INTERNATIONAL MONETARY FUND

Proposals to Modify the PRGF-HIPC Trust Instrument—Further Considerations

Prepared by the Policy Development and Review, African, Finance and Legal Departments
(In consultation with other Departments)

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I. Introduction

1. How can Liberia be given credit for its record in implementing a strong program of macroeconomic stabilization and structural reform during the time when the Fund and/or other international financial institutions lacked sufficient financing assurances for proceeding with arrears clearance and debt relief? Although this issue has arisen in the specific context of Liberia, it may also be applicable to a number of other similarly situated countries that have not yet reached the decision point under the Heavily Indebted Poor Countries (HIPC) Initiative.

2. On July 11, 2007, Executive Directors were briefed on Management's preliminary proposals as to how some aspects of the Fund's policies could be modified to address this issue. These proposals would facilitate the normalization of Liberia's financial relations with the Fund and its access to debt relief, while minimizing the changes to the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) frameworks. On September 14, the Board conditionally approved modalities for financing the cost of the Fund's debt relief to Liberia through the use of the partial distribution of the First Special Contingent Account (SCA-1) resources and proceeds of Liberia-related deferred charges adjustments to facilitate bilateral contributions.

3. This follow-up paper focuses on the proposed modifications to HIPC Initiative policy as implemented in the Fund, building on the July paper. It also addresses the key policy issues raised by Executive Directors at the July informal briefing and lays out the modalities and decision required to implement the proposed changes. If adopted, these modifications would also apply to future similarly situated pre-decision point HIPCs.

4. The paper is organized as follows. Section II provides background and describes the proposed amendment to the PRGF-HIPC Trust Instrument. Section III elaborates on the key policy and implementation issues raised by the proposed amendment and suggests modalities to address them. Section IV deals with two additional policy modifications that were discussed in the July paper but are no longer being proposed at this time. Section V provides concluding observations. Section VI sets forth the proposed decision.

II. Background and Suggested Policy Changes

5. **The Fund's provision of debt relief under the enhanced HIPC Initiative relies on a set of comprehensive modalities that apply uniformly to all eligible or potentially eligible countries** (Box 1). These rules aim at ensuring, inter alia, that debt relief will reduce debt burdens down to the levels deemed sustainable under the enhanced HIPC Initiative; that

Box 1. The Enhanced HIPC Initiative Process

The enhanced HIPC Initiative is a comprehensive approach to debt reduction for HIPCs pursuing Fund- and IDA-supported adjustment and reform programs. It relies on coordinated action by the international financial community, including multilateral organizations, bilateral creditors, and commercial lenders, to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries. Participation in the HIPC Initiative is voluntary, but the main official creditors (the Fund, the International Development Association (IDA), the African Development Bank (AfDB), the Inter-American Development Bank (IaDB), the Asian Development Bank (AsDB) and the members of the Paris Club) have committed to participate, and have developed clear modalities to that end. In 2005, the enhanced HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI), which allows for 100 percent relief on eligible debts by three multilateral institutions—the Fund, IDA, and the AfDF—for countries having completed the HIPC Initiative process. The Fund also provided debt relief under the MDRI to two non-HIPCs with per capita income below US$380. The IaDB is also providing 100 percent relief on eligible debts at completion point under the IaDB 2007 Initiative.

To be eligible for HIPC Initiative assistance (under Fund rules) a country must (i) be PRGF-ESF-eligible and eligible for full debt relief under traditional mechanisms; (ii) have end-2004 debt that is above the relevant HIPC Initiative threshold even after the assumed application of traditional debt-relief mechanisms; and (iii) adopt a qualifying Fund-supported program.

An eligible member must meet certain additional requirements to reach the decision point, at which point the Executive Boards of the Fund and IDA formally decide on its qualification for debt relief, and the international community commits to reducing its debt to the agreed sustainability threshold. These requirements include: (i) having debt as of the reference date for the decision point above the relevant HIPC Initiative threshold, even after the full application of traditional debt relief mechanisms; (ii) having a satisfactory poverty reduction strategy (or interim poverty reduction strategy) in place; and (iii) establishing a track record of strong policy performance under a qualifying Fund- and IDA-supported program. At the *decision point*, a country may begin receiving *interim relief* on its debt service falling due. The Fund, IDA, the AfDB, the IaDB, the AsDB and the Paris Club provide interim assistance after the decision point, subject to certain conditions.

