IMF Working Paper

© 1997 International Monetary Fund

This is a *Working Paper* and the author(s) would welcome any comments on the present text. Citations should refer to a *Working Paper of the International Monetary Fund*. The views expressed are those of the authors(s) and do not necessarily represent those of the Fund.

WP/97/24

INTERNATIONAL MONETARY FUND

Policy Development and Review Department

Debt Relief for Low-Income Countries and the HIPC Initiative

Prepared by Anthony R. Boote and Kamau Thugge[1]

Authorized for distribution by Anthony R. Boote

March 1997

Abstract

The paper describes the debt burden of low-income countries and the traditional mechanisms that have been implemented by the international community to alleviate this burden. While these mechanisms are sufficient to reduce the external debts of many heavily indebted poor countries (HIPCs) to sustainable levels provided these countries implement sound economic policies, they are likely insufficient for a number of countries. To deal with these cases, the World Bank and the IMF have jointly proposed and implemented the HIPC Initiative. The paper describes this Initiative and suggests that it should enable HIPCs to exit from the debt rescheduling process.

JEL Classification Numbers: F34, F35, H63

Keywords: External Debt, Heavily Indebted Poor Countries Initiative

Authors E-Mail Address: aboote@imf.org, kthugge@imf.org

[1]Opinions expressed represent the views of the authors and not necessarily those of the International Monetary Fund. Helpful comments were received from Jack Boorman, Doris Ross and Christina Daseking and from Fred Kilby and Axel van Trotsenburg (World Bank).

Contents

Page

Summary 3

I. Traditional Debt Relief Mechanisms 4

II. The HIPC Initiative 14

III. Status of Implementation of the Initiative 22

IV. Conclusion 22

Text Box

1. Paris Club Naples Terms 12

Charts

1. Developing Countries: Public External Debt by Creditor, 1980-95 8
2. Heavily Indebted Poor Countries (HIPC) Debt Initiative 19

Text Tables

1. Status of Paris Club Rescheduling Countries (as of December 31, 1996) 5
2. Some Characteristics of the External Debt of HIPCs 6
3. External Debt of Heavily Indebted Poor Countries: Characteristics of Existing Debt 7
4. Evolution of Paris Club Rescheduling Terms 11
5. Commercial Bank Debt and Debt-Service Reduction Operations, 1987-August 1996 13
6. Heavily Indebted Poor Countries: Net Disbursements from Multilateral Institutions, 1980-95 15
7. Heavily Indebted Poor Countries (HIPCs): Net Concessional Flows, Debt Service Due and Paid, 1990-94 16

Appendix I. The HIPC Debt Initiative 24

SUMMARY

Since the onset of the debt crisis in the early 1980s, many heavily indebted poor countries (HIPCs), continue to have difficulty in paying their external debt-service obligations, largely because of exogenous factors, imprudent debt-management policies, and the lack of sustained adjustment or implementation of structural reforms. The international community over the past decade has implemented a wide range of traditional mechanisms designed to provide needed external finance and alleviate the debt burden of these countries. These traditional mechanisms, along with sound economic policies, are sufficient to reduce the external debts of many HIPCs to sustainable levels. For the others, the Bretton Woods institutions have jointly proposed and put in place the HIPC Debt Initiative; the goal is reduce the debt burdens of all eligible HIPCs to sustainable levels.

In the context of the initiative, Paris Club creditors are willing to provide debt reduction in net present value terms of up to 80 percent on eligible debt, on a case-by-case basis. Other nonmultilateral creditors would be expected to provide debt relief on at least comparable terms. Multilateral creditors, in accordance with their charters, are expected to take action to reduce the burden of their claims on a given country to achieve a sustainable debt position.

Despite the initiative, most HIPCs will continue to need concessional external assistance given their high levels of poverty and limited domestic resources. Moreover, many face serious infrastructural problems, and some also need to address problems of governance, particularly as they influence investor confidence.

The initiative establishes a new paradigm for international action. Its implementation should eliminate debt as an impediment to economic development and growth and enable HIPC governments to focus on the difficult policies and reforms required to remove the remaining impediments to achieving sustainable development.

I. Traditional Debt Relief Mechanisms

Background

Since the onset of the debt crisis in the early 1980s, which affected both middle- and low-income countries, the debt situation of middle-income debtor countries has improved significantly. Many of these countries have benefitted from concerted support by the international financial community in the form of Paris Club flow reschedulings (Table 1), Brady stock-of-debt deals, and adjustment programs supported by the multilateral financial institutions. These instruments have proved to be effective mechanisms for allowing countries to normalize relations with external creditors and to resume sustainable growth. Recent years have witnessed a re-entry to international capital markets by many middle-income countries that had been most severely affected by the debt crisis.

However, heavily indebted poor countries (HIPCs), most of which are in Sub-Saharan Africa, have continued to experience difficulties meeting their external debt-service obligations on a timely basis. These difficulties can be traced to a combination of several factors, including: (i) exogenous shocks, such as a deterioration in the terms of trade, and adverse weather conditions; (ii) civil strife; (iii) the lack of sustained adjustment or implementation of structural reforms; (iv) the lending policies of many creditors, especially the provision of loans on commercial interest rates with short repayment periods; (v) the lack of prudent debt management policies by debtor countries, driven in part by excessive optimism by creditors and debtors about the prospects for increasing export earnings to build debt-servicing capacity; and (vi) the lack of careful management of the currency composition of external debt. All these factors contributed to increasing the debt burden of the HIPCs.

In several important respects, the external position of the HIPCs differs widely from country to country (Table 2). For example, in 1994, for some HIPCs the external current account was in surplus while for others, deficits exceeded 100 percent of exports. In addition, scheduled debt-service obligations varied widely from less than 20 percent of exports for some countries to more than 100 percent for others, while the actual debt service paid ranged from 5 percent of exports to as much as 50 percent. Finally, the HIPCs were, and continue to be, indebted to a variety of creditors, including Paris Club bilateral creditors, non-Paris Club bilateral creditors (notably Russia), commercial banks, and multilateral institutions (Table 3 and Chart 1). In recognition of the highly varied external positions among the HIPCs, the international financial community has addressed the debt problems of these countries in a manner that ensures that debt relief is given in support of adjustment by debtors on a case-by-case basis, and is tailored to the individual circumstances of the debtor country.

Traditional mechanisms for dealing with the debt problem of the HIPCs

In recognition of the need to address the debt burden of the low-income countries, the international financial community (including Paris Club creditors, non-Paris Club bilateral and commercial creditors, and multilateral institutions) has over the past decade introduced and

Table 1. Status of Paris Club Rescheduling Countries (as of December 31, 1996) 1/
(Dates refer to end of current or last consolidation period) 2/

Low-income 3/		Lower middle-income 4/		Other middle-income		Total
		Countries that graduated from reschedulings 5/				
** Benin	10/96	Dominican Republic	3/93	Argentina	3/95	
** Bolivia	12/95	Ecuador	12/94	Bulgaria	4/95	
** Burkina Faso	6/96	Egypt	6/94 6/	Brazil	8/93	
Gambia, The	9/87	El Salvador	9/91	Chile	12/88	
** Guyana	5/96	Ghana	4/96 7/8/	Costa Rica	6/93 7/	
** Haiti	3/96	Guatemala	3/93	Croatia	12/95	
Malawi	5/89	Jamaica	9/95 7/	FYR Macedonia	6/96	
** Mali	5/96	Kenya	1/94 7/9/	Mexico	5/92	
** Uganda	2/95	Morocco	12/92	Panama	3/92	
* Vietnam	12/93 7/	Philippines	7/94 10/	Romania	12/83	
		Poland	4/91	Trinidad and Tobago	3/91	
				Turkey	6/83	
Subtotal	10		11		12	33
		Countries with rescheduling agreements in effect				
** Cambodia	6/97	Gabon	11/98	Algeria	5/98	
** Cameroon	9/96	Jordan	5/97	Russian Federation	3/99 11/	
** Chad	8/98	Peru	12/98 11/			
** Congo	6/99 12/					
* Cote d'Ivoire	3/97					
** Guinea-Bissau	12/97					
** Honduras	1/97					
** Mauritania	12/97					
** Mozambique	6/99					
** Nicaragua	6/97					
** Niger	6/99					
** Senegal	8/97					
** Sierra Leone	12/97					
** Togo	9/97					
** Yemen	6/97					
** Zambia	12/98 12/					
Subtotal	16		3		2	21
		Countries with previous rescheduling agreements, but without current rescheduling agreements, which have not graduated from reschedulings				
Angola	9/90	Nigeria	3/92	Yugoslavia 13/	6/89	
* C.A.R.	3/95					
* Equatorial Guinea	2/96					
* Ethiopia	10/95 14/					
** Guinea	12/95 14/					
Liberia	6/85					
Madagascar	6/91 14/ 15/					
Somalia	12/88					
Sudan	12/84					
* Tanzania	6/94 14/					
Zaire	6/90 15/					
Total	11		1		1	13
All countries	37		15		15	67

Source: Paris Club.

1/ Includes agreements of the Russian Federation and Turkey with official bilateral creditors.
2/ In the case of a stock-of-debt operation, canceled agreements, or arrears only rescheduling, date shown is that of relevant agreement.
3/ "*" denotes rescheduling on London terms, and "**"denotes rescheduling on Naples terms (stock treatment underlined).
4/ Defined here as countries that obtained lower middle-income but not concessional terms with Paris Club reschedulings; stock treatment underlined.
5/ For some countries, this inevitably represents an element of judgment: in certain circumstances, for example if hit by an external shock, further reschedulings may be required. Some of the low-income countries may be eligible for enhanced action under the proposed HIPC initiative.
6/ The last of the three stages of debt reduction under the 1991 agreement has not yet been implemented.
7/ Rescheduling of arrears only.
8/ Limited deferral of long-standing arrears to three creditors on non-concessional terms.
9/ Nonconcessional rescheduling at the authorities' request.
10/ The 1994 rescheduling agreement was canceled at the authorities' request.
11/ Agreement includes a reprofiling of the stock of certain debts at the end of the consolidation period.
12/ Agreement subject to entry-into-force clause.
13/ Former Socialist Federal Republic of Yugoslavia.
14/ Fund arrangement in place, on which a rescheduling is expected.
15/ Last rescheduling on Toronto terms.

