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**NEGOTIATING DEBT REDUCTION IN THE HIPC
INITIATIVE AND BEYOND**

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FOREWORD

This publication series has been launched in response to the requests Debt Relief International (DRI) has received for information on the activities of the Heavily Indebted Poor Countries Debt Strategy and Analysis Capacity Building Programme (HIPC CBP) and on the technical aspects of public debt management and negotiations needed to develop and implement national debt and new financing strategies. The aim of the HIPC CBP, funded by six OECD governments (Austria, Canada, Ireland, Sweden, Switzerland and the United Kingdom), is to build and strengthen the capacity of HIPC governments to develop and implement their own national debt relief strategy, and a new financing policy consistent with long-term debt sustainability and development financing (poverty reduction), without having to rely on international assistance. DRI is the HIPC CBP's not-for-profit technical office and the programme is implemented with four regional organisations: BCEAO/BEAC Pôle-Dette for Francophone Africa especially franc zone members States, CEMLA for Latin America, MEFMI for Eastern and Southern Africa, and WAIFEM for Anglophone West Africa.

This series is targeted mainly at senior officials and policymakers in HIPC countries. It will also be useful for officials of regional African, Asian and Latin American organisations, NGOs and academics in developing and developed countries.

The aim of the series is to present particular topics in a concise, accessible and practical way for use and implementation by HIPC governments. The series should enable senior officials and policymakers to focus on some of the key issues relating to long-term external and domestic debt sustainability, external new financing, macroeconomic forecasting and its interrelation with poverty reduction and development financing in HIPCs. Each publication is intended to be reasonably self-contained.

The views expressed in the publications are those of the authors and not necessarily those of the HIPC CBP donors.

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Acronyms and Abbreviations

A4ID	Advocates for International Development
ADF	African Development Fund
AfDB	African Development Bank
APIC	Arab Petroleum Investment Corporation
BADEA	Arab Bank for Economic Development in Africa
BCEAO	<i>Banque centrale des États de l'Afrique de l'Ouest</i> (Central Bank of West African States)
BDEGL	<i>Banque de Développement des Etats des Grands Lacs</i>
BEAC	<i>Banque des États de l'Afrique centrale</i> (Bank of Central African States)
BWIs	Bretton Woods Institutions
C2D	Debt reduction for development contracts
CDC	Commonwealth Development Corporation
DRF	IDA Commercial Debt Reduction Facility
DSA	Debt Sustainability Analysis
EADB	East African Development Bank
ECOWAS	Economic Community for West African States
EIB	European Investment Bank
EU	European Union
FOCEM	<i>Fondo Centroamericano d'Estabilizacion Monetaria</i>
FSID	Fund for Solidarity and Development
GDP	Gross domestic product
HIPC	Heavily indebted poor country
HIPC CBP	Heavily indebted poor countries debt strategy and analysis capacity building programme
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICC	International Chamber of Commerce
ICSID	International Centre for the Settlement of Investment Disputes (World Bank)
IDA	International Development Association (World Bank)

IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IsDB	Islamic Development Bank
MDF	Multilateral Debt Fund
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
NDF	Nordic Development Fund
NGO	Non-governmental organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
PRGF	Poverty Reduction and Growth
PRSP	Poverty Reduction Strategy Paper
PTA	Eastern and Southern African Preferential Trading Area
PV	Present value
SDR	Special drawing rights
SDRM	Sovereign Debt Reduction Mechanism
TA	Technical assistance
UNCTAD	United Nations Conference on Trade and Development
WADB	West African Development Bank

ABSTRACT

To reduce the debt problems of poor countries, the international community introduced the Heavily Indebted Poor Countries Debt Reduction Initiative (HIPC) in 1996, followed by its Enhanced version in 1999, and the Multilateral Debt Relief Initiative in 2005. HIPC adapted the amount and terms of relief somewhat to the needs of the HIPCs themselves, based on assessments of their debt sustainability. Creditors continued to try to set the terms of the negotiations and it often seemed as though there was nothing to negotiate. But HIPCs which exchanged information found that there were considerable variations in the terms, and resolved to negotiate for the best results in order to make their debt sustainable. So in 1998 they asked the HIPC Debt Strategy and Analysis Capacity-Building Programme (HIPC CBP) to exchange information on the best available terms and negotiating strategies. The CBP has thereby helped countries to increase their debt relief substantially, and to maximise additional resources available to spend on national (and the Millennium) development goals.

This study is the first public result of this process. It aims to i) put at the disposal of all HIPC governments information on which terms they can negotiate under and beyond the HIPC Initiative; and ii) respond to the questions and problems HIPCs have raised (and continue to raise) with the CBP about the negotiations. It looks in turn at the HIPC Initiative, negotiations with creditor governments inside and outside the Paris Club, negotiations with multilateral and commercial creditors, and finally examines the proliferating problem of lawsuits against HIPCs.

1. INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Until the late 1980s, debt relief mechanisms for developing countries were primarily intended to help them resolve temporary payment problems, through temporary postponement of debt service payments. They were also confined to relief on official bilateral debt (owed to governments) and commercial debt (owed to commercial institutions such as banks and companies). These creditors also defined unilaterally the duration of the postponement and the terms on which it occurred.

By the end of the 1980s, these same creditors had realised that for many countries, a situation of inability to service debt had become so persistent that more dramatic measures involving reducing the stock of the debt through cancellation were necessary. During 1988-1996 the Paris Club of OECD creditor governments introduced various debt cancellation mechanisms including the Toronto, London and Naples terms, which successively cancelled a higher percentage of debts (Vilanova and Martin 2001). These cancellations were also extended by some non-OECD creditor governments which were not members of the Paris Club, as well as to dramatic reductions of commercial debts (see Chapter 6). Nevertheless, the creditors continued to decide the terms and conditions on which the cancellation was provided.

