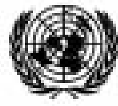
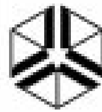

Discussion Paper No. 2001/110

Debt Reduction for Poverty Eradication in the Least Developed Countries

Analysis and Recommendations on LDC Debt

European Network on Debt and Development*

October 2001

Abstract

This paper reviews the main obstacles to human and social development posed by the current external debt burdens of the least development countries. In particular, it analyses the shortcomings of the mechanisms and thresholds used to assess the sustainability of debt levels in the HIPC Initiative. An alternative needs-based approach analysis of debt sustainability is proposed. The methodology explicitly emphasizes the need to prioritize poor countries' social and poverty reducing expenditures over external debt servicing. Such an 'affordable debt service' analysis of debt sustainability shows clearly that additional debt reduction is required if the HIPCs are to achieve minimum levels of human development by 2015.

Keywords: debt, poverty, economic development, foreign aid, debt sustainability

JEL classification: F34, F35, O19, O55

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Executive summary and policy recommendations

Debt presents one of the main stumbling blocks to least developed countries' (LDCs) social and economic development. Many LDCs have unsustainable debt burdens, in addition to the 31 LDCs that are classified as heavily indebted poor countries (HIPCs). At least six other LDCs have, even according to rather conservative and narrowly defined World Bank and IMF criteria, debt levels that exceed their repayment capacity. When the concept of debt sustainability is approached from a human and social development perspective—and there is no other way to approach debt sustainability in a country such as Bangladesh where 78 per cent of the people live on US$ 2 a day—many more LDCs have an unsustainable debt level.

Thus far, attempts to end the LDCs' everlasting cycle of poverty, aid dependency and unsustainable debt levels, have failed. The enhanced HIPC Initiative, as 'groundbreaking' as it appears at first sight, risks being another false promise. As it currently stands, it is unlikely that the enhanced HIPC Initiative will achieve even its limited aim of offering an exit from the rescheduling process. More importantly, it is unlikely to release sufficient resources to tackle poverty in LDCs.

There are three main reasons for this. First, as indicated above, several LDCs with significant debt burdens are not included in the initiative. The problem is, first of all, that the threshold levels to measure debt sustainability are arbitrary and still too high. Another, more important problem is that sustainability is defined in economic terms and not in terms of human and social development, in spite of the fact that there is broad consensus in the international community that debt needs to be seen in a broader context and that the human development perspective must be incorporated in the HIPC Initiative.

The second main reason why the HIPC Initiative is not likely to reach its goal, is that the debt reduction on offer is probably too small. Zambia and Niger will actually pay more after the initiative than they did before. For five out of sixteen HIPC-LDCs for which data are available, the NPV of their debt level in 2005 is still above the IMF and World Bank threshold ratio of 150 per cent. In addition, some countries will see large fluctuations in debt servicing, followed in most cases by significant drops in the following years. Furthermore, after 2005, debt service levels start rising again. For eleven out of the thirteen HIPC-LDCs for which post-2005 debt service data are available, debt service starts to increase after 2005 and for nine HIPC-LDCs, future levels are far above present debt service levels. The fact that all HIPC-LDCs are projected to have sustainable debt levels in 2018 cannot be attributed to declining debt levels, but to improved economic performance. As has been the case in the past, however, the projections are very optimistic, and there is a real risk that in the long run, most HIPC-LDCs will be back to where they are now.

The third problem is the piling up of different sets of conditionalities. The introduction of the poverty reduction strategy paper (PRSP) as a condition for debt relief not only involves a change of emphasis, but also an extension of policy conditions. In addition to traditional macroeconomic and structural reforms, the country must also implement a number of agreed social development policies. This delays the road to the completion point, the point at which countries receive unconditional and irrevocable relief. Moreover, the linkage between the HIPC Initiative and the PRS also erodes the quality of the PRS, as countries are in a rush to enter the initiative.

At the same time as conditionalities pile up, the PRSPs do not succeed in aligning macroeconomic issues and poverty issues any more closely than in the past and macroeconomic frameworks have not changed significantly as a result of PRSPs. The European Union (EU) is now in the position to take up the challenge to ensure that the poverty focus is included in the design of macroeconomic adjustment measures. The EU will co-finance the new (IDA) poverty reduction support credits, which are based on PRSPs. The EU finances the grant part (PRSG) and the World Bank the credit part (PRSC). The indicators, objectives, timetables and conditionalities for the PRSC and the PRSG are the same and they are jointly defined. Although the EU assessment will not be included in the World Bank assessment of the PRS process, it is likely that the EU and the World Bank have common informal assessments of the PRSP.

Policy recommendations

I. Debt sustainability—and the subsequent levels of debt reduction needed—has to be assessed from a broader human development perspective. This perspective should measure at what level debt servicing is ‘affordable’ as a percentage of government revenues, explicitly acknowledging that the scarce resources available to LDC governments should first be used to meet the basic human needs of their populations. Using this methodology, it becomes clear that significant additional debt reductions are needed in order for LDCs to reach debt sustainability while tackling poverty.

II. Second, debt reduction should not be linked to the completion and implementation of PRSPs because the latter involves long, complex and comprehensive development planning while debt reductions are urgently needed to release some extra resources to start to meet the most basic needs of HIPCs. These two processes should instead be made parallel at this early stage. This would allow debt relief to proceed quickly without damaging the PRS process and it would free up some resources to help the poverty analysis/participation aspects required in the first steps of a PRSP while also allowing some basic poverty investments to be undertaken immediately. Furthermore, it has been shown that specific mechanisms such as the one implemented in Uganda, enable efficient monitoring of resources freed by debt relief for poverty reduction purposes.

III. In this respect, the EU should use its leverage as co-financer of the poverty reduction support credits to challenge the World Bank and IMF as well as finance ministries to genuinely integrate poverty reduction in their macroeconomic policy and structural adjustment advice.

IV. Although literally lifesaving for debtors, the additional efforts required by creditors to reach appropriate debt reduction levels for the LDCs do not constitute a very heavy financial burden. For Paris Club bilateral creditors, the true economic value of their loans is far less than the nominal value. Recent academic research suggests that the cost of cancellation can be as low as 10 per cent of face value. For non-Paris Club creditors who refuse to participate in the HIPC Initiative, non-payment of loans should be officially condoned in most cases. The IMF itself acknowledges the fact that it can easily write off its debts to the HIPC countries by using the earning capacity of its general reserves, together with a repeat of limited revaluation of its

undervalued gold reserves. Even though the situation is somewhat more complicated for the World Bank, independent evidence suggests that a hundred per cent cancellation of HIPC debt by the Bank would be possible with the prudent use of a small proportion of the IBRD's reserves and an ongoing commitment from its net income. Greater bilateral donor support and bigger contributions from the World Bank to the HIPC trust fund will be needed to cancel further regional multilateral development banks loans (MDBs).

V. Furthermore, the World Bank and IMF should make substantial efforts to support conflict-affected LDCs that have large arrears, as these countries have been unable to repay their debts for many years. These countries' arrears should be cancelled *now*. Numerous papers have been produced by the Bank and the Fund, exploring different options to help these countries. Since these proposals depend on bilateral donor contributions, and these have hardly been forthcoming, they have not materialized.

VI. To prevent LDCs from falling into the same debt trap as they are now, much deeper debt relief is needed, but also, current borrowing and lending practises should be changed. LDCs remain dependent on external support, and it is essential that this support is on proper terms and that it is properly used. Irresponsible borrowing could be prevented by (i) making sure the internal disbursement of external finance is carried out in an accountable and transparent manner; (ii) the use of funding is consistent with the PRS; (iii) a monitoring system, involving civil society and parliament, is put in place to allow for the monitoring of internal disbursement at the national, regional and local level. In addition to responsible use of resources, responsible borrowing and lending requires that the type of finance is adjusted to its spending purpose. For example, finance for non-income generating purposes, such as health, should preferably be on a grant basis, and finance for directly income-generating projects, such as the building of factories, can be on a concessional loan basis.

1 Introduction

The most impoverished and vulnerable countries of the world are grouped under the category of 'least developed countries' (LDCs). One of the main reasons why development efforts have failed in LDCs, is that instead of investing in social and economic development, these countries are forced to use scarce government resources to finance external debt to foreign creditors. For example, in Burkina Faso, where one out of five children dies before the age of five, in 1998 the government spent as much on debt as on health. And in Niger, where 78 per cent of adult males and 93 per cent of adult women are illiterate, debt service amounted to 3.1 per cent of GNP in 1998, while spending on education was only 2.3 per cent of GNP.

Tackling the debt crisis is essential for these countries. If creditors fail to significantly reduce the debt level of LDCs, social and economic development and poverty reduction remain nothing but paper aims.

The next section of this paper addresses the question of how large the debt burden of LDCs actually is and how this burden affects the LDCs' path to social and economic

development. Section 3 describes current efforts to reduce the debt burden. As current approaches are very likely to fail, new approaches to end the debt crisis are proposed in section 4. Finally, section 5 describes the measures for preventing future debt crises.

2 The meaning of debt

Many of the world's least developed countries face a huge debt burden, which is a major constraint to their development. The amount of credit issued to these countries by bilateral creditor countries, multilateral agencies, and to a lesser extent commercial banks, has led to a piling up of the debt burden and to debt service requirements that surpass by far these countries' repayment capacities. How large is the debt burden of LDCs and how does it influence these countries' social and economic development? Before answering this question, two issues will be clarified: the concept of debt sustainability and the rather confusing classifications of LDCs and heavily indebted poor countries (HIPCs).

2.1 When is debt unsustainable?

The definition of debt sustainability commonly used by creditors for low-income countries is whether or not a country can meet its current and future external debt servicing obligations in full, without recourse to further debt relief, rescheduling or accumulation of arrears, and without unduly compromising growth. This is sometimes summarized as providing a permanent 'exit' from the rescheduling process.[1]

The main problem with the creditor's definition is that debt sustainability is being confined to a matter of economics. This is recognized by the World Bank and the IMF (WB/IMF 2001a):

> This definition […] is quite narrow from an overall development perspective. It does not deal with issues of domestic debt, which are important for fiscal sustainability, nor does it measure the adequacy of public resources to address priority development programs after debt service has been paid.

Nevertheless, these institutions maintain this definition, which they address with the following indicators:

– Net present value of debt-to-exports ratio of 150 per cent;

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[1] Ideally, a country should be 'externally viable'. As defined by the IMF, external viability means that a country is capable of paying its external obligations with its own resources (tax revenues, external account surpluses and non-concessional borrowing) and does not need to resort to donor assistance (e.g. concessional loans or grants). Thus, a country is considered externally viable when it does not require external balance-of-payments support to close any financing gaps or budget deficits. However, for low-income countries, it has long been assumed that external viability can only be a long-term target, and is unlikely to be achieved in the short to medium term. See Eurodad (2000a).

– Net present value of debt-to-government revenue of 250 per cent;[2]

– Debt-service-to-exports ratio of 15-20 per cent;

These indicators do not truly reflect the burden of debt. First of all, the emphasis is on debt stock rather than debt service. Furthermore, many LDCs have accumulated such large debt stocks that only a fraction of it is actually being repaid. From a resources perspective, it is debt servicing that counts.[3]

In addition, the focus is on exports. Even though exports are an important source of foreign exchange, which is needed for debt repayments, the debt-to-export ratio can be misleading as rapid growth in exports does not always translate into more budgetary resources for the government.[4] In addition, the volatility of currency and commodity markets also makes the debt-to-export ratio an unreliable benchmark to predict debt sustainability in the medium term.

The fiscal criterion is a more appropriate indicator, as it takes the amount of resources available to the government as a starting point. However, creditors only use it from a debt stock perspective and not from a flow perspective. Furthermore, the threshold for the fiscal indicator is very high, as are the thresholds for the two conditions to qualify for debt relief via the fiscal indicator (see Table 5 in section 3).[5] To qualify for the fiscal indicator implies an impossible mixture of high indebtedness and macroeconomic soundness.

The present value of debt-to-export ratio is equally inappropriate. According to the World Bank and the IMF, the empirical threshold of the net present value of debt-to-export ratio should be 200 per cent. The institutions have decided to lower this to 150 per cent to 'provide more of a cushion from exogenous shocks and to free up resources for poverty reduction' (WB/IMF 2001a: 5). However, the data used to derive the threshold of 200 per cent mainly come from middle-income countries, making no special allowance for the special situation of the LDCs or HIPCs. Research suggests that the historical present value of debt-to-export threshold level for HIPCs is 140 per cent.

In short, the debt sustainability indicators being used by the creditors are inappropriate, arbitrary and conservative. A possible alternative approach—one that puts human development at the centre of debt sustainability—is described in detail in section 4.

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2 To qualify for this criterion, the exports/GDP ratio should be 30 per cent or more and the government revenue/GDP ratio should be 15 per cent or more.

3 It should be noted, though, that the 'debt overhang' acts as an incentive to foreign investors and affects internal resource allocation.

4 For example, in Tanzania, export revenues might be expected to rise rapidly, thanks to the recent exploitation of gold resources. However, given the capital-intensive nature of the industry, the government has agreed to accept relatively low revenue whilst foreign investors are recouping their investment costs in order to attract investment into the sector.