Table 2. Some Characteristics of the External Debt of HIPCs

Country 1/	NPV to exports ratio 2/ 1995	Debt-service ratio 2/ 1995	Percent share in exports in 1995 of: Main product		Three main products	Variability of exports 3/	Noninterest current account in precent of GDP 4/ 5/	Reserve coverage (months of imports) in 1995 6/	Public sector external debt service* payable in 1995 as a percent of: 7/ Government revenue 8/	Government expenditure	Fiscal indicators* as a percent of GDP 5/ Tax revenue	Official grants	Primary balance	NPV of public and publicly guaranteed debt as percent of GDP 5/ 7/
Benin	221.3	8.8	35.9	Cotton	37.9	15.0	-6.3	CFA Zone	15.6	10.5	11.9	5.2	-7.0	56.6
Bolivia	223.4	27.6	12.1	Zinc	31.9	21.2	-6.0	571.8	13.6	11.6	19.5	1.9	1.9	46.3
Burkina Faso	293.8	15.8	38.7	Cotton	54.7	23.1	-10.3	CFA Zone	17.9	10.3	10.9	7.6	-10.1	39.3
Cameroon	409.9	74.0	27.1	Oil	46.9	11.0	5.0	CFA Zone	97.0	70.2	9.3	0.2	3.7	106.0
Chad	139.5	9.7	43.7	Cotton	67.7	13.6	-13.5	520.0	30.1	10.3	7.3	9.9	-2.3	36.0
Congo	423.2	44.8	78.1	Crude oil	87.0	...	-10.4	CFA Zone	120.3	86.5	24.8	1.1	6.1	282.0
Cote dIvoire	340.2	23.1	30.6	Cocoa	48.7	10.2	4.3	CFA Zone	45.8	38.2	17.5	0.7	3.1	143.5
Equatorial Guinea	...	...	...	...	...	...	...	CFA Zone	...	...	...	...	...	...
Ethiopia	...	32.2	36.8	Coffee	46.5	17.9	-3.8	680.0	25.8	17.5	11.8	5.4	-5.7	...
Ghana	218.5	39.6	40.6	Gold	77.0	20.9	-3.2	510.0	...	...	18.3	2.9	1.0	55.2
Guinea	339.8	20.7	37.4	Bauxite	58.5	11.9	-7.0	292.9	22.7	14.2	11.7	4.0	-5.3	73.8
Guinea Bissau	1,881.9	128.6	56.3	Cashew	64.0	30.8	-9.4	260.0	145.8	60.6	6.9	16.3	-11.1	269.8
Guyana	367.0	27.4	20.6	Sugar	49.6	17.5	-4.6	450.0	64.8	58.4	31.6	1.9	-0.5	347.4
Honduras	207.5	31.7	22.5	Coffee	46.3	13.3	-2.5	180.0	66.6	55.2	16.5	0.2	1.4	75.2
Kenya	147.8	24.8	7.3	Tea	15.7	18.3	-2.5	179.1	27.9	26.2	25.5	1.2	5.5	48.2
Lao PDR	183.8	5.2	19.9	Wood	54.7	69.8	-10.8	189.0	9.5	5.4	10.2	5.5	9.4	46.5
Madagascar	485.0	54.2	12.3	Coffee	25.6	20.2	-5.1	146.9	151.6	73.4	8.2	2.9	-1.1	114.2
Mali	145.0	14.2	46.3	Cotton	75.9	20.4	-13.6	813.2	22.0	12.7	10.5	7.4	-8.9	31.8
Mauritania	270.3	88.5	40.0	Iron ore	...	6.5	-3.3	267.7	11.1	10.7	17.9	2.1	2.5	124.7
Mozambique	988.7	27.2	17.8	Prawns	24.9	32.6	-25.5	250.0	41.2	19.3	12.5	11.8	-13.0	204.8
Nicaragua	1,357.5	136.5	20.1	Coffee	39.8	30.3	-18.7	117.7	157.7	113.8	20.3	5.8	-6.4	459.7
Niger	345.8	36.0	50.5	Uranium	69.3	19.3	-7.5	CFA Zone	75.9	35.5	6.6	4.7	-1.4	52.4
Nigeria	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Rwanda	655.7	52.3	55.8	Coffee	66.9	38.2	-20.2	407.2	44.8	14.9	6.6	11.7	-3.4	39.7
Sao Tome and Principe	1,846.4	24.4	50.2	Cocoa	...	13.0	...	116.5	...	...	9.8	25.2	-23.2	380.7
Senegal	141.4	11.5	17.8	Fish	32.2	11.7	-5.1	CFA Zone	24.1	19.8	13.6	3.0	0.6	44.7
Sierra Leone	499.1	84.3	52.8	Rutile	97.3	18.6	-17.6	306.2	33.2	17.0	11.0	4.5	-3.8	71.5
Sudan	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Tanzania	524.9	43.5	12.8	Coffee	26.8	32.7	-17.2	210.0	79.0	53.6	13.1	2.4	-2.9	138.3
Togo	212.3	9.6	19.5	Phosphate	46.0	22.4	-4.4	CFA Zone	20.5	15.8	13.3	2.6	-4.9	66.8
Uganda	271.1	27.5	66.4	coffee	72.3	35.2	-7.3	340.8	28.6	15.7	9.8	5.1	-2.1	32.8
Vietnam	81.7	12.2	14.1	Crude oil	28.7	38.8	-8.7	218.9	18.8	17.6	19.7	0.6	0.8	29.4
Yemen	...	42.1	36.7	Crude Oil	48.7	...	6.6	300.0	38.0	27.4	20.3	0.8	...	...
Zaire	702.3	54.7	21.8	Diamonds	45.7	26.6	-3.7	4.2	308.1	81.4	4.5	2.4	-1.5	183.6
Zambia	318.4	120.6	48.0	Copper	...	20.0	-9.0	160.0	48.9	31.5	15.5	4.4	4.2	100.7

1/ Excluded are those HIPCs for which no debt sustainability analysis has been prepared (Angola, Burundi, Central African Republic, Liberia, Myanmar, and Somalia).
2/ Excluding workers' remittances.
3/ Defined as the standard deviation in export values over the 10-year period 1986-1995 (1985/86-1994/95), in percent of the average
4/ Current account balance excludes interest and net official transfers.
5/ 1995.
6/ Imports of goods and services.
7/ After assumed debt rescheduling/relief, including Paris Club stock-of-debt operation on Naples terms, where applicable.
8/ Excluding grants.
* Note: For Nicaragua and Mali, government refers to central government only.

Table 3. External Debt of Heavily Indebted Poor Countries: Characteristics of Existing Debt

	Total External Debt (End-1994)		NPV of Total Debt Service to Exports 1/ as at End-1994	Eligible for Paris Club Stock of Debt Operations on Naples Terms 2/	Debt by Principal Non-Paris Club Creditor Group 3/				
	Total	Of which: multilateral			Commercial banks	Russia	Multilateral institutions		
	(In US$ billions)	(In percent)	(In percent)				IMF	World Bank	Other
Angola	8.5	1.9	297.6			✔			
Benin	1.5	52.1	172.0	✔ 4/					
Bolivia	4.2	54.4	292.8	✔ 4/					✔
Burkina Faso	1.0	84.7	91.2	✔ 4/					
Burundi	1.1	82.8	301.3				✔	✔	✔
Cameroon	6.2	26.1	259.6	✔	✔			✔	
Central African Republic	0.8	73.1	241.0	✔					
Chad	0.7	79.3	212.7	✔					✔
Congo	4.7	14.9	411.4		✔				✔
Cote d'Ivoire	13.9	24.3	483.2	✔	✔			✔	
Equatorial Guinea	0.2	44.9	316.2	✔					
Ethiopia	4.8	44.1	400.3	✔		✔			
Ghana	4.1	65.0	239.8				✔		
Guinea	2.9	45.3	285.3	✔		✔			
Guinea-Bissau	0.7	49.5	962.1	✔				✔	✔
Guyana	1.8	34.0	314.4	✔ 4/			✔		✔
Honduras	4.0	51.8	272.1	✔				✔	✔
Kenya	6.2	44.6	193.3					✔	
Lao P.D.R.	2.0	26.2	235.1			✔			
Liberia	1.1	38.6	352.3				✔		
Madagascar	3.6	44.8	373.0	✔					
Mali	2.6	47.0	322.4	✔ 4/		✔			
Mauritania	2.1	39.9	348.6	✔	✔				✔
Mozambique	5.0	20.9	1,020.5	✔		✔	✔	✔	
Myanmar	6.1	23.9	432.5		✔				
Nicaragua	9.0	14.6	2,027.9	✔		✔	✔		✔
Niger	1.5	56.3	341.9	✔					
Nigeria	28.5	16.9	305.5		✔				
Rwanda	0.9	82.8	884.3				✔	✔	✔
Sao Tome and Principe	0.2	72.3	1,089.4					✔	✔
Senegal	3.1	56.9	166.8	✔					
Sierra Leone	0.7	45.2	702.7	✔	✔		✔		
Somalia	1.9	40.0	4,287.8			✔	✔	✔	✔
Sudan 6/	16.6	17.0	2,750.0		✔		✔		
Tanzania	6.2	42.3	634.6	✔					
Togo	1.2	55.5	288.9	✔					
Uganda	3.0	68.6	553.7	✔ 4/		✔	✔	✔	
Viet Nam	22.2	1.0	427.3	✔ 5/	✔	✔			
Yemen	5.3	22.7	155.5			✔			
Zaire	9.3	25.1	630.8	✔			✔		✔
Zambia	4.9	40.8	428.5	✔			✔		

Sources: World Bank Debtor Reporting System; and IMF staff estimates.

1/ Using World Bank methodology for calculating NPV of debt, and the current year exports (1994); debt ratios allow cross-country comparison of the debt-service burden but must be interpreted with care.

2/ ✔ indicates whether Paris Club concessional rescheduling has taken place.

3/ ✔ indicates significant debt to the respective creditor.

