIPC framework are (i) a "human development approach, and (ii) the introduction of international insolvency procedures."

15. Many external commentators have proposed that calculations of debt relief should be embedded in an overall framework of development and poverty alleviation. Some of these have suggested that sustainable development expenditures should be determined with sustainable debt service as a residual category. The most elaborate proposal in this area was received from the Catholic Fund for Overseas Development (CAFOD). CAFOD suggests a model called the "Human Development Approach" under which the resources required to finance basic needs and investments in productive capacity, would be subtracted from the country's revenue base, with debt-service payments limited to one-fifth of the remaining net revenue. Debt relief would be delivered immediately without performance criteria or track record requirements. Its aim, besides debt relief, is to help achieve the international development goal of halving poverty by the year 2015.[7] By their estimate, at least ten countries would qualify for complete debt cancellation.

[7] The international development goals are set out in OECD/DAC, 1996, *Shaping the 21st Century: The Contribution of Development Cooperation*, Paris.

Box 1: The Jubilee 2000 Campaign

Jubilee 2000 is an umbrella organization bringing together a broad coalition of faith-based organizations, NGOs, trade unions, press, and general public. It currently has campaigns organized in most OECD countries, as well as in Africa and Latin America. Despite the broad based nature of this coalition, Jubilee 2000 is unified in its objective for debt cancellation while accepting that there will always be differences between individual campaigns and individuals within campaigns. Jubilee does not prescribe for individual countries how debt settlements should be worked out, believing that this should be worked out between the individual debtor country and creditors, with civil society involvement.

Nonetheless, there are key features which characterize their campaign. These include:

- The demand that unpayable debts be forgiven. This could range from an outright cancellation of all debts to a limitation of the debt service burden to a small fraction of budgetary and/or export revenues (e.g., between 3 and 5 percent).
- The Biblical notion of Jubilee "seeks to re-establish justice between debtors and creditors".
- The need to establish an arbitration process which would give debtors a greater say in the negotiations (internationalization of Chapter 9 of US Bankruptcy law).
- The acceleration of debt relief, with the year 2000 being symbolic of a new "debt-free start".
- A determination of debt relief not on the basis of a debt sustainability analysis, but on the basis of human development needs. Savings from debt relief should be channeled to the social sectors.
- Close involvement of civil society in (a) the determination of debt relief, (b) monitoring of new borrowing, and (c) determination and implementation of poverty-oriented projects financed with the proceeds of debt relief. For example, through the establishment of a Poverty Action Fund.
- They call for a de-linking of debt relief from ESAF conditionality.

There have been many different Jubilee 2000 declarations, including the Accra Declaration of April 19, 1998, and a Jubilee Call for debt cancellation and economic justice, adopted at the first Jubilee 2000 international conference in Rome, on November 17, 1998 and the Tegucigalpa Declaration of January 27, 1999.

16. The proposal for establishing international insolvency procedures is motivated by the concern that under current debt restructurings, creditors are playing a dual role as judge and interested party. The Jubilee 2000 Coalition suggests a procedure that in their view would permit debtor countries and creditors to negotiate on a more equal basis, say through an extension of Chapter 9 of the U.S. bankruptcy laws to international debts (see also Box 1). This organization has also suggested that an independent arbitration panel be set up to commission an audit of outstanding debt. This 'Debt Review Body' would also ask a debtor government to prepare economic and social plans, and then hold open hearings to determine the portion of the debt stock that is unpayable, given development needs. The results of the debt work-out would be laid down in a "concordat" between the debtor country and its creditors. Its implementation, including the enforcement of penalties for non-compliance, would be administered by this review body.

Proposals building upon the current framework

17. While subscribing to similar human development objectives, the majority of proposals build upon the current HIPC framework. Many commentators believe that amendments to one or more of the HIPC Initiative parameters are required if the Initiative is to fulfill its promise. These proposed amendments are aimed at (i) deepening debt relief, (ii) broadening relief to cover more countries, (iii) accelerating the delivery of debt relief, (iv) altering the conditions under which debt relief is provided and the linkage to development, (v) strengthening transparency and accountability, and (vi) mobilizing financing.

Depth of debt relief

18. A number of proposals have been put forward to allow for deeper debt relief. These proposals have questioned the appropriateness of the parameters and their level in determining external debt sustainability. While recognizing the need for simple indicators to facilitate decision making as well as to ensure equitable treatment among countries, commentators felt that target ranges used for the NPV debt-to-export ratio were too high and/or the fiscal dimensions of the external debt problem were inadequately treated through the fiscal/openness window. The resulting levels of post-HIPC Initiative debt service were also considered to be too high in relation to either exports or government revenues. In particular, many groups in Africa and Latin America stressed that for debt relief to be meaningful, it needed to reduce the levels of debt service below those paid prior to the completion point; otherwise relief was seen as largely a book-keeping operation that did not free up additional resources for development.

19. A number of organizations (e.g., Eurodad) have argued that debt relief should be deep enough so that a country at the completion point would no longer require exceptional balance of payments support in the absence of short-term shocks. In reference to falling commodity prices, concern was expressed that the NPV debt-to-export target of 200 percent would likely be insufficient to "cushion" the country against an unanticipated and prolonged decline in export earnings.[8] Uganda was often mentioned as a case in point where after the completion point the falling export revenues of coffee have contributed to a rise in the NPV debt-to-export ratio above 200 percent. Along with other proposals, Oxfam suggests lowering the debt-to-exports threshold to 150–200 percent and to 100–150 percent for debtors willing to commit 85–100 percent of debt relief to identified poverty reduction initiatives (Box 2).

[8] See also U.S. General Accounting Office, Report to the Chairman, Subcommittee on International Economic Policy, Export and Trade Promotion, Committee on Foreign Relations, U.S. Senate "Developing Countries: Status of the Heavily Indebted Poor Countries Debt Relief Initiative," September 1998.

Box 2: Oxfam's "Debt Relief and Poverty Reduction: Strengthening the Linkage"

Oxfam advocates minimum debt levels as follows:

- Debt-service ratio should be reduced to 15–20 percent,
- the NPV of debt-to-exports ratio should be reduced to between 150 and 200 percent,
- the NPV of debt-to-government revenues ratio should be reduced to 200 percent,
- the time frame needs to be reduced from 6 to 3 years,
- the fiscal criteria of government revenues to GDP should be reduced to 15 percent,
- and debt service paid by the government should be restricted to 10 percent of government revenue.

In addition, to link debt relief further to development, OXFAM suggests putting incentives in place to reward governments willing to "enter into genuine poverty reduction partnerships" by providing earlier and deeper debt relief through their Human Development Window, where thresholds can be further lowered to:

- debt service ratio of 10–15 percent,
- the NPV of debt-to-exports ratio between 100 and 150 percent,
- the NPV of debt-to-government revenues ratio between 150–170 percent,

The additional assistance could not be provided unless a government is willing to commit 85–100 percent of savings on debt service to identified poverty reduction initiatives. The Human Development Window could be one of the instruments to address the challenges to fund education in HIPCs, as elaborated in "Education Now: Break the Cycle of Poverty", published in March 1999.

20. Many commentators have argued that debt relief needs to be deep enough to create sufficient fiscal space to enable governments to adequately meet the budgetary costs of priority development spending, especially for basic health and education. A number of commentators have argued that the fiscal dimension is the most relevant one, given that governments have to meet debt-service obligations out of their budgetary resources. While many commentators have welcomed the inclusion of a fiscal indicator into the HIPC framework, it has been commonly criticized for being overly restrictive. In particular the two qualifying thresholds (i.e., ratio of exports to GDP of at least 40 percent and a ratio of revenues to GDP of at least 20 percent) are seen to have been set with an objective mainly to limit access and costs, although many commentators recognize the need to avoid moral hazard and for the debtor country to make a sufficiently robust revenue effort.

21. Various proposals have been put forward to address these concerns. For example, Eurodad has proposed lowering the debt-to-revenue ratio under the fiscal/openness window to 200 percent as there is no empirically-based reason why this should be higher than the debt-to-exports ratio (Box 3). A number have argued to drop the exports-to-GDP threshold on the grounds that it is not relevant to the government's capacity to service debt and meet priority needs. The revenue-to-GDP threshold was thought to be too stringent as well, and some suggestions have been made to either lower the threshold to 10–15 percent or change it to a requirement that fiscal revenues not decline as a percent of GDP. Finally, it has been argued that macroeconomic performance, including fiscal targets are already being monitored

in the context of Bank- and Fund-supported programs and that these provide the best framework for determining appropriate revenue targets on a case-by-case basis. The emphasis on the fiscal dimension of debt problems has been reinforced by the argument that many governments are also facing serious problems of domestic debt and debt service.

Box 3. Eurodad Critique of the Fiscal Window

The European Network for Debt and Development (Eurodad) has focused on various aspects of debt relief including the link between debt sustainability and human development, the link to ESAF, and affordable debt service. A main theme has been their critique of the fiscal window. Their main criticisms of this window are as follows:

- The fiscal indicator in its present form demands an "impossible mixture" of high-indebtedness and macro-economic soundness. Very few countries can qualify under the fiscal window, because of the inability to meet both of the "disqualifying criteria" (40 percent exports-to-GDP and 20 percent revenues-to-GDP), which would be more suitable for industrial countries. There is no empirical basis for either of the thresholds, other than cost containment
- The NPV of debt to revenues target of 280 percent is higher than the NPV debt to exports target of 200 percent, and has no empirical basis.

Eurodad therefore proposes:

- The NPV of debt-to-fiscal revenue criterion should be reduced from 280 percent to 200 percent.
- The 40 percent export-to-GDP condition should be removed.
- The revenue-to-GDP criterion, while needed for moral hazard reasons, should be lowered to 10–15 percent (or country targets should be set not to decline from current levels).

22. A number of commentators have focused on debt-service indicators, both in relation to exports, as in the current framework, but also in relation to revenue. They have argued that the Initiative places too much emphasis on the debt overhang and reduction of debt stock, and too little emphasis on the current burdens that debt service poses for governments. Consequently, they have advocated that the ratios of debt service to exports and/or revenues should be central to the debt sustainability analysis. In particular, it has been argued that a debt service-to-revenue indicator should be added to the HIPC framework and that appropriate targets be set. Recommended targets have been put forward in the context of the human development approach advocated by CAFOD (see above) as well. In a similar vein, Eurodad advocates the use of a "maximum affordable debt service approach", which would target debt service at 30 percent of the amount of government revenues available for non-essential spending. A bill introduced in the US Congress in early 1999 (by Congressman Leach) calls for debt-service levels that would not exceed 10 percent of government revenues. With respect to debt service in relation to exports, NGOs and religious organizations have referred to the London Agreement of 1953 regarding the debts of Germany, which resulted in debt service below 5 percent of exports.

Breadth of debt relief

23. It is recognized that the methodological changes (the use of the average of three years' export, exclusion of workers remittances from the export base, and the addition of a fiscal window) introduced into the HIPC framework over the last two years have allowed more countries to qualify. Commentators view lower targets, as well as shortening of the performance period, as ways to expand eligibility to a considerably larger group of countries.

Timing

24. Almost all commentators from civil society feel that HIPC relief takes too long given the urgent need for debt relief.[9] The main arguments for quicker debt relief refer to debt as an impediment to increasing social expenditures. Concerns are raised that the poorest countries in the world have cut back social expenditures in priority areas to such an extent that they no longer can provide basic social services, citing, for example a deterioration in net primary school enrollment rates during the 1990s.

25. In assessing the current implementation of the HIPC Initiative, NGOs and religious organizations feel that the flexibility permitted under the framework in shortening the interim period has not sufficiently been exploited. Many commentators recommended that the completion points should have been collapsed with the decision points for the early cases such as Uganda and Bolivia, countries with track records dating back to the mid-1980s. They explain the additional track record in the interim period for these countries as a rigid interpretation of the framework. Many groups would favor a performance period of about three years although it is stressed that this performance period should encompass a different set of performance requirements than those currently pursued.

26. A further rationale given by religious groups is the call for debt relief related to the Jubilee year 2000 and the call for the forgiveness of debts before the new millennium. Various groups have been calling for a shortening of the waiting period, particularly in cases where countries are emerging from a post-conflict and post-catastrophe situation such as hurricane Mitch. It is argued that early debt relief could play a significant role in helping these countries overcome the devastation and begin the enormous task of rebuilding basic infrastructures and attending to the human suffering.

27. Another rationale of shorter track records is linked to the assessment of performance. Commentators vigorously question the link to adjustment programs supported by the IMF and the World Bank, and argue that greater weight should be placed on past policy performance. Since most HIPCs have met the entry requirement, they feel that there is no need to delay further the delivery of debt relief. In this regard they argue two points. First, since most creditors, i.e., commercial and bilateral creditors have been providing debt relief already outside of the HIPC framework, they do not accept that under this Initiative, countries need to wait. Similarly, many groups do not accept that there is a moral hazard problem in

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[9] The current framework is built upon a three-year track record for eligibility plus another three-year interim period between the decision and completion points (although this has been shortened in most cases).

providing earlier debt relief. In this context, they assert that the international community will continue to support aid and reform programs well beyond the completion point, thus providing an incentive to utilize the debt relief effectively.

Performance requirements

28. During the review process, the discussion of the performance requirements has been one of the most contentious. While many groups accept the need for performance criteria, they criticize the content and the process of program design, with structural adjustment programs not seen as being prepared in a participatory environment. Many commentators criticized the IFIs for being insensitive to domestic political situations with which debtor governments are faced. Especially during the 1990s, when a nascent democratization process was taking hold in many HIPCs, concern was expressed that governments were often put unduly on the defensive by having to undertake major structural reforms too quickly and without due consultation. The lack of ownership and the arduous number of economic reforms have been topics attracting much debate. Many argue that greater ownership by debtor governments of macro targets and key reforms would improve the Initiative. The ownership issue, as well as a much more participatory and transparent process in devising the development strategies in these countries, is considered to be vital by these commentators.

29. Many groups were not against conditionality per se, but supported economic and social programs that are poverty-focused and have been prepared in a participatory manner. Suggestions were made that debt relief would need to be conditioned on the preparation of action plans for human development, as well as ensuring that the savings from debt relief would be utilized exclusively for poverty alleviation measures. These groups have proposed alternative performance criteria, in contrast to what they perceive as being rigid and non-transparent adjustment programs being supported by the Bretton Woods Institutions. ESAF conditionality is therefore considered as too tough or inappropriate, and it has been argued that this could be replaced with the use of simpler and more realistic macro targets to assess performance under the HIPC Initiative.

30. Many groups recommended that debt relief should be de-linked from ESAF compliance. In the consultation process, inter alia during the March 5 consultation meeting in London, Christian Aid suggested the use of floating conditionality for debt relief, analogous to the floating tranche approach being used in various World Bank adjustment programs. This would mean determining *ex ante* certain conditions to reach the completion point, eliminating the fixed time element. The concern by most groups that debt relief savings be channeled to the poor has led some of them to advocate that debt relief be conditioned even after the completion point on a transparent use of these debt-relief savings. These groups recommend that noncompliance with this goal be penalized.

31. It has been argued that the current link between debt relief and social sector development remains weak in the framework of the HIPC Initiative. While there is a consensus that efforts should be made to embed debt relief within an overall strategy towards achieving the social sector targets, there was less direction on how to achieve this. Oxfam

has made a concrete proposal for establishing a Human Development Window, that would provide additional benefit to countries which make a credible commitment to target funds released from debt service to meeting these social sector needs. This topic will be the main focus of phase II, in which Bank and Fund staff will explore, with external input, ways of strengthening this link and will report back on this process before the annual meetings.

Transparency and accountability

32. In all meetings, commentators expressed great concern about transparency and accountability in debt management issues. In view of past mistakes, where countries became indebted without any benefits to the general population, commentators recommended that information about new borrowing arrangements and debt restructurings be made public. In this context there were many calls for more involvement by civil society in the HIPC Initiative process. Several groups voiced their frustration about the lack of access to disaggregated data and the lack of cooperation shown by the creditor and debtor governments involved. In parallel to addressing transparency issues, commentators also called for increased openness in the DSA process, including the publication of preliminary HIPC Initiative documents.

33. Commentators considered accountability to be an issue for both debtors and creditors. With regard to debtor governments, it was advocated that periodic audits be undertaken into the proper use of borrowed funds. With regards to creditors, they should be held accountable for unsound lending practices such as those allegedly displayed by some export credit agencies. Commentators favored a debt strategy that minimizes external borrowing while maximizing grant financing.

34. With regard to the delivery of debt relief, many groups including Oxfam and some Jubilee 2000 members favor penalties for default on commitments by debtor governments to channel debt relief to the social sectors. Some have argued that the best way to avoid default would be close involvement of civil society in determining the use of debt relief for poverty alleviation and in monitoring spending in a transparent fashion.

Financing of debt relief

35. In discussing the cost of providing comprehensive debt relief and the financing modalities to achieve this, most groups considered this more a matter of political will than a lack of resources. The most popular reference was the willingness by the international community to provide massive emergency assistance (although not debt relief) to emerging market economies during the recent financial crisis. Another frequently made recommendation was the sale of gold by the IMF for financing the Fund’s contribution to the

HIPC Initiative, or for more general financing. Moreover, some groups advocate more funding for the HIPC Trust Fund by bilaterals.[10]

C. Proposals from IMF and IDA Members for Change

Creditor countries

36. Creditor countries have been supportive of the HIPC framework and have viewed it as a pathbreaking Initiative. In recent months, a number of bilateral creditors including most of the G-7, Ireland and Norway have made specific proposals to go further, emphasizing the need to strengthen the framework and the links between debt reduction and poverty alleviation. Among the G-7, a discussion on debt relief is foreseen at the Cologne Summit in June 1999. The proposals by G-7 countries are set out in Table 1 and Annex 4.

