

Debt Restructuring Programs

Enhanced Heavily Indebted Poor Countries (HIPC) Initiative

FY2002 Appropriation	FY2003 Request
\$224M	\$0M

With the FY 2002 appropriation of \$224 million, the United States has fully met its commitment of \$600 million to the HIPC Trust Fund, which helps regional multilateral institutions offset the cost of reducing debt owed them by the world's poorest countries. Previous appropriations covered the cost of reducing U.S. bilateral debt to all countries expected to qualify for relief under the enhanced HIPC initiative, with the exception of the Democratic Republic of the Congo (DROC). Depending upon the DROC's economic performance and eligibility for its HIPC Decision Point, the Administration may request funding in the future.

History of U.S. Debt Reduction

There have been a variety of U.S. bilateral debt reduction programs through the years. In FY 1990-1991 the U.S. forgave \$2.7 billion in concessional USAID and P.L.- 480 debt owed by a total of 25 African and other "relatively least developed countries." Over the last decade, the U.S. also provided substantial amounts of debt reduction to Poland, Egypt, and Jordan to assist economic reform in those countries and to further our national security interests.

The international community's approach to treating the debt of the poorest countries with debt servicing problems has evolved substantially in the last decade. After years of repeated reschedulings of official bilateral debt by creditor governments in the Paris Club, with consequent build-up in the stock of debt for these countries, creditor governments recognized that partial debt reduction was needed. Starting in 1988 the Paris Club began to offer partial debt reduction on payments coming due (33% under Toronto Terms). In 1994, the level of debt reduction increased to 67% of eligible non-concessional debt under Naples Terms.

In 1996, the international community recognized that further action was needed and agreed on the initial Heavily Indebted Poor Countries (HIPC) program, a much more comprehensive approach to the debt problems of these countries. For the first time the international financial institutions (IFIs) participated in debt reduction. In 1999, under strong U.S. leadership, the enhanced HIPC initiative was launched to provide deeper, broader, and faster debt reduction for the poorest heavily indebted countries committed to economic reform and poverty reduction.

U.S. Participation in the Enhanced HIPC Initiative

The FY2000 Foreign Operations Appropriations Act provided \$110 million for U.S. bilateral HIPC debt reduction costs. In FY2001, Congress appropriated a total of \$434 million for the HIPC initiative, of which the Administration has allocated \$360 million for contributions to the HIPC Trust Fund and \$74 million for costs of 100 percent reduction of bilateral claims on countries that qualify for HIPC relief.

The FY2001 Foreign Operations Appropriations Act also authorized the U.S. to support the use, solely for debt relief from the IMF under the modified HIPC initiative, of the full earnings on the investment of the profits (totaling 2.226 billion SDRs) from IMF non-public gold sales.

The \$224 million in appropriations received in FY2002, combined with \$16 million in uncommitted debt restructuring account balances, allows the U.S. to fulfill its commitment to contribute a total of \$600 million to the HIPC Trust Fund. The total of \$184 million in appropriations provided in FY2000 and FY2001 allocated to bilateral debt reduction costs should be sufficient to cover all countries expected to qualify for HIPC debt reduction with the exception of the Democratic Republic of the Congo

Debt Relief under the Enhanced HIPC Initiative

Considerable progress has been made in implementing the enhanced HIPC initiative. Twenty-four countries (Benin, Bolivia, Burkina Faso, Cameroon, Chad, Ethiopia, The Gambia, Guinea, Guinea Bissau, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tome & Principe, Senegal, Tanzania, Uganda and Zambia) have made sufficient progress on economic reforms and commitments to poverty reduction to reach their HIPC Decision Points. This enables them to benefit from relief on debt payments coming due. Four of these countries (Uganda, Bolivia, Mozambique, and Tanzania) have met the conditions to reach their HIPC Completion Points, and have qualified for reduction in their stock of debt.

For these twenty-four countries, creditors have committed to reduce \$36 billion (nominal terms) under the HIPC framework. Overall debt relief for these countries, including from traditional mechanisms and additional bilateral relief provided by the U.S. and some other creditors, amounts to more than \$56 billion, out of an initial stock of debt of about \$81 billion.