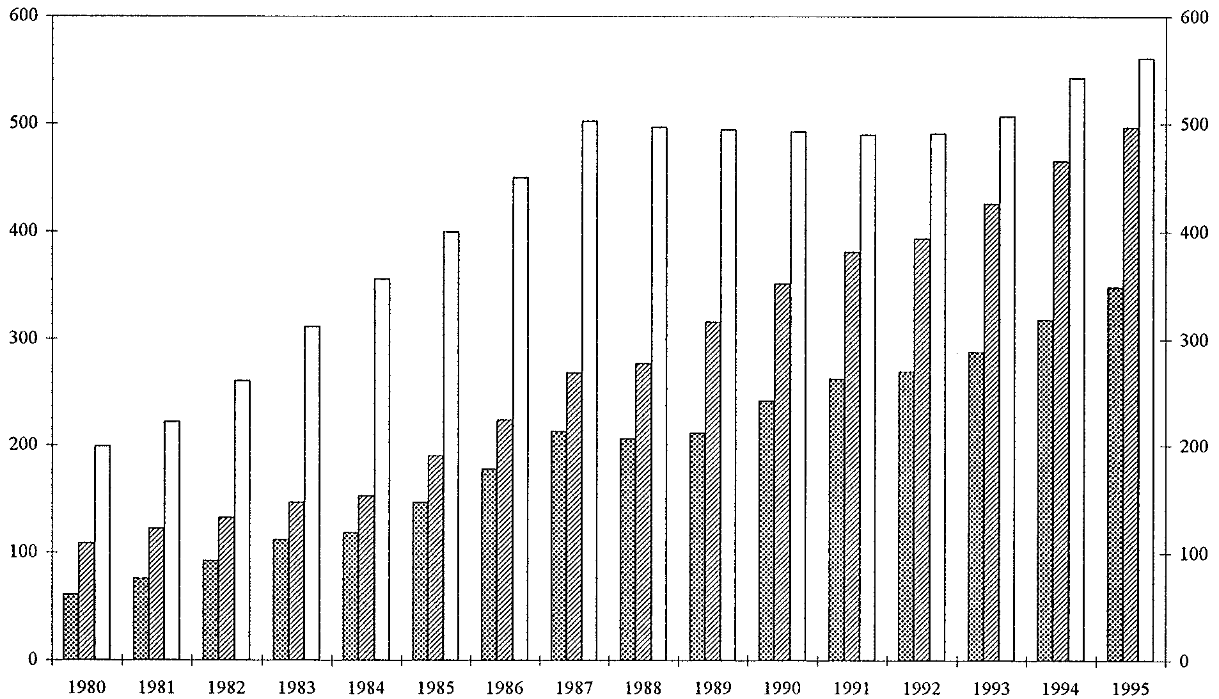
4/ Stock-of-debt operation on Naples terms was agreed in 1995 or 1996

5/ Exit rescheduling, no stock-of-debt clause.

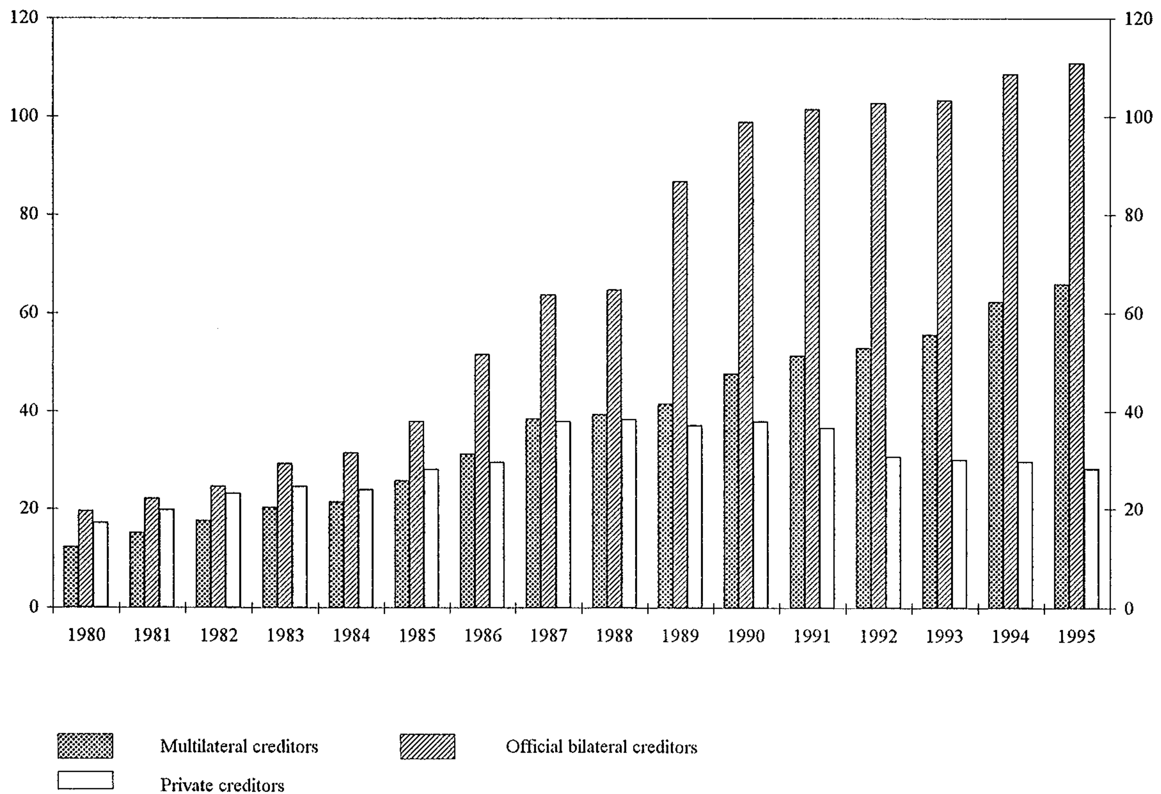
6/ Figures for 1993.

Chart 1. Developing Countries: Public External Debt by Creditor, 1980-95 1/ 2/
(In billions of U.S. dollars)

a. All developing countries



b. Heavily indebted poor countries



Multilateral creditors
Official bilateral creditors
Private creditors

Sources: World Bank Debtor Reporting System (DRS); and IMF staff estimates.

1/ Medium- and long-term public and publicly guaranteed debt; including to the IMF.
2/ The estimates for 1995 are provisional.

implemented a wide range of instruments, "traditional mechanisms," which were designed to alleviate the debt burden of these countries. In general, for the different categories of creditors, the main trend has been a move toward increasing the concessionality of external assistance to the low-income countries.

The "traditional mechanisms" for addressing the debt problems of low-income countries can be summarized as follows: (i) the adoption of stabilization and economic reform programs supported by concessional loans from the IMF and the World Bank; (ii) in support of these adjustment programs, flow rescheduling agreements with Paris Club creditors on concessional terms followed by a stock-of-debt operation after three years of good track records under both IMF arrangements and rescheduling agreements; (iii) agreement by the debtor country to seek at least comparable terms on debt owed to non-Paris Club bilateral and commercial creditors facilitated by IDA debt-reduction operations on commercial debt; (iv) bilateral forgiveness of ODA debt by many creditors; and (v) new financing on appropriately concessional terms.

This process has significant advantages in that it ensures that new concessional financing and debt relief both under flow reschedulings (directly) and under stock-of-debt operations (via the required track record) are given in support of an adjustment effort by the debtor. Moreover, the process provides for a case-by-case treatment of individual debtors—reflecting, as noted above, their widely different external positions—both by creditors (with Paris Club creditors tailoring effective debt relief to financing needs) and by donors (in the consultative group process).

Paris Club creditors

In the early 1980s, Paris Club creditors provided reschedulings for low-income countries on non-concessional "standard terms" with relatively short grace (5 years) and maturity (10 years) periods, and on market-related interest rates. Although the reschedulings for the low-income countries were more comprehensive in coverage and provided for more cash relief than for other debtors, many of these countries continued to have difficulties adhering to the resulting repayment schedules and the rescheduling of interest led to rapid debt accumulation. By the late 1980s, Paris Club creditors recognized that repeated reschedulings on standard terms over a long period did not provide a solution to the debt problems of the low-income countries, and that for most of the low-income countries their debt problems required not only cash-flow relief but also debt reduction. Thus, in late 1988, Paris Club creditors agreed to provide concessional reschedulings for low-income countries on "Toronto terms," a menu of options for debt and debt-service reduction to reduce the net present value (NPV) of rescheduled amounts by up to a third (Table 4). While these reschedulings provided for substantial debt reduction, it became increasingly obvious that for many low-income countries more far-reaching concessions would be needed if their debt situation was to be improved on a durable basis.

Thus, in December 1991, creditors introduced "London terms" and increased the level of debt relief on eligible debt in NPV terms to 50 percent. Subsequently, in December 1994, the level of concessionality for most countries was again increased to 67 percent of eligible debt in NPV terms under "Naples terms" (Box). Under both London and Naples terms, the flow rescheduling agreements included a "goodwill clause", in which participating creditor countries agreed to consider a stock-of-debt operation for countries which had established a good track record of performance for at least three years under an IMF-supported program and on debt-service payments to Paris Club creditors. Such a stock-of-debt operation was viewed as an "exit rescheduling," and creditors had to be confident that the debtor country would be able to meet future debt-service obligations without the need for additional debt relief. Since early 1995, six countries (Benin, Bolivia, Burkina Faso, Guyana, Mali, and Uganda) have agreed comprehensive stock-of-debt operations with Paris Club creditors under Naples terms.

Commercial and non-Paris Club bilateral creditors

To ensure concerted support by the international community, Paris Club rescheduling agreements include a "comparability clause" under which the rescheduling country commits itself to seek at least comparable debt relief from commercial and non-Paris Club bilateral creditors. The clause is intended to ensure equitable burden sharing among the various categories of creditors. In addition, in recent years, low-income countries were able to buy back most of their debt to private creditors which was being traded in the secondary market at a large discount from the face value using funds from the IDA Debt Reduction Facility and from bilateral donors (Table 5).

With respect to official creditors outside the Paris Club, there has been little progress in normalizing relations between creditors and debtors.[2] Discussions between Russia, the major creditor in this group, and the Paris Club on Russia's possible participation in the Club are ongoing, and Russia has indicated a willingness to provide substantial debt relief on its claims on low-income countries.[3]

Multilateral creditors

Multilateral creditors have participated in the efforts of the international community by helping debtor countries to design and implement adjustment and structural reform programs which have been supported by, inter-alia, concessional loans from the IMF and the World Bank. Multilateral financing over the past decade can be characterized by three major trends: (i) the share of multilateral debt in the total for HIPCs has increased as multilaterals continued

---

[2] Major non-Paris Club bilateral creditors include China, Kuwait, Libya, Russia, and Saudi Arabia—Kuwait sometimes participates in Paris Club reschedulings.

[3] As indicated, for example, in the terms provisionally agreed with Nicaragua.