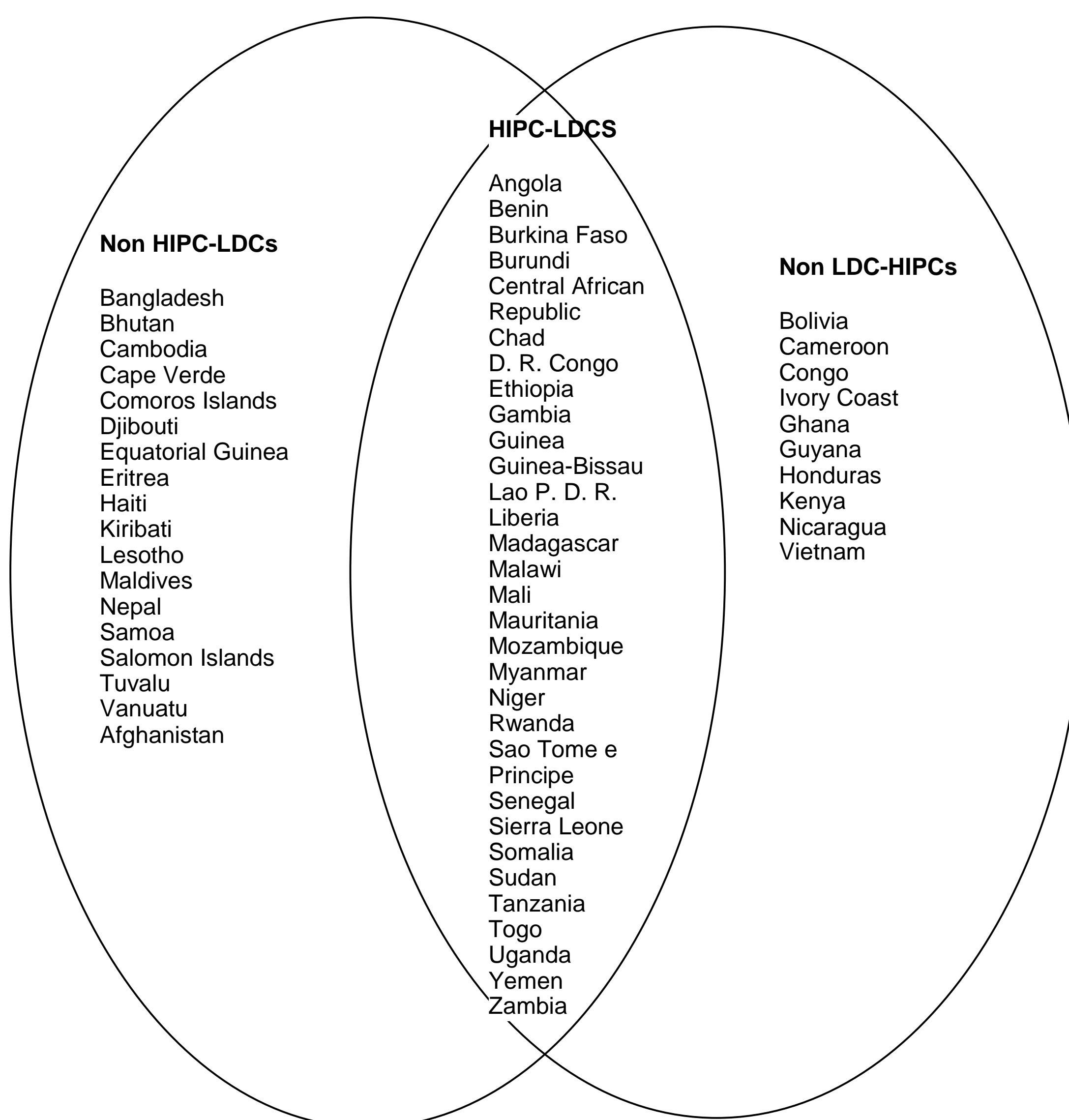
5 The fiscal indicator has been introduced mainly because of pressure from France, which wanted to ensure that Côte d'Ivoire would be eligible for the HIPC Initiative.

2.2 About LDCs and HIPCs

Even though LDCs are, by definition, very poor and many are also heavily indebted, not all LDCs are classified as heavily indebted poor countries (HIPCs). The World Bank and the IMF currently classify 41 countries as HIPCs. The group of 49 LDCs shows considerable overlap with these HIPCs. More specifically, 31 out of 49 LDCs are HIPC-LDCs and ten HIPCs are non LDC-HIPCs (Figure 1). Eighteen LDCs are not classified as HIPCs.

Clearly, the classifications of HIPCs and LDCs are rather arbitrary (see also Box 1). Not only because several non HIPC-LDCs have unsustainable debts, as section 2.4 demonstrates, but also because all HIPCs are very poor and underdeveloped, even though they do not meet the criteria to fit in the LDC category.

Figure 1
The LDCs and HIPCs



Box 1
What are LDCs and what is a HIPC?

A county is designated as a least developed country if it meets inclusion thresholds on the following three criteria (UNCTAD 2000):

a) *A low income*: income to be below a GDP per capita of US$ 800;
b) *Weak human resources*, measured by the Augmented Physical Quality of Life Index, which is based on indicators of life expectancy at birth, per capita calorie intake, combined primary and secondary school enrolment, and adult literacy;
c) *A low level of economic diversification* , measured by the Economic Diversification Index, which is based on the share of manufacturing in GDP. The share of the labour force in industry, annual per capita commercial energy consumption, and UNCTAD's merchandise export concentration index.

The classification of HIPCs seems to be based on a rule of thumb rather than on clear-cut quantitative criteria. In 1996, when the category was introduced, the group of HIPCs consisted of 32 severely indebted low-income countries and nine other countries. To be classified as severely indebted in 1996:

a) Present value of debt service to GDP to exceed 80 per cent, or
b) Present value of debt to exports to exceed 220 per cent;

Two other common denominators of this group are that the countries only borrow on highly concessional terms from the World Bank (from the Bank's International Development Association, IDA) and they have negotiated, or are prepared to negotiate, a concessional rescheduling with the Paris Club.

Since 1996, the original group of 41 HIPCs has gone through some changes. Nigeria was soon ruled ineligible, as it also borrowed from the World Bank's non-concessional window, the International Bank for Reconstruction and Development (IBRD). In 1999, Malawi was included and in the summer of 2000, Gambia was added as well. Equatorial Guinea was declassified as a HIPC in early 2000, as, with the onset of oil production, GDP levels rose above those required for IDA-only assistance.

Source: UNCTAD (2000).

2.3 Debt and social development

What is the meaning of debt? What impact does an 'unsustainable debt' have? Unsustainable debt keeps countries caught in a cycle of poverty, aid dependency and unsustainable debt levels. Through several mechanisms, it represents a major stumbling block to economic and social development and poverty reduction.

The most obvious constraint is the cash flow implication of debt service obligations, the so-called crowding out effect. As governments have to pay large sums of money to foreign creditors, less can be spent on recurrent social expenditure or essential investments, such as infrastructure, health or education. LDCs, with extremely low levels of social and human development (see Annex 2), often pay more to foreign creditors than they can afford to invest in basic health care or education.

For example, in Burkina Faso, where one out of five children dies before the age of five, the government spent in 1998 as much on debt as on health (US$ 5 per capita in 1998 and US$ 5 per capita in 1990-98). And in Niger, where 78 per cent of adult males and 93 per cent of adult women are illiterate, debt service amounted to 3.1 per cent of GNP in 1998, while spending on education was only 2.3 per cent of GNP. Another example is

Table 1
Spending on debt compared to spending on basic social services

	Spending on debt and education, per capita			Spending as % of GDP on:	
	Debt service per capita, 1998 [1]	Debt obligations on long-term debt per capita, 1999 [2]	Spending on health per capita, 1990-98 [3]	Debt service, % of GNP [4]	Education, % of GNP, 1997 [4]
Benin	10.3	10.3	8	2.7	3.2
Burkina Faso	5.0	4.6	5	2.1	1.5
Burundi	4.6	7.8	5	3.5	4.0
C. A. R	8.7	8.7	–	2.9	–
Chad	4.9	5.7	7	2.1	1.7
Congo, D. R.	0.4	12.4	–	0.3	–
Ethiopia	1.9	9.9	4	1.8	4.0
Gambia, The	21.8	16.6	11	6.4	4.9
Guinea	22.4	24.0	13	4.6	1.9
Guinea-Bissau	6.6	37.1	–	4.1	–
Lao P. D. R.	6.2	5.9	6	2.5	2.1
Liberia	0.3	22.0	–	–	–
Madagascar	8.6	11.3	5	3.4	1.9
Malawi	8	7.8	5	4.7	5.4
Mali	7.7	10.4	10	3.1	2.2
Mauritania	44	60.7	28	11.6	5.1
Mozambique	6.2	15.4	–	2.8	–
Myanmar	2.1	7.1	58	–	1.2
Niger	6.1	10.4	–	3.1	2.3
Rwanda	2.6	3.9	–	1.0	–
Sao Tome e Principe	26.1	49.7	–	–	–
Sierra Leone	4.1	8.4	14	3.2	–
Somalia	0	5.6	–	–	–
Sudan	2.2	10.0	–	0.7	0.9
U. R. Tanzania	7.7	8.1	–	3.0	–
Togo	8.9	17.2	11	2.7	4.5
Uganda	7.7	21.3	14	2.4	2.6
Zambia	20.8	38.9	14	6.4	2.2
Angola	112.8	140.3	–	33.0	–
Yemen	7.5	11.4	18	3.2	7.0
Non HIPC-LDCs					
Bangladesh	5.4	5.3	12	1.5	2.2
Bhutan	12.1	9.1	12	–	–
Cambodia	1.1	12.1	17	0.4	2.9
Cape Verde	46.2	60.0	–	–	–
Comoros Islands	11.7	19.8	–	–	–
Djibouti	8.7	25.3	–	–	–
Equatorial Guinea	13.9	18.3	–	–	–
Eritrea	1.0	0.8	–	0.5	1.8
Haiti	5.1	4.5	17	1.0	–
Lesotho	24.2	24.7	–	4.8	8.4
Maldives	50.8	59.0	–	–	–
Nepal	3.8	4.0	11	1.8	3.2
Samoa	29.6	28.8	–	–	–
Solomon Islands	15.6	12.1	–	–	–
Vanuatu	9.3	7.4	–	–	–
Middle income			*199*	*14.5*	
High income			*2,585*	–	

Source: [1] Calculations based on population figures from World Bank country profiles (see www.worldbank.org) and World Bank (2000b).
[2] See [1]. IMF repurchases and charges and short-term debt obligations are not included in this figure.
[3] World Bank (2000a: 90-2).
[4] World Bank (2000a: 70-2 and 252-4).

Cambodia, whose outstanding debt service in 1999 amounted to US$ 12.1 per capita. While one out of seven children dies before the age of five, the government spent on average US$ 17 per capita on health per year during 1990-98. This may seem like a considerable amount compared to some other severely indebted countries, but it is almost nothing compared to what middle- and high-income countries spent on health in the same period; US$ 199 and US$ 2,585 per capita annually, respectively.

A perhaps less obvious effect of the debt burden on development is the fact that high levels of debt scare off foreign as well as domestic private investors (the so-called debt overhang effect). As is pointed out in the UNCTAD's 'Least Developed Countries 2000 Report', LDCs exhibit a high degree of vulnerability to external shocks and they are highly dependent on external financial resources. The government has limited control over its own finances: its income depends to a large degree on tax revenues related to raw material exports and spending is conditioned by aid flows and debt service requirements. The unpredictability of debt service obligations discourages private investors:

> [What fraction of scheduled debt payments will be serviced] is the subject of constant negotiations between the authorities in the indebted countries and various categories of creditors and entails both formal rescheduling and debt forgiveness as well as the informal and disorderly accumulation of arrears […] It is axiomatic that a basic condition for a flourishing private sector is a policy environment in which there are simple rules as well as safeguards against frequent and predictable alteration of the rules. But this is far from the case with regard to the negotiation of debt service which must be paid (UNCTAD 2000: 91).

Furthermore, debt affects the level of development through the diversion of aid, or, as UNCTAD formulates, throughout the 1990s 'the debt tail has been wagging the aid dog' (2000: 121). Evidence demonstrates that 'both official and multilateral disbursements are highly correlated with total debt service, and multilateral disbursements are highly correlated with multilateral debt service'. Countries with high debt service obligations receive relatively more official finance than other countries, mainly because creditors want to maintain positive net transfers and want to prevent the countries from going bankrupt and defaulting on their loans.

2.4 Debt in LDCs

In 1998, the total debt stock of LDCs amounted to US$ 154 billion. This is almost four times as high as the LDCs' debt stock in 1980. For every single LDC, the debt stock shows a steady and significant increase since 1980. The majority of the total debt stock is owed by the 31 HIPC-LDCs. Their share is 85 per cent or US$ 129 billion of the total LDC debt.

A few LDCs, such as Mozambique, Angola and the Solomon Islands, owe a significant amount of debt to commercial banks and other private creditors. But for the majority of LDCs, the main part of the total debt stock consists of official debt, i.e. bilateral debt owed to governments and multilateral debt owed to multilateral financial institutions. In 1998, 40 per cent of the LDC debt stock was multilateral debt and 38 per cent bilateral debt. The remaining 22 per cent included private debt and related interest arrears as well as short-term official debt, plus interest arrears.