37. A degree of commonality appears to be emerging among the proposals of Canada, France, Germany, the United Kingdom, and the United States on some elements of additional assistance. All agree that bilateral creditors should provide debt relief above 80 percent in NPV terms on commercial claims, when this is necessary to achieve targets under the HIPC Initiative. All agree on the need for additional relief on ODA claims. None have proposed changes to the performance criteria in which track records are measured under Fund- and Bank-supported adjustment programs. Regarding the terms of the HIPC Initiative, three of the five proposals (Canada, Germany, United Kingdom) suggest a shortening of the performance period from six to three years, although it is not specified whether this shortening would reduce the first or second stage of the Initiative. Two (Canada, United Kingdom) explicitly propose to lower the debt sustainability targets. Two other countries (Germany, United States) propose flexibility in exceptional cases. On financing, all mention gold sales by the Fund, while four explicitly record their support for such sales (and two mention an amount of up to 10 million ounces).

38. Two other countries, **Ireland** and **Norway**, have also made proposals to accelerate debt relief. Ireland passed legislation for a major Third World debt relief package which includes plans for bilateral assistance for debt relief. It favors a reduction in both NPV and debt service eligibility criteria and targets under the HIPC Initiative, as well as a shortening of the track record, stressing however, that this should be done only in the context of a realistic and achievable national development plan. Norway set out the Norwegian Debt Relief Strategy in October, 1998, under which it intends to unilaterally forgive its export credit agency loans (Norway forgave all ODA loans in the 1980s) on a case-by-case basis once a country reaches the completion point under the HIPC Initiative or receives a stock-of-debt operation (Naples terms) from the Paris Club. It also intends to forgive unilaterally interest payments falling due (also on a case by case basis) during the interim period, i.e., between the decision and completion points. It called on all like-minded countries to consider doing the same and

[10] A coalition of faith-based organizations in the United States has proposed that the U.S. government make a substantial contribution to the HIPC Trust Fund, commensurate with the financing needs of an expanded HIPC Initiative.

urged a more flexible approach to the HIPC Initiative, and to work to achieve equitable burden sharing in its financing.

Table 1. Initiatives by G-7 Countries for Debt Relief and Financing, January–March, 1999					
	Canada	**France**	**Germany**	**United Kingdom**	**United States**
Date announced	3/25/99	2/22/99	1/21/99	3/3/99	3/16/99
Targets and ratios	150 percent NPV of debt-to-exports		200 percent NPV of debt-to-export target generally, with some flexibility in exceptional cases	Relax the debt-export ratio and/or the fiscal criteria to provide deeper and wider debt relief	Deeper debt reduction in exceptional circumstances to those countries where it can make a real difference
Timing	Shorten track record to 3 years	Reduce interim period on a case-by-case basis taking into account past track record in adjustment policies	Shorten track record to 3 years	Shorten track record to 3 years	
Timing of delivery		Immediately deliver Paris Club relief through flow reschedulings under Lyon terms as soon as country is eligible for HIPC		Provide interim relief if necessary to provide sufficient debt reduction in the early years	Add early cash flow relief from IFIs
Commercial claims treatment	100 percent write-down for all LLDCs expected to qualify for HIPC debt relief (and Honduras); in absence of agreement by Paris Club creditors, Canada would unilaterally write off debts for countries that can use resources effectively and are practising good governance, or, for others, consider debt conversion to support critical development projects	Go above 80 percent cancellation if necessary to make debt sustainable, with proportional burden sharing by IFIs	Up to 100 percent cancellation in exceptional circumstances	Go above 80 percent ceiling on debt relief where necessary, with commensurate burden sharing by IFIs	Increase forgiveness to 90 percent; and in exceptional cases on a broader base of debt
ODA claims treatment	Call on all countries to forgive ODA debt for the poorest, heavily indebted countries	Cancel ODA debt service for a generation for all countries eligible for HIPC Initiative as soon as debt is definitely treated in Paris Club framework; need for an equitable burden sharing which would take into account the cost of canceling ODA claims as a percentage of GDP	Full cancellation by all Paris Club creditors for countries qualifying for HIPC assistance	ODA claims should be written off by countries which have not yet done so	Complete forgiveness

Table 1. Initiatives by G-7 Countries for Debt Relief and Financing, January–March, 1999

	Canada	France	Germany	United Kingdom	United States
***New* contributions to the HIPC Trust Fund**		Additional bilateral contributions if needed, in the context of equitable burden sharing	Germany will make a contribution to the HIPC Trust Fund in 1999		Additional contributions by US and other countries;US$50 million allocation proposed in Budget
Financing IMF participation	Support IMF gold sales of up to 10 million ounces; and provide current ESAF loan resources	Support gold sales by the IMF if necessary	Sale of IMF gold should remain under review. Germany will provide resources for continuation of ESAF	Support gold sales by IMF of at least US$1 billion and more if required	Support gold sales by IMF up to 10 million ounces
New aid for HIPCs	Provide new development assistance only on grant terms; develop a code of conduct for export credit agencies' lending policies	New financing through grants for HIPC-eligible countries	Summit countries support new financing to improve debt servicing capability for HIPC-qualified countries	Developed world should increase aid flows to developing countries to US$60 billion by 2000	Seek international commitment to provide at least 90 percent of new aid to HIPCs on a grant basis
Other elements	Include Honduras as a HIPC-eligible country as Hurricane Mitch has made future debt load unsustainable; add Haiti and Malawi to list of eligible countries, and consider Afghanistan when political situation permits	All countries eligible for Naples terms receive 67 percent reduction (eliminate 50 percent option); Cancel or raise ceiling above 20 percent on debt-for-investment swaps for middle income countries	All qualifying countries should be able to obtain assurance of the extent and timing of debt relief by 2000	Challenge UK NGOs to increase donations to developing countries to US$1 billion for two years to 2000, with tax incentives to support	Take new approaches to promote reconstruction in countries emerging from protracted domestic conflicts
Use of debt relief	Unilateral cancellation to be provided for countries that can use the freed up resources productively; particular attention to level of military spending	Ensure debt relief effectively benefits social spending; economic and social management and governance in benefiting countries must be irreproachable	Deploy funds released from ODA forgiveness for projects promoting sustainable development designed to eliminate poverty and inequality and taking into account principles of good governance	Resources released should be invested in anti-poverty programs, especially health and education, in the countries concerned	Channel debt relief savings into education or environmental protection using innovative financial instruments like debt-for-nature swaps
Announced debt relief	Additional debt relief of (in 1998 NPV terms): US$8 billion for lowering export target; up to US$6 billion for shortening track record; and up to [US$2.8 billion—HOW MUCH FOR HONDURAS?] for broadening eligibility			US$50 billion in nominal debt relief to be committed by 2000	US$70 billion in nominal debt relief additional to current HIPC Initiative

Sources: Governments of Canada, France, Germany, UK, and US.

Debtor countries

39. Debtor countries have in general welcomed the framework of the HIPC Initiative, while also considering that it should be made more generous in view of the substantial difficulties they face in their development programs. Ministers of the African, Caribbean and Pacific Group of States (ACP) approved of the groundbreaking features of the HIPC Initiative, but considered it did not go far enough to provide deeper, broader, and speedier debt relief to ACP countries. ACP ministers recommended greater flexibility to increase the number of countries eligible for the HIPC Initiative, to provide stronger support, and to ensure the availability of debt relief in the initial decision stage. They saw a need to widen eligibility by lowering the thresholds (the debt-to-export ratio and the debt service ratio), shorten the time prior to delivery of assistance, and give greater recognition to the fiscal burden of debt. They also recommended specific proposals for those countries which find their domestic and external debt unsustainable but which now fall outside the present Initiative; and special treatment for post-conflict countries, landlocked states, and small and vulnerable island economies.[11]

40. In their October 1998 communiqué, the G-24 considered that debt workouts for HIPCs are slow and inadequate.[12] G-24 ministers underlined the need for an expansion of the bilateral contributions, within the context of proportional burden sharing, so as to enable more countries to benefit from the Initiative. Noting that only two countries had reached their completion points, G-24 ministers urged the acceleration of the decision-making process under the Initiative, and called for more flexibility to allow for the shortening of interim period between the decision and completion points, and for the provision of sufficient assistance during the interim period. They also observed with distress that funding for the continuation of ESAF operations and for the HIPC Initiative still falls short of initially estimated requirements, even for the limited number of currently eligible countries, and urged consideration of further financing measures, including further contributions by the IMF from the ESAF Trust Reserve Account and the optimization of IMF reserves, including through gold sales.

41. The Executive Director at the IMF for a number of African countries, has provided a preliminary response to the request for comments in March 1999.[13] In this view, the HIPC Initiative should be built on three pillars: simplicity, timeliness, and inclusiveness. The goal should be maximum relief to help the poorest countries fight poverty. The statement considers that the debt problem had a large dose of politics in the making, as in some part an unintended consequence of the cold war, and there is a need for a political solution. The present approach is seen as delivering too little too late, being too complex, and with too

[11]Declaration of the Conference of ACP Ministers of Finance on Monetary and Financial Issues, July 6, 1998.
[12] Intergovermental Group of 24 on International Monetary Affairs Communique, October 3, 1998.
[13] Mr. Morais is Executive Director at the IMF for Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.

much emphasis on conditionality under IMF-supported programs (although some is needed to prevent "good money" from supporting bad policies).

42. It is suggested that a new strategy should consider: (i) setting a target date for resolution of the debt problem of poorest countries, preferably the millennium; (ii)setting much lower sustainability targets and thresholds with attention to terms of trade shocks, natural disasters, the country's development needs, the level of poverty, spending on social programs, and domestic debt burdens; (iii)devising an exit strategy for countries emerging from conflicts within the target date for bringing closure to the debt issue for the poorest countries; (iv)enhancing ESAF programs within a framework where debt relief supports public investment, effective public administration, improved access to health and education, and social safety nets; (v) and a broader measure of success of the reform effort reducing the importance attached to quantitative benchmarks and performance criteria, cognizant of the fact that debt relief is important to creating added degrees of freedom in helping to move the process of reform forward, and that it makes sense to grant more relief up-front and more flexibly in the context of an all-embracing definition of economic adjustment and reform.

D. Multilateral Creditors

43. Written contributions to the HIPC review process have been received by the AfDB, the Asian Development Bank, the International Fund for Agricultural Development (IFAD) and the Central Bank for East African States (BCEAO) (Annex 5).[14] The African Development Bank has commented specifically that it would be desirable for the Initiative to broaden the approach to debt sustainability to capture better the poverty and governance dimensions of debt problems. It called for deepening relief through lower debt sustainability targets and for shortening the performance period. At the same time they have stressed the importance of retaining the performance requirements as essential to ensure that debt relief is not wasted. Moreover, a condition controlling the timing and scope of any modification of the Initiative, in the view of the AfDB, is resource availability.

44. The AsDB expressed a view that the export based indicators do not take into account tradable goods sold at home. It suggested using a weighted average of the debt/output ratio and the debt/export ratio as an alternative target, including private and public debt. An alternative fiscal target could be the "sustainable primary balance", defined as the relief needed to keep the ratio of public sector debt to GDP constant. It was open to considering a shortening of the second stage or the elimination of the first and second stages, but pointed out its concern for the lack of performance criteria after the completion point.

45. The BCEAO also felt that the timetable should be shortened by collapsing the decision and completion points. It proposed a lowering of the various targets: the NPV of debt-to-exports to 100–150 percent, the debt service ratio to 10–15 percent, and the NPV debt to

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[14] Several other MDBs have actively participated in one or more of the consultation meetings. They include the IDB, CABEI, CAF, and the CDB. A number of regional multilateral creditors, while supporting the goal of increased assistance under the HIPC Initiative, stressed that it should not put into question the financial stability of the regional multilaterals (consultation meeting in Honduras, March 23, 1999).

fiscal revenue target to 200 percent, while it also advocated a lowering of the fiscal thresholds. Domestic debt, social indicators and revenue effort should also be taken into account in determining sustainability. It suggested that savings from debt relief be channeled into a Special Fund for priority spending to be monitored by civil society.

46. IFAD is also concerned that there be a sufficient cushion to ensure debt sustainability, given uncertainties in projections. Debt relief funds should also be spent on rural development goals. Countries with particular vulnerabilities should have access to deeper debt relief, as should countries emerging from crises. There should also be a differentiation made between countries with a debt overhang problem and those with a short-term debt-servicing problem. IFAD is advocating a phased approach to debt relief that would provide some debt relief at each phase of policy reforms. The international community should ensure that debt relief is additional to aid, and in a similar vein calls for increased aid budgets.

E. International Organizations

47. The comments that staff has received during the course of the implementation as well as during the 1999 review process from international organizations like the UN Secretary General, as well as the Commonwealth Secretariat, have been critical. While welcoming the HIPC Initiative as a breakthrough, the reports issued by the UN Secretary General have criticized the Initiative as "disappointing" and "a very slow process."[15] In addition he feels that the criteria and debt sustainability targets have not been sufficiently flexible and they recommended that consideration be given to applying debt sustainability targets below the current ranges. In addition the UN Secretary General considers that the performance period is too long, and has recommended that the interim period be shortened to one year.

48. During the consultation meetings in London and subsequently, the Commonwealth Secretary General strongly advocated the extension of the current HIPC Initiative so as to benefit a broader group of debtor countries on more generous terms and in a shorter time frame. Specifically for the very poor countries, he called for a complete and immediate write-off of external debt. With regards to financing, the Commonwealth Secretariat recommended that a quick agreement be reached on gold sales by the IMF. In line with their earlier policy stance, both the UN and the Commonwealth Secretariat would like to see a much closer link between the Initiative and poverty reduction programs, consistent with the International Development targets. The Secretariat also noted that they have been actively assisting governments in strengthening debt management capacity, and that this area could be further strengthened in cooperation with the UNCTAD and the IFIs.

[15] Report of the UN Secretary General to the Security Council "The causes of Conflict and the promotion of Durable Peace and Sustainable Development in Africa," United Nations, April 16, page 22. Report by the Secretary General "Debt situation of the developing country as of mid-1988," (A/53/373) September 11, 1998, page 7.

III. ASSESSING PROPOSALS FOR CHANGE

49. This section assesses the various proposals for change set out in the previous chapter and considers some of the implications for debtors and creditors. The initial section discusses some overall considerations to be taken into account when considering the proposals. The discussion of the proposals themselves is organized along the lines of the main elements of the Initiative where changes have been suggested: the depth of debt relief, its timing, performance requirements, and transparency and accountability.

50. Cost and financing considerations will also be important in deciding on any changes to the HIPC Initiative. In considering various proposals, it is important to keep in mind that financing for the current HIPC Initiative (even excluding costs for Liberia, Somalia, and Sudan) has yet to be fully secured, despite the exceptional measures taken by creditors. Most multilaterals are financing their participation in the Initiative on a pay-as-you-go basis. Staff are now in the process of preparing revised costing estimates, on the basis of new data, for some of the options for changing the HIPC Initiative. Revised cost estimates, together with likely country eligibility under various proposals, will be provided shortly.

A. General Considerations

Debt sustainability and sustainable development

51. Many of the public comments that have been made about the HIPC Initiative reveal a perceived tension between sustainable development and debt sustainability. These are separate but linked concepts. The international official community has looked upon debt relief as one of several instruments available to assist poor countries, and has targeted the amount of debt relief to meet the objective of debt sustainability. This is one element of an overall effort to support sustainable development. Many commentators have focused on the costs that debt-servicing obligations impose on poor countries, and view debt relief as a way of removing that cost. Moral, ethical and religious arguments show a deep concern for the suffering of the poor in these countries, and any obstacle to alleviate this suffering is seen as immoral and inconsistent with religious teaching. It is important to note, though, that poverty reduction is a shared objective of the international community, and debt sustainability and sustainable development should be seen as complementary and not competing objectives.

Role of debt relief and aid

52. Establishment of rapid and sustainable growth and poverty reduction are objectives of the international community. The first essential element of a strategy to pursue these aims is to ensure that an adequate policy environment exists. Debt relief is only one of the financing

instruments, while the main instrument that the international community has used to mobilize resources to assist poor countries to address poverty is official aid.[16]

53. Some broad figures illustrate the importance of aid. *Annual* inflows of *net* official development assistance (ODA) to HIPCs in 1997 were US$16 billion (DAC data),[17] about the same as the *total* cost—spread over a number of years—of the HIPC Initiative in 1998 present value terms. (Debt relief provided under traditional mechanisms would clearly increase this total substantially.) Furthermore, new inflows of ODA and other financing for HIPCs are, on average, twice as large as debt service paid, and for many countries (such as Ethiopia, Mozambique, Tanzania, and Uganda) this ratio is substantially higher. Total debt service paid by HIPCs in 1997 was US$8 billion (see Annex 1, Table 5).

54. The discussion of debt sustainability vs. sustainable development needs to take into account the differences in the ways aid and debt forgiveness can be used to finance poverty reducing expenditures.

- The tradeoff between conditionality and predictability is one key difference. Aid is provided with conditions intended to ensure that resources are effectively used, and not spent on unproductive expenditures. In the donor country, this helps to maintain support for aid. On the other hand, the uncertain nature of much aid may make it inappropriate to finance current government expenditures on health and education, whereas debt relief provided unconditionally at the completion point may provide a more predictable stream of resources.

- Resources are fungible, however. New financing of any sort is likely to fund activities that the government values at the margin—thus reinforcing the importance of ensuring the appropriate policy environment and efforts to improve the overall efficiency of budgetary expenditures.[18]

- Aid is often accompanied by a transfer of technical know-how, which is less likely to be associated with debt relief.

- Debt relief, by definition reduces the debt burden. Aid is now increasingly grant-based, but to the extent it comes in the form of loans this could increase the debt burden.

[16] The dialog on how to strengthen the link between poverty reduction and debt relief in the programs supported through the HIPC Initiative is expected to continue on the basis of the second round of consultations, with responses to be received by mid-June, 1999.