Table 4. Evolution of Paris Club Rescheduling Terms

	Middle-Income Countries	Lower-middle income countries (Houston Terms) 1/	Low-Income Countries 2/															
			Toronto Terms Options			London Terms 3/ Options				Naples terms 67 percent NPV debt reduction 4/ Options					Lyon terms 80 percent NPV debt reduction Options 5/			
											DSR							
											Maturing							
			DR	DSR	LM	DR	DSR	CMI	LM	DR	Flows	Stocks	CMI	LM	DR	DSR	CMI	LM
Implemented	...	Since Sept. 1990	Oct. 1988 - June 1991			Dec. 1991 - Dec. 1994				Since January 1995					Since December 1996			
Grace	5-6 1/	up to 8 1/	8	8	14	6	--	5	16 6/	6	--	3	8	20	6	8	8	20
Maturity	9 1/	15 1/	14	14	25	23	23	23	25	23	33	33	33	40	23	40	40	40
Repayment schedule	Flat/ graduated	Flat/ graduated	-------- Flat -------			------ Graduated --------				--------- Graduated ---------					------ Graduated -----			
Interest rate 7/	M	M	M	M	R 8/	M	R 9/	R 9/	M	M	R 10/	R 10/	R 10/	M	M	R 11/	R 11/	M
Reduction in net present value	--	--	33	20-30 12/	--	50	50	50	--	67	67	67	67	--	80	80	80	--
Memorandum items:																		
ODA credits																		
Grace	5-6	up to 10	14	14	14	12	12	12	16	16	16	16	16	20	16	16	16	20
Maturity	10	20	25	25	25	30	30	30	25	40	40	40	40	40	40	40	40	40

Source: Paris Club.

1/ Since the 1992 agreements with Argentina and Brazil, creditors have made increasing use of graduated payments schedules (up to 15 years maturity and 2-3 years grace for middle income countries; up to 18 years maturity for lower middle-income countries.

2/ DR refers to the debt reduction option; DRS to the debt-service reduction option; CMI denotes the capitalization of moratorium interest; LM denotes the nonconcessional option providing longer maturities. Under London, Naples and Lyon terms there is a provision for a stock-of-debt operation, but no such operation took place under London terms.

3/ These have also been called "Enhanced Toronto" and "Enhanced Concessions" terms.

4/ Most countries are expected to secure a 67 percent level of concessionality; countries with a per capita income of more than US$500, and an overall indebtedness ratio on net present value loans of less than 350 percent of exports may receive a 50 percent level of concessionality decided on a case-by case basis. For a 50 percent level of concessionality, terms are equal to London terms, except for the debt-service reduction option under a stock-of-debt operation which includes a three-year grace period.

5/ These terms are to be granted in the context of concerted action by all creditors under the Debt Initiative for Heavily Indebted Poor Countries (HIPCs).

6/ Before June 1992, 14 years.

7/ Interest rates are based on market rates (M) and are determined in the bilateral agreements implementing the Paris Club Agreed Minute. R = reduced rates.

8/ The interest rate was 3.5 percentage points below the market rate or half of the market rate if the market rate was below 7 percent.

9/ Reduced to achieve a 50 percent net present value reduction.

10/ Reduced to achieve a 67 percent net present value reduction; under the DSR option for the stock operation the interest rate is slightly higher reflecting the three year grace period.

11/ Reduced to achieve an 80 percent net present value reduction.

12/ The reduction of net present value depends on the reduction in interest rates and therefore varies. See footnote 8.

Box 1. Paris Club Naples Terms

Key elements of Naples terms, which at end-1994 replaced the previous concessional (Toronto or London) terms, for low-income countries are

- **Eligibility**. Decided by creditors on a case-by-case basis, based primarily on a country's income level. Countries that have previously received concessional reschedulings (on Toronto or London terms) are eligible for Naples terms.

- **Concessionality**. Most countries receive a reduction in eligible non-ODA debt of 67 percent in net present value (NPV) terms. Some countries with a per capita income of more than $500 and a ratio of debt to exports in present value terms of less than 350 percent--decided on a case-by-case basis--receive a 50 percent NPV reduction.

- **Coverage**. The coverage (inclusion in the rescheduling agreement) of non-ODA pre-cutoff date debt is decided on a case-by-case basis in the light of balance of payments needs. Debt previously rescheduled on concessional (either Toronto or London) terms is potentially subject to further rescheduling, to top up the amount of concessionality given.[1]

- **Choice of options**. Creditors have a choice of two concessional options for achieving a 67 (or 50) percent NPV reduction,[2] namely

a debt reduction (DR) option (repayment over 23 years with 6 years' grace), or

a debt-service reduction (DSR) option, under which the NPV reduction is achieved by concessional interest rates (with repayment over 33 years).[3] [4]

There is also a commercial or long maturities (LM) option, providing for no NPV reduction (repayment over 40 years with 20 years' grace).[5]

- **ODA credits**. Pre-cutoff date credits are rescheduled on interest rates at least as concessional as the original interest rates over 40 years with 16 years' grace (30 years' maturity with 12 years' grace for 50 percent NPV reduction).[6]

Flow reschedulings provide for the rescheduling of debt service on eligible debt falling due during the consolidation period (generally in line with the period of the Fund arrangement).

Stock-of-debt operations, under which the entire stock of eligible pre-cutoff date debt is rescheduled concessionally, are reserved for countries with a satisfactory track record for a minimum of three years with respect to both payments under rescheduling agreements and performance under IMF arrangements. Creditors must be confident that the country will be able to respect the debt agreement as an exit rescheduling (with no further reschedulings required) and there must be a consensus among creditors to choose concessional options.

---

[1]Under such topping up, the NPV reduction is increased from the original level given under Toronto or London terms to the new level agreed under Naples terms, namely 67 or 50 percent.

[2]For a 50 percent NPV reduction, the DSR option provides for repayment over 23 years with 6 years' grace and the LM option for repayment over 25 years with 16 years' grace.

[3]For flow reschedulings, there is no grace period, and for stock-of-debt operations the grace period is three years.

[4]There is, in addition, a capitalization of moratorium interest (CMI) option, which also achieves the NPV reduction by a lower interest rate over the same repayment (and grace) periods as the DSR option.

[5]Creditors choosing this option undertake best efforts to change to a concessional option at a later date when feasible.

[6]Creditors can also choose an option reducing the NPV of ODA debt by 67 (or 50) percent.

Table 5. Commercial Bank Debt and Debt-Service Reduction Operations, 1987-August 1996 1/

	Debt Restructured Under DDSR Operation 3/	Debt and Debt-Service Reduction (DDSR) 2/: Debt Reduction: Buy-back	Debt Reduction: Discount Exchange 4/	Debt-Service Reduction: Principal Collateralized Par Bond 4/	Debt-Service Reduction: Other Par Bond 4/	Prepayments Trough Collaterali-zation	Total	Total Debt and Debt-Service Reduction/ Debt Restructured	Cost of Reduction 5/
	(1)	(2)	(3)	(4)	(5)	(6)	(7)=(2)+...+(6)	(8)=(7)+(1)	
				(Concluded agreements)					
Albania (1995)	371	146	--	225	--	--	371	100.0	97
Argentina (1992)	19,397	--	2,356	4,291	--	2,739	9,386	48.4	3,059
Bolivia	643	331	232	29	--	20	612	95.2	61
(1987)	473	253	182	--	--	7	442	93.5	35
(1993)	170	78	50	29	--	13	170	100.0	26
Brazil (1992)	40,600	--	4,974	3,996	337	3,891	13,198	32.5	3,900
Bulgaria (1993)	6,186	798	1,865	--	421	443	3,527	57.0	652
Chile (1988)	439	439	--	--	--	--	439	100.0	248
Costa Rica (1989) 6/	1,456	991	--	--	101	36	1,128	77.5	196
Dominican Republic (1993)	776	272	177	--	--	63	511	65.8	149
Ecuador (1994)	4,522	--	1,180	826	--	596	2,602	57.5	583
Ethiopia (1996)	230	230	--	--	--	--	230	100.0	18
Guyana (1992)	69	69	--	--	--	--	69	100.0	10
Jordan (1993)	736	--	84	111	--	117	312	42.5	118
Mexico 6/	51,902	--	7,953	6,484	--	7,777	22,214	42.8	7,677
(1988)	3,671	--	1,115	--	--	555	1,670	45.5	555
(1989)	48,231	--	6,838	6,484	--	7,222	20,544	42.6	7,122
Mozambique (1991)	124	124	--	--	--	--	124	100.0	12
Nicaragua (1995)	1,099	1,099	--	--	--	--	1,099	100.0	88
Niger (1991)	111	111	--	--	--	--	111	100.0	23
Nigeria (1991) 6/	5,811	3,390	--	651	--	352	4,393	75.6	1,708
Panama (1995)	1,914	--	38	98	353	82	571	30.0	92
Philippines	5,812	2,602	--	516	116	467	3,701	63.7	1,795
(1989)	1,339	1,339	--	--	--	--	1,339	100.0	670
(1992)	4,473	1,263	--	516	116	467	2,362	52.8	1,125
Poland (1994)	9,989	2,424	2,427	796	74	611	6,332	63.4	1,933
Sao Tome and Principe (1994)	10	10	--	--	--	--	10	100.0	1
Sierra Leone (1995)	233	233	--	--	--	--	233	100.0	32
Uganda (1993)	152	152	--	--	--	--	152	100.0	18
Uruguay (1991)	1,608	633	--	160	--	95	888	55.2	463
Venezuela (1990)	19,700	1,411	511	2,012	471	1,639	6,043	30.7	2,585
Zambia (1994)	200	200	--	--	--	--	200	100.0	22
Total	174,090	15,665	21,797	20,195	1,873	18,927	78,457	45.1	25,540
				(Pending agreements)					
Memorandum items:									
Peru (1995) 7/	4,157	1,608	247	94	467	138	2,554	61.4	798
Vietnam (1996) 8/	399	40	87	78	--	29	234	58.7	46

Source: IMF staff estimates.

1/ Debt and debt-service reduction are estimated by comparing the present value of the old debt with the present value of the new claim, and adjusting for prepayments made by the debtor. The methodology is described in detail in Annex 1 of Private Market Financing for Developing Countries (Washington: International Monetary Fund, December 1992). The amounts of debt reduction contained in this table exclude debt extinguished through debt conversions. Year in parenthesis refers to the date of the agreement in principle.

2/ The figure for debt-service reduction represents the expected present value of the reduction in future interest payments arising from the below-market fixed interest rate path on the new instruments relative to expected future market rates. The calculation is based on the estimated term structure in interest rates for U.S. treasury bond at the time of agreement in principle.

3/ Excludes past due interest and includes debt restructured under new money options for Mexic (1989), Uruguay (1991), Venezuela (1989), the Philippines (1992), Poland (1994), Panama (1995), and Peru (1995); the Philippines' (1989) new money option was not tied to a specific value of existing debt.

4/ Excludes prepaymet of principal and interest through guarantees.