Table 2
LDC debt stock

	Total debt stock, 1980-98 (US$ million)			Multilateral %	Bilateral %	Arrears %
	1980	1990	1998	1998	1998	1998
HIPC-LDCs						
Benin	424	1,292	1,647	62	32	5
Burkina Faso	330	834	1399	86	9	3
Burundi	166	907	1,119	84	14	5
C. A. R	195	699	921	70	21	17
Chad	284	524	1091	80	16	4
Congo, D. R.	4,770	10,270	12,929	21	45	64
Ethiopia	824	8,634	10,352	26	64	56
Gambia, The	137	369	477	77	20	0
Guinea	1,134	2,476	3,546	51	40	16
Guinea-Bissau	140	692	964	44	48	26
Lao P. D. R.	350	1,768	2,437	42	58	0
Liberia	686	1,849	2,103	35	23	78
Madagascar	1,250	3,701	4,394	42	52	17
Malawi	830	1,558	2,444	86	12	2
Mali	727	2,467	3,202	55	39	22
Mauritania	840	2,096	2,589	43	46	19
Mozambique		4,653	5,130	26	46	19
Myanmar	1500	4,695	5680	21	59	36
Niger	863	1,726	1,659	63	29	6
Rwanda	190	712	1,226	83	13	6
Sao Tome e Principe	24	150	246	66	29	14
Sierra Leone	469	1,151	1,243	57	33	4
Senegal	1,473	3,723	3,861	58	34	1
Somalia	660	2,370	2,635	34	42	68
Sudan	5,177	14,762	16,843	17	33	80
U. R. Tanzania	5,322	6,438	7,603	45	40	24
Togo	1,049	1,275	1,448	62	35	2
Uganda	689	2,583	3,935	72	23	7
Zambia	3,244	6,916	6,865	50	43	13
Angola	–	8,594	12,173	2	24	22
Yemen	1,684	6,345	4,138	45	46	18
Non HIPC-LDCs						
Bangladesh	4,230	12,769	16,376	67	31	0
Bhutan	–	84	120	68	32	0
Cambodia	–	1,854	2,210	16	82	43
Cape Verde	–	135	244	74	19	10
Comoros Islands	44	185	203	80	14	22
Djibouti	32	205	288	53	41	9
Equatorial Guinea	76	241	306	36	34	45
Eritrea	–	–	149	51	46	0
Haiti	302	889	1,048	83	14	0
Lesotho	72	396	692	75	15	2
Maldives	26	78	180	63	19	0
Nepal	205	1,640	2,646	85	12	0
Samoa	60	92	180	80	5	0
Solomon Islands	19	121	152	60	8	5
Vanuatu	4	40	63	70	16	0
Total HIPC-LDCs	35,430	106,714	129,378	36	39	34
Total non HIPC-LDCs	5,070	18,728	24,857	65	32	5
Total LDCs	40,499	125,443	154,235	40	38	30

Note: The non HIPC-LDCs (Afghanistan, Kiribati and Tuvalu) are not included due to lack of data.
Source: World Bank (2000b).

Table 3
LDC debt indicators, 1980-98

	Debt stock/GNP (%)			Debt stock/exports (%)			Debt servicing/exports (%)		
	1980	1990	1998	1980	1990	1998	1989	1990	1998
HIPC-LDCs									
Benin	30	72	72	107	233	287	5	7	11
Burkina Faso	20	30	55	63	129	343	4	5	13
Burundi	–	81	119	–	929	1,819	–	43	49
C. A. R	24	48	89	95	317	633	5	13	21
Chad	27	30	66	398	191	327	8	4	11
Congo, D. R.	33	120	208	198	398	777	23	14	1
Ethiopia	–	127	160	140	1,276	984	8	35	11
Gambia, The	58	127	117	206	218	178	6	22	10
Guinea	–	95	102		294	432	–	20	19
Guinea-Bissau	–	297	504	–	2463	3,131	–	30	26
Lao P. D. R.	–	205	199	–	1,690	493	–	9	6
Liberia	–	–	–	–	–	–	–	–	–
Madagascar	31	126	120	241	749	515	20	45	15
Malawi	73	89	138	264	344	430	28	29	15
Mali	41	103	128	191	376	376	4	10	10
Mauritania	108	195	273	299	418	648	17	29	28
Mozambique	197	289	223	1,552	1,418	1,414	26	23	18
Myanmar	–	–	–	270	703	326	25	9	5
Niger	35	71	82	132	298	492	22	17	18
Rwanda	16	28	61	103	473	982	4	14	17
Sao Tome e Principe	–	334	685	98	1,807	2,119	5	34	32
Sierra Leone	40	144	198	170	547	1,109	24	10	18
Senegal	51	68	83	150	217	278	27	19	23
Somalia	110	284	–	207	3,362	–	4	15	–
Sudan	69	117	183	396	1,849	2,695	20	6	10
U. R. Tanzania	–	161	94	699	1,183	645	21	33	21
Togo	96	80	97	178	170	205	9	11	6
Uganda	56	61	58	208	1,051	582	17	60	24
Zambia	90	230	217	200	508	601	25	15	18
Angola	–	105	297	–	215	310	–	8	34
Yemen	–	135	105	–	139	217	–	4	7
Non HIPC-LDCs									
Bangladesh	24	42	37	309	366	182	20	23	8
Bhutan	–	31	32	–	88	76	–	6	6
Cambodia	–	166	78	–	–	259	–	–	2
Cape Verde	–	40	50	–	77	92	–	3	7
Comoros Islands	36	74	103	254	319	590	2	2	18
Djibouti	–	–	–	–	–	–	–	–	–
Equatorial Guinea	–	195	76	–	570	73	–	12	1
Eritrea	–	–	20	–	–	39	–	–	1
Haiti	21	30	–	58	274	219	5	10	8
Lesotho	11	39	65	20	71	114	2	4	8
Maldives	–	60	58	40	42	41	1	5	3
Nepal	10	44	54	85	313	193	3	14	6
Samoa	–	61	102	95	67	107	9	4	3
Solomon Islands	18	58	52	23	123	77	0	12	3
Vanuatu	4	25	28	–	34	33	–	2	1

Note: The non HIPC-LDCs (Afghanistan, Kiribati and Tuvalu) are not included due to lack of data.

Source: World Bank (2000b).

Table 4
LDC debt service

	Total debt service, 1980-98 (US$ million)			Multilateral (%)	Bilateral (%)
	1980	1990	1998	1998	1998
HIPC-LDCs					
Benin	20	38	61	56	36
Burkina Faso	22	34	53	77	15
Burundi	9	42	30	93	3
C. A. R	10	29	30	96	1
Chad	6	12	36	86	11
Congo, D. R.	542	348	19	5	0
Ethiopia	45	236	119	71	19
Gambia, The	4	38	26	62	35
Guinea	109	169	159	60	22
Guinea-Bissau	5	8	8	63	32
Lao P. D. R.	3	9	31	61	39
Liberia	54	3	1	100	0
Madagascar	104	223	125	55	42
Malawi	87	133	84	89	8
Mali	16	67	82	65	26
Mauritania	48	146	110	58	31
Mozambique		79	105	58	25
Myanmar	141	60	93	3	56
Niger	141	99	62	50	10
Rwanda	8	21	21	81	10
Sao Tome e Principe	1	3	4	73	19
Sierra Leone	259	325	323	52	37
Senegal	66	21	20	75	25
Somalia	13	11	0	0	0
Sudan	264	50	61	100	0
U. R. Tanzania	161	179	246	57	33
Togo	52	86	40	65	30
Uganda	57	147	160	79	16
Zambia	410	202	202	46	21
Angola	–	326	1,353	0	7
Yemen	73	169	125	75	19
Non HIPC-LDCs					
Afghanistan	–	–	–	–	–
Bangladesh	278	791	683	48	47
Bhutan	–	5	9	18	55
Cambodia	–	30	13	31	31
Cape Verde	–	6	19	48	42
Comoros Islands	0	1	6	54	45
Djibouti	4	15	6	62	31
Equatorial Guinea	3	5	6	73	0
Eritrea	–	–	6	16	79
Haiti	26	33	39	77	18
Kiribati	–	–	–	–	–
Lesotho	6	24	51	58	26
Maldives	1	9	14	22	36
Nepal	8	71	88	58	23
Samoa	6	6	5	76	8
Solomon Islands	0	12	7	74	17
Tuvalu	–	–	–	–	–
Vanuatu	1	2	2	29	35
Total HIPC-LDCs	2,730	3,313	3,789	39	19
Total non HIPC-LDCs	331	1,009	951	50	41
Total LDCs	3,061	4,322	4,740	41	24

Note: The non HIPC-LDCs (Afghanistan, Kiribati and Tuvalu) are not included due to lack of data.

Source: World Bank (2000b).

Like absolute debt stock figures, debt stock *indicators* have worsened for most HIPC-LDCs since 1980. As a result of rising debt levels, the present values of debt-to-exports ratio and of the debt-to-GNP ratio have increased since 1980 for most HIPC-LDCs, even though exports and GNP show some modest growth (see Table 3). However, for a number of HIPC-LDCs, debt stock indicators improved between 1980-98.[6] Compared to the performance of other HIPC-LDCs, these countries' GNP and export income have improved significantly between 1980 and 1998 (see Annex 1). In other words, the improved debt indicators are to be attributed to improved economic performance rather than lower absolute levels of debt. In spite of this, however, these countries' debts still remain far above the conservative World Bank and IMF sustainability threshold of a 150 per cent present value of debt-to-export ratio, as is the case for all the HIPC-LDCs. Also, for 23 out of 28 HIPC-LDCs for which data are available, the present value of debt-to-GNP ratio is above 80 per cent, the threshold used by the World Bank in the past to classify a country as 'severely indebted'.

The group of non HIPC-LDCs shows major differences in the level as well as the evolvement of debt indicators. Five out of 14 non HIPC-LDCs for which 1998 data are available, have a debt level that exceeds the 150 per cent present value of debt-to-export threshold.[7] In one more country, Samoa, the present value of debt-to-GNP exceeds 80 per cent. Furthermore, for seven out of the 14 non HIPC-LDCs for which data are available, debt indicators are worse in 1998 than in the 1980 and 1990 levels, even though GNP and exports have increased compared to 1980. The debt indicators have improved for only two countries, Cambodia and former HIPC Equatorial Guinea. However, Cambodia's present value of debt-to-export ratio is still far above the 150 per cent threshold.

In addition to these debt indicators, the *amount of arrears* is indicative of the severity of the debt burden. Table 2 gives details on the arrears as a percentage of the total debt stock for all LDCs. Besides D. R. Congo, Liberia, Somalia and Sudan, the countries well-known for their arrears problems, a large number of other LDCs have huge arrears. Nine LDCs have arrears of over 20 per cent of their total debt stock, and in the case of six more LDCs, they amount to more than 15 per cent of the debt stock. There are three non HIPC-LDCs for which arrears are extremely high: Cambodia (43 per cent), Comoros Islands (22 per cent), and Equatorial Guinea (45 per cent).

The amount of arrears clearly demonstrates that many LDCs are incapable of paying their debt service obligations. For at least 18 LDCs, including four non HIPC-LDCs, annual debt repayments decreased in 1998 compared to 1990, even though the debt stock increased. The repayments made by LDCs during 1980-98 are given in Table 4. In 1998, these countries returned a total of US$ 4,740 million to foreign creditors. HIPC-LDCs account for 80 per cent of this total. The main receivers of LDC debt repayments are multilateral creditors.

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6 These are Lao, Madagascar, Mozambique, Mali (only the present value of debt-to-GNP indicator), Myanmar, Tanzania and Uganda.

7 Bangladesh, Cambodia, Comoros Islands, Haiti, and Nepal.

As Table 3 demonstrates, assuming a 10-15 per cent debt-service-to-export threshold range implies that most HIPC-LDCs as well as one non HIPC-LDCs (Comoros Islands) have unsustainable debts.

It is clear that in addition to the 31 HIPC-LDCs, also many LDCs have unsustainable debts, even with the rather arbitrary and narrowly defined definition of the World Bank and IMF. Six non HIPC-LDCs have debt levels that exceed the WB and IMF debt sustainability thresholds: Bangladesh, Cambodia, Comoros Islands, Haiti, Nepal, and Samoa. Furthermore, the Equatorial Guinea's amount of arrears equally suggests that this country is unable to carry its debt burden.

3 The HIPC exit strategy

Many LDCs have been forced to enter a seemingly endless cycle of debt restructurings, which, up to the year 2000, has not brought these countries to a sustainable debt level. The severity of today's debt burden demonstrates how disappointingly inadequate official creditors' response has been in the past to the debt crisis.[8] Or, as UNCTAD puts it: 'There has been a persistent tendency to underestimate what has been needed, which has in itself contributed to the build up of the debt' (2000: 139). Attempts to significantly reduce the burden of bilateral debt through Paris Club debt negotiations[9] have failed, mainly because of the exclusion of large part of the debt, as the well-known case of Uganda demonstrates. In 1995 Uganda received a 67 per cent stock reduction, but mainly because previously rescheduled debt was excluded, its US$ 3.2 billion debt stock only decreased by 3.2 per cent.[10]

Furthermore, for a long time, the multilateral debt problem was not even taken seriously. Even though the main part of the poorest countries' debt repayments went to multilateral creditors, the World Bank and IMF denied for many years that there was a multilateral debt problem. It was only in 1996 that the two Bretton Woods institutions openly acknowledged this, when these introduced the so-called HIPC Initiative.

3.1 The HIPC Initiative

The HIPC Initiative was unique, not only because creditors acknowledged the problem of multilateral debt for the first time, but also because it was the first comprehensive attempt to deal with the debt crisis. The initiative involved commercial, bilateral, *and* multilateral creditors. The primary aim was to reduce a country's debt burden so that it

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8 As noted in section 2, the main part of LDC debt is official debt, not commercial debt.

9 Before the HIPC Initiative, the latest terms for bilateral debt reduction in the Paris Club were the Naples Terms. In the Naples flow rescheduling, the NPV of eligible debt service is reduced up to 67 per cent. In the Naples Terms stock-of-debt operation, the total NPV of debt is reduced by 67 per cent. In order to achieve the required NPV reduction, creditors can choose from a list of options, including cancellation of principal repayments, cancellation of interest payments, increased concessionality or a longer time-frame for repayment. Only debt incurred before the 'cutoff date' (when a country first visited the Paris Club for a rescheduling) is eligible for Paris Club operations.

10 See, for example, Eurodad (1996: 12).

would be sustainable, broadly meaning that a country could permanently exit from the rescheduling process (see also section 2.1).

It soon became apparent that the original initiative[11] failed to reduce debt service burdens. For instance, for Mali and Burkina Faso, debt service due after the HIPC programme would actually have been higher than debt service paid before the initiative.

Creditors have recognized some of the original initiative's flaws and introduced a number of changes, culminating in the 'enhanced initiative', or HIPC II Initiative. This initiative was agreed by the G7 in June 1999.

3.1.1 Which countries

There are 41 HIPCs, including 31 HIPC-LDCs, which meet the three criteria to qualify for the enhanced initiative. These criteria are (i) a country is only eligible for highly concessional assistance (IDA); (ii) it has an IMF poverty reduction and growth facility supported-programme[12] (PRGF) in place; and (iii) it has agreed to a rescheduling of debts on concessional terms with the Paris Club.