In order to receive the full and irrevocable reduction in debt committed at the decision point, the country must: (i) establish a further track record of good performance under Fund- and IDA-supported programs; (ii) implement satisfactorily a number of key reforms agreed at the decision point (the *floating completion- point triggers*); and (iii) prepare a PRSP and implement it satisfactorily for at least one year. Once a country has met these criteria, it can reach its *completion point*, at which time all creditors are expected to provide the full debt relief committed at the decision point. HIPCs whose debt-burden indicators have, for exogenous reasons, deteriorated significantly relative to what was anticipated at the decision point may receive commitments or disbursements of additional debt relief (*topping up assistance*) at the completion point.

The Fund conditions both the provision of its interim assistance and reaching of completion point on receiving *satisfactory assurances* from other creditors that they will provide their share of debt relief ("creditors' participation assurances"). This rule was established to ensure that the debt burden of HIPCs are reduced to sustainable levels, as well as to protect the preferred creditor status and financial integrity of the Fund by fostering broad participation and fair burden-sharing by all creditors. In practice, assurances from creditors accounting for a minimum of 70 percent of HIPC-eligible debt have been required for the provision by the Fund of interim assistance after the decision point and 80 percent for reaching the completion point.

it will support poverty-reduction efforts in beneficiary members; and that all creditors will share the debt-reduction burden. They have evolved since the establishment of the original HIPC Initiative in 1997 to take into account the specific circumstances of HIPCs.

6. **The application of existing rules and policies to Liberia could delay the country's access to debt relief despite its strong policy performance.** Indeed, the combination of rules and policies that govern, on the one hand, the establishment of a track record to reach the decision point and, on the other hand, the need for assurances that the Fund will have available sufficient resources to finance HIPC Initiative and beyond-HIPC debt relief could delay the delivery of debt relief to Liberia and similarly situated countries for reasons beyond the authorities' control.

7. **For a member to establish a track record of policy performance to qualify for debt relief under existing Fund policies and rules, it must fulfill certain requirements.** Under the PRGF-HIPC Trust Instrument, HIPCs that wish to participate in the Initiative must establish a track record of strong policy performance under a specified list of instruments in the period leading up to the decision point.[1] [2] Aside from the RAP, access to these instruments requires the clearance of all arrears to the Fund. Fund policy also requires that qualifying programs—again, aside from the RAP—be fully financed.[3] [4] This involves, where applicable, the clearance of arrears to other creditors on terms compatible with the program, as well as commitments from creditors to provide the financing necessary for the program to

[1] The Fund-supported programs that count for this purpose are programs supported by PRGF, ESF, or Extended Arrangements, or, on a case-by-case basis as determined by the Board, Structural Adjustment Facility (SAF) arrangements, Stand-By Arrangements, decisions on rights accumulation programs (RAP), or emergency post-conflict assistance (EPCA). See PRGF-HIPC Trust Instrument, Section III, Paragraph 2(c) in *Selected Decisions and Selected Documents of the International Monetary Fund.*

[2] The PRGF-HIPC Trust Instrument stipulates that the member must have "established a track record of strong policy performance under Fund-supported programs, covering macroeconomic policies and structural and social policy reforms. This requirement shall normally be satisfied by an initial three-year performance period leading up to the decision point...". In practice, Management now requires a minimum track record of six months under qualifying programs before recommending to the Board that a country reach the decision point. This minimum track record of six months is crucial to allow authorities to demonstrate their commitment and staff to assess that actual implementation of programs is satisfactorily, and thus safeguard the use of Fund resources; it also corresponds to the minimum time normally needed to complete one review under PRGF-supported programs.

[3] In practice, partial program financing assurances (in the sense of an extended period for arrears clearance to some other creditors) have been accepted in certain circumstance in the context of EPCA, but full clearance of arrears to the Fund is still required. See Assistance to Post-Conflict Countries and the HIPC Framework, April 20, 2001.