[17] *1998 Development Co-operation Report: Efforts and Policies of the Members of the Development Assistance Committee*, OECD, Paris, February 1999, as reported on website. Some debt relief is included in the ODA data.

[18] There is a growing interest in providing overall budget support to governments which have strong social programs in place. The approaches include sector-wide programs, but also fast-disbursing budget support credits. Debt relief could play a similar role to budget support-type loans if tied to an overall poverty-reduction strategy and expenditure framework.

55. A further consideration is the overall distribution of the aid dollar. Countries with the largest debts stand to obtain the largest benefits from debt relief. In contrast, countries that have pursued sound macroeconomic policies and prudent debt management will not benefit from debt relief although many may get higher levels of aid in recognition of their efforts. Given the constraints on overall foreign aid budgets, increased efforts on debt cancellation could lead to a partial redirection of resources away from countries with low debt ratios to those with high debt ratios if debt relief is not additional. At the same time, commentators point to the demonstrated public support for debt relief campaigns. Where foreign aid may be difficult to sell in many creditor countries, proponents argue that debt relief presents the best hope for an additional resource transfer to poor countries.

56. The HIPC Initiative was never intended nor expected to be sufficient to replace aid in the fight against poverty. **Additionality** has always been an objective. Indeed the guiding principles for the Initiative included the recognition that continued aid on concessional terms would be needed and should continue for HIPCs even following the attainment of debt sustainability. Replacing new aid by an equivalent amount of debt relief might achieve debt sustainability, but could be seen as a cruel hoax if it did so without providing any gain in resources available for poverty reduction.

Establishment of formal bankruptcy procedures

57. The Boards of the Bank and Fund play a central role in deciding key questions regarding relief under the Initiative, including on eligibility, timing, and performance criteria, in consultation with debtors and creditors. The questions raised by some commentators on whether these arrangements place the institutions in a dual role as interested parties and judge has led some to advocate the establishment of a more formal bankruptcy procedure to cover HIPC debt, analogous to the Chapter 9 procedure in the U.S. covering local government. Such a procedure would be aimed at creating an independent authority for decisions on debt relief. There are, of course, important differences between local government debts (which are covered under Chapter 9) and sovereign debts owed to other countries and official institutions. In addition, most creditors are also providing new grants and other concessional resources to the debtors well in excess of the debt service due or paid. During the consultation meetings, there was recognition that the proposals for establishing international insolvency procedures raise many questions, including those related to the sovereignty of creditors and debtors, problems associated with the creation of a new international bureaucracy, the compatibility with the governance structures of MDBs and other creditors, and the comparative advantages in the efficiency of debt negotiations. The debate on these issues would likely be time-consuming and its outcome uncertain. In this light, these proposals were seen as likely to cause delays in providing debt relief for HIPC countries.

B. Depth of Debt Relief

The link to poverty reduction

58. The HIPC Initiative aims to provide debt relief that is sufficient to achieve debt sustainability within an overall program of sustainable development. The Initiative is aimed particularly at eliminating a *stock* problem—a debt overhang and thus removing an impediment to increased private investment. A stock reduction is equivalent to an irrevocable and certain stream of relief on future debt service. In this way the Initiative seeks to provide a robust exit from the process of repeated reschedulings. The amount of debt relief is determined based on targets defined such that a country is expected to be able to meet its current and future external debt-service obligations in full, without recourse to further debt relief, rescheduling, or arrears, and without unduly compromising growth.

59. Many of the comments that have been received about the HIPC Initiative argue explicitly or implicitly that the amount of debt relief should be determined on the basis of the need to fund key social and development services and thus to reduce poverty. These anti-poverty and debt sustainability objectives are not incompatible; the program context in which HIPC relief is granted is aimed at poverty reduction in the long run. The HIPC Initiative has emphasized the need to link debt reduction with effective long-term policies for economic and social development, including poverty alleviation. For this reason, social development criteria are developed jointly with country authorities and explicitly monitored under the HIPC Initiative. In particular, there is now an effort to strengthen the link between the programs monitored under the HIPC Initiative and the International Development goals developed by the OECD's Development Assistance Committee and endorsed by the United Nations for poverty reduction and social development by 2015.

60. One approach that has been suggested for strengthening the linkage between poverty reduction and the depth of debt relief is to provide for additional debt relief (beyond what would be recommended on debt sustainability grounds alone) in cases where there were additional or stronger efforts in the debtor country to address poverty reduction and social development. This is the approach of the proposals by Oxfam and others to introduce a "human development window" in the Initiative, which would establish lower targets where certain conditions were met. The debtor government would need to prepare a poverty action plan, involving the donor community and civil society in order to access to the deeper relief that would be available under the window. Those proposals have the advantage of potentially strengthening incentives and mobilizing additional resources for poverty reduction programs. However, as with other proposals, one would need to consider whether the resources released through deeper debt relief were additional to the aid resources that could have been expected to be available to fund a well-developed poverty action program; and whether deeper relief would be more effective than additional aid directed at priority sectors.

61. A related proposal to link the depth of debt relief more closely to poverty reduction (proposed by Eurodad and Zambian NGOs) is to **vary the debt sustainability targets according to poverty need**. This need would be evidenced, for example, by the extent to

which poverty indicators for the debtor country were below the average for HIPCs. Implicitly, this proposal assumes that the financing needs of countries with especially low poverty indicators are greater. However, under this proposal there would be no linkage of the amount of additional debt relief to any *direct* assessment of financing needs. Nor would the use of the additional resources be linked to any specific programs of poverty reduction or arrangements for monitoring the use of the resources. Nonetheless, there may be room to give greater (or more explicit) weight to poverty and social indicators in setting targets for debt relief, either within the current ranges or lower ranges, if that were to be agreed.

Debt sustainability targets and thresholds

62. Many of the specific proposals made by commentators for changing the debt targets call for modifying the level or application of the NPV debt-to-export ratio. In addition, recommendations have also been made for using alternative indicators, including the debt-service ratio, the fiscal ratio and the debt-service-to-revenue ratio. These are taken up in turn.

NPV debt-to-exports ratio

63. The debt-to-export target ranges are based on experience gained in studies of a large number of countries which were considered likely to experience debt-servicing problems.[19] The relevance of these studies has been questioned, on the grounds that HIPCs are poorer than most developing countries, are less able to absorb balance of payments or fiscal shocks, and may have larger relative needs for expenditure in the social sectors. A factor that at least partially offsets the relative fragility of HIPCs, however, is the large and relatively steady flow of concessional official assistance that most HIPCs receive. It is recognized, however, that the targets in the Initiative are necessarily judgmental rules of thumb, and should be viewed as representing a probability distribution of debt-servicing problems emerging rather than a discrete cutoff.

64. A number of commentators have also argued that the **target ranges under the Initiative may not provide a sufficient safety cushion for debt sustainability**, especially in light of recent developments. This view partly underpins the proposal to lower the target across the board, e.g., to 150 percent. Lowering the target would also likely broaden the access to HIPC Initiative debt relief. Two considerations relate to the margin of safety issue. *First*, the high concentration of primary commodities in the exports of HIPCs, and the recent declines and poorer outlook that have emerged for primary commodity prices underscore their high vulnerability. *Second*, the outlook for the availability of aid may be less favorable than earlier assumed in considering the appropriate target range for HIPCs. It may be too early to assess the impact on HIPCs of recent declining aid trends, but there appear to be good grounds for caution regarding the outlook for aid. While lower aid availability may

[19] See "Analytical Aspects of the Debt Problems of Heavily Indebted Poor Countries," by S. Claessens, E. Detriagache, R. Kanbur, and P. Wickham, in *External Finance for Low-Income Countries*, Z. Iqbal and R. Kanbur, eds., IMF, 1997.

provide a basis for considering deeper debt relief from a debt sustainability perspective, there are very real limits on the extent to which deeper debt relief can or should substitute for other aid resources, and whether more of one would simply lead to less of the other.[20]

65. Some have suggested that lower target ranges be considered in exceptional cases, for example in **post-conflict or post-catastrophe situations**. These situations clearly call for a coordinated response so that adequate resources are made available in a timely fashion to establish a base for reconstruction and development. Exceptional situations of catastrophe and/or recovery from conflict have tended to bring forth exceptional responses from the international community (for example, Hurricane Mitch—see Box 4).[21] In terms of immediate financing, the response usually needs to focus on assuring adequate cash flow and on ensuring that debt service obligations do not constitute an obstacle to effective recovery efforts. More permanent relief, such as under the HIPC Initiative could also be considered keeping in mind that flexibility needs to be balanced against other considerations such as the desirability of a reasonably uniform standard and equitable treatment of recipients.[22]

[20] However, deep debt relief might ultimately substitute to some extent for other forms of exceptional balance of payments finance.

[21] In this context, Canada and the U.S. underscored the importance of debt relief in the aftermath of Hurricane Mitch.

[22] Two papers outline possible World Bank policy responses with respect to post-conflict countries (SecM98-729, September 1, 1998) and IDAR98-146, September 24, 1998. A paper discussing IMF policy with respect to post-conflict countries—particularly those with substantial arrears—was recently circulated to the Board (EBS/99/46, March 19, 1999).

Box 4. Debt Relief and Hurricane Mitch

Hurricane Mitch was one of the strongest storms ever to hit Central America, resulting in nearly 10,000 deaths and unprecedented losses of infrastructure, crops, and property in two HIPC countries, Honduras and Nicaragua. In the context of broad international support for relief and reconstruction, creditors provided substantial debt service relief to ensure that debt payments were not an obstacle to such efforts.

- Paris Club creditors agreed on December 9, 1998, to a three-year deferral of all debt service for Honduras and Nicaragua. These amounts, including moratorium interest, would be rescheduled with repayments to begin in 2002. Creditors had already concluded a rescheduling agreement on Naples terms (with an NPV reduction of 67 percent) with Nicaragua in April 1998, which they would be ready to top up to Lyon terms (80 percent NPV reduction) as soon as Nicaragua reaches its decision point under the HIPC Initiative. Creditors also indicated their willingness to conclude a formal rescheduling agreement on Naples terms with Honduras as soon as the country agrees with the IMF on a new ESAF arrangement.

- With respect to multilateral debt, the World Bank, in cooperation with the IMF and IADB, established a Central America Emergency Trust Fund to which donor contributions are being channeled to help Honduras, Nicaragua, Guatemala, and El Salvador cover their multilateral debt service payments beginning in December, 1998. As of March 1999, bilateral contributions exceeding $120 million had been made or pledged to this Trust Fund, nearly all on behalf of Honduras and Nicaragua, sufficient to cover roughly between six and eight months of these countries' debt service to multilateral creditors to date.

- As foreseen in late 1998, Bank and Fund staffs and the country authorities are working now on preparing new debt sustainability analyses, which will be presented shortly to the Executive Boards.

Civil society groups have generally welcomed these steps, but have also considered that they only provided breathing space to countries, and not a permanent solution. They consider the HIPC Initiative would provide too little assistance, too late for these countries even before the hurricane. In this light, many NGO and religious groups have urged during the HIPC consultation in Tegucigalpa on March 23, 1999 that substantial or complete debt stock cancellation should be provided quickly, consistent with the long-term need for reconstruction expenditures, and to prevent a recovery from being choked off.

66. There is also a question about whether targets should be set at a single level, or vary over an allowable **range**. Several proposals suggest an approach that would standardize the target for debt sustainability at a uniform NPV debt-to-exports ratio such as 200 or 150 percent. This would have the advantage of simplifying the decision-making involved in the HIPC process, without necessarily compromising on the objective of debt sustainability that has been defined. On the other hand, it would reduce flexibility to reflect special characteristics of each debtor country.

Debt-service-to-exports ratio

67. Some commentators have called for more **explicit targeting of debt service levels** with the aim that debt relief should result in an improved cash flow. It is asserted reducing

debt service down to the levels currently being paid is merely recognition that such debts are "unpayable," and does not represent a real improvement over the current situation. However, to assume that current debt service levels represent an absolute ceiling of "payable" debts would seem to imply that there will be no future increase in debt servicing capacity. It may be more relevant, therefore, to consider the debt-service ratio. In the case of most HIPCs which have reached the decision point, this ratio remains well below the 20–25 percent targets established under the Initiative, and it has been on a declining path (see Annex 1, Chart1). Some greater front-loading of relief could be provided with more tangible cash flow benefits in relation to current payment levels.

Fiscal targets

68. Many commentators, including debtor governments, have focussed on the fiscal dimension of the debt problems, stressing that high levels of debt service reduce the ability of governments to meet priority needs. Deeper relief is cited as a way to create greater fiscal space. In this context, many have emphasized that debt relief is only effective to the extent that it yields a reduction in the cash-flow burden that debt service places on the budget. The concern with the fiscal dimension of debt problems has been recognized in part by using fiscal indicators in the vulnerability analysis. Further, the fiscal window was added to the framework out of concern that the export target range might not be sufficient to provide for debt sustainability from a fiscal perspective, in some particular circumstances.

NPV of debt-to-revenue ratio

69. In this context, many have called for **lowering the NPV debt-to-revenue target**, noting that the current target levels do not have a firm analytical or empirical basis and that few countries qualify on fiscal grounds, even though the fiscal dimension of debt problems appears to be the most pressing. The choice of targets was based on assuring eligibility for the most deserving countries and containing the additional costs of the Initiative, while maintaining the overall primacy of the export criterion. The choice of a fixed target rather than a range was also informed by a desire to reduce the uncertainty regarding the additional costs of introducing the fiscal /openness window.

70. The issue has also been raised of whether the **revenue-to-GDP threshold** is too high or even necessary. The revenue-to-GDP threshold was introduced in part to address moral hazard concerns. Governments do have control over their revenue effort, and there was concern to avoid creating incentives for relaxing these efforts. To some degree, this concern could be addressed through the monitoring provided under the Fund- and Bank-supported program. Nevertheless, especially for very poor countries, the 20 percent threshold may be considered a high standard, owing to the difficulties associated with raising revenues and considering that the average revenue-to-GDP ratios for HIPCs is approximately 14 percent.

71. Similarly, many commentators have questioned the need to retain the **export-to-GDP threshold requirement**. It was introduced in part to maintain the primacy of export criteria within the Initiative, so that most countries would continue to qualify on the basis of the

original export-based framework. In the context of reassessing whether there is scope to ease the targets and thresholds of the fiscal criteria to give greater weight to the fiscal constraints in assessing debt sustainability, there may be scope for a partial relaxation of this aim.

72. The thresholds and the debt-to-revenue targets do interact with one another. Concern over moral hazard regarding revenue mobilization could be addressed by **introducing ranges for the debt-to-revenue ratio combined with a range for the revenue-to-GDP ratio**. In this way countries with relatively high revenue efforts could benefit from lower target for debt to revenues, while conversely countries with lower revenue efforts which have room for greater future efforts could still qualify. In this case, the target would be based on a desired revenue level for the country, thereby preserving incentives to strengthen the revenue effort.

73. In the fiscal framework, which focuses on domestic budgetary constraints to debt servicing, **treatment of domestic debt** naturally becomes an issue. The HIPC Initiative provides assistance based on the amount of external public and publicly guaranteed debt, and thus does not include domestic debt in determining debt relief, although it could be added as a specific factor of vulnerability. Inclusion of domestic debt when considering the fiscal constraint has analytical merits, but its inclusion in calculating assistance requirements would likely necessitate comparable treatment of that debt by the domestic creditors concerned. In the absence of such treatment, external creditors are unlikely to provide additional debt relief calculated with respect to total debt (including domestic creditors). Any attempt to secure debt relief from domestic creditors would be disruptive, however, and could seriously undermine efforts to improve domestic banking systems and develop credit markets.

Debt-service-to-fiscal revenue ratio

74. One possibility would be to consider the fiscal dimensions of debt in a more complete budgetary context. A direct assessment of the fiscal dimension of debt problems might provide a clearer picture of the need for debt relief, the contribution that debt relief could make to fiscal management, and the potential uses to which the resources released through debt relief could be put. It could also be used to support more explicit monitoring of the impact of debt relief in terms of public expenditures. However, in considering the fiscal sustainability of debt and the fiscal space for social spending, it is also important to consider the revenue effort the government is making. In addition, expenditure policies (including overall spending, its sectoral composition) and other dimensions of financing such as domestic borrowing, the availability of grant financing, new external borrowing, and debt restructuring are important in assessing whether debt service is a significant obstacle to development in a particular case.

75. Some commentators have also suggested introducing **targets for the ratio of debt-service-to-revenue**. If the fiscal dimension were given greater weight, it would be logical to introduce a check on whether the debt stock reductions would be translated into a profile of debt service that was reasonable in relation to the debtor government's own resources. Determining the level to set for such a target would be more difficult, as no strong basis has been developed for a particular target that would represent sustainability. Again, the capacity

to service debt from a fiscal perspective depends on the full budgetary context, and revenues alone may provide an incomplete picture.

76. Some proposals explicitly focus on the **role of poverty reduction funding needs in determining the amounts of debt relief on fiscal grounds**. There would be a number of practical concerns in implementing such an approach given the divergent conceptions of the role of the state in HIPCs, and the various means through which social services are delivered—including outside of the budget by NGOs. The CAFOD proposal may be difficult to implement in light of the need to design a 10–15 year forward budgeting approach on which basis donors and creditors would need to commit themselves over the same period of time. CAFOD's proposal also needs to take into consideration the role of foreign aid in funding social programs, which has been substantial.

77. A number of commentators have also focussed on the desirability of immediate cash flow relief. They have suggested **front-loading debt relief** to achieve these results. While there is no doubt of the relevance of considering the immediate impact of debt relief on debtor country budgets, the appropriate time profile of providing a given amount of debt relief needs to be assessed in context. In particular there are risks of full front loading. Front-loading all the debt relief in the early years could undermine the durable underpinning of social spending that could potentially be provided by debt stock reduction. Sustainable funding sources are needed for sustainable social spending. Another caution about very strong front-loading is that it could leave a problematic profile of debt service obligations later on, with a large increase in payments needed once the front-loading period expires.