5/ Cost at the time of operation's closing. Includes principal and interest guarantees, buy-back costs, and for Venezuela, resources used to provide comparable collateral for bonds prior to 1990. Excludes cash downpayments related to past due interest.

6/ Includes estimated value recovery clauses.

7/ The illustrative scenario assumes an allocation of 40 percent to the par bond, and 30 percent to the discount and FLIRB bond, respectively, excluding a buyback of US$1.5 billion.

8/ The illustrative scenario assumes an allocation of 10 percent to the buyback option, and 45 percent to the par and discount bond options, respectively.

to make large-scale contributions to the financing of these countries; (ii) increasingly, financing has been provided on concessional terms, especially from the IMF (first under SAF and then under the ESAF) and the World Bank (through IDA including supplemental credits under the Fifth Dimension Facility which provides financial support to IDA-only countries with outstanding IBRD debts to cover part of their interest obligations on these loans) providing de facto debt relief as more expensive debt (such as nonconcessional exposure to the IMF) was replaced by concessional debt (such as ESAF); and finally (iii) despite the increase in multilateral debt to the HIPCs, debt-service payments on multilateral debt have remained relatively stable at about 8½ percent of exports per year in 1985–1995 reflecting the increased concessionality of loans.[4]

Positive net resource transfers and new financing on concessional terms

It is important to note that the amounts of grants and new loan disbursements from the creditor/donor community to most HIPCs have exceeded actual debt-service payments on interest and amortization and as a result net transfers were positive. For example, multilaterals as a group have provided to the 41 HIPCs positive net disbursements averaging over US$3 billion a year from 1990–95 and positive net transfers averaging about US$1.5 billion a year over the period 1985–94 and about US$2 billion in 1995 (Table 6). Official bilateral creditors and donors have, through fora such as Consultative Group meetings and the Special Program of Assistance for Sub-Saharan Africa, provided new concessional financing in the form of grants or highly concessional loans partly in order to meet the financing requirements identified under adjustment programs. Thus in 1994, inflows of grants and concessional assistance from official donors were more than three times actual debt service paid. Over the last 5 years, net resource flows (gross flows less principal repayments) including bilateral grants to HIPCs have averaged around 8 percent of GNP (Table 7).

II. THE HIPC INITIATIVE

The traditional mechanisms for dealing with the debt problems of low-income countries are sufficiently robust to deal with the debt burden of many HIPCs and to reduce their external debts to sustainable levels (see definition below). As noted earlier, the external positions of the HIPCs vary widely, and indeed, some countries (such as Ghana, Kenya, and Lao P.D.R.) have never received concessional reschedulings from the Paris Club. Others, like Equatorial Guinea and Vietnam, are unlikely to need the full use of traditional debt-relief mechanisms in order to reach debt levels that are sustainable. However, even with sound economic policies and full use of traditional mechanisms for rescheduling and debt reduction and the continued provision of concessional financing, there are still a number of countries

[4]According to the World Bank Debtor Reporting System, the ratio rose to 11½ percent in 1995 reflecting the clearance of Zambia's arrears to the IMF. Excluding Zambia, it remained at some 8 percent in 1995.

Table 6. Heavily Indebted Poor Countries: Net Disbursements from Multilateral Institutions, 1980-95 1/

	Annual average					Prov.	Annual average			Prov.
	1980-84	1985-89	1990-94	1993	1994	1995	1980-84	1985-89	1990-94	1995
	(In millions of U.S. dollars)						(In percent of exports of goods & services)			
Angola	1	7	19	11	33	56	0.0	0.3	0.6	1.7
Benin	26	39	78	76	102	33	9.2	9.0	14.6	6.5
Bolivia	96	147	134	101	218	158	9.8	19.8	13.7	12.1
Burkina Faso	28	41	85	113	99	125	8.9	10.3	16.0	18.0
Burundi	32	68	56	54	28	15	31.9	53.5	50.1	6.5
Cameroon	56	76	68	-83	183	11	2.6	3.2	2.8	0.4
Central African Republic	20	40	46	27	47	30	11.3	22.6	23.5	14.2
Chad	4	29	76	52	66	60	3.8	15.1	35.3	28.0
Congo	39	35	26	0	151	169	3.3	3.7	2.5	12.9
Côte d'Ivoire	305	15	166	-131	429	178	10.6	0.4	5.0	5.6
Equatorial Guinea 2/	6	8	9	16	6	1	1.7	17.1	15.6	1.0
Ethiopia	52	72	200	374	240	151	8.6	8.7	25.8	16.9
Ghana	134	189	182	206	71	135	23.4	23.0	16.1	8.5
Guinea	24	59	136	220	132	146	4.3	8.7	18.2	18.7
Guinea-Bissau 2/	16	25	23	16	11	19	62.3	117.5	54.9	31.5
Guyana	46	19	53	48	2	13	14.1	7.5	17.4	2.3
Honduras	130	25	107	158	21	-7	15.2	2.6	9.7	-0.5
Kenya	202	89	63	68	25	18	11.1	4.9	2.8	0.6
Lao P.D.R. 2/	9	22	66	82	63	85	16.3	26.5	37.8	...
Liberia	74	16	-2	20	-15	0	14.3	3.4	-0.4	0.0
Madagascar	87	108	70	62	37	-4	21.0	25.7	13.5	-0.5
Mali	59	60	90	49	109	115	23.1	16.9	17.7	21.6
Mauritania	52	38	47	34	84	85	16.5	8.0	9.9	17.8
Mozambique	3	55	167	155	240	220	1.2	22.8	45.8	...
Myanmar	80	51	13	1	-10	29	17.1	12.9	2.1	2.1
Nicaragua	52	14	71	33	160	80	9.9	4.9	18.4	23.0
Niger	42	64	29	19	56	29	9.2	16.7	9.5	11.0
Nigeria	118	285	218	200	168	162	0.9	3.6	1.7	1.7
Rwanda	24	50	44	38	16	89	15.2	27.8	37.2	131.0
São Tomé & Principe	3	7	20	12	13	15	22.9	70.8	187.8	88.4
Senegal	118	109	85	69	77	143	11.9	9.4	5.7	9.2
Sierra Leone	21	6	35	53	112	105	12.0	4.3	22.9	48.7
Somalia	80	54	11	0	0	0	36.4	61.2	12.1	0.0
Sudan	230	95	96	91	8	-40	20.8	8.8	17.4	-6.6
Tanzania	103	121	169	104	125	97	16.4	25.5	28.4	10.4
Togo	42	35	28	-1	41	60	9.5	6.8	6.0	15.3
Uganda	123	72	207	153	227	232	35.8	20.5	87.3	49.9
Vietnam	10	0	53	-37	300	132	0.0	0.0	1.0	...
Yemen, Republic of	84	52	37	48	70	35	2.7	2.7	1.4	1.0
Zaïre	145	139	72	53	-3	-15	7.6	6.6	3.8	-0.8
Zambia	139	74	86	119	105	503	12.2	8.2	7.3	41.6
Total 3/	2,916	2,511	3,239	2,682	3,847	3,464	6.5	6.7	6.6	7.4
Memo items: 4/										
Gross disbursements	3,673	4,508	5,594	4,918	6,400	7,955	8.2	12.0	11.4	17.0
Scheduled debt service	1,412	3,227	3,971	3,656	4,221	6,019	3.2	8.6	8.1	11.4
Net transfer	2,261	1,281	1,623	1,262	2,179	1,936	5.0	3.4	3.3	5.6

Sources: World Bank Debtor Reporting System (DRS); and IMF staff estimates.

1/ Medium and long-term public and publicly guaranteed debt; including to the IMF.

2/ Annual average of net disbursements in percent of exports of goods and services is calculated only for selected years due to the lack of export data.

3/ Total for 1995 excludes exports of Lao P.D.R., Mozambique and Vietnam, for which data were not available.

3/ Exports of goods and services of the countries for which data for 1995 is not available are estimated on the basis of a stylized nominal export growth of 6 percent per annum.

Table 7. Heavily Indebted Poor Countries (HIPCs): Net Concessional Flows, Debt Service Due and Paid, 1990 - 1994 1/

(In Percent of GNP)