HIPC Debt Relief
For Countries with Decision Point under Enhanced HIPC Initiative
 Total Post-Naples Terms Debt Relief Committed
 (Millions of Dollars)

	HIPC II Decision Point	Debt Reduction			
		NPV HIPC I	NPV HIPC II	Total NPV	Total Nominal
Benin	July 2000		265	265	460
Bolivia	Feb. 2000	448	854	1,302	2,060
Burkina Faso	June 2000	229	169	398	700
Cameroon	Oct. 2000		1,260	1,260	2,000
Chad	May 2001		170	170	260
Ethiopia	Nov. 2001		1,275	1,275	1,930
The Gambia	Dec. 2000		67	67	90
Guinea	Dec. 2000		545	545	800
Guinea-Bissau	Dec. 2000		416	416	790
Guyana	Nov. 2000	256	329	585	1,030
Honduras	July 2000		556	556	900
Madagascar	Dec. 2000		814	814	1,500
Malawi	Dec. 2000		643	643	1,000
Mali	Sept. 2000	121	401	522	870
Mauritania	Feb. 2000		622	622	1,100
Mozambique	April 2000	1,716	306	2,022	4,300
Nicaragua	Dec. 2000		3,267	3,267	4,500
Niger	Dec. 2000		521	521	900
Rwanda	Dec. 2000		452	452	810
Sao Tome & Principe	Dec. 2000		97	97	200
Senegal	June 2000		488	488	850
Tanzania	March 2000		2,026	2,026	3,000
Uganda	Feb. 2000	347	656	1,003	1,950
Zambia	Dec. 2000		2,499	2,499	3,820
Total HIPC		3,117	18,698	21,815	35,820

HIPC debt relief will significantly reduce annual debt service obligations, freeing resources for poverty reduction expenditures. Total debt service savings for these countries will average over \$1 billion each year over the next five years.

**Debt Service Indicators for 24 Countries with
Enhanced HIPC Decision Points**

	Debt Service/Exports (%)	Debt Service/GDP (%)	Debt Service/Revenues (%)
Before HIPC relief	16.8	3.7	27.4
After HIPC relief	8.2	2.1	11.9

"Before HIPC Relief" uses 1998/999 actual payments data.

Source: IMF/World Bank

"After HIPC Relief" is average for 2001 to 2003; these figures do not reflect additional bilateral debt reduction.

Costs of the Enhanced HIPC Initiative

The total cost of the initiative is currently estimated to be \$33.2 billion in net present value terms. The U.S. share of those costs is approximately \$1 billion. Measuring the costs in NPV terms gives a sense of how much it will cost a creditor today to forgive loans that would have been paid back over a number of years.

ESTIMATED TOTAL COST OF THE ENHANCED HIPC INITIATIVE
(billions of dollars, 2000 NPV terms)

Creditor	Total
Bilateral	17.1
Paris Club	12.8
Other Bilateral	2.8
Commercial	1.5
Multilateral	16.1
World Bank	7.4
IMF	2.5
AfDB/AfDF	2.6
IDB	1.1
Others	2.4
Total	33.2

The HIPC Trust Fund and its Funding Gap

- As shown in the above table, the estimated cost in net present value terms for the multilateral institutions is \$16.1 billion, including \$6.1 billion for the regional MDBs and other multilateral institutions. The latter amount exceeds the capacity of the regional institutions to generate funds internally. The IMF and World Bank estimate that these institutions face a funding gap of about \$3.3 billion in nominal terms that would have to be covered by donor contributions to the HIPC Trust Fund.
- Total contributions and pledges to the HIPC Trust Fund, including the U.S. pledge of \$600 million, totaled \$2.6 billion in nominal terms as of December 2001. Thus, the World Bank estimates that even after all existing pledges are paid in, an additional \$700 million in

donor contributions to the HIPC Trust Fund will be needed to cover costs for the countries expected to qualify for HIPC debt reduction.

- Of the \$600 million pledged by the United States, approximately \$200 million is targeted for use by the HIPC Trust Fund to help finance the HIPC costs for regional and subregional institutions in Latin America.
- The remaining amount of approximately \$400 million will be allocated to the African Development Bank Group for designated countries.