[4] Although a country may maintain arrears during a RAP, the resolution of these arrears and restoring external sustainability upon the completion of a RAP is envisaged similar to other upper credit tranche programs. Thus, for a RAP to be viable, financing assurances (including for debt relief, where applicable) are needed at the start of a program.

be viable and permit eventual resolution of the member's external payments imbalances and repayment to the Fund ("program financing assurances").[5]

8. **A further essential component of the normalization process for Liberia and other members with protracted arrears to the Fund is that, before the HIPC Initiative process can start, resources must be identified and secured to finance debt relief to these members.** This component is important because, while arrears clearance and new Fund financing would result in these members being current on their obligations to the Fund, it would not provide the substantial debt relief that they need to achieve external sustainability. Because the costs for the Fund of providing debt relief to the three protracted arrears cases—Liberia, Somalia, and Sudan— were not included in the original Fund's financing frameworks for the enhanced HIPC Initiative and the MDRI, resources in the PRGF-HIPC Trust are currently insufficient to allow the Fund to commit debt relief to these countries at the HIPC Initiative decision point. Therefore, additional financing needs to be identified and secured before the normalization process can be started for these countries.[6] Some other multilateral creditors also need to secure additional funds to finance their relief to HIPCs with large arrears to them.

9. **Delays in mobilizing these resources could prevent a member with large arrears to the Fund or other multilateral creditors from starting a track record of policy performance under a qualifying Fund-supported program.** This could occur despite the fact that the quality of the member's policies would be sufficient to warrant Fund support, were financing available. Liberia, for example, has emerged from conflict and strengthened its macroeconomic and structural reform policies to a level that could have warranted support under a PRGF arrangement or a RAP, but this was precluded by the absence of adequate financing assurances for the provision of HIPC Initiative and beyond-HIPC debt relief.[7] In February 2007, and again in July 2007, most Directors agreed with the staff's assessment that

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[5] In this paper, the term "financing assurances" is used to refer to commitments regarding the availability of financial resources in two complementary but separate contexts: in the context of a Fund-supported program ("program financing assurances"), when creditors commit to provide the financing necessary for the program to be viable, including through the clearance of arrears outstanding to them on terms compatible with the program; and in the context of the delivery of HIPC Initiative and MDRI-type debt relief by the Fund ("HIPC financing assurances"), when members and other contributors commit to provide the necessary resources for the Fund to deliver its share of debt relief. Separately, in the context of participation by creditors in the HIPC Initiative ("creditors' participation assurances"), when creditors holding a certain threshold share of HIPC-eligible debt commit to deliver their expected share of HIPC Initiative debt relief.

[6] The normalization process envisaged (and previously used) for a member with protracted arrears to the Fund is that the member receives a bridge loan from bilateral creditors to clear its arrears to the Fund. This would unlock financial support from the Fund, allowing the member to repay the bridge loan and to implement a Fund-supported policy reform program.

[7] Absence of assurances of available resources to finance arrears clearance and debt relief prevented Liberia from using a RAP at an early stage to establish a track record for reaching decision point. Given Liberia's very limited payment capacity, approval for a RAP for Liberia would have also required a modification of the RAP policy to allow the accumulation of arrears to the Fund during the period of the RAP.

Liberia's policies under its staff-monitored program (SMP) met the standards associated with arrangements in the upper credit tranches.[8] Table 1 lists pre-decision-point HIPCs that are currently in arrears with some of their main multilateral creditors and that may experience financing problems similar to Liberia in establishing the track record of policy performance for reaching the HIPC Initiative decision point.

Table 1. Outstanding Arrears to Selected Multilateral Creditors

(In millions of U.S. dollars)

	IMF 1/	*World Bank Group* 1/	*African Development Bank Group* 2/
Comoros	--	--	34.5
Côte d'Ivoire	0.0	503.1	529.4
Eritrea	--	--	0.5
Liberia	859.1	510.8	250.9
Somalia	378.9	171.6	69.2
Sudan	1,635.5	458.6	196.8
Togo	0.0	132.1	19.7

Sources: IMF and World Bank.
1/ As of November 30, 2007.
2/ As of October 31, 2007.