Breadth of debt relief

78. A number of proposals have urged a broadening of eligibility for the HIPC Initiative. An appropriate policy environment remains the essential ingredient to reduce poverty, and the first priority of efforts to assist HIPCs should be to encourage adoption of such policies. The HIPC Initiative provides debt relief in a framework which gives incentives for countries to adopt and maintain such policies, through the requirement that countries complete a track record of satisfactory performance under ESAF- and IDA-supported programs. Given this role of the HIPC Initiative, there is a benefit to ensuring that country eligibility is broad, while at the same time ensuring that strong incentives remain to encourage countries to maintain an appropriate policy environment.

C. Timing of Debt Relief: Incentives for an Appropriate Policy Environment

79. There has been widespread agreement that debt relief should be provided in a context of sound policies that will promote development and poverty reduction. This concern underpins the requirement under the HIPC Initiative that countries demonstrate a track record of satisfactory performance before debt relief is committed and provided. Many commentators have questioned, however, whether the length of the required track record is too long, and whether it is appropriately linked to the nature and strength of policies and reforms. This section addresses some of the issues in this debate.

80. Many commentators have suggested that the track record requirement does not adequately reflect the **need for urgency in providing debt relief**. The need for urgent action to address poverty-funding needs is a mutual concern. The question is how to balance the need to mobilize resources today with the need to ensure that permanent debt relief—unconditional after the completion point—is provided in a context that will enable the resources released through debt relief to be used efficiently over the medium term. Cash-flow problems can be addressed through quick disbursing assistance as well as debt-service relief. Debt stock reduction can then be delivered later when institutional capacity for longer-term poverty reduction is better developed.

81. A specific proposal on timing is the call through the Jubilee 2000 campaign and others for **debt cancellation by the year 2000**. While there is no economic rationale for using this single date for debt reduction, the idea has been an enormously powerful rallying tool in re-energizing public interest in the poorest countries, and has mobilized public opinion especially in industrialized (creditor) countries. In view of the relative marginalization of HIPCs in the global economy and longer-term trends of declining interest in official assistance for development, this is in many respects a welcome development. However, there could be significant drawbacks from generalized debt relief as of the year 2000 insofar as debt relief would be provided to countries where there is little commitment to undertake the necessary economic and social reforms, with good intentions being frustrated by continued inefficiency in using the savings from debt relief properly. The waste of public aid has been one of the main factors contributing to the shrinkage of the public and political constituency for aid, and a similar reaction could set in for debt relief. Similarly, focusing on a specific year—which may not be appropriate for all countries—may cause disappointed expectations, and could ultimately weaken the constituency of concern for assisting low-income countries.

82. The length of the track record is necessarily judgmental, but the stakes are high. A longer track record gives correspondingly greater assurance that the country has developed an ingrained culture of macroeconomic stability and reform, and thus that debt relief will be used as part of an effective program of poverty reduction. In the absence of an established record of adequate governance, policies or institutions, there are substantial risks that the resources freed through debt relief may not contribute to sustainable development and poverty reduction, but could be wasted or underpin corruption. While there can be no guarantees of the use of permanent debt relief once granted, some safeguard against moral hazard may be provided to the extent that assistance from donors after the completion point is allocated and disbursed on the basis of the quality of economic and social development programs.

83. While acknowledging the need for debt relief to be conditioned on a track record, a number of commentators have called for a **shortening of the six-year period** required under the Initiative. This could be done either through a shortening of the period prior to the decision point, or though a shortening of the interim period between decision and completion points, or a combination of both. Shortening the period before a decision point would have the advantage of responding to calls for faster commitment of debt relief and accelerating the discussions in the debtor country of the programs that debt relief would support. It would

make clear the creditor community's willingness to provide exceptional debt relief, give the debtor country a light at the end of the tunnel, and thus a strong incentive to perform. On the other hand, shortening (or eliminating as some suggested) the track record required before the decision point would increase the risks that program would be derailed during the second stage, as ownership and commitment might be less well established. Shortening the second stage would allow for commitments of debt relief at the decision point to be based on a more solid foundation, but would require a longer wait before debt relief could be committed. Shortening the track record time period thus would involve a balancing of evaluating past performance and forward-looking conditionality. Another consideration is the timing of assistance for countries with some established track record but which have not yet reached the decision point. For this group, shortening the second stage would tend to advance delivery of assistance more than if the first stage were shortened.

84. A related consideration is the tension between **the depth of a reform program and the length of time it is pursued**. Some countries have chosen more and some less gradual approaches to implementing strong programs. Some have been able to implement elements of their programs faster than expected, while others have encountered delays. One possible option would be to determine track records based on the perceived strength of past efforts and the program ahead. However, such an approach would require difficult cross-country comparisons of the relative strength of ESAF- and IDA-supported programs which may be hard to do equitably. Comparisons of performance that would be required under a **flexible application of shortening** are also difficult and can lend themselves to suspicions about unfairness. Thus, there appears to be a trade-off between a flexible approach and a universally applied shortening. A flexible approach would allow the Boards to consider each case on its merits, but is more difficult in terms of uniformity of treatment and public perceptions. A universally applied shortening has the advantages of transparency and simplicity (and possibly speed) of decision-making, but could favor countries with weaker performance.

85. An alternative to specifying the **interim period performance** requirement in terms of **length of time** would be to do so in terms of **policy actions** that would be undertaken, subject to the continued pursuit of a sound macroeconomic policy framework. Such an approach to structural, and especially social development program undertakings would empower the government of the country to affect the length of the interim period, depending on how quickly it was in a position to implement the key elements of the program, possibly advancing or delaying debt relief. While this approach could possibly create greater uncertainty about the timing of debt relief, it would give incentives to take measures quickly, and be aimed at supporting the development of ownership. A similar approach has been followed with some success by the World Bank in some of its adjustment lending operations in recent years through the use of "**floating tranches**". In the context of the HIPC Initiative, this approach would necessitate identifying those key elements which would adequately represent overall progress. One part of this would be demonstration of satisfactory macroeconomic performance, as monitored under the ESAF, and thus a certain period of

track record would be needed. Further, a fixed date would need to be set to determine the amount of assistance.[23]

86. The linkage between the length of the necessary track record and delivery of HIPC assistance need not be complete. Bilateral creditors already provide some HIPC Initiative **assistance during the interim period** between the decision and completion points, by increasing the concessionality of flow reschedulings of eligible debt from 67 to 80 percent (from Naples to Lyon terms) for countries which have not yet received a stock-of-debt operation.[24] To the extent that greater emphasis could be given to providing early cash flow relief, for example to help fund accelerated social development programs, there may be a case for greater interim relief including possibly from multilateral institutions. Such assistance could facilitate gearing the timing of the interim period better to the optimal pace of reforms, fostering ownership, by bringing greater cash flow neutrality between different completion points. It would also evidence multilateral institutions' commitment to participate earlier along with bilateral creditors. Such a policy would not substantially affect the overall amount of assistance provided, but would advance some cash flow assistance, and similarly would require an earlier financing of multilateral assistance for HIPCs. Conversely, it would reduce relief later on.[25]

D. Performance Links

87. A few commentators have argued that there should be **no performance requirements** for a country to receive debt relief. Calls for complete and unconditional debt cancellation for poor countries would be in this category. Such a position would maximize debt relief; however it would also call into question the legitimacy of borrowing per se, and could severely hamper the future access of debtors to needed finance. Others (e.g., CAFOD) have argued that there should be no *ex ante* performance conditions, but that debt relief should be tailored to a country's capacity to pay after meeting essential social expenditures. The absence of performance conditions could provide the greatest assurance that debt relief wold be delivered, but it would provide the *least* assurance that the resources made available

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[23] In principle, assistance could be based on any date before the completion point. If the debt sustainability target date were set to be the decision point, then the amount of debt relief would be neutral with respect to the completion point.

[24] The World Bank also provides interim measures during this period, by providing IDA grants in place of IDA credits for HIPCs meeting certain eligibility criteria. This reduces the stock of debt by an amount equal to the concessional element of the replaced IDA credits However, the cash flow impact of these measures mostly occurs much later, when the debt service on these IDA credits would have been due.

[25] The IMF Executive Board discussed the possibility of providing interim assistance in September 1988, and concluded as follows: "While several Directors thought that the balance of arguments was in favor of the Fund providing some interim special HIPC assistance, the majority of Directors endorsed the staff's view that the Fund already has sufficient instruments in place for the interim period, and thus were not in favor of more formal interim assistance by the Fund. In this connection, some Directors observed that because of uncertain financing prospects, it would be inappropriate now to make any commitment to interim financing." *Summing Up by the Acting Chairman, The Initiative for Heavily Indebted Poor Countries—Review and Outlook,* Buff/98/88, September 18, 1998.

would contribute to poverty reduction and growth or that there would be accountability for the way in which resources were used.

88. Most consider performance linkages an **essential feature** of any debt relief program. A number, especially in the official community, see performance under Bank- and Fund-supported programs as critical. However, a number of groups have questioned the content and focus of the performance criteria under the Initiative. There have also been many views expressed about the institutional arrangements and processes for determining performance criteria and for monitoring performance.

89. Concerns by a number of groups about the **content of adjustment programs**, as imposing austerity conditions that are inimical to poverty reduction and growth, have been long-standing and go beyond the scope of the Initiative. Such questions were considered in the recent internal and external reviews of the ESAF. The internal review found that ESAF-supported policies have contributed to stronger growth in the countries. The external evaluation also endorsed the fundamental view that macroeconomic stabilization and structural reforms of the type supported by ESAF have positive effects on growth and income distribution in low-income countries.[26]

90. Many groups have also advocated a greater **poverty focus** in the performance criteria. An innovation of the Initiative was to introduce social development performance criteria based on a country's own development program, along with macroeconomic and structural criteria. Nevertheless, most HIPCs have not yet developed comprehensive strategies for poverty reduction and social development that include financing considerations. The question of how best to support more comprehensive poverty reduction strategies and integrate them with the performance criteria for debt relief under the Initiative has been discussed repeatedly. The OECD/DAC has developed a set of performance areas for developing countries (Box 5). Comments on the poverty linkage are being explicitly sought for Phase II of the HIPC Review. It bears repeating that the Bank and Fund will continue to pursue the goals of sustainable growth and poverty alleviation in the context of their overall assistance strategies.

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[26] See "External Evaluation of the ESAF," Report by a Group of Independent Experts, IMF, 1998; "Economic Growth" by Robert J. Barro and Xavier Sala-i-Martin (New York: McGraw-Hill, 1995). Other studies on the link between policy reforms, growth and income distribution include "Aid, Policies, and Growth," by Craig Burnside and Daniel Dollar (Policy Research Working Paper No. 1777), World Bank, 1997;"Economic Reform and the Poor in Africa by David E. Sahn, ed., (Oxford: Clarendon Press, 1996).

Box 5. Developing Country Responsibilities Underlying the OECD/DAC Targets

In the context of reaching the social targets for poverty, education, health, gender equality, and environment set for 2015, the OECD Development Assistance Committee has developed a set of policies that are considered essential for developing country partners. They are:

- Adhere to appropriate macroeconomic policies;
- Commit to basic objectives of social development and increased participation, including gender equality;
- Foster accountable government and the rule of law;
- Strengthen human and institutional capacity;
- Create a climate favorable to enterprise and the mobilization of local savings for investment;
- Carry out sound financial management, including efficient tax systems and productive public expenditure; and
- Maintain stable and cooperative relations with neighbors.

Source: Shaping the 21st Century: The Contribution of Development Cooperation, OECD, May 1996.

91. One approach to enhancing the poverty focus of performance criteria that has already been frequently mentioned is to have a **poverty action framework or plan—**developed with wide participation of civil society—as a major performance benchmark. It could be envisaged that such a plan, for HIPC purposes, would include (i) an outline of how the country would reach specific social targets, e.g. by 2015; (ii) the roles and participation of all relevant groups and stakeholders in implementing the plan; (iii) an indicative costing and financing plan that would indicate the role of debt relief and other funding; and (iv) a monitoring plan for all involved groups. Some have advocated that such a plan be the main performance criterion, in the context of satisfactory performance in pursuing macroeconomic and structural reforms. Such an approach could energize and develop broader support for poverty reduction programs, using the visibility of debt relief to mobilize efforts. However, to be meaningful, such a plan would need to be developed in the context of realistic financing and assessment of implementation. Moreover, to be effective adequate time would need to be allowed for such plans to be developed, which might not be consistent with accelerated debt relief.

92. A common theme to the comments from NGOs is the need for the performance criteria for debt relief to be developed with **broad-based participation and local ownership**. The value of securing ownership through participation has been well established, and a broadening of participation at early stages is being systematically included in the development of programs supported by the World Bank. The changes being introduced in the Fund in response to the ESAF reviews also reflect recognition that greater national ownership of policies would help encourage sustained reforms (Box 6). At the same time, consultations undertaken by international institutions must be based on, and cannot substitute for, broad-based consultation by governments with civil society on major public programs.

Box 6. Strengthening the ESAF

It was recognized in the ESAF reviews that progress has been uneven among ESAF-eligible countries. With sustained implementation critical to success, the internal review found that all too often the record of policy implementation was not adequate to the task. As a result, the IMF's Executive Board has approved a number of proposals to strengthen the ESAF. To summarize some key areas of change:

- It was recognized that greater national ownership of program policies would help encourage sustained reforms. IMF staff is, in individual program cases, giving greater consideration to alternative policy measures which could attain the desired economic objectives. Staff is also intensifying efforts—when requested by the authorities—to help build consensus for reform by broadening the policy dialog on structural and social reform policies to include all relevant ministries, and increase contacts with civil society.

- While ESAF policy reforms tend to favor the poor, IMF staff is working to strengthen their analysis of the social content of ESAF-supported programs, including the quality of public spending, relying on the expertise of the World Bank.

- Work is underway in six pilot cases (Cameroon, Ethiopia, Nicaragua, Tajikistan, Vietnam, and Zimbabwe) seeking innovative ways to enhance Bank-Fund collaboration, drawing to the fullest extent possible on the combined expertise of the two institutions. The pilots will focus on the social impact of adjustment, advancing structural reforms, and assessing the scope for greater aid absorption.

- Structural reforms in the areas of public enterprise reform and improving banking sector soundness have lagged. Reform strategies, including developing institutional capacity, are being examined in the six pilot cases.

- In countries which have achieved macroeconomic stabilization, it is recognized that there may be greater scope for public investment financed by external grants and loans. This additional flexibility has been built into Uganda's ESAF-supported program, and it is recognized that this may become

93. To provide more durable or secure linkage between debt relief and social development, some commentators have advocated **conditionality after the release of HIPC assistance**, considering that further direct checks should be placed on the appropriate use of the released funds. The current framework requires a track record of adjustment only in the period prior to the completion point. However, even for good performers, it is well known that not every dollar of debt relief is spent on poverty alleviation, and there are always risks of a reversal of policies and changes in expenditure plans. On the other hand, a check against wasteful use of debt relief is provided through ongoing aid relationships that HIPCs would be expected to continue for many years after the completion point.

94. An alternative would be to subject the flow of debt relief, and thus the release of budgetary resources for other purposes, to a process which ensured that resources were being allocated according to a pre-agreed plan. For instance, debt service subject to relief could be **paid into a special account**, with funds released from this account according to conditions.

Staff has reservations about the practicality of seeking to apply conditions on the release of debt relief after the completion point. There is a risk that this would entail difficult judgements about the delivery of debt relief, possibly outside of the Fund's and Bank's normal program frameworks. It would also inevitably involve a difficult coordination exercise among creditors. On a more fundamental level, a mechanism to interrupt debt relief after the completion point would raise questions about whether the debt overhang had been permanently addressed, and could raise concerns among private investors that debt service payments might be increased in the future.

95. Questions have also been raised regarding the **instruments** used for performance monitoring. Eurodad and others have argued that linking HIPC assistance to ESAF programs exposes the delivery of assistance to delays beyond the planned decision and completion points. The internal ESAF Review found that only one-quarter of SAF and ESAF programs since 1986 were completed without a significant delay. In response the Fund Board approved changes to the review to improve the content and ownership of programs which are intended to reduce implementation delays. Among a number of changes, future ESAF loans will be structured as a single, three-year arrangement with six-monthly or quarterly test dates throughout and with a one-year limit on extensions, replacing the earlier structure of three annual arrangements, each with a single test date and with unlimited scope for delays between arrangements.

96. Finally, program interruptions represent underlying problems. Of the three countries scheduled to reach completion points by now, two—Uganda and Bolivia—reached them as scheduled. In the third, Guyana, the completion point has been delayed because a substantial deterioration in the fiscal position threatened the macroeconomic underpinnings of the authorities' reform program. In the view of the staff, a delay is warranted if understandings need to be reached on policies to bring programs back on track. Program delays can also occur for other reasons, including delays in implementing other structural reforms, governance issues, and military conflict (which has delayed the decision point for Guinea-Bissau and Ethiopia).

E. Transparency and Accountability

97. The desirability of better mechanisms to ensure transparency and accountability on debt-related issues has been a common theme among many commentators. One set of questions relates to the transparency and accountability of the **HIPC Initiative process** itself. To facilitate public review of the decisions taken, the Boards of the Bank and Fund have agreed to publish the decision point and completion point documents for each case shortly after the Boards review them. These documents are currently all available on the Bank and Fund Websites. Some have suggested that preliminary HIPC documents should also be made available publicly, and consideration could be given to doing so, though these documents are used as a basis for consultations among creditors and may be more sensitive. It is also recognized that there is a tension between the need for confidentiality to facilitate decision-making, and the desirability of disclosure of the basis of decisions for which governments should be held accountable.