	1990			1991			1992			1993			1994		
	Net Concessional Flows	Debt Service		Net Concessional Flows	Debt Service		Net Concessional Flows	Debt Service		Net Concessional Flows	Debt Service		Net Concessional Flows	Debt Service	
		Due	Paid		Due	Paid		Due	Paid		Due	Paid		Due	Paid
Angola	2.5	8.4	3.3	2.7	11.9	3.4	3.0	16.6	3.5	3.6	26.7	2.8	9.1	29.2	2.0
Benin	11.8	6.1	2.1	11.7	3.3	1.6	11.1	2.6	1.2	9.5	2.7	1.6	12.9	3.5	2.8
Bolivia	8.7	15.7	9.1	14.9	10.3	6.7	8.6	9.5	6.1	6.6	9.7	6.7	8.0	8.0	6.5
Burkina Faso	8.3	1.8	1.3	12.3	2.9	1.7	11.3	1.5	1.2	12.6	1.9	1.3	10.3	1.5	1.5
Burundi	19.1	3.8	3.8	15.9	3.3	3.4	22.7	4.1	3.7	18.4	4.5	3.9	31.4	4.5	4.6
Cameroon	3.8	7.4	4.2	2.9	6.1	3.6	5.2	10.2	3.5	3.5	8.0	4.3	9.3	16.0	5.5
Central African Republic	15.3	3.8	2.3	13.3	2.3	1.2	10.3	2.8	1.2	11.4	3.1	0.8	15.5	9.1	2.7
Chad	20.6	1.6	1.0	16.0	1.3	0.9	14.1	1.5	0.9	13.7	1.6	1.1	18.9	2.8	1.6
Congo	6.8	50.7	21.8	2.4	30.6	12.4	2.1	22.6	6.3	3.6	22.4	5.9	29.0	131.2	47.8
Cote d'Ivoire	6.5	29.1	13.7	6.2	24.4	15.2	5.7	19.5	12.8	6.8	18.1	12.5	25.4	45.3	23.4
Equatorial Guinea	41.5	15.5	4.0	14.7	20.1	3.2	25.0	11.2	2.1	18.3	5.2	0.8	9.2	13.8	1.2
Ethiopia	9.6	5.1	2.8	9.5	4.5	1.4	10.8	4.7	1.1	14.9	5.2	1.5	18.2	8.9	2.0
Ghana	12.0	6.0	5.9	11.9	5.0	4.4	7.8	4.7	4.9	8.9	5.3	5.1	8.9	6.2	6.5
Guinea	8.9	10.3	6.5	11.5	8.2	4.8	13.2	10.6	3.0	12.8	7.3	2.7	8.3	7.4	2.9
Guinea-Bissau	39.5	19.1	3.6	39.8	21.7	3.6	29.0	23.0	4.1	21.6	19.8	1.9	28.9	28.6	2.8
Guyana	71.0	154.1	107.5	107.2	73.6	47.8	32.2	56.6	38.6	29.5	40.7	24.8	12.2	36.0	21.2
Honduras	12.0	25.1	14.2	23.6	14.1	11.2	11.0	16.8	12.4	9.7	17.5	11.8	8.6	16.2	14.9
Kenya	16.7	9.6	9.7	10.1	10.4	9.4	7.6	10.2	8.8	10.6	15.2	12.3	7.9	21.0	13.7
Lao P.D.R.	22.3	1.1	1.0	15.1	0.8	0.8	9.1	0.8	0.8	9.2	2.1	2.1	9.2	1.3	1.3
Liberia	5.6	20.0	0.3	10.7	14.7	1.3	7.2	2.9	0.0	9.8	5.3	1.6	3.5	10.8	1.0
Madagascar	18.1	13.3	7.4	17.4	15.9	6.5	10.3	14.0	3.5	9.2	10.1	2.4	12.3	22.9	3.3
Mali	13.4	5.9	2.6	13.3	7.5	1.3	11.1	6.1	1.5	8.2	7.1	1.5	15.2	10.8	7.1
Mauritania	15.6	21.9	15.5	15.0	18.6	9.1	15.6	22.5	7.5	31.4	40.2	14.3	21.3	19.5	10.8
Mozambique	74.7	52.7	4.9	78.1	31.2	5.3	85.9	52.4	6.2	63.2	27.8	8.2	72.0	29.6	7.5
Myanmar	1.2	3.0	0.6	0.8	2.8	0.7	0.7	2.7	0.4	0.4	2.5	0.7	0.7	3.4	1.0
Nicaragua	50.8	98.0	1.6	69.5	157.0	41.0	43.1	66.0	7.9	16.8	21.8	9.4	22.1	106.3	13.3
Niger	12.8	6.7	4.1	12.3	6.8	4.7	12.3	5.5	2.3	12.7	7.4	4.2	20.8	16.1	4.4
Nigeria	0.7	21.8	11.4	0.6	18.4	9.9	0.5	23.1	13.8	-0.2	18.2	5.8	-0.3	17.8	5.9
Rwanda	8.6	1.0	0.9	14.7	1.5	1.5	15.7	1.7	1.5	17.0	2.1	1.4	105.9	5.5	1.1
Sao Tome and Principe	90.0	20.8	5.9	130.9	18.0	4.0	114.4	24.3	6.8	104.2	40.9	7.7	159.4	37.2	11.5
Senegal	12.7	7.3	5.9	8.2	8.0	5.9	9.3	5.9	3.6	6.5	6.1	2.2	14.3	12.5	5.3
Sierra Leone	9.2	11.3	2.0	12.7	10.7	2.2	14.7	37.2	5.8	32.2	12.8	4.3	17.2	25.5	19.7
Somalia	43.9	28.8	1.3	20.3	22.2	0.0	90.3	16.4	0.0	94.0	16.7	0.0	57.7	20.0	0.0
Sudan	6.9	19.1	0.6	9.3	15.0	0.3	6.7	8.3	0.5	3.1	6.4	0.2	2.9	9.8	0.0
Tanzania	37.1	21.8	7.4	34.5	20.9	7.6	41.7	31.6	9.5	41.2	35.0	10.0	34.8	25.8	8.2
Togo	12.1	10.1	5.4	8.8	6.0	3.4	8.7	6.3	2.2	5.1	6.8	2.1	11.7	12.0	2.6
Uganda	11.8	6.3	3.5	14.7	7.9	4.6	20.1	7.6	4.2	18.3	7.2	5.2	14.4	4.6	3.9
Viet Nam	...	...	...	-0.1	25.2	2.4	2.7	31.5	5.1	0.2	10.4	3.9	4.4	15.8	1.9
Yemen	5.0	8.9	2.7	3.4	9.6	4.6	4.6	18.9	3.6	5.0	16.6	3.8	2.8	9.8	3.9
Zaire	7.9	16.3	4.8	7.5	16.6	2.3	2.4	12.7	1.0	1.4	9.8	0.3	2.6	15.0	0.8
Zambia	23.6	41.1	6.7	23.7	28.0	20.0	30.0	23.0	12.3	21.5	19.2	11.0	16.9	20.1	11.4
All HIPCs	9.0	15.5	6.6	8.5	14.0	5.9	8.1	14.2	5.8	7.1	11.5	4.4	8.3	15.8	5.3

Source: World Bank DRS.

1/ Net concessional flows consist of net concessional flows from multilateral and bilateral creditors and grants, (excluding technical cooperation). Debt service due and debt service paid include payments related to the regularization of arrears.

which are not expected to reach sustainable levels of debt within reasonable time horizons. To deal with this problem, the Bretton Woods institutions jointly proposed and put in place, in September 1996, the HIPC Debt Initiative that aims at reducing the debt burdens of all eligible HIPCs to sustainable levels, provided they adopt and pursue strong programs of adjustment and reform. This Initiative builds on and completes the arsenal of instruments available to the international community to deal decisively with the debt problems of the low-income countries and allows them to exit, once-and-for-all, from the rescheduling process.

An important benefit of exiting from the rescheduling process is a return to normal relations with the international financial community, characterized by spontaneous financial flows and the full honoring of commitments. In addition, repeated reschedulings involve significant costs for policy makers and create uncertainty about future debt relief, and may foster the belief on the part of borrowers that financial contracts need not be honored. The Initiative would also reduce what is known as the "debt overhang," namely the negative impact of a large external debt burden on economic growth. A "debt overhang" can contribute to investment disincentives, and could delay private capital flows required to generate sustainable growth. While the debt burden is only one problem amidst a host of challenges faced by these countries, the removal of the debt overhang via implementation of the HIPC Debt Initiative will permit HIPCs to focus on the policies required to tackle other impediments to sustainable growth, including inadequate physical infrastructure, untrained workforces, and weak institutions.

The main objectives of the HIPC Initiative

The Initiative is intended to deal in a comprehensive manner with the overall debt burden of eligible countries and to reduce it to a sustainable level within a reasonable time horizon. The Initiative involves a commitment made at the decision point—after a 3-year track record—by the international financial community to provide sufficient debt relief to reduce the debt burden of eligible countries to sustainable levels, provided the country completes a further 3-year period of strong policy performance.

A country can be considered to achieve external debt sustainability if it is expected to be able to meet its current and future external debt-service obligations in full, without recourse to debt relief, rescheduling of debts, or the accumulation of arrears, and without unduly compromising growth. Key indicators of external debt sustainability include the net present value of debt-to-exports ratio, and the debt-service ratio. On the basis of experience of a large number of countries, target ranges for determining debt sustainability have been established. Sustainable debt levels under the Initiative will be defined on a case-by-case basis within the ranges of 200 to 250 percent for the debt-to-exports ratio expressed in net present value terms and 20 to 25 percent for the ratio of debt service to exports. Of course other factors play an important role, and while countries with indicators above these thresholds may be more likely to encounter debt-service difficulties, it is also true that countries that have had debt-servicing difficulties and accumulated arrears or rescheduled had widely differing debt burdens. Thus, other country-specific "vulnerability factors," such as the concentration and variability of

exports, the fiscal burden of external debt service, external debt in relation to GDP, the resource gap, the level of international reserves, and the burden of private sector debt, would need to be taken into account in determining whether to target the lower or the upper end of the two ranges.

Some key features of HIPC Initiative [5]

The HIPC Initiative is based on the following *six guiding principles* which have been endorsed by the Executive Boards of the IMF and the World Bank and by the Interim and Development Committees: (i) the objective of the HIPC Debt Initiative should be to target overall debt sustainability on a case-by-case basis, thus providing a durable exit strategy from the rescheduling process; (ii) action would be envisaged only after the debtor country has shown, through a track record, an ability to put to good use whatever debt relief would be provided; (iii) new measures will build, as much as possible, on existing "traditional mechanisms"; (iv) additional action will be coordinated among all creditors involved, with broad and equitable participation; (v) actions by the multilateral creditors will preserve their financial integrity and their preferred creditor status; and finally (vi) new external financing for the countries concerned will be on appropriately concessional terms.

The HIPC Initiative has been developed around the following key building blocks: (i) *eligibility* will be limited to IDA-only countries that have established a strong track record of performance under IMF/World Bank supported programs and that are not expected to achieve a sustainable external debt situation after the full use of traditional debt-relief mechanisms; (ii) eligibility will be based on a *debt sustainability analysis* (DSA): at the decision point (after the first three-year track record), the staffs of the IMF and World Bank would jointly recommend targets for the completion point (after the second three-year track record) for the NPV of debt-to-exports ratio and the debt-service ratio based on this analysis within the ranges mentioned above after giving full consideration to the vulnerability indicators; (iii) *performance criteria* would need to be met for the country during the second stage to receive support under the Initiative—these criteria would include macroeconomic indicators, progress on key structural reforms, and social reforms (for example improving basic health care and education, and reducing poverty); and finally (iv) *all relevant creditors* are expected to participate.

Regarding the last point, Paris Club creditors have indicated a willingness to provide debt reduction in NPV terms of up to 80 percent, on a case-by-case basis, with a flow rescheduling during the second stage, and a stock-of-debt operation (equivalent to a NPV debt reduction of up to 80 percent on eligible debt) at the completion point (Table 4). Other non-multilateral creditors would be expected to provide debt relief on terms at least comparable with the Paris Club. Multilateral creditors are expected to take action to reduce

---

[5] See Chart 2 and the attached information sheet for a more detailed description of the Initiative.

Chart 2

THE HEAVILY INDEBTED POOR COUNTRIES (HIPC) DEBT INITIATIVE

Summary

First Stage

- Paris Club provides flow rescheduling as per current Naples terms, i.e. rescheduling of debt service on eligible debt falling due during the three-year consolidation period (up to 67 percent reduction on eligible maturities on a net present value basis).
- Other bilateral and commercial creditors provide at least comparable treatment.
- Multilateral institutions continue to provide adjustment support in the framework of a World Bank/IMF-supported adjustment program.
- Country establishes first three-year track record of good performance.

Decision Point

Exit

- Either ... Paris Club stock-of-debt operation under Naples terms (up to 67 percent present value reduction of eligible debt) and comparable treatment by other bilateral and commercial creditors is adequate for the country to reach sustainability by the completion point -- country not eligible for HIPC Debt Initiative.