3.1.2 The first stage

The initiative is divided in two stages. During the first stage, the country establishes a three-year track record of good performance on IMF and World Bank-supported structural adjustment programmes, of which one year immediately precedes the decision point.[13] The previous track record is taken into account. Just as in the original initiative, Paris Club creditors provide debt service rescheduling according to the Naples Terms. The major important difference compared to the first initiative is that countries must prepare a participatory poverty reduction strategy paper (PRSP)[14] during this first stage. Thus, the objective of poverty reduction has been made an integrated part of the process.

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[11] The original initiative worked as follows. To enter the initiative, countries would have to: (i) be IDA-only borrowers; (ii) have gone to the Paris Club for a debt rescheduling on concessional terms, and (iii) have an IMF/World Bank structural adjustment programme in place. If these conditions were met, a country could enter the first three-year phase, during which it could receive a 67 per cent reduction of commercial and bilateral debt service. At the end of this phase, the country could receive a 67 per cent debt stock reduction, or, if this did not lead to a sustainable debt level, opt to continue with the second three-year phase. During the first and second phases, the country had to implement a World Bank and IMF supported programme. During the second phase, commercial and bilateral debt service reduction would be topped up to 90 per cent and at the end of this phase, countries could receive up to 80 per cent bilateral and commercial debt stock reduction. Only if this could not bring the debt to a sustainable level, multilateral creditors would provide additional debt relief.

[12] PRGF has replaced the IMF's Extended Structural Adjustment Facility (ESAF).

[13] In a few cases, the World Bank and IMF have been flexible on the length of the overall track record (for example in the case of Guinea Bissau and Sao Tome and Principe) and the one-year immediate track record (for example in the case of Niger).

[14] For countries which had already reached decision point/completion point in the original HIPC Initiative, and thus needed to be considered as 'retroactive cases' eligible for further debt relief (or for a few other countries that were already far advanced in the first stage of the HIPC Initiative when the PRSP approach was introduced, and would have been eligible for a decision point by the end of 2000), an 'interim PRSP' is be sufficient to achieve the decision point. It is intended to be a 'light' version of a full participatory PRSP, for countries where there is already an existing track record of successful reform, in order to facilitate faster progress to decision point.

3.1.3 The decision point

At the end of the first stage, the country reaches the decision point. Similar to the original initiative, the World Bank and IMF prepare a debt sustainability analysis (DSA) and calculate whether a Paris Club stock-of-debt operation is sufficient to bring the debt to a sustainable level. The threshold levels to define debt sustainability, however, have changed somewhat (see Table 5).

If a Paris Club stock-of-debt operation is not sufficient for achieving a sustainable debt level, the country can go on to the second stage. At this point, all creditors commit themselves to delivering a certain amount of debt relief at the completion point.[15]

Table 5
Debt sustainability threshold levels

	HIPC I	HIPC II
NPV debt-to-exports	200-250%	150%
NPV debt-to-government revenues	280%	250%
Qualifying criteria:		
Exports/GDP	•40%	•30
Government revenue/GDP	•20	•15
Debt service-to-exports	20-25%	10-15%

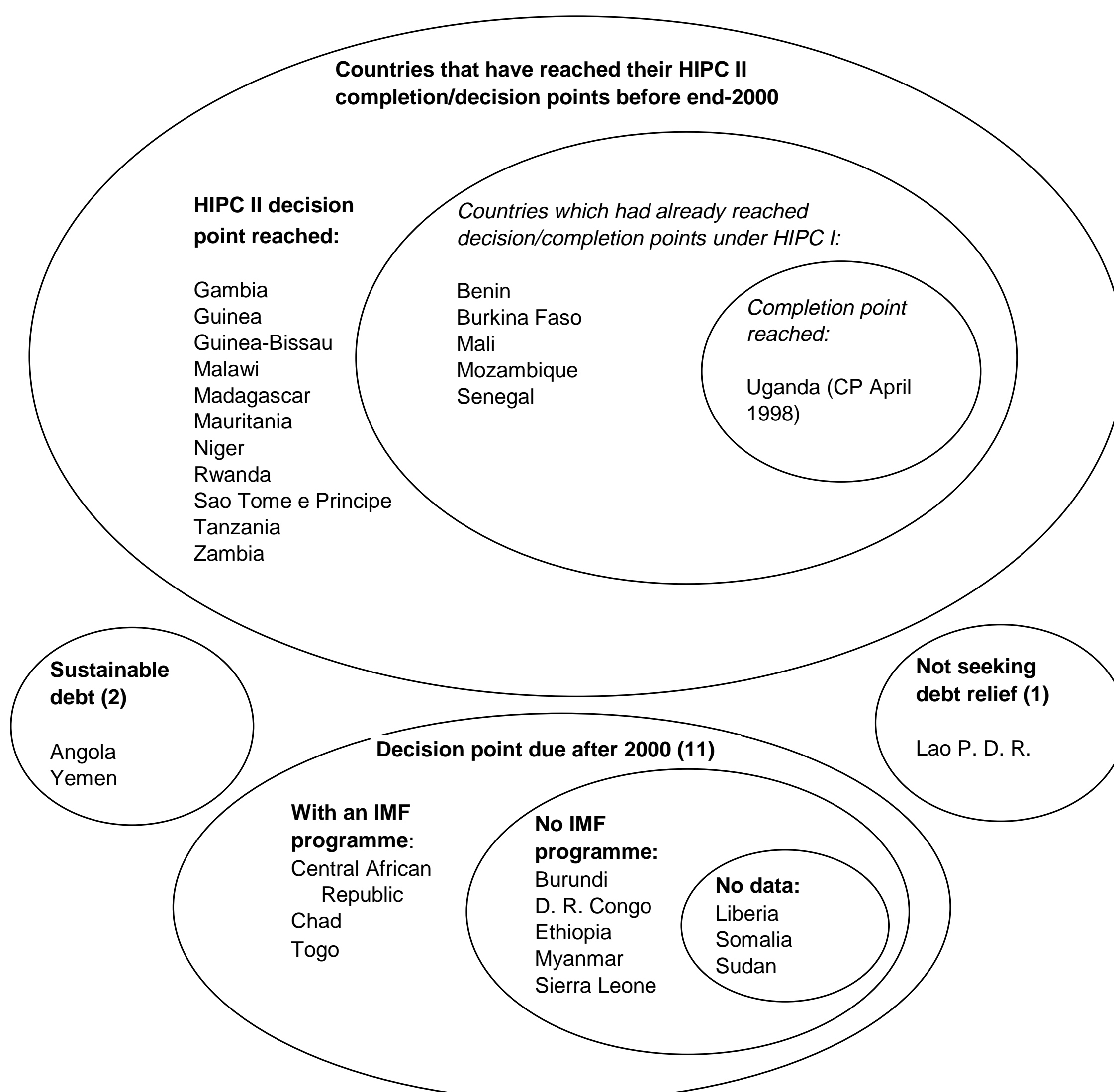
3.1.4 The second stage

The second stage has changed considerably in comparison to the original initiative:

- The country must implement the PRSP. The duration of the second phase depends on when certain PRSP targets, set out in the decision point document (DPD), are achieved. It is expected that this will take at least one year, and in many countries significantly longer. Thus, the phase is no longer fixed to three years, and the country moves towards a 'floating' completion point.
- World Bank and IMF provide 'front-loaded' interim debt service reduction, instead of providing IDA grants rather than IDA-credits, as proposed in the original initiative.
- Other multilateral and bilateral creditors provide interim debt service reduction. Paris Club creditors offer flow rescheduling involving NPV reduction of up to 90 per cent (instead of the original 80 per cent) on eligible debt.
- The amount of debt stock to be irrevocably cancelled at the completion point is set by actual debt indicators at the decision point, not on projections of where they will be at the completion point. However, no automatic reassessment of debt relief is required when completion point is actually reached.

[15] The amount of debt reduction required to reach the relevant debt sustainability threshold target.

Figure 2
Current status of the 31 HIPC-LDCs with regard to the enhanced HIPC Initiative



3.1.5 The completion point

When a country reaches the completion point, creditors deliver the debt relief agreed at the decision point, minus the interim assistance delivered in the second stage. Paris Club creditors have agreed to offer up to 90 per cent stock of debt relief. Some creditors have announced their intention to go beyond this unilaterally and cancel up to 100 per cent of export credits,[16] including post-cutoff date debts. Countries must seek equivalent treatment from non-Paris Club bilateral and commercial creditors. Multilaterals deliver additional debt relief so that countries reach debt sustainability targets.

16 ODA debt is cancelled outside the auspices of the Paris Club. Many countries have announced their intention to cancel 100 per cent of ODA debts.

3.2 An exit from the rescheduling process for LDCs

Until now, seventeen out of a total of 31 HIPC-LDCs have reached their decision point. One of these, Uganda, has passed the completion point. Eleven other HIPC-LDCs will reach their decision point in the future. Of these eleven nations, only the Central African Republic and Chad have an IMF programme in place. The others are conflict-affected countries, which are unlikely to qualify for the initiative in the foreseeable future. Since 1998, the World Bank and IMF have been exploring proposals to give special support to these countries to help them to qualify for the initiative (see Box 2). However, mainly due to lack of finance and required bilateral donor cooperation, these proposals have hardly been materialized.

Two HIPC-LDCs, Angola and Yemen, are considered to have a sustainable debt burden and Lao P. D. R. is not seeking debt relief.

Table 6
Debt relief committed under the HIPC Initiative to 17 HIPC-LDCs

	NPV reduction (US$ million)	Nominal debt service relief (US$ million)
Benin	265	460
Burkina Faso	398	700
Gambia, The	67	90
Guinea	545	800
Guinea Bissau	416	790
Madagascar	814	1,500
Malawi	643	1,000
Mali	523	870
Mauritania	622	1,100
Mozambique	1,970	4,300
Niger	521	900
Rwanda	452	810
Sao Tome e Principe	97	200
Senegal	488	850
Tanzania	2,026	3,000
Uganda	1,003	1,950
Zambia	2,499	3,820
Total	13,349	23,140

Source: World Bank (2001b).

As Table 6 indicates, total debt relief committed under the enhanced HIPC Initiative seems considerable. Total nominal debt service reduction for all 17 HIPC-LDCs that have reached their decision point amounts to US$ 23,140 million. The total NPV of the seventeen countries' debt stock decreases by US$ 13,349 million. In 2018, debt sustainability indicators are above the threshold levels (see Annex 3). Based on this, one might conclude that HIPC LDCs indeed are offered an exit from the rescheduling process. Section 3.4 addresses the question whether the HIPC Initiative offers such an exit. First, however, this paper examines to what extent the initiative releases resources for spending on human and social development.

Box 2
Special support for post-conflict HIPCs

The staffs of the World Bank and IMF recognize that for post-conflict countries[1], ‘early access to debt-relief may be a critical component of the successful transition to peace and resumption of sustainable development’. From 1998 onwards, proposals for special support to these countries have been developed, in which the World Bank has taken the lead. The main problem is that these proposals require significant donor support, which thus far has not been forthcoming.

Helping post-conflict countries to qualify for the HIPC Initiative

How do the World Bank and IMF propose to help post-conflict countries? First of all, by helping them to qualify for the HIPC Initiative, through (i) giving technical support that helps these countries to build a track record and (ii) flexibility regarding several aspects of the HIPC Initiative (such as for example the length and content of the track record required to qualify for the initiative, the I-PRSP, the timing of the decision point).

Currently, the World Bank and IMF have limited possibilities to finance technical support to conflict-affected countries. Most countries cannot receive 'normal' support, as both the Bank and the Fund cannot issue new loans to countries that are in arrears. Since 1995, the IMF can give special support through 'emergency post-conflict assistance': loans that help the country to become eligible for PRGF assistance. This assistance is non-concessional, which could be compensated for by bilateral interest subsidies. However, thus far these have hardly been forthcoming. The IMF staff recognizes that additional resources are needed to finance support to post-conflict countries. Bank and Fund propose that to this end, the IMF seeks 'support from the international community'.

The World Bank has several options to finance support, including grants from IBRD net income, donor supported-country specific trust funds, and grants from the post-conflict fund. Since 1999, the Bank can also provide limited IDA grant financing to countries in arrears, but only in situations where all creditors allow arrears accumulation and where a country has made 'convincing steps towards social and economic recovery'. Considering these conditions, it is not surprising that no country has thus far qualified. The World Bank acknowledges that it 'is now not well positioned to provide adequate support to post-conflict countries in arrears' and that it needs 'expanded access to grant resources'. World Bank staff now proposes that the Bank explores the possibility to scale up the post-conflict fund and the possibility to broaden the scope of IDA-grants.

Arrears clearance

Secondly, the IMF and World Bank staffs propose to help post-conflict countries by 'arrears clearance'. Bank and Fund could help the country to prepare an 'arrears clearance plan'. Arrears clearance can only take place (i) after the country has established a satisfactory track record of policy performance (which is expected to take 1-3 years and to coincide largely with the track record required to qualify for the HIPC Initiative) and (ii) 'within a framework of concerted international action'.

Arrears to the IMF are to be cleared as they are now: through a bridge loan provided by bilateral creditors. The World Bank currently also relies on bilateral donor contributions to clear arrears. Proposals for other mechanisms, the first of which were put forward in 1998, have not been accepted by the World Bank Board. These include: (i) arrears accumulation in the pre-arrears clearance period; (ii) rescheduling and/or refinancing of arrears to IDA; (iii) Fifth Dimension type credits to ensure positive net transfers to finance reconstruction efforts after arrears clearance. The staff now proposes that the use of these special mechanisms could be decided on a case-by-case basis.

[1] Post-conflict is a situation where a conflict which prevented a return to a functioning peace-time economy without international assistance has subsided to a degree to which international assistance is both possible and sustainable. Conflict-affected HIPCs include HIPC eligible countries that either currently are in conflict or have been in conflict in the past few years: Angola, Burundi, Central African Republic, D. R. Congo, Congo, Ethiopia, Liberia, Myanmar, Sierra Leone, Somalia, Sudan

Sources: World Bank (2001a); Eurodad (1998).