98. There has also been considerable interest in promoting greater transparency and accountability among **debtor governments**. It is often observed that many debt problems might have been avoided had there been more public disclosure or debate about the borrowing activities of governments in the past and the use of the proceeds of loans. Consequently, there have been calls for borrowing decisions in the future to be subject to approval by parliaments or other representative public bodies and for full disclosure about borrowing activities. Promoting strengthened debt management has been a part of the Initiative from the beginning, and greater support could be given to opening up borrowing decisions, along with public audits, to encourage sound borrowing policies.

99. Greater transparency and accountability of **creditors** has also been advocated. Most of the debt of HIPCs is owed to governments and official institutions. While much of the information on official claims may be publicly available, it may not be available in a form that is comparable across creditors or easily accessible to the public in creditors and debtor countries. There may be scope therefore for considering ways to improve the availability of information on official lending to HIPCs.

IV. Issues for Discussion

100. This paper has provided information on a broad range of proposals to change the HIPC Initiative which have been advanced by civil society, international organizations, and member governments of the World Bank and IMF staff. Many of these proposals were received as part of the consultation process undertaken by the Fund and Bank staff. These proposals are diverse, reflecting the different perspectives of their authors, but coalesce around key themes involving proposals to provide deeper, earlier, and broader debt relief, with many considering this as warranted on poverty reduction grounds.

101. A number of general trade-offs are evident in considering changes to the Initiative. Some general trade-offs are: (1) Within a given financing envelope, there is a choice of whether to aim at providing relief to a broader group of countries, or relatively more relief to a smaller group. The application of new terms to countries which have already reached the decision and completion points will need to be considered in this respect. (2) Advancing the availability of debt relief, whether through stock reduction or interim flow relief or both, would release resources earlier for needed social programs, while the framework to minimize the chance that the resources would be wasted would need to be considered. (3) Increasing the flexibility of standards would allow consideration of each country's own special circumstances, while a more rules-based approach would be simpler to implement equitably. (4) Adding new elements to the Initiative may allow key concerns to be addressed, but some proposals may increase the complexity of the Initiative.

102. In order to facilitate the Boards' discussions of the many proposals described in this paper, Executive Directors may wish to comment on the following broad issues.

103. **The broad objectives and framework of debt relief**: Directors' comments on the various proposals to increase the poverty focus of the Initiative are welcomed. Do Directors consider that the amount of debt relief should be focused on providing robust debt sustainability? Should there be a specific link between the amount of assistance under the Initiative and poverty reduction, and, if so, in what form? How do Directors view the roles of aid and debt relief in helping to finance anti-poverty efforts?

104. **The depth and breadth of debt relief**: Do Directors consider that in general there is a case to provide deeper debt relief, whether on grounds of providing a greater cushion for debt sustainability or for further poverty reduction? If so, would Directors favor reducing the NPV of debt-to-exports target? Would Directors favor easing the NPV of debt-to-fiscal revenue target and/or the export-to-GDP and revenue-to-GDP thresholds? Should there be specific provisions (lower targets) for the poorest HIPCs, post-disaster countries, or those emerging from conflict?

105. **The timing of debt relief**: Would Directors favor a shortening of the six-year track record requirement, or do they see the current requirement as necessary to ensure that a culture of reform has taken hold? If a shortening were agreed, should it be reflected in shortening the first or second stage; should the requirement be uniform, or subject to flexibility—recognizing that such judgements might often be exceedingly difficult in practical terms? In the context of a three-year second stage, do Directors consider that interim assistance in terms of debt service relief should be provided by multilaterals in general, and by the Bank and Fund in particular?

106. **Policy links**: Do Directors wish to consider changing the way performance is monitored under the Initiative, now met through satisfactory performance under ESAF- and IDA-supported programs? If so, how should progress in macroeconomic, structural, and social policy be measured? An alternative to setting ESAF- and IDA-linked performance requirements would be to release debt relief without pre-specified time requirements but instead when pre-specified reform conditions were met—the floating tranche idea. Do Directors wish to pursue this idea? Do Directors consider that further performance requirements should be attached after the completion point to the use of resources released through debt relief?

107. **Costs and financing**: While this paper does not aim at assessing financing constraints or making specific proposals in this area, Directors are invited to comment on the financing constraints for multilateral creditors—particularly the Bank and Fund—involved in increasing debt relief.

108. **Bilateral initiatives**: Directors may wish to comment on the various proposals for more action by all creditors on a concerted basis involving: (i) ODA cancellation or zero debt service on ODA for a generation; and (ii) greater bilateral debt reduction above the current 80 percent limit on eligible debt under Lyon terms? Do Directors favor concerted action on future commercial lending to HIPCs, and on the terms of future provision of aid?

ANNEX 1. IMPLEMENTATION OF THE INITIATIVE AND RESOURCE FLOWS

A. Implementation

109. Since the launch of the Initiative in the fall of 1996, the eligibility of 12 HIPCs has been reviewed by the Boards of the Bank and Fund.[1] Seven have qualified for debt-relief packages, and three countriesXEthiopia, Guinea-Bissau, and MauritaniaXwould be expected to qualify based on preliminary discussions. These ten countries are currently expected to receive assistance totaling US$4.3 billion in net present value (NPV) terms, while the nominal debt-service relief is estimated at about US$8.5 billion over time (see Table 1).

Table 1. HIPC Initiative: Commitments of Debt Relief
(as of March 1999)

Country	Assistance at completion point (US$ mn. In NPV terms)	Estimated total nominal debt service relief (in US$ mn.)	Date assistance to be released
HIPC debt relief already released			
Uganda	347	650	Apr-98
Bolivia	448	760	Sep-98
Commitments of HIPC debt relief			
Burkina Faso	115	200	Apr-00
Guyana	253	500	2nd Quarter 99
Cote d'Ivoire	345	800	Mar-01
Mozambique	1442	2900	mid-99
Mali	128	250	Dec-99
Subtotal	**3078**	**6060**	...
Possible commitments based on Preliminary HIPC Document issued; 1/			
Guinea-Bissau 2/	300	600	...
Ethiopia 2/	636	1300	...
Mauritania	271	550	Spring-02
Total	**4285**	**8510**	

Sources: Fund and Bank Board decisions, HIPC documents, and staff calculations.

1/ Targets based on majority view in preliminary discussions at Bank and Fund Boards; timing and amount of assistance based on preliminary HIPC documents and subject to change:

2/ Finalization of debt relief packages for Ethiopia and Guinea-Bissau has been put on hold due to armed conflicts.

[1] These are Benin, Bolivia, Burkina Faso, Côte d'Ivoire, Ethiopia, Guyana, Guinea-Bissau, Mali, Mauritania, Mozambique, Senegal, and Uganda.

110. Staff teams from the Bank and Fund are at an advanced stage in their joint work with country authorities to finalize preliminary debt sustainability analyses for several new cases, including Guinea and Niger, as well as Honduras and Nicaragua whose economies were devastated in 1998 by Hurricane Mitch. In addition Guyana's and Mozambique's completion points are expected soon.

Table 2. Country Cases: Earliest Expected and Realized Decision Points

(Countries anticipated in 1997 to have decision points by end-2000)

Country	Assessment Date			Reasons for change	
	1997 1/	1998 2/	1999 3/	Program slippage	Armed conflict
Benin	1997	n/c	n/c		
Bolivia	1997	n/c	n/c		
Burkina Faso	1997	n/c	n/c		
Cameroon	2000	n/c	n/c		
Chad	1998	1999	n/c	**X**	
Congo, Rep. of	1999	2000	n/c	**X**	**X**
Cote d'Ivoire	1997	1998	n/c	**X**	
Ethiopia	1997	1998	1999	**X**	**X**
Guinea	1999	n/c	n/c		
Guinea-Bissau	1998	n/c	2000		**X**
Guyana	1997	n/c	n/c		
Honduras	2000	2001	1999 5/		
Madagascar	1999	2000	n/c	**X**	
Mali 4/	1997	1998	n/c		
Mauritania	1998	1998	1999	**X**	
Mozambique 4/	1997	1998	n/c		
Nicaragua	1999	n/c	n/c		
Niger	1999	n/c	n/c		
Rwanda	2000	n/c	n/c		
Senegal	1997	1998	n/c	**X**	
Sierra Leone	1998	1999	2000		**X**
Tanzania	1999	n/c	n/c		
Togo	1998	n/c	1999	**X**	
Uganda	1997	n/c	n/c		
Vietnam	1998	1999	n/c	**X**	
Yemen	1999	n/c	n/c		
Zambia	1999	n/c	n/c		

Note: n/c means no change from previous assessment.

1/ See Heavily Indebted poor Countries (HIPC): Estimated Cost and Burden Sharing Approaches, IDA/SecM97-306 and EBS/97/127, July 7, 1997

2/ See The Initiative for Heavily Indebted poor Countries: Review and Outlook, IDA/SecM98-480 and EBS/98/152, August 25, 1998.

3/ Current assessment reflected in the costing exercise which will be published in a supplement.

4/ While both Mali and Mozambique reached their decision points later than orginally anticipated, their interim periods were shortened in recognition of their performance records.

5/ Costing to be estimated based on 1999 decision point; this may imply exceptional treatment in light of Hurricane Mitch.

111. Regarding the **pace of implementation,** Table 2 presents a comparison of initial and the latest assessments of the Bank and Fund with respect to earliest expected decision point dates until the year 2000. In approximately two-thirds of the cases, the decision point as assessed in 1997 remains unchanged. However, in about one-third of the cases the decision point has been pushed back, reflecting program slippages and armed conflicts. The original assessments and current assessments envisage that 25 countries could reach their decision points by end-2000, by which point 15 countries would be expected to qualify for HIPC debt relief.[2]

112. The HIPC Initiative called for the broad **participation of all creditors** to bring about debt sustainability. As a result, a new level of creditor coordination has evolved. Multilateral creditors, for instance, have met on a twice-annual basis to discuss their participation in debt relief. The African and Inter-American Development Banks, the largest multilateral creditors after the Bank and IMF, have also participated in several debt sustainability analyses (DSA) missions. On the basis of these DSAs and the HIPC documents, close coordination has taken place with all MDBs as well as with bilateral creditors. Paris Club creditors have regularly discussed the various HIPC cases.

113. Approximately 54 percent of debt relief approved to date will be covered by **multilateral creditors**. With 25 percent and 9 percent of total costs, respectively, the World Bank's and the IMF's share of costs under the Initiative are the largest among multilateral creditors. Other multilaterals account for the remaining 20 percent of the total costs although in some country cases regional development banks, such as the IADB in Bolivia and in Guyana, may have the largest costs among multilaterals.

[2] Eligibility based on 1998 costing analysis.

Table 3: Expected Costs for Multilateral Creditors of Early HIPC Cases Reviewed to Date[1]

Multilateral Creditor	HIPC debt relief In NPV terms at completion point (U.S. dollar millions)	Percentage Share among Multilaterals (Percent)
World Bank	755	46
IMF	287	17
AfDB/AfDF	209	13
IDB	203	12
EU/EIB	42	2.5
CAF	39	2.4
CMCF	29	1.8
IFAD	26	1.5
OPEC Fund	20	1.2
BADEA	17	1.0
BCEAO, BOAD, CDB, IsDB, NDF, Fonplata	4 – 10	<1
EADB, ECOWAS Fund	<1	<0.1
Total	1,659	100

Source: HIPC Documents and staff estimates.

1/ This includes commitments for Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mali, Mozambique, Uganda, and estimated potential commitments for Ethiopia, Guinea-Bissau, and Mauritania. Besides the Bank and the Fund, the multilateral institutions which have costs in the first ten HIPC cases include the African Development Bank/Fund (AfDB/F), the Arab Bank for Economic Development in Africa (BADEA); the Banque Centrale des Etats d'Afrique de l'Ouest (BCEAO), the Caribbean Development Bank (CDB), the Caricom Multilateral Clearing Facility (CMCF), the Central American Bank for Economic Integration (CABEI), la Corporación Andina de Fomento (CAF), the East Africa Development Bank (EADB) the Economic Community of West African States-Fund for Cooperation Compensation and Development (ECOWAS Fund), the European Union (EU) and the European Investment Bank (EIB), the Fund for the Financial Development of the River Plate Basin (FONPLATA), the Inter-American Development Bank (IDB), the International Fund for Agricultural Development (IFAD), the Islamic Development Bank (IsDB), the Nordic Development Fund (NDF), the Organization of Petroleum Exporting Countries-Fund for International Development (OPEC Fund), and the West African Development Bank (BOAD).

114. The **Bank and Fund** are committed to meeting their full share of the costs under the current HIPC framework. The Bank has been meeting the bulk of its share of costs by way of IBRD net income transfers to the HIPC Trust Fund. IBRD's Governors have authorized cumulative net income transfers in the amount of US$850 million to date. In addition, a significant amount of assistance has been provided by way of grant funding (in lieu of credit funding) of a portion of IDA's lending program to eligible HIPCs. For the first ten cases (under the current HIPC framework), it is expected that up to 30 percent of the Bank share of debt relief will be provided by way of grant funding of a portion of IDA's lending program. Similarly, the IMF has set up the ESAF-HIPC Trust which has received bilateral contributions so far from nine countries of approximately US$50 million. In addition, the IMF's Executive Board has agreed to make contributions to the ESAF-HIPC Trust from the

Fund's ESAF Trust Reserve Account, totaling around US$120 million for FYs 1998 and 1999, and has authorized the temporary[3] transfer of up to US$350 million from the ESAF Trust Reserve Account to help meet the Fund's commitments under the HIPC Initiative.

115. All **other multilateral creditors** have also agreed in principle to participate in the HIPC Initiative. However, while some have committed to financing their share of the cost, others depend (and will continue to depend) on the support of their shareholders, and on the generosity of bilateral donors (through the HIPC Trust Fund).

116. While the expected share of the other multilateral creditors for the early cases is expected to be approximately 20 percent of the *total* costs, assuring their participation has required considerable effort. Although individual multilateral creditors may have small costs—several with less than 1 percent of the total cost—the burden-sharing principles of the HIPC Initiative require that all creditors participate. For many of the smaller multilateral creditors, this has proven difficult, as the approval process by their respective Boards is often elaborate and time consuming. The debt relief to be provided by these creditors can have a major impact on their balance sheets as they often have a shortage of concessional resources, limiting their modalities and capabilities to deliver debt relief. As a result, active consultations have been ongoing with Bank and Fund staff and potential bilateral donors to determine the HIPC debt relief that individual institutions could cover through their own resources, while maintaining their financial integrity. In addition to their own resources African Development Bank, CMCF, CAF, and Fonplata will be benefiting from financial support by the HIPC Trust Fund to deliver their full share of the HIPC Initiative debt relief. Bilateral contributions and pledges from 19 countries bring the total contributions thus far to about US$440 million (Table 4).[4]

117. The experience thus far with cases having reached the decision point has demonstrated the commitment of creditors to participate, and the willingness of donors to provide the necessary financing, to allow all creditors to participate fully. Financing for this Initiative has evolved as new countries are considered: most creditors have agreed to participate fully, while not considering it necessary to allocate up-front the entire cost of the Initiative. Rather, a case-by-case approach has been followed with some contingency planning for the likely cases during the next calendar year. Experience has shown that this approach has secured, in principle, financing under the HIPC for all countries that have reached their decision point.

[3] These authorized transfers are meant to serve as temporary financing to help meet the Fund's commitments for special ESAF operations under the HIPC Initiative and are not counted toward securing the overall financing of the ESAF and HIPC Initiatives. It is expected that the Special Disbursement account (SDA) of the IMF will be replenished by any such transfers.

[4] In the case of Mozambique, where an 80 percent reduction of eligible debt by the Paris Club was not sufficient to provide proportional burden-sharing, exceptional measures were taken by bilateral creditors, with some creditors agreeing to go beyond Lyon terms, and additional assistance was committed by the World Bank and IMF on an exceptional basis.

Table 4. Bilateral Support to the HIPC Trust Fund

(US$ million as of February 28, 1999)

Country	Contributions [1/]	Pledges	Total
Australia	5		**5**
Belgium	4	8	**12**
Canada	26		**26**
Denmark	26		**26**
France	21		**21**
Finland	7		**16**
Germany 2/			
Greece	1		**1**
Ireland		16	**16**
Japan	10		**10**
Luxembourg	1		**1**
Netherlands	61		**61**
Norway	41		**41**
Portugal	15		**15**
Spain	15		**15**
Sweden	29		**29**
Switzerland	28		**28**
U.K.	21	50	**71**
US 3/		50	**50**
Total			**442**

Source: World Bank staff estimates

1/ Includes proposed contributions through reallocation of ISF resources (Interest Subsidy Fund).

2/ The German government announced that it will make a contribution in 1999; the exact amount has yet to be announced.

3/ The US Government has included in its budget proposal an allocation of US$50 million; the exact amount has yet to be announced.

118. Under traditional debt relief mechanisms, **Paris Club creditors** provide eligible countries with a concessional rescheduling under Naples Terms, which reduces eligible debt by up to 67 percent in NPV terms. The Paris Club Secretariat has estimated that total debt relief provided under Toronto, London, and Naples terms was US$19 billion in NPV terms over the last ten years.

119. In the context of the HIPC Initiative, the Paris Club agreed to provide up to 80 percent NPV reduction under Lyon terms. The country cases for which there are decisions on HIPC Initiative assistance thus far will cost the Paris Club as a whole US$1.15 billion in NPV terms. This is its share of the costs under the HIPC Initiative, and is additional to the costs of traditional mechanisms (a 67 percent NPV stock-of-debt operation). The Paris Club is currently the only creditor group which provides interim debt-service relief to HIPCs (that have not already had a Naples terms stock operation), by increasing the NPV reduction in the flow reschedulings from 67 to 80 percent.