Eligible

- Or ... Paris Club stock-of-debt operation (on Naples terms) not sufficient for the country's overall debt to become sustainable by the completion point -- country requests additional support under the HIPC Debt Initiative, and World Bank/IMF Boards determine eligibility.

Second Stage

- Paris Club goes beyond Naples terms to provide more concessional debt reduction of up to 80 percent in present value terms.
- Other bilateral and commercial creditors provide at least comparable treatment.
- Donors and multilateral institutions provide enhanced support through interim measures.
- Country establishes a second track record of good performance under Bank/IMF- supported programs.

Completion Point

- Paris Club provides deeper stock-of-debt reduction of up to 80 percent in present value terms on eligible debt, so as to achieve an exit from unsustainable debt.
- Other bilateral and commercial creditors provide at least comparable treatment on stock-of-debt.
- Multilateral institutions take such additional measures, as may be needed, for the country's debt to be reduced to a sustainable level, each choosing from a menu of options, and ensuring broad and equitable participation by all creditors involved.

Borderline

- Or ... for borderline cases, where there is doubt about whether sustainability would be achieved by the completion point under a Naples terms stock-of-debt operation, the country would receive further flow reschedulings under Naples terms.

  If the outcome at the completion point is better than or as projected, the country would receive a stock-of-debt operation on Naples terms from Paris Club creditors and comparable treatment from other bilateral and commercial creditors.

  If the outcome at the completion point is worse than projected, the country could receive additional support under the HIPC Debt Initiative, so as to achieve exit from unsustainable debt.

the burden of their claims on a given country at the completion point if the planned actions by bilateral and commercial creditors are insufficient to achieve a sustainable debt position by the completion point. This debt relief would be provided by multilateral creditors in accordance with their own charters in a way that would preserve their preferred creditor status.

An 80 percent NPV reduction on eligible debt would be sufficient to achieve debt sustainability for most of the countries that are likely to be eligible for action under the Initiative. However, for some of the most heavily indebted countries, this level of debt relief by the Paris Club along with comparable action by other official bilateral and commercial creditors might not achieve debt sustainability, consistent with preserving the preferred creditor status of multilateral institutions in that it might imply multilateral creditors providing more debt relief, after the full use of traditional mechanisms, in relation to their claims in NPV terms than bilateral creditors. These cases would need to be discussed with Paris Club and other creditors on a case-by-case basis as they arose.

Key steps in the implementation of the HIPC Initiative

For those HIPCs that would require the full use of traditional mechanisms and enhanced assistance under the Initiative to achieve debt sustainability, the following key steps are envisaged:

- The **first stage** of the Initiative builds on the existing three-year track record needed to qualify for a stock-of-debt operation from Paris Club creditors (see Attachment for more details). During this stage, the country establishes the required good track record of policy implementation, and makes full use of the traditional debt-relief mechanisms (Naples terms rescheduling with 67 percent NPV reduction).

- As the country completes the first stage and reaches **the decision point**, the Boards of the IMF and the World Bank would decide the country's eligibility for the Initiative on the basis of a comprehensive debt sustainability analysis (DSA) agreed jointly by IMF and World Bank staff and the country's authorities. The assessment would indicate whether the full application of traditional debt-relief mechanisms (Paris Club stock-of-debt operation on Naples terms involving a 67 percent NPV reduction with at least comparable action from official bilateral and commercial creditors) would be sufficient for the country to reach a sustainable level of debt by the completion point. There are three possible outcomes: (i) a country is deemed to have a sustainable external debt situation at the completion point—in this case, the country would not be eligible for assistance under the Initiative, and would request a stock-of-debt operation on Naples terms; (ii) a country is considered to be a borderline case (see Attachment), in which case it could request to defer a stock-of-debt operation by Paris Club creditors to the completion point and request a flow rescheduling on Naples terms during the second stage; and finally (iii) a country is deemed to be eligible for assistance under the Initiative.

- In the last outcome, a "**preliminary HIPC Debt Initiative document**" would be prepared jointly by Bank and IMF staff discussing eligibility, and recommending country-specific debt sustainability target ranges.[6] Consistent with these targets and the assumed action by bilateral and commercial creditors, the staffs, after consultation with concerned creditors, would recommend the required action by multilaterals.

- During the **second stage** of the Initiative, Paris Club creditors would provide flow reschedulings involving up to 80 percent NPV reduction as needed on a case-by-case basis, and commit to provide at the end of the second stage—the completion point—a stock-of-debt operation with NPV reduction of up to 80 percent, provided satisfactory implementation of the IMF- and World Bank-supported adjustment program. Other bilateral and commercial creditors would be expected to offer at least comparable terms for the flow rescheduling and for the stock-of-debt operation. Donors, bilateral creditors, and multilateral institutions would provide financial assistance in the form of grants and concessional loans. The World Bank would provide IDA grants and supplemental HIPC IDA allocations during the second stage.

- At the **completion point**, provided the country has met the performance criteria under the Initiative, the stock-of-debt operation (involving up to 80 percent debt reduction in NPV terms) committed to by Paris Club creditors would take effect, and multilateral institutions would provide the committed reduction in the NPV of their claims necessary for the total debt burden to reach a sustainable level—unless actual debt-service indicators fall outside the agreed target range. The IMF would provide assistance to a country at the completion point through a special ESAF grant or loan which would be paid into an escrow account and used to cover debt service to the IMF. The World Bank would provide assistance at the completion point via the HIPC Trust Fund. Most other multilaterals are currently seeking the appropriate institutional approvals to enable them to participate in the Initiative including, in many cases, via the HIPC Trust Fund.

- The six-year performance period under the Initiative would be implemented flexibly on a case-by-case basis, with countries receiving credit for already established track records in the first stage. Exceptionally, the second stage of three years might be shortened for countries which already have sustained records of strong performance.

- A key element of the Initiative would be the provision of external finance on appropriately concessional terms to prevent a build-up of future debt-service problems.[7] Thus, the ESAF programs accompanying the stages of the HIPC Debt Initiative would involve restrictive limits on all nonconcessional borrowing. There would also be a focus on building

---

[6] A target range for the NPV debt-export ratio would be specified (+/- 10 percentage points of the target) to allow for some variability in the outcome without the need for creditors to adjust their committed action.

[7]Such problems should also be reflected in the **current** NPV debt-to-exports ratio.

up the HIPCs debt-management capacity to help avoid the future recurrence of excessive indebtedness. In this respect, private lenders would also be encouraged to exercise restraint.

- Support under the Initiative would remain available to countries embarking on IMF- and World Bank-supported programs before October 1, 1998. A comprehensive review of the Initiative would be held by then to decide whether to extend it.

III. Status of Implementation of the Initiative

Six countries (Benin, Bolivia, Burkina Faso, Guyana, Mali, and Uganda) have agreed stock-of-debt operations on Naples terms with Paris Club creditors and can be considered to have established the first three-year track record required under the Initiative. Bank and Fund staff are currently working actively on agreeing DSAs with the country authorities on these and other countries that could reach the decision point in 1997 with the objective of first discussions in the two Boards of a group in countries early in 1997.

IV. Conclusion

The HIPC Initiative is not a panacea for all of the economic problems of HIPCs. Even if, hypothetically, all of the external debts of the HIPCs were forgiven, most would still continue to need significant levels of concessional external assistance; as noted earlier, currently their receipts of such assistance are much larger than their debt-service payments. Given their high levels of poverty and limited domestic resources available to meet the costs of social programs that address the needs of the poor, most HIPCs are likely to continue to be dependent on aid. The HIPC Initiative is not a recipe for the cessation of aid to HIPCs; if it results in an withdrawal of aid, it will fail. Given, however, the pressures on aid budgets in major donors, which are likely to continue for the foreseeable future, continuing aid will be most effective if it catalyzes private financial flows, particularly investment. As noted earlier, there is a limit to the extent to which these flows can be debt creating, if future overindebtedness is to be avoided. This suggests a focus on the institution building necessary to attract such private investment as well as support for putting in place necessary infrastructure: many HIPCs face serious infrastructure and institutional problems. Some HIPCs also need to address problems of governance, particularly as they influence investor confidence, such as the establishment of appropriate commercial codes of conduct, functioning judicial systems, and the effective application of the rule of law. To attract foreign investors, who can provide significant technology transfer, HIPCs need to provide much more information in a transparent way, remove red tape and strengthen legal systems—on such issues as property rights—and financial systems, including payment and settlement systems. HIPCs are inevitably competing with the rest of the world in attracting such foreign investment, and given adverse investor perceptions, have to offer attractive combinations of

rate of return relative to risk.[8] These are difficult issues that are likely to take a long time to resolve even with the full support of the international community. Most of the HIPCs will need to continue to pursue adjustment and reform policies to meet the economic aspirations of their citizens for long after they have benefitted from Naples terms stock-of-debt operations or from enhanced debt relief under this Initiative.

The HIPC Initiative is intended to complete the array of instruments available to the international community for dealing with debt problems of low income countries. The Initiative deals with the external debt of HIPCs in a comprehensive way that involves all creditors, and thus establishes a new paradigm for international action. By no means all HIPCs will need enhanced assistance under the Initiative in order to achieve sustainable debt levels. However, for the HIPCs for which traditional debt-relief mechanisms are unlikely to achieve debt sustainability, the Initiative involves a commitment by the international community to take such additional action as maybe required to reduce the debt burden to sustainable levels, and for the country to exit from the rescheduling process, provided the country is prepared to adopt and pursue strong programs of adjustment and reform. Hence the Initiative provides for the achievement of debt sustainability for all HIPCs who adopt appropriate economic policies. The Initiative thereby should eliminate debt as an impediment to economic development and growth. In consequence, it enables and encourages HIPC governments to focus on the difficult policies and reforms required to remove the remaining impediments to achieving sustainable development.

---

[8]Risk can be reduced through such action as participation in investment insurance programs such as Multilateral Investment Guarantee Agency.

THE HIPC DEBT INITIATIVE

At their meetings in September 1996, the IMF's Interim Committee and the IMF/WB Development Committee endorsed specific proposals put forward jointly by the IMF and the World Bank to address the problems of a limited number of heavily indebted poor countries (HIPCs) that follow sound policies, but for which traditional debt relief mechanisms are inadequate to secure a sustainable external debt position over the medium term. The Committees requested the two institutions to proceed quickly with the implementation of the Initiative.