Table 7
Savings on debt service and increases in social spending for seventeen HIPC-LCDs, 1999-2002

	1999	2000		2001		2002	
Benin							
Savings on debt service [1]	65	2		19		22	
Spending on social development [2]	115	148	(33)	195	(80)		
Burkina Faso							
Savings on debt service [1]	56	22		26		21	
Spending on social development [2]	141	142	(1)	165	(24)	192	(51)
Gambia, The							
Savings on debt service [1]	26	1		5		6	
Spending on social development [2]	23	26	(3)	30	(7)	34	(11)
Guinea							
Savings on debt service [1]	118	-2		40		28	
Spending on social development [2]	101	105	(4)	109	(8)		
Guinea-Bissau							
Savings on debt service [1]	21	-8		15		15	
Spending on social development [2]	26	30	(4)	42	(16)	47	(21)
Madagascar							
Savings on debt service [1]	136	21		72		80	
Spending on social development [2]	156	188	(32)	223	(67)	277	(121)
Malawi							
Savings on debt service [1]	88	-21		29		31	
Spending on social development [2]	99	118	(19)	143	(44)	161	(62)
Mali							
Savings on debt service [1]	79	-9		15		15	
Spending on social development [2]	83	98	(15)	115	(32)	126	(43)
Mauritania							
Savings on debt service [1]	93	6		13		251	
[e]Spending on social development [2]	85	97	(12)	111	(26)	121	(36)
Mozambique							
Savings on debt service [1]	92	42		44		41	
Spending on social development [2]	158	161	(3)	173	(15)	203	(45)
Niger							
Savings on debt service [1]	27	-57		-22		-22	
Spending on social development [2]	99	85	(-14)	112	(13)	132	(33)
Rwanda							
Savings on debt service [1]	17	-23		1		4	
Spending on social development [2]	75	73	(-2)	89	(14)	108	(33)
Sao Tome e Principe							
Savings on debt service [1]	9	3		7		8	
Spending on social development [2]	8	8	(-)	9	(1)	12	(4)
Senegal							
Savings on debt service [1]	220	47		61		75	
Spending on social development [2]	257	258	(1)	277	(20)		
Tanzania							
Savings on debt service [1]	208	54		66		64	
Spending on social development [2]	289	327	(38)	361	(72)		
Uganda							
Savings on debt service [1]	104	56		53		48	
Spending on social development [2]	306	349	(43)	400	(94)		
Zambia							
Savings on debt service [1]	141	-28		-17		-7	
Spending on social development [2]	167	152	(-15)	248	(81)		

Notes: [1] Savings on debt service: debt service due after the HIPC Initiative in 2000-02 compared to annual debt service paid in 1998-99. The figure for 1998/99 is what has been paid, figures for 2000-02 indicate savings. The figure for 2000 takes into account the debt relief provided under the original framework and the relief provided to those countries that reached their decision points under the enhanced framework during the first half of 2000.

[2] Difference compared to 1999 given in brackets.

Source: World Bank (2001b).

3.3 Increased spending on social development

It is impossible to indicate to what extent decreased debt service requirements contribute directly to additional spending on social and human development.[17] First of all, it is difficult to estimate how many resources are actually freed thanks to debt relief, particularly since many HIPC-LDCs in the past did not pay all of the outstanding debt service. In addition, two countries—Niger and Zambia—will pay more debt service in the years 2001-05 than they did in 1998-99, implying that no funds are freed at all.

Second, increased social spending cannot be related directly to decreased debt service. HIPC-LDCs have always borrowed money to pay part of their debt service. Consequently, it is impossible to increase spending on social and human development with the same amount as the debt service is lowered without new borrowing or grants. Increases in spending on social and human development cannot therefore be attributed solely to debt service relief, but must also be attributed to new grants and loans.

The fact that there is no straightforward relation between decreased debt service levels and increased spending on social development is illustrated by Table 7. For instance, for a number of countries, increased spending on social services in 2001-02 is much higher than the amount of resources 'freed' by debt relief.[18] Furthermore, for Zambia and Niger, whose debt service due after 2000 will increase compared to that paid in 1998, spending on social development will nonetheless increase after 2000.

3.4 Flaws

At first sight, the HIPC Initiative seems promising. However, a closer look at the data shows that if the initiative is to fulfil even its limited aim of an exit from the rescheduling process, much deeper debt reduction is needed.

3.4.1 Heavily indebted and poor but not a HIPC

First of all, several LDCs with significant debt burdens are not included in the initiative. For instance, Angola is considered to have a sustainable debt burden, even though all its 1998 debt indicators are above the threshold level and Angola's arrears almost quadrupled from US$ 700 million (or 8 per cent of total debt) in 1990 to US$ 2,704 million (22 per cent of total debt) in 1998.

Furthermore, there are seven LDCs that do not meet the criteria to be designated a HIPC but which do have unsustainable debts according to the rather conservative World Bank and IMF criteria (see section 2). These countries are not even considered for the initiative, even though they are heavily indebted and extremely poor. For example, in Bangladesh, 30 per cent of the population lives below US$ 1 per day, and 78 per cent

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[17] It is even more difficult to indicate to what extent debt reduction contributes to the realization of reduced poverty rates. As pointed out by UNCTAD, 'There is a large gap between more social expenditures and the realization of better social outcomes and reduced poverty rates. There are major problems of reaching the poor through social spending, and even if this is successful, long-term poverty reduction depends on economic growth and the expansion of employment opportunities and productivity per worker. Channelling small amounts of HIPC assistance into social spending is more likely to provide short-term poverty relief than long-term poverty reduction' (2000: 160).

[18] For instance, Benin, Guinea-Bissau, Malawi, Niger, Rwanda.

below US$ 2. In Nepal, these percentages are 38 per cent and 82 per cent, respectively. According to UNCTAD, if current trends persist, it will take Bangladesh 25-50 years and Cambodia and Nepal 50-100 years to reach US$ 900 per capita income levels; growth in several other LDCs, including Angola, Comoros, and Haiti, is negative or stagnant (UNCTAD 2000: 13, 27).

Table 8
Future debt service payments for seventeen HIPC-LDCs

	Before HIPC II		After HIPC II							
	Av. 1998-99	2000	2001	2002	2003	2004	2005	2010	2015	2018
Benin	65	63	46	43	39	39	37	44	73	89
Burkina Faso	56	34	30	35	38	40	41	55	83	–
Gambia, The (1	21	20	16	15	8	9	10	19	23	30
Guinea	118	140	78	90	99	92	88			
Guinea Bissau	21	29	6	6	8	8	4	11	–	–
Madagascar	136	105	64	56	68	79	82			
Malawi	88	110	59	57	45	45	47	55	86	92
Mali	79	88	64	64	66	67	66	76	125	144
Mauritania	93	87	80	58	49	43	43			
Mozambique (2	92	50	48	51	54	55	60	97	98	111
Niger	27	94	49	49	26	29	29	26	35	48
Rwanda (3	17	40	16	13	8	11	11	15	28	42
Sao Tome e Principe	9	6	2	1	1	1	1	3	3	4
Senegal (4	220	173	159	145	143	225	134	114	114	114
Tanzania (5	208	154	142	144	148	152	158	258	258	258
Uganda	104	48	51	56	68	94	103			
Zambia (6	141	169	158	148	151	211	202	135	109	135

Notes: (1 Last two columns for the Gambia represent data for the years 2014 and 2019.
(2 Last column for Mozambique represents data for the year 2017.
(3 Last three columns for Rwanda represent data for the years 2009, 2014 and 2019.
(4 Data for 2001-05 in the March 1 World Bank document are: 159, 145, 143, 225, 134. Data for the years 2010, 2015, and 2018 data are the average data for 2009-18.
(5 Data for the years 2010, 2015 and 2018 are the average for 2010-18.
(6 The average for 1993-98 excludes debt service data for 1995, as 1995 debt service is seven times higher (US$ 2,623 million) than the average for this period. If this figure is included, the average would be US$ 677 million.

Source: Decision Point Documents (available at: www.imf.org).

3.4.2 Too little

Second, the debt reduction offered is likely to be too small. For the majority of HIPC-LDCs, debt servicing in the short to medium term—up to 2004-05—is indeed lower compared to what these countries actually paid to their foreign creditors in the period 1993-98 and 1998/9. But for five out of the sixteen HIPC-LDCs for which data are available, the NPV of debt level in 2005 is still over the IMF and World Bank threshold ratio of 150 per cent.[19]

In addition, some countries will see large fluctuations in debt servicing, followed in most cases by significant drops in the subsequent years. For example, Senegal's debt service jumps by 61 per cent in 2004 and Mauritania's debt service by 46 per cent in 2007. Such 'humps' in debt servicing obligations make the budget-planning process

19 These are Burkina Faso (158 per cent), the Gambia (141 per cent), Malawi (169 per cent), Niger (183 per cent), Rwanda (167 per cent).

very hard for HIPC governments. Furthermore, debt service levels will start to rise again. For eleven out of the thirteen HIPC-LDCs for which post-2005 debt service data are available, debt service starts to increase after 2005 and for nine HIPC-LDCs future levels are far above present debt service levels. Thus, in the long run, most HIPC-LDCs will be back to where they are now.

The reality that the debt reduction currently on offer may simply not be enough in the long run is also demonstrated by the fact that eligible countries remain dependent on new borrowing, as is reflected in the building up of the debt and increasing debt service levels. As was pointed out by the US General Accounting Office, debt reduction only frees resources if HIPCs continue to borrow at the same rate as in the past (GAO 2000). In effect, increased spending on poverty reduction is now being financed by new debt that will come due in the future. For example, the World Bank is funding HIV/AIDS programmes with loans rather than grants, despite the fact that these loans will not generate new productive capacity with which to pay them off.

The fact that in spite of rising absolute debt service levels, the World Bank and IMF forecast sustainable debt levels in 2018 for all HIPC-LDCs having gone through the initiative (see Annex 3), is not related to decreasing debt levels, but to improved economic growth performance. However, as the projections are very optimistic, if not unrealistic, it is very likely that these countries will fail to live up to the World Bank and IMF's expectations on economic growth (see Annex 4). For eligible HIPCs that have reached the decision point, the average annual real GDP growth rate is projected to increase from the 3.1 per cent achieved in 1990-99 to 5.6 per cent in 2000-10, and this high growth rate is expected to be sustained for fifteen years. Also, most projected export figures are much higher than their ten-year historical averages: the average export growth in 1990-99 was 4.2 per cent, and the average projected growth for 2000-10 is 8.9 per cent, which implies export performance more than doubling.

There is no reason to expect such an increase in export growth. Actually, there is reason to think that export earnings will come under increasing pressure in future years. LDCs and HIPCs export earnings are concentrated in a few primary commodities and most of these countries depend on just two or three exports. This makes their economies very vulnerable to fluctuations in commodity prices, and in recent years commodity prices have fallen sharply. Furthermore, no account is taken of the likelihood that, as many countries increase export production in the absence of a simultaneous upswing in world demand, market response will drive prices down. In terms of aggregate global demand, there is likely to be increased downside risk, as the US economy, the motor of global demand, appears to be slowing down.

In addition, with regard to other macroeconomic variables, a 'relatively neutral external environment' is assumed. However, the economies of LDCs and HIPCs are very vulnerable because of the volatility of global commodity prices, and several other factors, including:

- Fluctuations in import prices, such as the oil price;
- Exchange rate devaluations and their impact on import prices;
- The level of donor aid flows (which is assumed to increase significantly); and

- The occurrence of non-economic shocks, such as climatic shocks, wars, or social conflicts, but also 'slow-moving' shocks, such as the AIDS/HIV pandemic.

Another reason why the amount of debt reduction being offered in the end is inadequate is that Paris Club creditors have not kept the promise they made at the G7 in Cologne in 1999 when they announced that in order to meet the sustainability ratios, they would cancel pre- and post-cutoff non-aid debt. Reduction of aid debt would be additional to this, and would therefore reduce the ratio below the thresholds. However, for Uganda, the first country to reach the completion point, Paris Club creditors failed to come to an agreement on this. After several months of fruitless debate, it was left to the creditors themselves to decide which debt they would cancel to reach the required ratio.

Finally, the reduction offered may not be sufficient because domestic debt is not included in the World Bank and IMF's debt sustainability analyses, even though some countries have significant domestic debt burdens. In many LDCs, domestic debt repayments amount to 20 per cent of the government budget.

Box 3
Crisis response mechanism

Countries dealing with disasters such as earthquakes, hurricanes, or floods, need maximal resources for immediate humanitarian and reconstruction efforts. In times of great human distress and need caused by such disasters, it would be almost inhuman to insist on debt repayments. Therefore, a 'Stop the Clock' should be put on all public external debt servicing. Stop the Clock means that debt payments and interest accruals would be completely frozen for the duration of a moratorium. During this time, all the country's resources could then be dedicated to emergency response and to the additional cost of reconstruction. In general, a two-year moratorium will be needed, to ensure that the (rural) economy can go through at least one full crop-cycle after the disaster has struck.

The 'Stop the Clock' moratorium means that interest arrears will not be accrued. During the moratorium period agreed for Honduras and Nicaragua in 1998, interest was being charged on the missed loan repayments and was capitalised. After the moratorium, both countries owed more to their foreign creditors than before. Moreover, the multilaterals did not participate in the moratorium. In the case of Mozambique, the multilaterals did take steps to stop debt servicing during one year. But this still wasn't a true 'Stop the Clock' mechanism; it is instead a frontloading of debt service, which has to be 'caught up' in the years following.

Source: Eurodad (2000c).

3.4.3 Conditionality and timing

The third major drawback, besides the exclusion of many heavily indebted countries and inadequate amounts offered for debt reduction, is the complexity of conditionality. The introduction of the PRSP as a condition for the initiative has brought poverty reduction to the centre of policy conditionality. However, this not only involves a change of emphasis, but also an extension of policy conditions. In addition to traditional macroeconomic and structural reforms, the country must also implement a number of agreed social development policies.