120. Participation of **non-Paris Club creditors** in the Initiative relies on the traditional mechanism of bilateral negotiations with the debtor along terms at least as concessional as those obtained from the Paris Club. Participation has been slower and less broad among non-Paris Club creditors than amongst other creditors for several reasons. First, there is no overarching coordination mechanism as exists for the Paris Club and the MDBs. Secondly, effective communication between the debtor and the non-Paris Club creditor is sometimes lacking. Finally, some non-Paris Club creditors may feel less bound to participate, as they are less involved in the decision-making process under the Initiative.

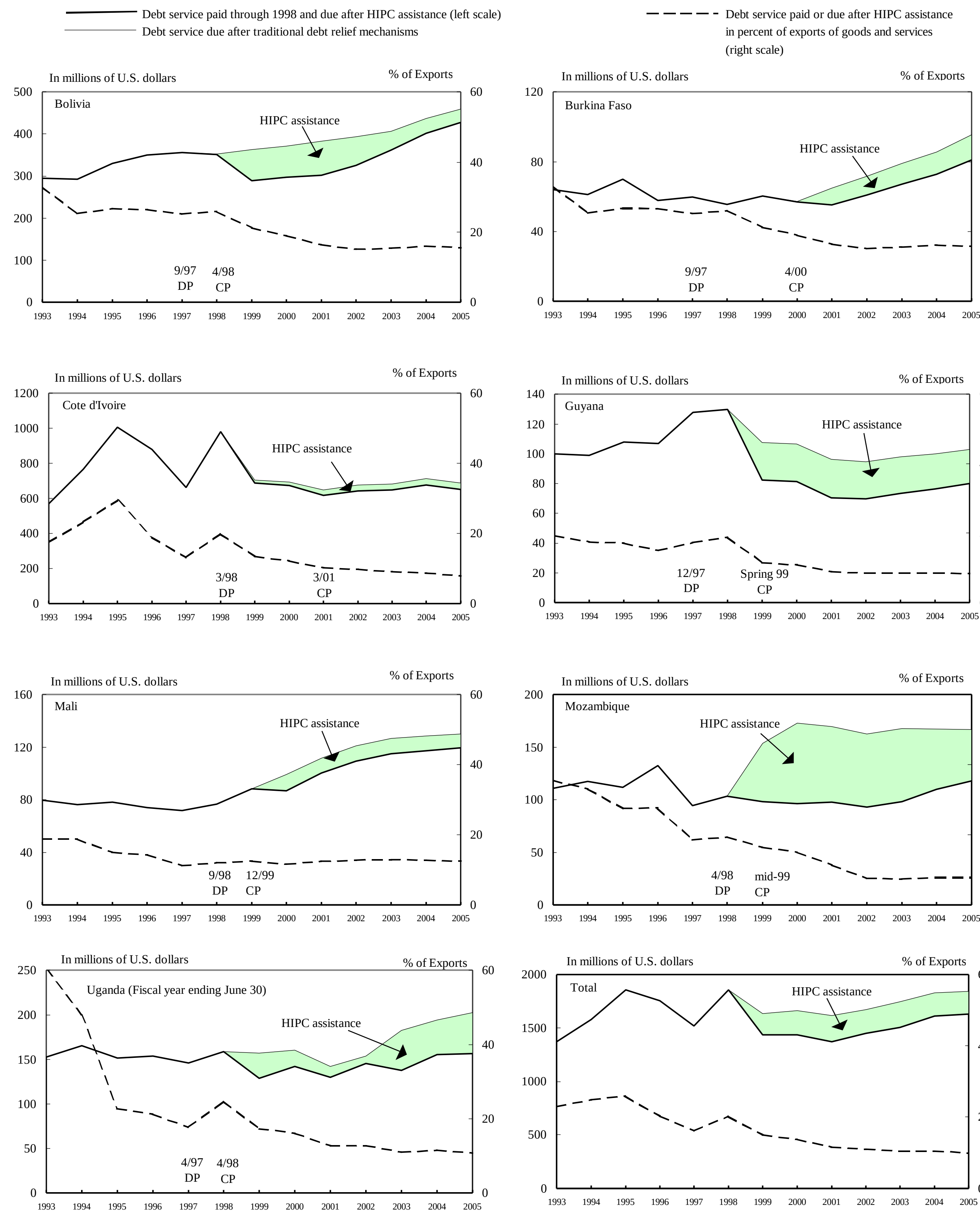
121. Debtor countries are frequently left with no option but to run up significant arrears to non-Paris Club creditors as their requests for comparable treatment are not accepted. This is one factor which contributes to significant arrears. According to the Debtor Reporting System (DRS) of the World Bank, as of end-1997 about 80 percent of all nonconcessional and 50 percent of concessional bilateral debt owed to non-Paris Club creditors by all HIPCs was in arrears. This suggests that coordination and communication between the debtor and non-Paris Club creditors needs to be strengthened. Moreover, non-Paris Club creditors and debtors may benefit from more guidance as to how the comparability clause could be applied and constructively negotiated.

B. Resource Flows

122. The HIPC Initiative was designed primarily to reduce debt stocks to sustainable levels, while ensuring that debt service in relation to exports was not excessive. The cash-flow impact of reducing debt service is usually spread over a number of years. For the first seven countries to reach the decision point, estimated scheduled debt service payments after receiving HIPC assistance are not dramatically different from the actual debt service paid for the period prior to the decision point, although the HIPC Initiative does clearly reduce debt service below scheduled amounts due after traditional debt-relief mechanisms (Chart 1). While Guyana's debt service after the completion point shows a noticeable decline, the impact is less substantial for the other six countries. The U.S. dollar amounts of debt service owed by Burkina Faso and Mali are expected to increase. In absolute terms the Initiative may not be significantly reducing debt service from current levels paid. However, in the context of successful reform programs a country’s revenue base should grow over time, thereby generating more fiscal space. Similarly, when expressed as a fraction of projected exports, all seven countries expected to show an improvement over the years following the completion point, and thus an easing of foreign exchange constraints in paying debt service.

Chart 1: Debt Service Paid and Projected (after HIPC Assistance) for Countries Which Have Reached the Decision Point

In millions of U.S. dollars and percent of exports; 1993 - 2005



Source: Country authorities and staff estimates.

DP = Decision Point CP = Completion Point

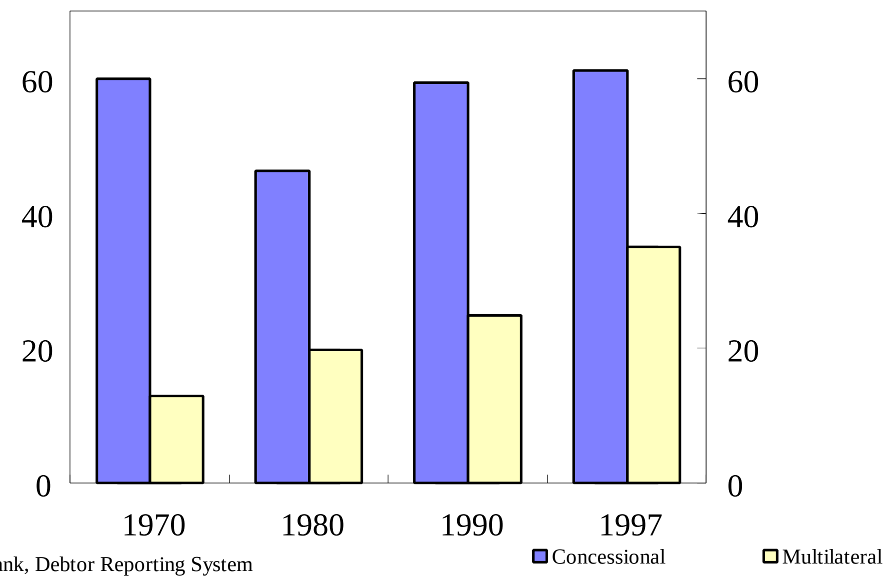
123. A number of factors contribute to the limited impact of HIPC assistance on actual debt service flows compared with past levels. First, as with any scheme based on delivering a fixed standard of debt sustainability, some countries require less assistance to reach the target level (Côte d'Ivoire and Mali are examples). Second, the cash-flow assistance provided by Paris Club creditors in a stock operation of a given concessionality level (say 80 percent) is lower than that provided in a flow operation of equal concessionality, since interest falling due is treated in the flow rescheduling. Thus, there may be an increase in debt-service payments to bilateral creditors after the completion point.[5] Third, many HIPCs have run arrears prior to the decision point, primarily to Russia and other Paris Club and non-Paris Club bilateral creditors. The HIPC Initiative is based on a projected regularization of such external debt so that even after HIPC Initiative relief there would be some resumption of payments.

[5] In part, the projected debt-service profiles reflect the graduated repayment schedules under concessional Paris Club reschedulings where repayments gradually increase after the grace period taking into account the assumed increasing payments capacity of countries over time.

C. Debt Relief and Resource Flows

124. Debt service and debt relief are only a partial element of the total resource flows to HIPCs. Over the last three decades, donors and creditors have provided funds to HIPCs on progressively more concessional terms, including grants. Over the past 30 years, the composition of the debt of HIPCs has become increasingly multilateral.

Chart 2. Shares of Concessional Debt and Multilateral Debt
(in percent of public and publicly guaranteed debt)



Source: World Bank, Debtor Reporting System

125. Bilateral assistance has increasingly taken the form of grants, while large stocks of ODA debt have been forgiven, following the 1978 UNCTAD resolution to cancel or forgive ODA debts. A number of donors have already adopted this practice. For instance, many creditor countries have written off virtually all claims on HIPC countries, and others have written off substantial amounts. Between 1978 and 1997, an estimated US$18 billion in ODA claims have been forgiven by bilateral creditors based on DRS data.

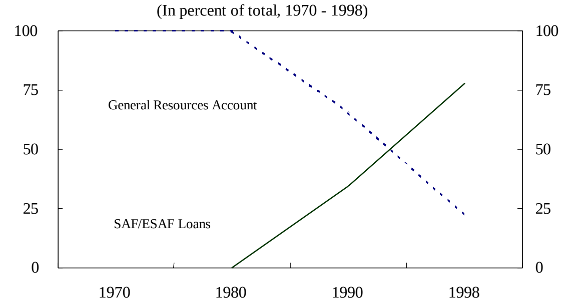
126. Bilateral creditors have also provided substantial debt relief in the context of Paris Club agreements and the HIPC Initiative as noted above. Most HIPCs have come to a final settlement of debt to commercial creditors through buy-back operations at large discounts. This has been supported by the international community through the help of the IDA Debt Reduction Facility, which provided grant resources for such buy-backs to HIPCs to cancel $6 billion in debt since 1991. Also, a number of HIPCs (e.g., Côte d'Ivoire in 1997) have

concluded agreements on debt and debt-service reduction operations with commercial bank creditors that involved significant debt reduction elements.

127. Multilateral institutions have, by their mandates, long-term relationships with borrowing countries. Over time, they have increased the concessionality of the resources made available to HIPCs. IBRD lending has ceased in those HIPCs where it had occurred, replaced by IDA resources, and Fund resources also have been provided on a concessional basis through the SAF and ESAF facilities, begun in 1986.

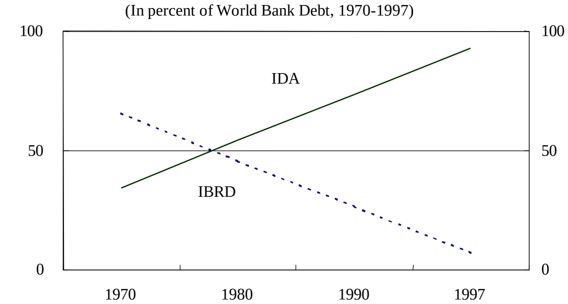
128. There has been an overall trend towards tightened aid budgets and aid fatigue, illustrated by the declining share of official development assistance to the developing countries in relation to GNP of donor countries. This aid ratio fell to 0.22 percent of the GNP of the donor countries that are members of the DAC in 1997, from an average of 0.34 percent in the 1980s and the United Nations targets of 0.7 percent of GNP. Reflecting these trends, net transfers to HIPCs, which were increasing until the early 1990s are now declining (Chart 5 and Table 5). At the same time, grants have increased in importance in the mix of aid resources. Since 1990, debt-service payments made have remained at around $8 billion per year, but new disbursements of loans and grants have fallen.

Chart 3. Use of Fund Credit for HIPC Countries
(In percent of total, 1970 - 1998)



Source: IMF, International Financial Statistics.

Chart 4. Composition of World Bank Debt for HIPC Countries
(In percent of World Bank Debt, 1970-1997)



Source: World Bank, Global Development Finance 1999.

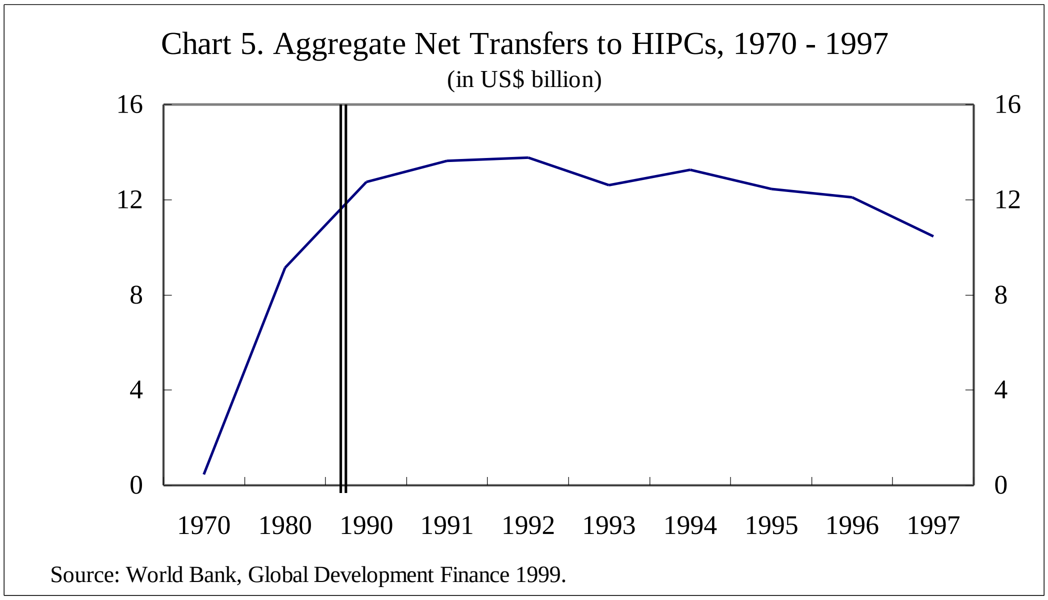


Table 5. Financial assistance to HIPCs, 1970-1997
(in US$ billion)

	Long-term debt flows (incl. IMF)					Grants	Net transfers	Memorandum
	Disburse-ments	Principal repayments	Net debt flows	Interest payments	Net debt transfer 1/	(excl. technical cooperation)	on loans and grants	item; Flow Reschedulings
	1	2	3 = 1 - 2	4	5 = 3 - 4	6	7 = 5 + 6	8
1970	1.3	0.4	0.9	0.2	0.7	0.3	1.0	0.0
1980	11.5	3.0	8.5	2.1	6.3	3.1	9.4	0.1
1990	10.6	4.6	6.0	2.6	3.4	10.1	13.5	4.8
1991	8.7	4.3	4.4	2.8	1.6	10.7	12.3	2.5
1992	9.2	3.5	5.7	2.1	3.6	9.2	12.8	3.3
1993	8.3	3.5	4.8	2.2	2.6	8.3	10.9	1.6
1994	8.3	4.4	3.9	2.6	1.3	10.0	11.3	4.2
1995	10.5	6.7	3.7	2.9	0.9	9.2	10.0	2.6
1996	8.2	5.5	2.8	2.8	-0.1	8.8	8.7	5.0
1997	8.0	5.4	2.6	2.8	-0.2	7.8	7.6	5.9
Total 1990-97	71.8	38.0	33.8	20.7	13.1	74.0	87.1	29.8

Source: World Bank, Global Development Finance, 1999.

[1/] Net transfers on long-term debt are net flows on long-term debt minus interest on long-term debt. "Net debt transfers" should not be confused with aggregate net transfers, which are: net aggregate resource flows - interest payments - profit remittances on foreign direct investment.

Annex 2: 1999 HIPC Review - Phase I

Consultation Meetings

Place	Date	Host/Sponsoring Organization
1. Maputo, Mozambique	Feb. 26, 1999	World Bank Field Office
2. Bonn, Germany	March 3, 1999	Ministry of Economic Cooperation
3. Lomé, Togo	March 4, 1999	African Network for Environmental and Economic Justice (ANEEJ)/ Friends of the Earth, Togo
4. Oslo, Norway	March 4, 1999	Ministry of Foreign Affairs
5. London, UK	March 5, 1999	Commonwealth Secretariat
6. Washington DC, USA	March 11, 1999	Overseas Development Council
7. London, UK	March 18, 1999	Jubilee 2000
8. Tegucigalpa, Honduras	March 23, 1999	Central American Bank for Economic Development (CABEI)

Annex 3: Selected Comments on Debt Relief for Poor Countries by NGOs and Religious Groups

(Based on documentation received as part of the 1999 HIPC Review)

Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
Anglican Church (Lambeth Conference) [1]	Substantial debt relief, including cancellation of unpayable debts of the poorest nations is a necessary, while not sufficient precondition for poverty reduction.	Debt repayments should be set at levels which prioritize basic human development needs over the demands of creditors.	Debt reduction for the poorest nations should be speeded up so they may benefit by the year 2000.	Ensure, through public monitoring and evaluation, that additional resources generated from debt relief are allocated to projects that benefit the poor.	
Catholic Fund for Overseas Development (CAFOD) [2]	Key issue is to define measures of debt sustainability which are appropriate for the poorest countries, and measures that address both the vulnerability of their economies to external shocks and ones which take into account the low levels of human development.	A human development approach to debt sustainability would be concerned with assessing the fiscally sustainable level of debt. The proposed methodology, termed the feasible net revenue approach, focuses on the capacity of HIPC governments to raise revenue without increasing poverty or compromising future prospects for future economic development. Debt servicing capacity is measured after taking into account minimum levels of spending to meet targets for the most basic level of human development. This approach would provide a tool to achieve coherence between debt policy and broader development goals, including the OECD Development Assistance Committee's target of halving poverty by the year 2015.	There is an urgency in the need for debt relief that is not reflected in the long delays built into the HIPC Initiative time frame.	No performance criteria required. Just a calculation: • For each country, subtract amount of income below the absolute poverty line from taxable income base. • Adjusted income is divided by four to arrive at maximum taxation revenue. • Resources required for basic health and primary education also subtracted from this revenue. • Only 20 percent of this net feasible income can be used for debt service.	The feasible net revenue approach would call for much deeper debt relief in the poorest countries. At least 10 countries would qualify for 100% debt cancellation.