10. **If the Fund cannot acknowledge the strong policy performance of a member for the purpose of a track record toward reaching the HIPC Initiative decision point owing to a lack of adequate financing assurances, then the member is in effect penalized by requiring of it a longer track record before the decision point.** A member undertaking a strong reform program while awaiting HIPC or program financing assurances would still need to establish the required track record under one of the qualifying instruments once the financing assurances are in place, thus delaying its access to debt relief. The delay may significantly undermine the reform effort if political support for a reform-oriented government dwindles. It could also delay progress with resolving arrears to private creditors. One mechanism which can sometimes help countries resolve arrears to private creditors, the World Bank's Debt Reduction Facility for IDA-only countries (DRF), becomes technically available only after the country reaches the decision point.

11. **To address this issue, staff proposes that the PRGF-HIPC Trust Instrument be amended so that performance under SMPs may be counted as a track record toward**

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[8] In the July discussion, most Directors agreed with the staff's assessment that the macroeconomic and structural policies under Liberia's 2007 SMP meet the standards associated with arrangements in the upper credit tranches. A few Directors, however, reserved their position on that point or noted that such a Board assessment would not be in line with the character of an SMP.

reaching the decision point.[9] SMPs could be counted for these purposes only in cases where the Board agrees with the staff's assessment that macroeconomic and structural reform policies under the SMP meet the policy standards associated with programs supported by arrangements in the upper credit tranches or under the PRGF ("SMPs of UCT quality policies"). As discussed below, this would preserve HIPC Initiative standards: the UCT quality standard is the same as that applicable in the RAP context and is more stringent than that currently required for EPCA—one of the qualifying instruments for decision-point purposes under the HIPC-PRGF Trust.[10] Unlike RAPs, however, SMPs can be approved by Management and endorsed by the Board even in the absence of HIPC financing assurances. Also, unlike non-RAP Fund-supported programs, SMPs do not necessarily require either the clearance of arrears or program financing assurances. Thus, SMPs could begin to count toward the decision-point track record for strong-performing members while efforts to secure various financing assurances were under way. Staff also proposes that a conforming amendment be made to the PRGF-HIPC Trust Instrument to include such SMPs among the programs that members may use to establish formal eligibility for HIPC Initiative debt relief.[11] The proposed amendments would require a decision by the Fund, as Trustee of the PRGF-HIPC Trust, taken by a majority of the votes cast.

III. Policy Issues and Suggested Implementation Modalities

12. **Implementing the proposed change in the track record requirement under the HIPC Initiative requires understandings on certain subsidiary policy issues.** These include: (i) the criteria for determining that an SMP is of UCT quality; (ii) program financing issues; (iii) the role of the Executive Board in assessing that an SMP is of UCT quality; and (iv) uniformity of treatment.

A. Criteria for Determining Staff-Monitored Program's (SMP's) Upper Credit Tranche (UCT) Quality

13. **The determination that an SMP is of UCT quality would involve an assessment by the Board that the strength of the macroeconomic and structural policies under the SMP would be sufficient to justify Fund support in the upper credit tranches or under the PRGF should sufficient financing assurances for the program and debt relief be available**. In other words, that the sole obstacles to such Fund financial support are a combination of the member's ineligibility to use Fund resources, the absence of full financing assurances for the program, and, if applicable, its participation in the HIPC Initiative and MDRI. This is the same policy assessment that is required every time the

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[9] PRGF-HIPC Trust Instrument, Section III, Paragraph 2(c) in *Selected Decisions and Selected Documents of the International Monetary Fund.*

[10] The UCT quality requirement signifies that there should be no watering down of the HIPC Initiative's substantive policy performance standards as a result of the proposed amendment.

[11] See PRGF-HIPC Trust Instrument, Section III, Paragraph 1(b) in *Selected Decisions and Selected Documents of the International Monetary Fund.*

Board approves a PRGF arrangement, an upper credit tranche stand-by or extended arrangement, or a RAP, with the difference that this assessment would focus solely on the member's policies and would not consider financing assurances. Thus, a qualifying SMP would require neither full program nor HIPC financing assurances in order to count toward the HIPC Initiative track record.