At the same time as conditionalities pile up, the PRSPs have not succeeded in better aligning macroeconomic issues and poverty issues than in the past and thus macroeconomic frameworks have not significantly changed (see Box 3). The European Union is now in the position to take up the challenge to ensure that the poverty focus is

Box 4
The poverty reduction strategy paper

The announcement of the poverty reduction strategy paper (PRSP) by the World Bank and the IMF in September 1999 reflects the institutions' willingness to put poverty reduction at the centre of their work in low-income countries. The HIPCs would be the first countries in which PRSPs would be adopted. In the end, the PRSP would be key to World Bank and IMF concessional lending facilities, i.e. IDA and PRGF.

The PRSP has four essential features:

- i) it lays out a framework and agenda for tackling poverty;
- ii) it is comprehensive: macroeconomic, structural, sectoral and social elements are included, with all policies being consistent with the goal of poverty reduction;
- iii) it is developed in a participatory way; and
- iv) it is nationally owned.

Eurodad's 'PRS-Watch' programme, which closely follows the formulation of PRSPs, has found that even though there are many differences between countries' PRS processes, the PRSP concept cannot be characterized as an overall success or a failure. There are some concerns, which need to be addressed.

First of all, the link between PRSP and the HIPC Initiative is delaying debt relief and lowering the quality of PRSs. PRSPs are another layer of conditionality in an already complicated qualification process for the HIPC Initiative. The interim PRSP does not solve this problem.

Second, the PRSPs do not succeed in aligning macroeconomic issues and poverty issues more closely than in the past and macroeconomic frameworks have not changed significantly as a result of PRSPs.

Third, as a result, growth is consistently prioritized as the primary motor of poverty reduction. There has been little attention to quality aspects of growth, such as equity and distribution. This partly results from a lack of a definition of what pro-poor growth is. In fact, poverty concerns are not being placed at the heart of policy-making.

Fourth, to ensure that policies proposed will maximize benefits for the poor, an open, transparent ex-ante impact assessment is needed. However, there is little evidence of this occurring so far.

Fifth, the World Bank and the IMF remain the final arbiters of PRSPs. The PRSP therefore hardly involves a change in the relationship between countries and these institutes. Instead of the World Bank and IMF approving or rejecting a PRSP on an all-or-nothing basis, it would be desirable to see a national poverty reduction strategy being presented to all donors equally, for example at a UN roundtable or a World Bank consultative group meeting.

Sixth, although participation is better organized and being taken more seriously by governments than in the past, proper participation will take significantly longer than in the past (up to five years). Moreover, there are concerns about the lack of distinction between mere 'consultation', where the views and ideas of civil society are merely solicited, and full participation, where civil society organizations share in decision-making. The danger is that consultation could serve to rubber-stamp and legitimize a strategy over which civil society has had no influence.

Seventh, there is little evidence that the PRSP process—particularly because of the rush to get debt relief—builds on existing processes. On the contrary, existing home-grown processes are being shouldered aside by the arrival of PRSP. Although some of these existing processes were slow-moving and inadequate, there are still significant implications for the quality of ownership when these are not built upon.

Source: Eurodad (2000b).

included in the design of macroeconomic adjustment measures. The EU will co-finance the new (IDA) Poverty Reduction Support Credits, which are based on PRSPs.[20] The EU finances the grant part (PRSG) and the World Bank the credit part (PRSC). The indicators, objectives, timetables and conditionalities for the PRSC and the PRSG are the same and they are jointly defined. Although the EU assessment will not be included in the World Bank assessment of the PRS process, it is likely that the EU and the World Bank have common informal assessments of the PRSP.

Even though the change of emphasis must be welcomed, it cannot be denied that the piling-up of different sets of conditionalities is delaying the road to the completion point, at which point countries receive unconditional and irrevocable relief (see also Box 4). According to the World Bank and IMF, in theory it should take two years to produce a PRS. However, Uganda has been working on a PRS for five years, and even after this the Bank and the Fund wanted Uganda to provide some more details on the cost of poverty reduction programmes and to increase the link between expenditures on poverty reduction and poverty indicators (UNCTAD 2000: 146).

On the one side, the need to develop and implement a PRS for one year postpones debt relief, while on the other side the rush to achieve the completion point diminishes the quality of the PRS. The current linkage is thus damaging both processes and therefore other ways should be explored to link debt reduction to poverty alleviation. The next section describes alternative ways to ensure that debt reduction is really linked to social and human development.

4 The alternative approach

It is likely that the enhanced HIPC Initiative will not even allow countries to reach the narrowly defined definition of debt sustainability that is limited to financial and economic indicators, and consequently exit of the rescheduling process. Not all heavily indebted LDCs are eligible for the initiative, the assistance offered under HIPC II is too small and the main link between debt reduction and social development, the PRSP, complicates and delays the HIPC process.

The main problem with the current approach, furthermore, is that debt sustainability is being confined to economics. There is broad consensus in the international community that debt needs to be seen in a broader context and that the human development perspective must be incorporated in the HIPC Initiative. Nevertheless, there has been no attempt to incorporate human development indicators into the assessment of debt sustainability itself.

To assess the level of resources needed to achieve debt sustainability and poverty reduction, debt sustainability must be seen in a broader context that incorporates the human development needs of the beneficiary countries. This requires a new approach towards defining debt sustainability, which is described in section 4.1. Furthermore, as countries are in urgent need of debt relief, HIPC debt reduction and the PRS process should be made two parallel elements. This is the subject of section 4.2. As much more

[20] For 2001 and 2002, nineteen African countries, including sixteen LDCs, are identified for co-financing opportunities.

debt reduction will be needed than the amounts currently offered, the question is be: Which creditors should cancel the debt? And can they afford to do so?

4.1 The human development approach

Based on earlier work of Cafod (1998) and Jubilee 2000, Eurodad supports a new 'bottom-up' approach, the 'affordable debt-service approach.[21] The starting point of this approach is that resources available to LDCs' governments must first be used for the essential expenditures needed to fight poverty: clean water, primary health care, education and basic infrastructure. Once these expenditures are covered, remaining government revenues can then be spent on other important but less essential items, such as capital expenditure, civil infrastructure, police, security, domestic debt servicing—and external debt repayments.

In short, the approach defines how much a country can spend on external debt servicing, after sufficient investments to social and economic development have been made and after domestic debt has been serviced. This, of course, will differ for each individual country. For illustrative purposes, a simple method to calculate the affordable debt service for LDCs based on a number of general assumptions is described below. It should be noted that these assumptions are rather conservative and do not realistically reflect the country-specific situation of each individual LDC.

Box 5
Simple method to calculate affordable debt service

1.	Domestic budget revenue	
2.	Essential spending on poverty reduction	–
3.	Domestic debt repayments	x 20%
4.	Net feasible revenue	x 20%
5.	Affordable debt service	

4.1.1 Resources available to the government

The simplest way of calculating the amount of resources available to the government is to look at current domestic budget revenue data. However, this method has some important shortcomings. On the one hand, there could be pressure to increase government revenues in order to increase the funds available for debt servicing. This could be done by increasing tax rates, which would have negative effects, including slowing the economy and encouraging capital flight. On the other hand, governments might be tempted to cut back on their revenue collection efforts in order to qualify for greater debt relief. This problem could be circumvented with realistic projections of the country's potential fiscal revenues.[22]

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[21] See Eurodad (2000a).

[22] To mention one methodology to do so: A tax threshold is set at the normal international poverty line of US$ 1 per day (conventionally taken as a dollar/day at purchasing power of 1985 US dollars).

4.1.2 Essential expenditures on poverty reduction

The first item to come from government revenue is essential spending on poverty reduction. This amount will differ for each country. In the future, exact data can be derived from the PRSPs. The Cafod paper sets a basis of US$ 16 per capita on primary health care and US$ 12 per capita on education and basic infrastructure. The drawback of this simple approach is that it does not reflect the diversity of poverty-reduction needs in HIPCs and that is probably too low.[23]

4.1.3 Domestic debt repayments

For most LDCs, domestic debt repayments amount to 20 per cent of the government budget. These repayments should be made before external debt is being serviced.

3.1.4 Net feasible revenue

Total expenditures for essential spending and domestic debt servicing are subtracted from the total government revenue. What remains is 'net feasible revenue', available for important but less essential items, such as capital expenditure, civil infrastructure, police, security—and external debt servicing. The assumption is that up to 20 per cent of this remaining money may go to debt servicing. This is quite a generous assumption, but the analysis tries to be deliberately conservative to give credence to the numbers. Any debt stock that induces the annual debt servicing costs to exceed the sustainable level should be cancelled.

4.2 Delinking the HIPC Initiative and the PRSP process

The idea of the PRS process is a valuable one, in which countries in theory are given the opportunity to develop their own poverty-focused development strategies in a way that guarantees the participation of all major stakeholders (government, private sector, civil society and donors). However, Eurodad's PRS-Watch listserve, which collects and disseminates information, and the analysis from southern civil society organizations (CSOs) show that numerous problems are still encountered on the ground.[24]

The formal linkage between this process and the HIPC Initiative, where HIPCs are required to produce an interim PRSP to reach decision point and to finalize and start implementing their PRSP before achieving the completion point, is flawed. This is because the design and implementation of a participatory and country-owned PRS is a long process (up to five years), while new resources from debt cancellations are urgently needed to meet the most basic needs of HIPCs population. The linkage between the two processes despite these differences in timelags leads to:

Anyone living below this poverty line is held to be unlikely to be contributing any tax at all. For the better off, tax is paid as normal, but with a tax break of one dollar per day. The rest of GDP is considered taxable, with a maximum tax rate of 25 per cent (higher rates could be distortionary). This gives a figure for potential government revenues. Another, simpler method would be to look at recent fiscal receipts.

23 For instance, the 1997 UNDP Human Development Report estimates that an extra US$ 80 billion must be spent annually on the 1.3 billion people living in poverty. This is an additional US$ 62 spending for each person living on less than a dollar a day.

24 See www.eurodad.org.

- Delays in the disbursement of additional resources to the social sectors until full PRSPs have been produced. This particular setback should be taken very seriously when one knows that the HIPC Initiative has only managed to reduce the total debt servicing burden of the HIPCs by 3 per cent during the past four years;
- Countries rushing to complete their PRSPs in order to reach completion point. In the HIPC Initiative, this rushing greatly undermines the participation of the stakeholders and the ownership, elements which should be at the heart of the process. It also leads governments to perceive PRSPs as yet another conditionality imposed by the IFIs on the long path to irrevocable debt cancellations; and
- Furthermore, PRS documents produced to date have focused exclusively on long-term structural adjustments and macroeconomic policy frameworks, rather than setting out exactly how resources freed up by debt reduction will work in practice.

An attempt was made to address this tension by requiring countries to produce only an interim PRSP in order to reach the decision point and to benefit from interim debt relief. Unfortunately, these documents have not avoided the tendency for countries to rapidly produce full PRSPs in order to speed up the progress towards the completion point.

While it is undeniable that the use of the funds freed by debt reduction towards poverty reduction should be monitored, this should not be done by using PRSP as a condition for irrevocable debt relief. Instead, PRSP and HIPC should be made parallel processes to enable countries to reach the completion point even if their PRSPs are not finalized. This would allow debt relief to proceed quickly without damaging the PRSP process, to free up some resources for the poverty analysis and the participation aspects required in the first steps of a PRSP while allowing some basic poverty investments to be undertaken immediately.

This does not mean that the HIPC Initiative and the PRS process should develop entirely in isolation from each other. Rather, the link should be defined in terms of the PRS process providing information on how debt relief resources should be used. The PRSPs represent a valuable source to diagnosis the extent of poverty, evaluate the resources needed to implement a poverty reduction strategy and to help coordinate donors' aid. But debt reduction should not be held up until countries have implemented far-reaching structural reforms and economic policies that have nothing to do with how debt relief resources should be spent on fighting poverty.

Other mechanisms exist that can be used to guarantee that HIPC funds are used for poverty reduction and additional social expenditures before full PRSPs have been produced. Poverty funds, such as the Poverty Action Fund (PAF) created in Uganda, offer one credible solution. Such structures have three main features:

- They are integrated in the national budget so that the expenditures being funded are included in the overall development/poverty reduction strategy of the country;
- Dedicated disbursement and reporting procedures ensure that the funds allocated to poverty reduction are truly additional to current expenditures and guarantee the transparency of the process; and
- The poor are involved in the monitoring of the structure.

In Uganda, this framework has enabled it to make efficient use of the funds freed by debt reduction despite the fact that the country was engaged in a war, was highly corrupted and that no PRSP had yet been approved by the IFIs. Furthermore, the expenditures programmed through the Poverty Action Fund have had a very significant impact on social indicators (education doubled in a few years) and the participation of the different stakeholders (government, civil society organizations, donors) has been by all accounts significant and fruitful.

Uganda's Poverty Action Fund is a possible option for reconciling both the demands for best-practice budget management and for involving the local population in the monitoring process. The outcome, however, is the product of Uganda's specific circumstances and of a larger political process. In this respect, it is not a package simply to be taken or to be ignored. The main lesson, nevertheless, is that, even in a country that is not the model of democracy, it is possible, when creating specific mechanisms linking debt relief with poverty reduction, to avoid problems such as fungibility and sub-optimal budget management and at the same time to allow monitoring by the local population, which legitimates the whole process.

4.3 Who should be cancelling unaffordable debts?

Debt reduction under the 'affordable debt service' approach will be significantly higher than what is currently being offered in the HIPC Initiative. The question is, which creditors should cancel these additional amounts?

For bilateral creditors, cancelling additional debt poses a few financial problems. A large part of LDC loans are non-performing loans, as indicated by the piling up of arrears. Writing off a non-performing loan does not cost any *new* money, it simply involves accepting that the loaned money will not return. In technical terms, it simply needs to be recognized that the revenues from the asset is not forthcoming and that total revenues is lower than expected. Provisions can then be made to reduce the size of the asset in the creditor's books. Thus, annual provisions gradually reduce the paper value of the asset to recognize the decline in the asset's real value. Once the paper value reaches zero, the asset has been simply 'written off' from the financial accounts.