[1] See "Resolutions approved by the Lambeth Conference (1998) - Resolution 1.15: International Debt and Economic Justice."

[2] See CAFOD policy paper "A Human Development Approach to Debt Relief for the World's Poor" prepared by H. Northover, K. Joyner, and D. Woodward (1998). CAFOD is the official aid and development agency of the Catholic Church of England and Wales. It works through partner organizations in 75 countries to promote human development.

Annex 3: Selected Comments on Debt Relief for Poor Countries by NGOs and Religious Organizations

(Based on documentation received as part of the 1999 HIPC Review)

Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
Catholic Relief Services **US Catholic Conference** **Bread for the World** **National Council of Churches** **Oxfam America** **Episcopal Church** **Presbyterian Church USA** **United Church of Christ**[3]	Concern with the human aspects of the debt problem - its impact on the poor and vulnerable. Advocate debt sustainability criteria based on human development, not export earnings. Fiscal criteria taking account of health, education and other expenditures necessary for sustainable development and poverty reduction should be the primary determinant of HIPC eligibility criteria for all countries.	The HIPC Initiative should provide debt relief sufficient to reduce the NPV of debt to less than 150% of the value of annual exports, and the annual debt service to not more than 10% of annual fiscal revenue. The 280% target for NPV of debt to exports is arbitrary and should be replaced by criteria based on debt service to fiscal revenue.	Required track record of satisfactory performance should be limited to 3 years. Deeper and faster debt relief for countries demonstrating sustained commitment to poverty alleviation or countries having sustained major natural disaster. Lack of 3-year track record should not delay debt reduction for post conflict countries.	Policy conditionality should include effective measures for poverty reduction and environmental protection. Debt relief would be conditioned on preparation of a Plan of Action for Human Development. Savings from debt reduction would be deposited into a Human Development Fund monitored by civil society.	Lobbying of members of the US Congress by Catholic Relief Services and the US Catholic Conference led to the introduction of a bill to modify and expand the HIPC Initiative, along the lines described here, and ensure commensurate financing to the HIPC Trust Fund.
Christian Aid [4]	Debt relief should not exist in isolation from the wider development agenda. Debt sustainability targets should be linked closely to the attainment of the OECD DAC development targets for the 21st century. At the very least, poverty and measurements of poverty should be included as vulnerability indicators.	The debt sustainability ratios should be re-examined (including the ratio of debt to fiscal revenue) and export growth projections should be more realistic. Governments and civil society to cost how much debt relief is needed to meet DAC human development targets.	Generally, consider simplifying the HIPC process, with a view to speeding it up.	Remove link between debt relief and ESAF track record. Consider alternative approach with simpler and more realistic macro-economic indicators.	Place more emphasis on developing debt management capacity. Bilateral creditors should provide sound and sustainable flows of development finance. Export credit agencies, in particular, should behave more responsibly.

3 See Catholic Relief Services/ U.S. Catholic Conference “Submission for the 1999 HIPC Review” (March 16, 1999) and H.R.1095, "Debt Relief for Poverty Reduction Act of 1999”, introduced in the U. S. House of Representatives in March 1999, by Representative Jim Leach and others. Catholic Relief Services are the official overseas relief and development agency of the U.S. Catholic Church, working in close cooperation with the U. S. Catholic conference. These and the other groups listed are all part of the Jubilee 2000 movement. Other organizations which sent in submissions supporting the views of CIDSE/Caritas include: Austrian Episcopal Conference for International Development Mission, Global Mission of the Episcopal Diocese of Massachusetts, Jesuits for Debt Relief and Development, Maryknoll Office for Global Concern. A contribution in Spanish was also sent by Catholic Relief Services Honduras.

4 See Christian Aid, "Forever in your debt" (May 1998) and “The Fundamental Review of the HIPC Initiative” (January 1999). Christian Aid is the official relief and development agency of 40 British and Irish Churches and works in almost 60 countries worldwide.

Annex 3: Selected Comments on Debt Relief for Poor Countries by NGOs and Religious Organizations

(Based on documentation received as part of the 1999 HIPC Review)

Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
CIDSE/Caritas Internationalis [5]	Make poverty reduction central to HIPC. Restructure HIPC to integrate goal to reduce poverty by half by 2015.	Human development approach: A government should first commit financial resources to meet the global poverty reduction targets before committing resources to repaying debt. Financial resources needed for basic needs should be first subtracted from the country's revenue base and no more that one-fifth of the remaining revenue should be allocated to debt payments.	Need for quicker debt relief. In view of the widespread poverty, the international community faces a profound moral challenge. The HIPC Initiative should be transformed in ways that heed the Biblical call to proclaim jubilee by the year 2000.	Opposed to unconditional debt relief. Need to ensure that savings from debt relief are used responsibly. But opposition to rigid six-year track record and link to ESAF programs. Support for programs that are poverty focused, have been prepared in a transparent and participatory manner.	A transformed HIPC will be more costly but creditors should summon the political will necessary to commit substantial new resources to deeper debt relief. Such resources should be additional to aid. Create procedures to broaden participation in decision-making.
EURODAD (European Network on Debt and Development) [6]	The HIPCs face extreme poverty. The concept of debt sustainability should be broadened to take into account resource needs for human development. The emphasis on debt stock figures is meaningless when only a fraction of the debt is actually being serviced. From a resources perspectives, debt servicing is what counts. HIPC so far has resembled a glorified accounting exercise, with little impact on the level of resources available for essential investments.	Following the framework developed by CAFOD, EURODAD advocates the use of a maximum affordable debt service approach to determine debt relief. Factor in maximum feasible tax revenues, poverty level, essential spending needs, and allocate to debt service up to 30% of amount available for non-essential spending. The benchmark for the ratio of debt service to exports would be 5% (actual ratios would be determined on a case-by-case basis).	3+3 years time frame of the HIPC Initiative (dictated by ESAF link) is cumbersome and the period is too long. As soon as a country qualifies for debt reduction, it should receive immediate reduction in its debt service.	Debt relief should be de-linked from ESAF compliance. Instead, link use of savings from debt relief to investment in human development.	The HIPC Initiative, in its present form, can only manage the debt crisis in the HIPCs, not solve it. Need to break the cycle of debt dependency, where new money goes to service old debt. Civil society and parliaments should monitor new borrowing. There should be no further lending for balance-of-payments purposes. Non-revenue generating projects in the social sectors should be funded by grants.

[5] See CIDSE and Caritas Internationalis: "Putting Life Before Debt", 1998 and "Proclaim Jubilee: An Urgent Appeal for Debt Relief for the World's Poor by the year 2000" (1999). CIDSE (International Cooperation for development and Solidarity) is a network of 16 Catholic development organizations located in Europe, North America, and New Zealand. Caritas Internationalis is a network of 154 national Catholic relief, development, and social service organizations in 198 states.

[6] See "1999 HIPC Initiative Review Consultative Process: Phase One" (March 15, 1999) and "EURODAD Debt Update - 26 February 1999".

Annex 3: Selected Comments on Debt Relief for Poor Countries by NGOs and Religious Organizations

(Based on documentation received as part of the 1999 HIPC Review)

Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
		Modify fiscal/open economy criteria for HIPC eligibility: • remove the export/GDP requirement; • lower the fiscal revenue/GDP requirement to 10-15% (or stipulate that fiscal revenue/GDP ratio must not drop from current levels); • lower the debt/fiscal revenue target from 280% to 200%; or, better still: • use a debt service/fiscal revenue indicator, based on "affordable debt service approach".			Debt relief should be genuinely additional to aid, not a substitute for it. The NPV concept is not an accurate measure of debt overhang and debt service capacity. Applying market-based discount rates to concessional debts distorts the true burden of debt, and changes in the discount rate result in changes in the NPV of debt which are not related to changes in the countries situation and debt service capacity.
Friends of the Earth [7]	The HIPC Initiative provides too little debt relief, too late, and for too few countries.	The definition of debt sustainability on the basis of export earnings is a major flaw. Ecological and social sustainability must be taken into account. A human development approach would put poverty reduction targets ahead of repaying debts.		The Initiative should be de-linked from the ESAF. Conditionality should be to establish some participatory mechanism to ensure that debt relief proceeds go to poverty reduction and the environment.	Funding for debt relief should be additional, not in place of, aid resources. Debt sustainability analyses should be carried out more openly. The Paris Club should improve the openness of its deliberations.

[7] See "Comments to the World Bank and International Monetary Fund on the Heavily Indebted Poor Countries (HIPC) Initiative Review (March 1999). Friends of the Earth is a member of the Jubilee 2000 campaign.

Annex 3: Selected Comments on Debt Relief for Poor Countries by NGOs and Religious Organizations

(Based on documentation received as part of the 1999 HIPC Review)

Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
Halifax Initiative [8]	The problem with HIPC is that it is based on reforms which are not owned by the debtor countries. The objective is to improve HIPC by strengthening ownership. An Autonomous Development Program builds on HIPC, and focuses on placing HIPC within an overall development agenda. Specifically, by enhancing ownership by the country involved.	Any IDA country could apply for an immediate reduction in its debt service requirements, following the design and presentation of a comprehensive development and poverty reduction plan by its government. Prepared by the government or designates. Debt service targets would then be set in context of the development strategy. Short term debt service should be rescheduled while the plan is put in place, until comprehensive debt reductions can be achieved.	Reductions in debt service immediate. Since relief would not wait for full DSA and HIPC negotiations, the only delay should come from a failure of country to provide a development strategy.	Shift criteria from balance of payments to quality of the development plan.	Proposed approach aims at enhancing ownership of HIPC process, and of longer term reforms. Significant development assistance would continue to be required, but debt stock reductions would be spread out over longer time.
Jubilee 2000 [9]	Debt is unjust and immoral. Use 2000, year of the Jubilee, as called for in old testament Book of Leviticus, to call the world's rich creditors to cancel all unpayable debts.	Cancel all unpayable debt of the world's poorest countries.	By the year 2000.		Cancellation should be done in a transparent manner. The Director of Jubilee 2000 UK has posited an idea for an international bankruptcy facility which would administer this process.

[8] See "Submission to the 1999 HIPC Review" (March 1999). See also "Going Beyond the HIPC Initiative: Another Pathway to Achieving Freedom from the Burden of Debt" (July 1998) and "The failure of the HIPC Initiative debt relief program--who gets left out" (April 1998). The Halifax Initiative is an undertaking of the Canadian Coalition for Global Economic Democracy.

[9] See "Debt Round Table on Jubilee 2000 Goals" (March 18, 1999). Jubilee 2000 has chapters in more than 100 countries and is the catalyst for global concern about debt and lobbying for debt reduction. Apart from the groups mentioned above, other organizations which submitted papers supporting the views of Jubilee 2000 include: Action for Southern Afrika, Danish North/South Coalition and Jubilee 2000 Denmark, and Jubilee 2000 Zambia.

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Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
Jubilee 2000 -- *Afrika Campaign*[10]	*The debts are simply unpayable, and Africa will continue to be in economic bondage and unable to develop unless the debt burden is eliminated.*	*The debt should be cancelled.*	*Immediately.*	*Debt cancellation should be unconditional.* *Resources freed by debt relief should be re-channelled into social services, in particular education, health, housing.*	*Good governance, accountability and responsibility should be pre-conditions for new lending. Civil society should be consulted.*
Jubilee 2000 -- *Canadian Ecumenical Coalition* [11]	*Scope of initiative is too narrow. Definition of debt sustainability is mechanistic, devoid of social or environmental concerns. More countries should be eligible.*	*A better approach would begin with integral, ecologically sustainable development as its goal, and consider how much surplus might be available for servicing foreign debts after priority development needs are met.*	*6-year time period is clearly unacceptable. However, real issue is not length of time but conditionality*	*The requirement to implement structural adjustment programs is the most objectionable aspect of HIPC Initiative. These programs involve unacceptable levels of austerity and a unilateral imposition of policies on debtor countries by creditors. Civil society must be consulted in the design and monitoring of policies and the use of the resources released.*	
Jubilee 2000 -- *Japan* [12]		*Complete cancellation of all public debt owed by HIPCs to Japanese government. Japan should also arrange for cancellation of private debt.* *More generally, Japan should seek cancellation of HIPC public debt to both bilateral and multilateral official creditors.*	*Cancellation should be before the year 2000.*	*De-link debt relief from ESAF. Replace with social conditionality, including transparency and the obligation to use savings from debt relief for social development. Social conditionality should be designed and monitored by civil society.*	*Aid should take the form of grants, not loans, especially for social projects.*

[10] See "Accra Declaration" (April 19, 1998).
[11] See "Canadian Ecumenical Jubilee Initiative Submission to 1999 HIPC Review-Phase One" (March 11, 1999).
[12] See "Position paper of Jubilee 2000 Japan on Writing-off of Debt owned by Japan" (March 1999).

Annex 3: Selected Comments on Debt Relief for Poor Countries by NGOs and Religious Organizations

(Based on documentation received as part of the 1999 HIPC Review)

Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
Jubilee 2000 -- *Latin-American and Caribbean Platform* [13]	*The debt is impossible to repay, illegitimate and immoral.*	*There should be a one-off cancellation of all HIPC debt.* *For future borrowing, external debt service payments should not exceed 3% of the budget.*	*The debt cancellation should take place in the year 2000.*	*Ensure that resources freed by debt relief are invested in human development and protection of the environment. The active participation of all groups in society in the design, implementation, follow-up and evaluation of the entire process must be guaranteed.*	*Debt cancellation should take place along the lines of bankruptcy proceedings. A tribunal of some sort may allow partial cancellation when appropriate.*
Mozambican Debt Group [14]	Based on the experience of Mozambique, this Group finds the HIPC Initiative insufficient. A key issue is the narrow definition of debt sustainability, which fails to take into account long-term resource gaps and chronic aid dependency of HIPCs and leaves them with unsustainable debt payments which unduly compromise growth.	Writing off debt stocks which are not being serviced is economically meaningless. Debt relief must provide reduction in *actual* debt service payments. The debt sustainability thresholds should be reduced and made flexible, with both fiscal and export approaches used in the DSA of every HIPC. Also, it is inconsistent to exclude private debt service from the target ratios for debt service to exports.		The ESAF should be de-linked from the HIPC Initiative.	Calculation of the cost of the Initiative should be made on the basis of payable debts, rather than book values.

[13] See "Tegucigalpa Declaration" (January 27, 1999).

[14] See "The need to Reform the Current HIPC Initiative" (March 1999). The Mozambican Debt Group is a Coalition of NGOs, religious groups, unions, cooperative associations and individuals, working together to promote discussions and advocate solutions to the problems associated with Mozambique's debt crisis and economic reform process.

Annex 3: Selected Comments on Debt Relief for Poor Countries by NGOs and Religious Organizations

(Based on documentation received as part of the 1999 HIPC Review)

Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
Oxfam [15]	To strengthen the link between debt relief and poverty reduction by establishing an incentive (not conditionality) to reward countries which make credible commitments to poverty reduction with faster, deeper debt reduction (Human Development Window proposal). This commitment would be measured by the percentage of debt service savings invested in social sector, based on OECD DAC targets. The window would be open only to governments willing to commit 70-100 percent of savings on debt into identified poverty reduction initiatives over five years.	For countries eligible for the Human Development Window, debt sustainability thresholds would be lowered to: • --10-15 percent for debt servicing; • --100-150 percent for NPV debt/exports; and 150-170 percent for NPV debt/revenue. Oxfam also proposes a 10-15% ceiling on the share of government revenue to be allocated to debt service.	For countries pursuing Human Development Window, an acceleration of Oxfam's standing call for a reduction from six years to three in the time frame for implementation. Debt relief would then be delivered within 1-2 years.	Important to remember that the Human Development Window is not conditionality. It would provide additional benefits to countries which make a credible commitment to target funds released from debt service toward meeting DAC targets but would not exclude other countries from access to HIPC on less preferential terms. Debtors pursuing the Human Development Window approach would be required to develop a Poverty action Framework and a National Poverty Fund, subject to independent audit. Oxfam has proposed to use the Human Development Window to finance education in HIPCs.	To ensure transparency, debtor governments would be required to develop a Poverty Action Framework, submitted before Decision Point, and be designed in cooperation with major donors, and civil society.
Religious Working Group on the World Bank and IMF [16]	Concern for the poor and the excluded provide the basis for moral case for debt relief.	Attempts to identify targets for debt sustainability miss the mark. Debts of countries uable to meet the basic needs of their people, and debts which are illegitimate and immoral due to circonstances under which they were contracted, should not be repaid.		Current form of structural adjustment conditionality should be abandoned because of the unjust burden they place on the poor. Any conditions attached to debt relief must involve openness, flexibility, civil society participation.	

[15] See Oxfam International , "Debt Relief and Poverty Reduction: Strengthening the Linkage" (September 1998), "Submission to the HIPC Review"(March 1999), and "Education Now: Break the Cycle of Poverty" (March 1999). Oxfam International is a network of eleven aid agencies that work in 120 countries throughout the developing world.