14. **The policies required for an upper credit tranche or PRGF arrangement have two main objectives: solving the member's balance of payments problem without recourse to measures destructive of national or international prosperity, and achieving medium-term external viability while fostering sustainable economic growth**. This implies that macroeconomic and structural policies under an SMP would be judged of UCT quality when they are deemed adequate to restore a viable external position and sustainable economic growth if they were to be combined with sufficient program financing and debt relief. Thus, staff projections would need to show that the continued application of these policies, combined with the provision of program financing and debt relief, would lead to a sustained improvement over the medium term of macroeconomic performance, including the external payment capacity. Whether a given set of policies meets upper credit tranche standards generally depends on the financing available to the member. Thus, to meet the standard will normally require tighter policies when financing is constrained than when it is abundant. But in all cases the policies are judged in terms of their compatibility with available financing. The innovation in RAPs, and that being proposed here, is that certain elements of financing, such as arrears clearance, which will only be delivered in the future, are brought forward in time for the purposes of assessing the quality of policies.

B. Program Financing Issues

15. **With the focus on the quality of the member's policies rather than on full program financing, the proposal includes complementary requirements to ensure that payments discipline is not undermined**. In particular, it is proposed that members not eligible for a RAP could have a qualifying SMP only if they have no arrears to the Fund, and, if they have arrears to the World Bank, there is an agreed financing plan and a timetable for normalizing financial relations with the Bank. Arrears to other creditors may also be tolerated, so long as macroeconomic and structural policies continue to be of UCT quality.

16. **Greater flexibility is proposed for RAP-eligible members.**[12] Specifically, these members would generally be subject to the same financing requirements as non-RAP eligible members, except that they would not be required to clear existing arrears to the Fund either prior to or during a qualifying SMP. They would normally be expected to remain current on new obligations falling due to the Fund. However, RAP-eligible members that have emerged from conflict and have severely limited payments capacity could, to the extent their payments capacity required it, be allowed to accumulate new arrears to the Fund during the

[12] The remaining RAP-eligible members are Liberia, Somalia, and Sudan.

period of a qualifying SMP.[13] The greater flexibility proposed for these members would be consistent with the current approach in the PRGF-HIPC Trust Instrument, which allows them to establish a track record toward the decision point on the basis of a RAP even while maintaining arrears to the Fund. However, the proposal would introduce the additional limited flexibility to allow RAP-eligible members to accumulate new arrears to the Fund during the period of a qualifying SMP, in the limited circumstances described above.

C. The Role of the Executive Board

17. **The inclusion of SMPs in the list of instruments that count for the track record leading to the HIPC Initiative decision point would not change the respective roles of the Board and Management with respect to such programs**. SMPs would continue to be approved by Management, and not by the Board. Moreover, the determination that a given SMP is of UCT quality would only be for purposes of determining the member's eligibility and its qualification for HIPC Initiative assistance at the decision point.[14]

18. **Under the proposed amendment, the Board would retain its determinative role in assessing whether or not the quality of a member's actual policy performance is sufficient to justify the member's reaching the decision point**. Thus, the determination that an SMP should provide the track record to reach the decision point would be based not only on the Board's agreement with staff's assessment that the policies under the program were of UCT quality, but also on the Board's satisfaction with actual implementation of the program after an appropriate performance period (Box 2).

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[13] The assessment of the member's payment capacity would take into account the member's overall external position, including debt service falling due and payments to other creditors. It would be expected that the member would agree that, owing to its severely constrained payment capacity, its payments to other creditors will also be limited (which could imply further accumulation of arrears to these creditors).

[14] The Board has on several previous occasions assessed members' performance under SMPs. Besides Liberia, the Board has also made UCT quality determinations in the case of Sudan—another member with protracted arrears. In particular, it concluded that the quality of Sudan's policies under past SMPs was equivalent to what would be required under a RAP.

Box 2. Operational Modalities for Using SMPs of UCT Quality as Track Record under the HIPC Initiative

- The Board's agreement with staff assessment that the macroeconomic and structural policies under a given SMP are of UCT quality would be recorded in a Summing Up or the Chairman's Closing Remarks of the Board discussion.