Only when a performing loan (one that is being repaid) is written off, a real economic cost is involved,[25] i.e., a creditor is deprived of a revenue stream. If these revenues are re-absorbed into the central treasury, then there is some budgeting impact. When looking at the overall cost of cancelling a portfolio of bilateral credits, some of which will be performing and some not, it thus needs to be recognized that the economic cost is not the same as face value, or nominal value of the loans.

For LDCs, and for HIPC-LDCs in particular, the difference between the nominal and the market value of their debt is likely to be significant. Building on previous econometric estimates of the secondary market prices of middle-income countries prior to the Brady Initiative, a recent academic paper by Cohen (2000) shows that the HIPC

[25] Commercial banks have already realized the futility of continuing to hold dud assets in their loan portfolios. They have written off most of the loans in the 1980s, demonstrating prudent financial management. Refusing to cancel worthless loans implies that the value of bank assets—and hence the financial strength of the bank overall—are overstated.

Initiative, for instance, is about ten times less generous than face value accounting would suggest. The economic value of LDC debts can also be calculated directly by using country-specific discount rates. These rates can be derived either from data from secondary loan swap markets or data from debt buy-back operations.

Some creditors, including the US, the UK and Canada, already budget 'pro-actively' for the prospect of non-repayment of loans. Both Canada and the UK fully budget ODA loans, which means that they are valued at zero. For non-concessional loans, the value of the loan is reduced by a country-specific based discount rate. The US also quantifies the risk of non-repayment of non-concessional loans, but it uses a more general discount rate.[26] By making these provisions, the budgetary impact of non-performing loans is reduced. For instance, the budgetary cost for a hundred per cent cancellation of US$ 3.8 billion pre- and post-cutoff date HIPC loans is only US$ 346 million. Indeed, most Paris Club creditors, particularly the G7, have already moved to cancel 100 per cent of the debt of HIPCs. These moves should be copied by all Paris Club members, and also extended to LDCs.

But, while these examples highlight that Paris Club creditors have made a lot of progress in cancelling HIPC-LDC debt, the same, unfortunately, cannot be said for non-Paris Club bilaterals, who are often significant creditors of LDCs. Under the burden-sharing clauses of the HIPC Initiative, they are supposed to cancel HIPC debt on equal terms. However, only a few have agreed to do so. The same applies for some of the few remaining commercial creditors of HIPCs.

In practice, many HIPCs are heavily in arrears to non-Paris Club creditors, and the Fund has unofficially condoned these non-payments. However, in order to bring greater certainty to this process, and to essentially bring about a unilateral write-off of these non-performing loans (and thus reduce investor perceptions of debt overhang), we propose that the creditor community (IFIs and Paris Club) should officially condone the non-payment of debts to those non-Paris Club creditors and commercial creditors that have refused to participate in the HIPC Initiative. However, there are two potential exceptions to this rule: first, in cases where non-Paris Club creditors (despite not respecting their HIPC Initiative obligations) continue to offer a significant amount of new funds, in particular grants, we argue that debtor countries should pay back their arrears in order not to jeopardize new flows of funds. At the same time, richer creditors should increase pressure on these non-Paris Club creditors to follow their lead and cancel 100 per cent of credits. Second, where creditor countries are poor, rich countries should help financially to cancel the debt owned to them, possibly through the use of centralized trust funds.

For multilateral creditors, cancelling loans is a bit more complicated. Multilateral creditors administer revolving funds of money donated by the shareholders, and have 'preferred creditor status', meaning that their loans are serviced more diligently than those of other creditors. There is a consensus that the IMF can easily write off its debts to the HIPC countries by using the earning capacity of its general reserves, together with a repeat of limited revaluation of its undervalued gold reserves. IMF management has acknowledged this, and simply needs approval from its shareholders. The

[26] The discount factor is derived from a proprietary system of country credit ratings that are calculated by a body called the Inter-Agency Country Risk Assessment System. This system assigns countries into one of eight risk categories with a specific default rate.

revaluation of these gold reserves would allow the institution to cancel all its PRGF credits without any impact on its financial viability, nor on its ability to lend to low-income countries.

The situation for the Bank is certainly more complicated, yet it is not insoluble. Indeed, evidence submitted to Drop the Debt by two independent experts commissioned to look at the question of how resources can be used to fund deeper debt cancellation by the World Bank and IMF suggests indeed that a hundred per cent cancellation of HIPC debt by the Bank is not unrealistic (Drop the Debt 2001). With the prudent use of a small proportion of the IBRD’s reserves and an ongoing commitment from its net income, and the future use of IDA’s greatly increased reflows (its income from loans made earlier), more than enough funds can be realized to cancel 100 per cent of the outstanding debts owed by these poorest countries to the World Bank without affecting its financial position and IDA lending by any significance. Meanwhile, even if IDA lending were to be affected, this would not mean, as the Bank sometimes argues, that it will go bankrupt: there would simply be fewer resources to be loaned out in the future. Whether this is a good or a bad thing is naturally debatable but the point here is that it is eminently possible for the Bank to effect total cancellation without threatening its financial position.

In contrast, other multilateral creditors (which do not generate nearly as much net income from non-concessional lending as IBRD does) could go bankrupt if they were to offer hundred per cent debt cancellation. Multilateral development banks (MDBs), particularly the African Development Bank, are in fact already technically bankrupt and rely on transfers from donors or on trust funds administered by the World Bank. For these MDBs to cancel significant amounts of their LDC loans and still stay in business, additional donor support might be required. Moreover, given the conclusion that the World Bank can cancel significantly more LDC debt with its own reserves, a far more significant share of the World Bank HIPC trust fund could be used to cancel the MDBs’ loans.

5 Avoiding future debt crises

One of the reasons why LDCs’ debt has been piling up in the past is irresponsible borrowing and lending practises. Loans should be productive: resources should be generated to ensure that the loan can be repaid. Often this is not the case. Think, for instance, of loans for white elephant projects or for military expenditures, defensive lending (i.e., loans to refinance debts), but also corruption.

After the HIPC Initiative, LDCs—including the 17 HIPC-LDCs—remain dependent on large inflows of foreign grants and loans. As explained in section 3.4, it is clear that in the future, countries that have gone through the HIPC Initiative, still need external support to finance debt service requirements and to finance poverty reduction. The World Bank and IMF also recognize this need for continued support:

> HIPCs are long-term importers of capital, mainly in the form of official concessional financing, i.e. concessional loans and grants. Private transfers and foreign direct investment are typically small. Unless capital

inflows are non-debt creating, HIPCs will continue to accumulate debts in order to finance their development efforts (WB/IMF 2001a).

The World Bank and IMF thus also recognize that the type of financing is critical for the countries' ability to maintain a sustainable debt situation beyond the completion point of the HIPC Initiative. To prevent LDCs from falling into the same debt trap as they are now, much deeper debt relief is needed (as has also been argued in sections 3 and 4), as to make sure that countries do not need new loans to service their debts. Furthermore, current borrowing and lending practises should changed. A framework is suggested to ensure that these needs do not lead again to irresponsible borrowing and lending practises.

Box 6
Illegitimate debts

Corruption is one of the reasons why loans do not generate the necessary resources to repay debts. Many civil society organizations, particularly those from the South, point out that debts which have piled up under the rule of corruptive dictatorial and undemocratic governments should be considered 'illegitimate debts'. People living in these countries now bear the burden of these debts.

For example, Nigeria's former military regime, largely responsible for the country's enormous debt burden, has transferred substantial sums of money to foreign bank accounts. To date, it has not been possible to transfer this 'stolen capital' back to the country.

5.1 Responsible borrowing and lending

At Eurodad's 1998 Annual Conference in Rome, participants discussed a rather simple model for the monitoring of borrowing and lending. The model needs to be refined, but is a good starting point. Key assumptions are that: (i) governments should not borrow from any source without authority from parliament and (ii) loans should have a 'productivity conditionality' incorporated, implying that loans should be used for productive activities which generate sufficient resources for repayment.

To ensure proper use of external finances, it would be very helpful if the country has developed a PRS, as monitoring could be linked to the PRS. As defined in the model, responsible borrowing requires that:

- Internal disbursement of external finances is carried out in an accountable and transparent manner;
- The use of funding is consistent with the PRS;
- A monitoring system—involving civil society and parliament, similar to the Ugandan PAF—is put in place to allow for the monitoring of internal disbursement at the national, regional and local level.

Box 7
Export credit guarantees

When export companies issues a loan to a developing country to enable the country to pay for the exports, the loan can be guaranteed against the risk of non-repayment by the government of the exporting country. If the export guarantee is activated, the liability is added to the total stock of official bilateral debt. While it was first owed to the private sector, the liability thus passes on to the public sector.

Export credit guarantees bear an ambiguous identity. Export companies can enjoy fully the yields if a project is successful, but in the event that it is not, they can transfer the losses to the public sector. The export credit guarantee system encourages exporters to maximize their exports in the knowledge that they will be bailed out of deals that go bad—at public expense.

Consequently, pricing is being distorted. The financing terms of deals do not reflect the real level of risks, with the illusion of cheap financing encouraging unnecessary borrowing. Rather than serving development purposes, export credits guarantees often serve the exporter's self-interest. This is combined with a great lack of transparency. Most national export credit agencies operate in a secretive manner and on neither the creditor nor the debtor side is the public fully aware of the financial and qualitative consequences. Clearly, the system leads to inefficient allocation of capital, corruption, and waste.

Source: Eurodad (1998b).

In addition to responsible use of resources, responsible borrowing and lending requires that the type of finance is adjusted to its spending purpose. The model makes a distinction between three different purposes of external finance:

- *External finance for non-income generating purposes*. This includes humanitarian and disaster assistance, as well as finance for education and health. Finance for these non-income generating purposes should take the form of grants. At the very least, highly concessional loans (IDA) could be used.

- *External finance for indirectly income-generating projects.* These types of projects include, for example, the building of roads and other infrastructure development projects. These programmes should be financed by concessional loans with long grace periods. Repayments should not fall due before the loan starts to generate income.

- *External finance for directly income-generating projects*, such as for instance the building of factories. Income-generating projects can be financed by non-concessional loans. However, there should be a risk assessment by borrowers and lenders and if the programme fails, both borrowers and lenders should share this risk. The government of the developing country should not bear the full responsibility, as is the case now, and be obliged to repay a disproportionate share of the loan. Moreover, the government should not use money that is earmarked for other sectors, such as health and education, for the repayment of the loan.

Annex 1
LDC economic growth indicators, 1980-98

	GNP			Exports (%)		
	1980	1990	1998	1980	1990	1998
HIPC-LDCs						
Benin	1,402	1,806	2,280	395	554	571
Burkina Faso	1,698	2,757	2,569	526	646	408
Burundi	922	1,117	940	–	98	62
C. A. R	800	1,465	1,038	205	220	146
Chad	1,038	1,731	1,666	71	274	334
Congo, D. R.	14,411	8,579	6,210	2,404	2,584	1,664
Ethiopia	–	6,788	6,453	591	677	1,053
Gambia, The	237	291	409	66	170	268
Guinea	–	2,601	3,476	–	841	822
Guinea–Bissau	104	233	192	–	28	31
Lao P. D. R.	–	865	1,224	–	105	494
Liberia	1,093	–	–	614	–	–
Madagascar	3,996	2,936	3,677	519	494	854
Malawi	1,138	1,760	1,778	315	452	568
Mali	1,768	2,405	2,660	382	656	651
Mauritania	779	1,076	950	281	502	400
Mozambique	–	2,366	3,680	–	300	581
Myanmar	–	–	–	556	668	1,745
Niger	2,476	2,423	2,020	655	579	337
Rwanda						
Sao Tome e Principe	–	45	36	24	8	12
Sierra Leone	1,169	800	629	276	210	112
Senegal	2,887	5,502	4,646	980	1,719	1,389
Somalia	603	835	–	319	71	–
Sudan	7,467	12,635	9,220	1,308	799	625
U. R. Tanzania	–	4,011	8,063	762	544	1,180
Togo	1,096	1,598	1,487	590	750	706
Uganda	1,240	4,228	6,282	331	246	863
Zambia	3,594	3,008	3,158	1,625	1,362	1,143
Angola	–	8,227	4,098	–	4,003	3,930
Yemen	–	4,688	3,947	–	4,578	1,906
Non HIPC LDCs						
Afghanistan	–	–	–	–	–	–
Bangladesh	17,353	30,524	44,113	1,371	3,492	8,976
Bhutan	–	268	373	–	95	157
Cambodia	–	1,115	2,845	–	–	853
Cape Verde	–	341	490	–	175	266
Comoros Islands	124	249	197	17	58	34
Djibouti	–	–	–	–	–	–
Equatorial Guinea	–	124	405	–	42	417
Eritrea	–	–	768	–	–	381
Haiti	1,446	2,954	–	522	325	479
Kiribati	–	–	–	–	–	–
Lesotho	632	1,028	1,069	364	555	607
Maldives	–	131	310	65	184	435
Nepal	1,958	3,697	4,880	239	524	1,372
Samoa	–	151	177	63	137	169
Solomon Islands	108	207	295	85	98	199
Tuvalu	–	–	–	–	–	–
Vanuatu	–	–	–	–	–	–

Source: World Bank (2000b).