The Interim and Development Committees endorsed in September 1996, a program of action proposed by the Managing Director of the IMF and the President of the World Bank to resolve the debt problems of the heavily indebted poor countries: "The Heavily Indebted Poor Countries' (HIPC) Debt Initiative." The Initiative represents a commitment by the international financial community to reduce to sustainable levels the external debt burden of an eligible country that successfully completes a period of strong policy performance. This would reinforce these countries' efforts toward macroeconomic adjustment and structural and social policy reforms and assure that a country's debt burden does not inhibit its capacity for sustained growth. Social development policies would be selected according to their importance in the debtors' reform program and effect on reducing poverty, including especially actions to improve basic health care and education. Procedures adopted for implementing the Initiative require all relevant creditors and donors to coordinate their action in the context of a number of steps to be taken at various stages, as outlined below and illustrated in the attached chart:

• ***First stage.*** Paris Club creditors will provide a flow rescheduling under Naples terms (up to 67 percent reduction of the net present value (NPV) of eligible debt) along with comparable action by other bilateral and commercial creditors. Multilateral institutions and bilateral donors will continue to provide support under World Bank/IMF-supported adjustment programs. Countries would establish their first three-year track record of good performance.

• ***Decision Point.*** Toward the end of the first stage, the IMF/World Bank will agree with the country authorities on an external debt sustainability analysis (DSA) in consultation with other creditors concerned. Based on this analysis, if strong policies and a Paris Club stock-of-debt operation on Naples terms are sufficient to put the country in a sustainable external debt position within three years (completion point), the country would request such a stock-of-debt operation and would not be eligible for assistance under the Initiative. Alternatively, if the assessment indicates that a country's overall debt burden will not be sustainable by the completion point, it will be deemed eligible for and may request support under the Initiative. In borderline cases, the country may defer the stock-of-debt operation and request a further flow rescheduling under Naples terms and would be assured of additional action at the completion point, if needed to achieve debt sustainability.

• ***Second Stage***. For countries that are deemed eligible for support under the Initiative, the Paris Club--along with other bilateral and commercial creditors--will, on a case-by-case basis, provide flow rescheduling on more concessional terms involving an NPV reduction on eligible debt of up to 80 percent in present value terms. The country would establish a further three-year track record of good performance under World Bank/IMF-supported programs during which time some of the exceptional assistance committed by multilateral creditors could be provided, in addition to the flow rescheduling on enhanced terms agreed with nonmultilateral creditors.

• ***Completion point***. The Paris Club will provide, along with other bilateral and commercial creditors, on a case-by-case basis, stock-of-debt reduction of up to 80 percent in present value terms on eligible debt. Multilateral institutions will take additional measures for the country to reach a sustainable debt situation, while ensuring broad and equitable participation by all creditors.

Eligibility

The Initiative would be open to all HIPCs that pursue or adopt programs of adjustment and reform supported by the IMF and the World Bank in the next two years, after which the Initiative would be reviewed and a decision made whether it should be continued. To qualify for exceptional assistance under the Initiative, countries would have to be ESAF-eligible and IDA-only and face an unsustainable debt situation after the full application of traditional debt relief mechanisms, and would have to demonstrate an appropriate track record of adjustment and reform. Whether or not a particular country would be eligible for action will be determined by the Executive Boards of the World Bank and the IMF at the decision point, based on DSAs prepared jointly by the staff of both institutions in close cooperation with the country authorities. Currently Bank and Fund staff are preparing DSAs for several countries which could be considered, based on their track records of performance (see below), to reach their decision points in 1997.

Track Record of Performance

Debt is only one of the serious problems confronting the HIPCs and a track record of policy performance will be necessary to ensure a lasting solution not only to the country's debt problems, but to its underlying economic difficulties; it will also be necessary in order to give confidence to creditors and donors that the exceptional assistance will be put to good use.

The required six-year performance period under the Initiative would be implemented flexibly on a case-by-case basis. The six countries (Benin, Bolivia, Burkina Faso, Guyana, Mali, and Uganda) that have already been granted a stock-of-debt operation by the Paris Club on Naples terms in 1995-96 are considered to have completed the first stage of the Initiative. Other countries that have embarked on IDA and ESAF-supported programs would be considered to be already engaged in the first stage. Exceptionally, the second stage of three years might be

shortened for countries which have already established sustained records of strong performance (e.g., Uganda).

Action by all creditors

All creditors are expected to participate in providing exceptional assistance beyond current mechanisms as required to reach debt sustainability--the fundamental objective of the Initiative. The amount of assistance to be provided by each group of creditors will be decided case-by-case, based on the need to: (a) deliver debt sustainability; (b) share equitably the burden of the additional measures; and (c) preserve the preferred creditor status of multilateral financial institutions. All creditors will be fully consulted on the action that would involve them under the Initiative.

- **Bilateral and commercial creditors**: Paris Club creditors are ready to go beyond Naples terms and provide NPV debt reduction of up to 80 percent, on a case-by-case basis. Consistent with current practice, debtors would seek treatment on debt owed to other bilateral and commercial creditors on terms at least comparable to those agreed with the Paris Club.

- **Multilateral creditors** will take action to reduce the NPV of their claims sufficiently to achieve debt sustainability, taking into account the amount of NPV debt reduction provided by bilateral and commercial creditors. The assistance provided by multilateral creditors should involve broad and equitable participation by all creditors and should preserve the financial integrity of the institutions and their preferred creditor status. Multilateral institutions will participate in the Initiative through action to reduce the NPV of their claims either through the HIPC Trust Fund (see below) or through parallel action.

Comprehensive Framework

The HIPC Debt Initiative is a framework developed jointly by the IMF and the World Bank to address the external debt problems of the HIPCs. It is based on the following guiding principles: (1) the objective is to target overall debt sustainability on a case-by-case basis, focussing on the totality of a country's debt, (2) actions should be envisaged only when the debtor has shown, through a track record, ability to put to good use the exceptional support provided; (3) the new measures should build, as much as possible, on existing mechanisms; (4) additional action should be coordinated among all creditors involved, with broad and equitable participation; (5) action by the multilateral creditors should preserve their financial integrity and preferred creditor status; (6) new external finance for the indebted countries should be on appropriately concessional terms.

- **The World Bank** is committed to take action during the second stage--through the selective use of IDA grants and supplemental IDA allocations--and at the completion point. The principal vehicle envisaged for Bank participation, together with some other multilateral creditors, is a multilateral HIPC Trust Fund administered by IDA. The World Bank has set aside US$500 million from its IBRD surplus as an initial contribution to the HIPC Trust Fund. Funds transferred by the World Bank to the HIPC Trust Fund will be earmarked to provide relief on debt owed to IDA. Additional transfers of IBRD net income to the HIPC Trust Fund are envisaged, as needed, for the World Bank's contribution to debt relief, subject to the IBRD

income allocation framework and the approval of IBRD's Executive Directors and Board of Governors.

• **IMF**: Implementation of annual ESAF arrangements will form the economic policy basis for the IMF's participation in the Initiative, and the needed financial resources will come from the pool of resources for ESAF operations. However, in the context of the Initiative, special operations will take the form of grants or highly concessional loans on extended maturities, which will be used to retire obligations falling due to the IMF and result in a reduction in the NPV of IMF claims on the debtor country.

Explanatory Notes

Completion Point: a point at which the country concerned completes a second three-year track record of good performance under World Bank/IMF-supported adjustment programs, at which time additional measures will be taken to assist the country to reach a sustainable level of debt.

Debt Sustainability: a position of a country when the NPV of debt (public and publicly guaranteed) to exports ratio and the debt-service (on publicly and publicly guaranteed loans) to exports ratio are below certain country-specific target levels within ranges of 200-250 percent and 20-25 percent respectively. Country-specific targets within these ranges would be determined for the completion point in light of vulnerability factors, such as the concentration and variability of exports, and with particular attention to the fiscal burden of external debt service.

Debt Sustainability Analysis (DSA): a study jointly undertaken by the IMF and World Bank staff and the country concerned, in consultation with creditors, at the decision point. On the basis of this DSA the country's eligibility for support under the HIPC Debt Initiative will be determined.

Debt Service-to-Exports Ratio: scheduled debt service (interest and principal payments due on public and publicly guaranteed debt during a year) for the same coverage of debt as in the NPV debt-to-exports ratio, expressed as a percentage of exports for that year.

Decision point: a point at which a HIPC completes its first (three-year) track record of good performance under World Bank/IMF-supported adjustment programs, and when, based on the debt sustainability analysis, a country's eligibility for the HIPC Debt Initiative is determined.

Heavily Indebted Poor Countries (HIPCs): As used in the past: a group of 41 developing countries, including 32 countries with a 1993 GNP per capita of US$695 or less and 1993 present value of debt to exports higher than 220 percent or present value of debt to GNP higher than 80 percent. Also includes nine countries that received concessional rescheduling from Paris Club creditors (or are potentially eligible for such rescheduling). However, this concept will evolve in the context of implementing the Initiative to include all ESAF-eligible and IDA-only countries that face unsustainable debt situations even after the full application of traditional debt relief mechanisms and that have embarked on Bank/IMF supported adjustment programs.

HIPC Debt Initiative: framework adopted jointly by the IMF/World Bank for action to resolve the external debt problems of heavily indebted poor countries, envisaging comprehensive action by the international financial community, including the multilateral institutions, to achieve debt sustainability, provided a country builds a track record of strong policy performance.

HIPC Trust Fund: the HIPC Trust Fund will provide debt relief to eligible HIPCs on debt owed to participating multilaterals: it will either prepay, or purchase a portion of the debt owed to a multilateral creditor and cancel such debt, or pay debt service as it comes due. The HIPC Trust Fund is administered by IDA and receives contributions from participating multilateral creditors and

from bilateral donors. Contributions can be earmarked for debt owed by a particular debtor or to a particular multilateral creditor. Donors can also provide contributions to an unallocated pool, and would participate in decisions regarding the use of these unallocated funds. The overall structure of the Trust Fund allows multilateral creditors to participate in the Trust Fund in ways consistent with their financial policies. It also addresses the resource constraints for certain multilateral creditors and the potential requirements of donors.

Naples Terms: concessional debt reduction terms for low-income countries approved by the Paris Club in December 1994 and applied on a case-by-case basis. Countries can receive a reduction of eligible external debt of up to 67 percent in net present value terms.

Net Present Value (NPV) of Debt: the sum of all future debt-service obligations (interest and principal) on existing debt, discounted at the market interest rate. Whenever the interest rate on a loan is lower than the market rate, the resulting NPV of debt is smaller than its face value, with the difference reflecting the grant element.

NPV of Debt-to-Exports Ratio: net present value (NPV) of outstanding public and publicly-guaranteed external debt at the end of the period, expressed as a percentage of exports of goods and services.

December 1996