- The relevant period of policy performance would begin as of the date of the Board determination.

- Reaching the decision point would require an assessment by the Board that the member's performance under the SMP has been satisfactory for a sufficient period of time (a minimum of six months, under current practice). In making this assessment, the Board would be expected to follow similar modalities and practices to those used in assessing performance under Fund-supported programs (e.g., taking into account the factors considered in granting waivers of nonobservance of performance criteria).

D. Uniformity of Treatment

19. **As with previous amendments to the PRGF-HIPC Trust Instrument, the proposed amendment would apply uniformly to all members that are eligible or potentially eligible for HIPC Initiative debt relief and have not yet reached the decision point**. Thus, the greater flexibility embodied in the proposed amendment would be available not only to Liberia, but to any other pre-decision-point HIPC that adopts and implements an SMP of UCT quality. Table 2 provides information on the current form of Fund program engagement, if any, with the nine pre-decision-point HIPCs. Of these, only three (Côte d'Ivoire, the Kyrgyz Republic, and Nepal) have started building a HIPC Initiative track record under one of the qualifying instruments currently listed in the PRGF-HIPC Trust Instrument. Of the remaining six countries, two (Liberia and Sudan) currently have SMPs, and one (Togo) had an SMP until recently.[15]

[15] Togo had an SMP which expired at the end of June 2007. Discussions with Togo on a program that could be supported under the PRGF are well-advanced. Progress is also being made toward the clearance of significant arrears to the World Bank that would be needed to allow presentation of a request for a PRGF arrangement to the Executive Board. However, in the event that arrears clearance delays this move to a new PRGF arrangement, the proposed amendment would allow Togo the alternative of beginning to build a track record under an SMP, provided that the Executive Board agrees that the SMP is of UCT policy quality.

Table 2. Program Status of Pre-Decision-Point HIPCs

As of December 1, 2007

Comoros	No current program engagement
Cote d'Ivoire	EPCA approved on 08/03/07
Eritrea	No current program engagement
Kyrgyz Republic	PRGF approved on 3/15/05. In a letter dated 3/25/07, the Kyrgyz authorities indicated that they do not wish to participate in the HIPC Initiative
Liberia	RAP-eligible; SMP in place for the period starting February 2006 to present
Nepal	PRGF approved on 11/19/03, and extended until 11/18/2007
Somalia	RAP-eligible; no current program engagement
Sudan	RAP-eligible; SMPs in place since 1997, with the current one for the period of July 2007 to December 2008
Togo	SMP was in place for the period of October 2006 to June 2007

20. **The proposed amendment would be drafted so as to apply to Board determinations of UCT quality that are made both before and after the amendment becomes effective.**[16] Accordingly, the assessment by most Executive Directors in February 2007 and July 2007 that the macroeconomic and structural policies under Liberia's current SMP were of UCT quality would enable Liberia's performance under the SMP to be considered for the purpose of establishing a track record toward the HIPC Initiative decision point. The Board has not expressed the view that macroeconomic and structural policies under any other SMP that is now in place are of UCT quality. However, the proposed

[16] In comparison, the PRGF-HIPC Trust Instrument provides that members could receive credit toward the decision point for programs that were underway prior to the adoption of the HIPC Initiative. See PRGF-HIPC Trust Instrument, Section III, Paragraph 2(c) in *Selected Decisions and Selected Documents of the International Monetary Fund.*

amendment would apply if such a determination were to be made by the Board for any other SMP before the amendment becomes effective.[17]

IV. Other Policy Considerations

A. Satisfactory "Creditors' Participation" Assurances

21. **No changes are proposed in the minimum Management-applied creditor participation threshold for the provision of the Fund's interim assistance under the HIPC Initiative**. Thus, Management will continue to recommend Board approval of Fund interim assistance only where there are satisfactory assurances that creditors holding a minimum of 70 percent of HIPC-eligible debt (i.e., after traditional debt relief) will provide their expected share of HIPC Initiative relief. Although data on commercial debts remain provisional, they suggest that most pre-decision-point HIPCs, including Liberia, would be eligible under the current threshold to receive interim assistance from the Fund once they reach decision point. Among pre-decision-point HIPCs, only Sudan currently has obligations to non-Paris Club official bilateral creditors and commercial creditors accounting for over 30 percent of its HIPC-eligible debt (Table 3 and Box 3).