Annex 3: Selected Comments on Debt Relief for Poor Countries by NGOs and Religious Organizations

(Based on documentation received as part of the 1999 HIPC Review)

Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
Social Forum on Foreign Debt and Development of Honduras (FOSDEH) [17]	Similar to Jubilee 2000.	FOSDEH proposes a 50% reduction in the bilateral and multilateral debt of Honduras, and a 70% reduction in other debts. Debt service payments should not exceed 5% of exports.	By end-1999 for official debt and mid-2000 for remaining debts.	Resources freed by debt relief would be put in a Fund for Human Development, which would give priority to social investment, with effective participation by civil society in the operation and monitoring of the Fund.	
Vatican [18]	Based on the moral case for debt relief. Poor nations "…are oppressed by a debt so huge that repayment is practically impossible… Such abuses [of power] are sinful and unjust." The Vatican calls for "a new culture of solidarity and cooperation…".	Pope John Paul II has called for "…a substantial, if not outright cancellation, of the international debt which seriously threatens the future of many nations".	Immediate and vigorous effort is needed to ensure that by the year 2000 the greatest possible number of countries "will be able to extricate themselves from a now intolerable situation".		

[16] See statement on "The HIPC Review Process", endorsed and signed by 230 persons representing Catholic and protestant groups in the U.S. and overseas.

[17] See "Propuesta del Foro Social de Deuda Externa y Desarrollo de Honduras en el Marco del Grupo Latinoamericano de Jubileo 2000" (February 1999). FOSDEH is a network linking more than 120 Honduran organizations (including NGOs, trade unions, farmers and other trade associations, churches, etc..) as well as other groups representing civil society in Latim America and Europe.

[18] See Apostolic Letter "Tertio Millenio Adveniente" (1994) and Papal "Bull of Indiction of the Great Jubilee of the Year 2000".

Annex 4: Selected Comments on Debt Relief for Poor Countries by Creditor Governments

(Based on documentation received as part of the 1999 HIPC Review)

Country	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
Canada	Enhancing debt relief to the HIPCs will contribute significantly to poverty alleviation and sustainable development.	Lower the NPV of debt-to-export target to 150%. Bilaterals to forgive ODA debt of the HIPCs, and provide development assistance only on grant terms. Paris Club to provide full (100 %) write-down for all LLDCs expected to qualify for HIPC assistance, as well as for Honduras. Even in the absence of agreement on this, Canada would unilaterally write off debts for countries that can use resources effectively and productively and are practising good governance, or for other countries, when their situation permits, consider debt conversion to support critical development projects.	Shorten the track record to 3 years.	Unilateral additional debt relief for good governance and improvement in human rights conditions.	Extend HIPC debt relief to more countries (including Honduras, Haiti, Malawi, and when political situation permits Afghanistan). Creditor countries to adopt greater transparency in lending and good lending practices. Develop a code of conduct for export credit agencies and other trade finance institutions. Additional debt relief of (in 1998 NPV terms): US$8 billion for lowering the export target; up to US$6 billion for shortening track record; and up to US$2.8 billion for broadening eligibility.

Annex 4: Selected Comments on Debt Relief for Poor Countries by Creditor Governments

(Based on documentation received as part of the 1999 HIPC Review)

Country	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
France	G7 approach should be generous, while emphasizing the principles of equitable burden sharing among creditors and responsible performance by debtors.	Eligible HIPCs could receive exceptional ODA debt relief from Paris Club creditors, no debt service on ODA for a generation. Poor countries not eligible for the Initiative could receive enhanced concessionality. Developing countries could benefit from an increase of the debt conversion limit in Paris Club agreements.	ODA cancellation as soon as debt is definitively treated in Paris Club framework; interim period being reduced on a case-by-case basis taking into account past track record in adjustment policies.	Exceptional debt relief measures should be limited to countries with impeccable economic and social policies and good governance. Implementation of reform programs supported by Bretton Woods institutions remain critical.	Equitable burden sharing should prevail, not only as between multilateral and bilateral creditors, but also among the bilaterals, especially as regards ODA cancellation.
Germany	To ensure that people in less well-developed economies also benefit from the opportunities offered by globalization.	Set threshold and target for indebtedness at 200 % of exports, with some flexibility in exceptional cases. Paris Club to cancel up to 100 % of commercial debt for countries in exceptionally difficult situations. A multilaterally agreed approach should provide for a mandatory complete cancellation in the Paris Club of ODA debts for HIPCs qualifying for relief under the Initiative.	Six-year track record of performance should be reduced to three years. All qualifying countries should be able to reach decision points by the year 2000.	No change proposed to requirement for IMF- and World Bank supported reform programs, except for shortening of performance period.	Financing for the Initiative must be assured. G7 countries should contribute to full financing by participating in the HIPC Trust Fund. The IMF must be enabled to make its full contribution to the Initiative. Funds released in national currency should be deployed for projects designed to eliminate poverty and promote sustainable development.

Annex 4: Selected Comments on Debt Relief for Poor Countries by Creditor Governments

(Based on documentation received as part of the 1999 HIPC Review)

Country	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
Ireland [1]	HIPC Initiative is a robust framework for dealing with the debt issue, but needs to be deepened, broadened and accelerated. Definition of debt sustainability should not lose sight of ultimate goal of poverty eradication. Case for ring-fencing social expenditures, before fiscal thresholds are brought to bear. Domestic debt should also be factored in.	Favor a reduction in both NPV and debt service eligibility criteria and targets. Welcome pledges of many bilateral creditors to cancel ODA and commercial debts. Ireland's aid mostly in grants. Proposals for unconditional, large-scale cancellation of multilateral debt require careful analysis of potential impact on IFIs, official resource flows and private capital flows to HIPCs.	Maximum number of countries should reach decision point by 2000. Shorten period of track record and accelerate debt relief, but in the context of a realistic and achievable national development plan mapping out policies over the medium and long term.	Social considerations and human development indicators should be an integral part of the Initiative, not an afterthought. Need for broad local ownership and empowerment to ensure sustained implementation of reforms. Control and monitoring needed to minimize moral hazard, should be used with sensitivity and in a spirit of partnership. Use flexible approach when soundly-based policies are derailed by exogenous developments.	Irish Government has passed legislation for a major third world debt relief package which includes support for IMF and World Bank participation in the HIPC Initiative and plans for bilateral assistance for debt relief and a contribution to the ESAF Trust. Middle and lower-middle income countries should not bear the cost of additional relief to HIPCs.
United Kingdom	HIPC debt relief takes too long, does not ensure a robust exit from debt problems and should make a greater contribution to reducing poverty. Bilateral creditors and IFIs should make a commitment to reduce the debt burden of the world's poorest countries by $50 billion by end-2000.	Lower the existing fiscal ratio and apply it to a wider range of countries and/or lower the debt/export ratio. Target relief on reduction in actual debt service paid in the early years. Paris Club creditors should agree to go above 80% debt relief where necessary, with commensurate burden sharing by the IFIs, and ODA debts of HIPCs should be written off by those creditors which have not yet done so.	Shorten timetable for debt relief from 6 to 3 years. (Continuing need for aid will anyway act as a strong positive incentive to good performance, even after the completion point.)	Establish closer ties between debt relief and poverty reduction (including DAC target to halve the proportion of people in extreme poverty by 2015).	The developed world should increase its aid flows to developing countries to $60 billion by the year 2000. Resources released should be invested in health and education in countries concerned. Challenge UK NGOs to make donations to developing countries of US$1 billion up to the year 2000, with tax incentive.

[1] Ireland's aid is grant based.

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(Based on documentation received as part of the 1999 HIPC Review)

Country	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
United States	Ensure that no country committed to fundamental reform is left with a debt burden that keeps it from meeting its peoples' basic human needs and spurring growth.	Paris Club to write off all ODA bilateral loans of HIPCs and increase debt relief on other loans from 80 % to 90 %, and in exceptional cases on a broader base of debt. Deeper debt reduction for countries which are exceptional performers.	Add early cash flow relief from IFIs.	Funds freed by debt relief to be channeled into education or environmental protection with the use of debt-for-nature-swaps.	Proposed approach could result in additional nominal debt relief of $70 billion. U.S. support for gold sales by the IMF and bilateral additional contributions to the World Bank's HIPC Trust Fund to help meet cost of Initiative. Donor countries should commit to provide at least 90 % of new development assistance on a grant basis to HIPCs. Take new approaches to promote reconstruction in countries emerging from protracted domestic conflicts.

Annex 5: Selected Comments on Debt Relief for Poor Countries by Multilateral Institutions

(Based on documentation received as part of the 1999 HIPC Review)

Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
Asian Development Bank [1]	The export-based debt indicators used in HIPC framework are not a good measure of debt repayment capacity because they exclude tradable goods sold at home. To approximate the ratio of debt to output of tradable goods, use a weighted average of the debt/output ratio and debt/export ratio. Private debt should be considered along with public debt.	Fiscal criteria should take revenue into account. An alternative fiscal criterion to determine depth of relief would be the sustainable primary balance, defined as the ratio needed to keep the ratio of public sector debt to GDP constant.	Six year track record requirement appears too long. Alternatives could include shortening of the second stage, or elimination of either first or second stage.	A potential weakness is that the performance criteria apply only up to the completion point, providing no assurance on continued sound performance thereafter.	Diverting funds for debt relief from aid flows to poor countries which have followed prudent policies would involve an efficiency loss.
African Development Bank Group (AfDB) [2]	The definition of debt sustainability should go beyond macroeconomic indicators, to focus also on the root cause of Africa's persistent debt problem, poverty. Poverty and governance indicators could complement the more traditional indicators in determining both country performance and development impact.	Serious consideration should be given to a deepening of debt relief for eligible countries by "reducing the post-Initiative sustainability targets". Domestic debt also needs to be considered. Domestic debt reduction programs should be complementary to the HIPC program. Options for financing domestic debt reduction could include rescheduling arrangements, the use of counter-party funds and direct bilateral funding.	There may be merit in fast tracking assistance. There could be a case for a reduction in the general track record length, with further shortening possible on a case-by-case basis.	Performance requirements should be retained as essential to ensure debt relief is not wasted. The HIPC Initiative should incorporate institutional strengthening and capacity building for efficient debt management.	The timing and scope of any modifications to the Initiative must be dictated by resource availability. Financing options may include increased bilateral contributions, gold sales, a significant deepening of Paris Club debt relief and a variety of rescheduling scenarios.

[1] See Asian Development Bank Response to the HIPC Questionnaire (March 25, 1999).
[2] Communication from AfDB Strategic Planning and Research Department (March 15, 1999).

Annex 5: Selected Comments on Debt Relief for Poor Countries by Multilateral Institutions

(Based on documentation received as part of the 1999 HIPC Review)

Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
Banque Centrale des Etats de l'Afrique de l'Ouest (BECEAO) [3]	The HIPC Initiative is a major step forward, but eligibility criteria are too restrictive. In addition, domestic debt, social indicators and indicators of fiscal effort should also be taken into account to determine debt sustainability.	The sustainability range for the NPV/export ratio should be lowered to 100-150% and the range for the debt service ratio brought down to 10-15%. The target for the ratio of NPV of debt to fiscal revenue should be lowered to 200%. Under the fiscal criteria, the eligibility thresholds for the ratio of exports and fiscal revenue to GDP should be lowered to 20 and 15%, respectively.	The timetable should be shortened, e.g. by collapsing the timing for the decision and completion points.	No change suggested, apart from shortening the performance period. Channel savings from debt relief into a Special Fund for priority spending, under monitoring from civil society.	
Commonwealth Secretariat [4]	Address the concerns by a number of HIPCs about the lack of tangible progress in easing the debt burden. Address the special needs of post-conflict countries.	Provide sufficient debt relief that yields a genuinely sustainable debt position. In this context, the debt sustainability criteria should be reviewed.	Need to speed up the process to ensure that debt relief is provided as quickly as possible. Specifically, ensure that 22 countries reach their decision points by the end of 1999.	Need to promote a much closer link between the Initiative and poverty reduction, consistent with the international development targets.	The Secretariat has been assisting governments in strengthening debt management capacity, including debt sustainability analysis.

[3] See "Réponses au Questionnaire de la Banque Mondiale et du FMI dans le Cadre de la Revue de l'Initiative PPTE" (March 19, 1999).
[4] See Commonwealth Finance Ministers Meeting, Ottawa, Canada, 29 September-1 October 1998, "Key issues in the Implementation of the Mauritius Mandate and the Heavily Indebted Poor Countries (HIPC) Programme".

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Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
International Fund for Agricultural Development (IFAD) [5]	Broad concerns about the precarious nature of debt sustainability over time (concerns include inevitable uncertainties of future export performance, and possible continued poor borrowing policies by debtors). Special focus on enlarging the social performance concept to include rural development. Debt sustainability targets should allow for the need for investments to revive the rural economy.	Debt sustainability targets should be reviewed, and countries with particular vulnerabilities should get deeper relief. Countries emerging from crises (civil strife, natural disasters) should get faster and deeper relief. Also, debt relief targets should differentiate between countries depending on whether the major problem is short-term debt servicing, as against long-term debt overhang. Qualifying requirements for fiscal/export criteria should include fair prices to export producers and resource allocation in favor of rural poverty eradication.	Policy performance could be a medium-term objective, rather than a precondition. The quality and irreversibility of the reform process is more important than the time element of the track record. IFAD advocates a more proactive and phased approach with clearly delineated performance objectives and result indicators that would trigger some level and form of debt relief at each phase of policy reform.	Conditionality should include policy objectives that enhance economic productivity in rural areas: enabling policies and additional investments. Particular emphasis on decentralization and participatory approaches, fostering of grassroots institutions, gender responsive development strategies. Freed-up resources should be used for the enhancement of rural productivity. The reform efforts should be complemented with additional resources on highly concessional terms for poverty eradication programs.	Funding for debt relief must come from bilateral donors, either directly or indirectly through their multilateral institutions. IFIs will require additional resources from their bilateral shareholders to preserve their own lending ability. Aid budgets should be increased.

[5] See IFAD's reply to Website questionnaire "Review of the HIPC Debt initiative" (March 18, 1999).

Annex 5: Selected Comments on Debt Relief for Poor Countries by Multilateral Institutions

(Based on documentation received as part of the 1999 HIPC Review)

Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
UNICEF [6]	African countries spend nearly twice as much on debt service than on basic social services, while hundreds of million of children have no access to basic education, primary health care, adequate nutrition, safe water and sanitation. The argument in favor of basic social services is not only ethical but also economic, as experience shows that rapid and sustained economic progress cannot take place where a minimum package of universal basic social services is not in place.	Defining debt sustainability solely in terms of exports in incomplete. Fiscal criteria should also apply to all countries. The HIPC Initiative should adopt one set of criteria and thresholds applicable to all IDA-only countries. No change proposed for the NPV of debt/export ratio or debt service/export ratio target ranges. Introduce a general fiscal sustainability target: the debt service/revenue ratio should be below 20%. Debt servicing is more appropriate than a debt stock indicator.	Countries should build a track record over 2-3 years, during which they would increase the fiscal revenue/GDP ratio to a minimum of 20% and allocate a minimum of 13% of the budget to basic social services in order to qualify. After qualifying, a decision would be taken, and debt relief delivered immediately, collapsing decision and completion points and shortening the overall waiting period from 6 to 2-3 years.	Debtor governments would be required to formally express commitment to achieve universal access to basic social services within a maximum timeframe of 15 years as part of a poverty reduction framework. Expenditure on basic social services would be considered non-discretionary spending in the budget. Basic social services and debt servicing would be required to absorb no more than 20% each of the national budget, and together they would be required to absorb no more than one-third of the budget. This would provide an incentive for governments to spend an adequate amount on basic social services while providing assurances that the fiscal dividend from debt relief will go to priority social spending.	

6 See UNICEF, "A proposal for HIPC reform" (March 1999).

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Organization	Rationale/Objective	Depth of Relief	Timing of Relief	Performance Criteria/Linkage for Relief	Other
United Nations Development Programme (UNDP) [7]	The HIPC Initiative is insufficient to achieve true external financial sustainability. In addition, there should be better integration between the objectives of external financial sustainability and human development objectives.	HIPC debt sustainability ratios are too high, export projections are unrealistic, and the Initiative does not yield a substantial fiscal dividend. It merely reduces a stock of debt that the country would not have been able to pay back anyway.	The current timeframe should be shortened. Moreover, the standard six years of track record can easily become longer, due to slippages in the implementation of stringent conditions associated with adjustment programs.	Assessment of track record should not be left to the IMF alone and the assessment process should be more transparent. Debt relief should be linked explicitly to the attainment of broader social and human development objectives consistent with the DAC targets. But there should be government ownership of the targets, rather than additional conditionality.	Debt relief negotiations should be incorporated into broader development dialogue, e. g. at Consultative Group or Round Table meetings. Financing for debt relief should not be at the expense of ODA flows. Additional funding should come from the multilateral institutions, and the Paris Club should amend its rules on cut-off dates and concessionality.
United Nations Secretary-General [8]	The results of the Initiative have been disappointing. Accelerate the implementation of the HIPC Initiative and ensure that all eligible countries embark on the HIPC process by the year 2000. The Initiative should not be slowed down by any shortfall in funding.	Criteria and targets should be flexible enough to take into account different debt situations. Consideration should be given to applying a debt sustainability target below the current ranges, when it can be established that the debtor countries cannot afford debt services higher than a certain level, commensurate with long term growth and human and social development objectives.	The six-year performance period is considered too long. Shorten the interim period to one year.		

[7] See UNDP Submission to the HIPC Review (March 1999).

[8] See Report by the Secretary-General to the UN Security Council: "The Causes of Conflict and the Promotion of Durable Peace and Sustainable Development in Africa", April 16, 1998, p.22; and Report by the Secretary-General to the General Assembly: "Debt situation of the developing countries as of mid-1998", September 11, 1998, pp. 7-8 and 13.