Annex 2
Current social development indicators for LDCs

	Life expectancy at birth, 1998	Under-5 mortality rate (per 1000 births) 1998	Adult illiteracy, 1998		School enrolment, 1997	
			Male	Female	Primary	Secondary
HIPC-LDCs						
Benin	53.4	140.0	46.2	77.4	68	28
Burkina Faso	44.2	210.0	68.0	87.4	32	13
Burundi	42.3	196.0	45.2	62.5	36	17
C. A. R	44.4	162.0	42.5	68.3	46	19
Chad	48.5	172.0	51.5	69.4	48	18
Congo, D. R.	50.8	141.0	28.7	52,9	58	37
Ethiopia	42.9	173.0	57.9	69.5	35	25
Gambia, The	53.2	–	58.1	72.5	66	33
Guinea	46.5	184.0	–	–	46	15
Guinea-Bissau	43.9	205.0	42.9	82.7	52	24
Lao P. D. R.	53.8	–	38.1	69.8	73	63
Liberia	47.2	187.0	32.8	66.2	–	–
Madagascar	57.8	146.0	27.8	42.2	61	–
Malawi	42.3	229.0	26.8	55.9	99	73
Mali	50.4	218	54.2	68.9	38	18
Mauritania	53.7	140.0	48.3	69.0	57	–
Mozambique	45.2	213.0	41.6	73.0	40	22
Myanmar	59.9	118.0	11.3	20.5	99	54
Niger	45.9	250.0	77.6	92.6	24	9
Rwanda	40.8	205.0	28.5	43.2	–	–
Sao Tome e Principe	64.3	64.0	–	–	–	–
Sierra Leone	37.3	283.0	–	–	–	–
Senegal					60	20
Somalia	47.6	199.0	–	–	–	–
Sudan	55.3	105.0	32.0	56.6	–	–
U. R. Tanzania	47.2	136.0	16.7	35.7	48	–
Togo	48.6	144.0	27.5	61.6	82	58
Uganda	41.8	170.0	23.9	45.8	–	–
Zambia	42.6	192.0	16.0	30.9	72	42
Angola	46.5	204.0	–	–	35	31
Yemen	55.5	96.0	34.3	77.3	–	–
Non HIPC-LDCs						
Afghanistan	45.8	–	50.3	80.6	–	–
Bangladesh	58.5	96.0	48.9	71.4	75	22
Bhutan	61.1	–	–	–	–	–
Cambodia	53.8	143.0	42.6	80.1	100	39
Cape Verde	68.5	67.0	16.3	35.4	–	–
Comoros Islands	60.2	88.0	34.5	48.4	–	–
Djibouti	49.7	176.0	26.0	48.6	–	–
Equatorial Guinea	50.3	171.0	8.6	28.5	–	–
Eritrea	50.9	90.0	34.3	61.8	29	38
Haiti	53.6	116.0	49.9	54.4	–	–
Kiribati	60.9	–	–	–	–	–
Lesotho	55.5	144.0	29.0	7.1	69	73
Maldives	67.4	34.0	4.0	4.0	–	–
Nepal	57.8	107.0	43.1	78.3	78	55
Samoa	68.7	25.0	18.9	21.8	–	–
Solomon Islands	70.8	25.0	–	–	–	–
Tuvalu	–	–	–	–	–	–
Vanuatu	65.0	41.0	–	–	–	–
Middle income	69	89	10	15	95	72
High income	78	15	–	–	100	96

Annex 3
LDC's key economic indicators, 1998-2018
(in US$ million)

	1998	2001	2005	2010	2015	2018
	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Benin						
Exports	399	416	591	851	1,275	1,607
GDP	2,425	2,612	3,657	5,364	7,926	10,055
Government revenue	376	502	720	1,093	1,672	2,166
Burkina Faso (1						
Exports	292	334	539	811	1,099	–
GDP	2,585	2,929	4,163	6,325	8,840	–
Government revenue (2	387	426	641	1,007	1,410	–
Gambia, The (3						
Exports	118	142	182	245	322	381
GDP	–	–	–	–	–	–
Government revenue	78	91	114	147	190	223
Guinea (4						
Exports	765	942	1,251	1,757	2,273	2273
GDP	–	–	–	–	–	–
Government revenue	298	444	709	1,140	1,631	1,631
Guinea-Bissau (5						
Exports	56	84	126	197	300	418
GDP	–	–	–	–	–	–
Government revenue	39	48	73	115	–	–
Malawi (6						
Exports	489	481	607	762	964	1,171
GDP	1,807	1,565	2,074	2,942	4,261	5,821
Government revenue	287	446	741	1,254	2,042	3,017
Mali (7						
Exports	644	709	986	1,271	1,619	2,026
GDP	2,634	2,813	3,934	5,681	8,203	10,226
Government revenue	425	487	701	1,003	1,430	1,768
Mauritania (8						
Exports	408	449	525	822	822	822
GDP	–	–	–	–	–	–
Government revenue	248	296	387	718	718	718
Mozambique (9						
Exports	534	823	1,457	2,037	2,822	3,244
GDP	3,893	4,698	6,772	10,555	16,452	19,648
Government revenue	449	603	1,032	1,960	3,113	3,746
Niger (10						
Exports	304	273	364	520	754	948
GDP	2,021	2,008	2,796	4,017	5,814	7,250
Government revenue	171	180	299	502	570	711
Rwanda (11						
Exports	108	146	251	408	622	920
GDP	–	–	–	–	–	–
Government revenue	190	197	318	453	680	1,022
Sao Tome e Principe (12						
Exports	16	20	30	45	60	68
GDP	47	47	66	93	123	144
Government revenue	9	12	17	25	31	34
Senegal (13						
Exports	1613	1872	2,453	4,165	4,165	4,165
GDP	4,897	5,553	7,572	–	–	–
Government revenue	818	972	1,340	–	–	–

Annex 3 (con't)

	1998	2001	2005	2010	2015	2018
	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
U. R. Tanzania (14						
Exports	1,081	1,489	2,272	4,520	4,520	4,520
GDP	–	–	–	–	–	–
Government revenue	–	–	–	–	–	–
Uganda						
Exports	–	–	–	–	–	–
GDP	–	–	–	–	–	–
Government revenue	–	–	–	–	–	–
Zambia (15						
Exports	842	1,241	1,709	2,348	3,176	3,176
GDP	3,150	3,445	4,565	6,125	8,094	8,094
Government revenue	554	631	849	1,164	1,538	1,538

Notes:

(1 Burkina Faso: 1998 and 2015 data are 1999 and 2014 data.

(2 Excluding grants on the part of Burkina Faso.

(3 Column 1 figures for the Gambia (1998) are 1999 data. Grants excluded from government revenue.

(4 Column 1 figures for Guinea (1998) are 1999 data. Data for the years 2015 and 2018 are the averages for the years 2009-2018.

(5 Figures in column 1 (1998) and column 6 (2018) for Guinea-Bissau are data for the years 1999 and 2019. Grants are not included in government revenue.

(6 Figures in column 1 (1998) and column 6 (2018) for Malawi are data for the years 1919 and 1999 data.

(7 Grants are not included in government revenue for Mali.

(8 Mauritania: 2010-18 data are average data for 2008-2017.

(9 Figures in column 6 (2018) for Mozambique are data for the year 2019. Grants are not included in government revenue.

(10 Figures in column 1 (1998) for Niger are data for the year 1999 data and figures in column 5 (2015) and column 6 (2018) are the averages for the years 2014-16 and 2017-19. Grants are not included in government revenue.

(11 Figures in column 1 (1998), column 4 (2010) and column 6 (2018) for Rwanda are data for the years 1999, 2009 and 2019, respectively. Grants are not included in government revenue

(12 Figures in column 1 (1998) for Sao Tome e Principe are data for the year 1999.

(13 Figures in column 4 (2010), column 5 (2015) and column 6 (2018) for Senegal are the averages for the years 2009-18.

(14 2010-2019 data for Tanzania are the average data for the years 2009/10-2017/8.

(15 Figures in column 5 (2015) and column 6 (2018) for Zambia are the average data for the years 2010-19. Grants are excluded from government revenue.

Source: Decision Point Documents for HIPC-LDCs (available at: www.imf.org).

Annex 4
LDCs debt sustainability indicators, 1998-2018
in percentages

	1998	2001	2005	2010	2015	2018
	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Benin [1]						
NPV debt to exports	218 (150)	148 (148)	120	100	80	66
NPV debt to GDP	35 (24)	22 (22)	18	15	12	10
Debt to revenue	17	9	5	4	4	4
Debt to exports	16	11	6	5	6	5
Burkina Faso [2]						
NPV debt to exports	279 (150)	186	158	136	128	–
NPV debt to GDP	33 (18)	19	18	16	15	–
Debt to revenue	14	7	6	5	6	–
Debt to exports	18	9	8	7	7	–
Gambia, The [3]						
NPV debt to exports	206 (150)	202 (155)	141	130	119	111
NPV debt to GDP	–	–	–	–	–	–
Debt to revenue	–	–	–	–	–	–
Debt to exports	13	11	5	8	8	8
Guinea [4]						
NPV debt to exports	269 (150)	202 (144)	113	95	93	93
NPV debt to GDP	(42)	(36)	26	20	18	17
Debt to revenue	–	–	–	–	–	–
Debt to exports	–	8	7	5	4	5
Guinea Bissau [5]						
NPV debt to exports	–	596 (134)	131 (131)	137	–	–
NPV debt to GDP	–	–	–	–	–	–
Debt to revenue	–	11	5	10	–	–
Debt to exports	–	6	3	6	–	–
Malawi [6]						
NPV debt to exports	269 (150)	309 (180)	169	158	141	125
NPV debt to GDP	5 (44)	95 (55)	47	39	30	24
Debt to revenue	–	13	6	4	4	3
Debt to exports	–	12	8	7	9	8
Mali [7]						
NPV debt to exports	237 (150)	150 (150)	129	128	124	110
NPV debt to GDP	54 (34)	35 (35)	31	27	23	20
Debt to revenue	17	13	9	8	9	8
Debt to exports	11	9	7	6	8	7
Mauritania [8]						
NPV debt to exports	365 (137)	290 (141)	127	107	107	107
NPV debt to GDP	–	–	–	–	–	–
Debt to revenue	–	–	–	–	–	–
Debt to exports	–	–	–	–	–	–
Mozambique [9]						
NPV debt to exports	155	150	88	75	64	56
NPV debt to GDP	20	21	18	14	10	9
Debt to revenue	24	8	6	5	3	3
Debt to exports	20	6	4	5	3	3
Niger [10]						
NPV debt to exports	361	367	183	159	145	136
NPV debt to GDP	54	51	22	19	17	16
Debt to revenue	–	27	10	5	4	4
Debt to exports	–	18	8	5	5	5

Annex 4 continues

Annex 4 (con't)

	1998	2001	2005	2010	2015	2018
	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Rwanda (11						
NPV debt to exports	523 (150)	525 (196)	167	147	144	134
NPV debt to GDP	–	–	–	–	–	–
Debt to revenue	–	–	–	–	–	–
Debt to exports	–	11	4	4	4	5
Sao Tome e Principe (12						
NPV debt to exports	1,395 (150)	685 (153)	140	141	131	138
NPV debt to GDP	404 (43)	262 (59)	58	64	61	62
Debt to revenue	44	17	6	14	9	11
Debt to exports	24	10	3	7	5	5
Se**negal** (13						
NPV debt to exports	133	127	96	–	–	–
NPV debt to GDP	42	39	29	–	–	–
Debt to revenue	22	18	10	–	–	–
Debt to exports	11	9	5	3	3	3
U. R. Tanzania (14						
NPV debt to exports	–	224 (172)	158	142	142	142
NPV debt to GDP	–	–	–	–	–	–
Debt to revenue	–	–	–	–	–	–
Debt to exports	20	9	7	6	6	6
Uganda (15						
NPV debt to exports	240	117	90	63	45	34
NPV debt to GDP	30	14	11	8	5	4
Debt to revenue	14	5	6	3	4	3
Debt to exports	14	6	7	5	5	5
Zambia (16						
NPV debt to exports	486 (150)	388 (183)	140	117	110	110
NPV debt to GDP	127 (47)	120 (55)	83 (49)	64 (42)	53 (40)	53 (40)
Debt to revenue	–	–	–	–	–	–
Debt to exports	16	13	12	6	4	4

Notes: (1 Assumed unconditional commitment of HIPC Initiative assistance for Benin as of end-1998 given in brackets.

(2 Figures in column 1 (1998) and column 5 (2015) for Burkina Faso are the data for the years 1999 and 2014. Assumed unconditional commitment of HIPC Initiative assistance given in brackets.

(3 Figures in column 1 (1998) and column 6 (2018) for the Gambia are data for the years 1999 and 2019 data. Brackets indicate lower ratio in the first years if debt reduction is committed unconditionally.

(4 Figures in column 1 (1998) for Guinea are 1999 data. Assumed unconditional commitment of HIPC Initiative assistance given in brackets.

(5 Figures in column 1 (1998) for Guinea-Bissau are 1999 data. Brackets indicate lower ratio in the first years if debt reduction is committed unconditionally.

(6 Figures in column 1 (1998) and column 6 (2018) for Malawi are data for the years 1999 and 2019, respectively. Brackets indicate lower ratio in the first years if debt reduction is committed unconditionally.

(7 Figures in brackets assume for Mali hypothetical delivery of debt relief under the traditional mechanisms, original and enhanced initiatives. Other figures assume delivery of assistance under the enhanced HIPC Initiative starting in mid-2001.

(8 Figures in column 5 (2010) and column 6 (2018) for Mauritania are the average data for the years 2008-17.

(9 Figures in column 6 (2018) for Mozambique are the year 2017 data.

(10 Figures in column 1 (1998) for Niger are the year 1999 data. Figures in column 5 (2015) and column 6 (2018) are the averages for the years 2014-16 and 2017-19, respectively.

(11 Figures in column 1 (1998), column 5 (2010) and column 6 (2018) for Rwanda are the data

for the years 1999, 2009 and 2019, respectively. brackets indicate lower ratio in the first years if debt reduction is committed unconditionally.

(12 Figures in column 1 (1998) for Sao Tome e Principe are data for the year 1999. Brackets indicate lower ratio in the first years if debt reduction is committed unconditionally.

(13 Figures in columns 4 (2010), 5 (2015) and 6 (2018) for Senegal are the averages for the 2009-18.

(14 Figures in columns 4 (2010), 5 (2015) and 6 (2018) for Tanzania are the averages for the years for 2009/10-2017/18.

(15 Data for 1998 for Uganda include HIPC I assistance.

(16 Figures in column 1 (1998) for Zambia are the 1999-year data and data for 2015-18 are average data for 2010-19.

Source: Decision Point Documents for HIPC-LDCs (available at: www.imf.org)

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