Table 3. Share of Selected Creditor Groups in HIPC-Eligible Debt
(In percent)

	Non-Paris Club Creditors	Commercial Creditors
Comoros	11.5	1.3
Côte d'Ivoire	0.5	25.2
Eritrea	22.7	0.0
Kyrgyz Republic	2.6	0.0
Liberia	3.3	18.2
Nepal	0.9	0.0
Somalia	11.3	0.0
Sudan	31.3	6.9
Togo	10.0	0.0
Average for pre-decision-point HIPCs	***10.5***	***5.7***
Average for post-decision-point HIPCs	***9.5***	***2.9***

Note: Data available for pre-decision-point HIPCs are estimates and may understate the size of commercial claims, as additional commercial claims tend to be brought to light as the HIPC Initiative process unfolds.

[17] While the Board has made UCT quality determinations about past Sudan's SMPs, no such determination has been made about the SMP that is currently in place.

Box 3. Commercial Creditors' Participation in the HIPC Initiative

As a coordinated international debt-relief mechanism, the HIPC Initiative encourages broad and equitable participation by all creditors. While the record indicates a high degree of participation by Paris Club creditors and most multilateral institutions, delivery of debt relief by non-Paris Club and commercial creditors remains low. Furthermore, commercial creditors' lawsuits against HIPCs represent a growing challenge to the implementation of the HIPC Initiative, as successful litigation diverts resources from HIPCs' poverty reduction and growth efforts, and forces uneven sharing of the debt-relief effort.

HIPCs are expected to negotiate with all their creditors in good faith. Creditors participating in the HIPC Initiative have relied on moral suasion to convince other creditors to join. They have also stepped up their efforts to discourage litigation against HIPCs and their provision of technical and legal advice. Fund and World Bank staffs have increased outreach to raise public awareness on this issue and to help catalyze the provision of relief by commercial creditors while still respecting the Bank and Fund's requirement to operate with neutrality. In addition, the World Bank's Debt Reduction Facility for IDA-Only Countries can channel grant assistance from bilateral donors and IBRD net income to help HIPCs extinguish their commercial debt through buybacks at a deep discount after decision point. However, it remains possible that commercial creditors will be unwilling to participate in such buyback operations, given the deep discount that is required and their possible expectations for a higher recovery price in the future. The international community's tools for encouraging the participation of private creditors are limited.

B. Delivery of MDRI-type, beyond-HIPC Relief to the Protracted Arrears Cases

22. **The Fund will provide MDRI-type, beyond-HIPC debt relief to all the protracted arrears countries that reach the completion point if resources for such relief become available**. However, it is not proposed that the existing MDRI Trusts be amended to make these countries eligible under the Trusts.[18] Instead, country-specific administered accounts with terms similar to the MDRI Trusts could be established to facilitate fund-raising and delivery of beyond-HIPC debt relief to the protracted arrears countries. A structure has already been approved by the Board to deliver beyond-HIPC debt relief to Liberia via a new administered account.

V. Conclusion

23. **Staff considers that the proposed amendment represents a reasonable balance between preserving the spirit of the HIPC Initiative and allowing strong-performing members for whom adequate financing assurances are not in place to build the necessary track record toward the decision point**. The modalities suggested above will mitigate to a great extent the risks that could be associated with the proposed amendment of

[18] Under the existing rules, Liberia and other countries with protracted arrears would not be eligible for MDRI debt relief because their debt after arrears clearance would have been contracted after end-2004, i.e., after the MDRI cut-off date.

the PRGF-HIPC Trust Instrument. In particular, the risk of a watering down in HIPC Initiative standards should be effectively constrained by the UCT quality requirement for qualifying SMPs, and by the determinative role that the Executive Board will have in the process. Finally, the amendment will apply to all similarly situated, pre-decision-point HIPCs, and thus is in line with uniformity of treatment principles.