Translating Debt Relief into Poverty Reduction

The IMF and the World Bank developed the Poverty Reduction Strategy Papers (PRSPs) approach for borrower country-led comprehensive national poverty strategies. The PRSP is an integral part of economic and social reform programs under the enhanced HIPC initiative, as well as a framework for all new concessional lending from the World Bank and the IMF.

PRSPs, prepared by national authorities with active participation by civil society and other partners, describe and prioritize the country's macroeconomic, structural and social policy actions necessary to promote growth and reduce poverty. They also describe associated external financing needs and major sources of financing and are intended to facilitate the coordination of donor funding and, in the case of HIPCs, guide the use of resources freed up by HIPC debt relief.

The PRSP process is also designed to increase transparency and accountability. PRSPs are expected to include specific outcome-based targets and a system for monitoring progress in achieving them. The IFIs are also promoting more systematic use of public expenditure reviews to monitor spending so that resources are used effectively.

Use of HIPC Relief

The HIPC qualifying countries are required to use the resources freed up by debt relief to support poverty reduction and economic growth. Accordingly, countries are expected to increase social expenditures by an estimated average of \$1.7 billion per year during 2001-2002.

Average Annual Social Sector Spending for 24 HIPCs (\$ billions)

	Africa	Latin America	Total
Before HIPC Relief	2.5	1.8	4.3
After HIPC Relief	3.5	2.6	6.1

"Before HIPC Relief" uses 1999 data.

Source: IMF/World Bank

"After HIPC Relief" is average for 2001 to 2002.

Examples of programs that HIPC debt relief will help fund include:

- **Mozambique** has committed to use debt service savings to expand the stock of basic medicines in government clinics, to help increase primary school enrollment rates by 1-2 percentage points a year and to reduce the grade repetition rate.

- **Uganda** used debt relief from the original HIPC program to fulfill a commitment to eliminate school fees for grade school students, which had been a major impediment to enrollment. Enhanced HIPC will help Uganda expand the country's successful HIV/AIDS awareness program.
- **Honduras** will deliver a basic package of health services to 100,000 beneficiaries in poor communities and hire 1,000 teachers.

Enhanced HIPC Framework – Status of Bilateral Donor Pledges to HIPC Trust Fund
(As of December 2001, amounts in nominal US\$ millions)

	Total Pledges and Contributions	<i>Of which:</i> Contributions Paid-in
Australia	14	14
Austria	26	26
Belgium	15	15
Canada	114	114
Denmark	45	42
EU/EC 1/	661	501
Finland	28	20
France	21	
Germany	72	50
Greece	1	1
Iceland	2	1
Ireland	20	15
Italy	70	36
Japan	200	56
Luxembourg	1	1
Netherlands	138	138
New Zealand	2	2
Norway	80	80
Portugal	15	15
Spain	85	40
Sweden	58	58
Switzerland	60	45
United Kingdom	221	90
United States	600	239
TOTAL	2,549	1,599

1/ Illustrative exchange rate as used by World Bank/IMF is EURO 0.90 = US\$1. If EU/EC pledge is attributed to member states based on their contributions to the European Development Fund (EDF), then bilateral pledges/contributions would be higher than shown above (e.g., \$306 million from UK, \$226 million from Germany, \$181 million from France).

42 Countries Currently Defined as Heavily Indebted Poor Countries (HIPCs)

24 HIPCs with Decision Points	9 With Decision Point in 2002 or Later	9 Not Expected to Get HIPC Relief
<p>Benin Bolivia (Completion Pt.) Burkina Faso Cameroon Chad Guyana The Gambia Guinea Guinea Bissau Ethiopia Honduras Madagascar Malawi Mali Mauritania Mozambique (Completion Pt.) Nicaragua Niger Rwanda Sao Tome & Principe Senegal Tanzania (Completion Pt.) Uganda (Completion Pt.) Zambia</p>	<p>Comoros Côte d'Ivoire Burundi Central African Republic Congo, Dem. Rep. Congo, Rep. Ghana Sierra Leone Togo</p>	<p>Sustainable Debt Levels without HIPC Relief: Angola Kenya Vietnam Yemen</p> <p>Has Not Requested HIPC Relief: Laos</p> <p>Legislation Prevents the U.S. from Reducing Debt of: Burma Sudan</p> <p>Not Close to Meeting Conditions to Qualify: Liberia Somalia Sudan</p>