By 1996, it was clear that even these “traditional” measures were insufficient. In particular:

- they took little account of whether they would permit debtors to return to a situation in which they could pay their debts (known as “debt sustainability”)
- as a result, they still provided standard terms which were decided by creditors
- they did not include debts owed to multilateral institutions such as the IMF, World Bank and other international organisations, which were themselves increasingly the main component of international debt problems (Mistry 1994 ; UNCTAD 1993).

In this context, the international community introduced the Heavily Indebted Poor Countries Debt Reduction Initiative (HIPC for short) in 1996, its Enhanced version (often known as HIPC II) in 1999, and the Multilateral Debt Relief Initiative (MDRI) in 2005 as more comprehensive responses to the poorest countries' debt problems.

One major step forward contained in HIPC was a greater adaptation of their terms and conditions to the circumstances of individual poor countries: it gave countries the chance to analyse their own debt sustainability and therefore to state how much debt relief they needed to make their debt sustainable. Nevertheless, creditors continued to try to set the terms of the negotiations in both multilateral fora (such as the Paris Club) and bilateral detailed negotiations. Indeed, in the public description of the Initiative it often seemed as though there was nothing left to negotiate.

But those HIPCs which exchanged information with one another soon found that there were considerable variations in the terms they received, and resolved to negotiate the best possible terms and conditions with creditors in order to make their debt sustainable. Most of them found themselves unable to identify the best available terms and conditions, except by learning from other debtors, and as a result their debt relief often fell millions of dollars short of the maximum possible. So in 1998 they

¹ For a comprehensive analysis of the concept and application of debt sustainability, see Martin 2007

asked the HIPC Debt Strategy and Analysis Capacity-Building Programme (HIPC CBP) to exchange information on the best available terms among all its (now 38) member HIPCs, and on how to negotiate the maximum level of relief. The CBP has been doing this systematically for the last 9 years, through information bulletins on creditor practices, its newsletters, website, and email listserves and through exchanges among HIPCs at its inter-regional, regional and national workshops. It is glad that this has assisted HIPCs to negotiate hundreds of millions of dollars of extra debt relief for the benefit of poverty eradication in their countries.

1.2 AIMS, METHODOLOGY AND STRUCTURE OF THE STUDY

This study is the first public result of this process. It aims to i) put at the disposal of all HIPC governments information on which terms they can negotiate under and beyond the HIPC Initiative; and ii) respond to the questions and problems HIPCs have raised (and continue to raise) with the CBP about the negotiations. It is of course vital that HIPCs do get the best terms of debt relief, in order to maximise the additional resources they can spend on eliminating poverty and attaining their own national (and the Millennium Development) goals.

The study took place in two stages:

- i) collecting information. The CBP sent a questionnaire to all chief debt managers in member HIPCs to update essential information on their positive and negative experiences. This information was then combined with that coming from all the HIPC CBP's own databases and documents from the 300+ regional and national workshops and missions held to assist HIPCs during this period. The CBP is most grateful to all of the HIPC officials who spent time completing the questionnaires and discussing the preliminary results of the study in 2005.
- ii) writing and editing the study. This phase involved analysing all the results of the questionnaires and databases, comparing them with the relatively small amount of published information available on the issues, consulting with international experts on the issues, and writing and editing the various chapters of this study. The CBP is again most grateful to all the international experts who gave their time so generously in making sure that the study findings are accurate.

The remainder of this study is organised around the negotiations relating to different types of debt. It begins with a discussion of the overall structure and methodology of the HIPC Initiative (Chapter 2). It then proceeds to examine successively negotiating OECD bilateral debt reduction in the Paris Club (Chapter 3), non-OECD bilateral debt reduction (Chapter 4), multilateral debt reduction (Chapter 5), and commercial debt reduction (Chapter 6). The study concludes with a special chapter dedicated to analysing debt-related lawsuits, which are a growing problem for HIPCs (Chapter 7).

2. DEBT RELIEF INITIATIVES FOR LOW-INCOME COUNTRIES

2.1 PRINCIPLES OF THE HIPC INITIATIVES

The original Heavily Indebted Poor Countries' (HIPC) Debt Relief Initiative was officially launched in September 1996. In September 1999 it was "Enhanced" to provide deeper, faster and wider relief. HIPC and Enhanced HIPC were intended to deal comprehensively with HIPCs external debt burdens. They departed from previous initiatives in 5 important ways by:

- giving countries the chance to obtain relief on multilateral debt.
- basing debt relief on sustainability, with the objective of enabling HIPCs to meet their current and future external debt service obligations without recourse to further relief, and without compromising growth.
- enabling HIPCs to participate in assessing their debt relief needs through tripartite discussion during preparation of the debt sustainability analysis (DSA) on which relief is based. As a result, HIPCs have enhanced their overall debt management and analytical capacities to become full partners in assessing their debt sustainability.
- dividing the burden of relief equitably among all creditors (multilateral institutions, Paris Club and non-Paris Club bilateral governments and commercial creditors). Under the concept of "burden sharing" creditors are required to provide relief in proportion to their share of present value of debt outstanding at the time of the decision or completion debt sustainability analysis³.
- (in the Enhanced version) reinforcing the link between debt relief and poverty reduction by ensuring debt service savings from relief are used to finance a HIPC's Poverty Reduction Strategy.

2.2 ELIGIBILITY FOR THE HIPC INITIATIVES

Originally, 41 countries were classified by the Bretton Woods institutions as being potentially eligible for HIPC relief⁴. The criteria for eligibility were that the countries:

- had a GDP per capita so low that they could borrow only from the cheap IDA window of the World Bank group, and the PRGF window of the IMF; and
- had established a track record of performance under adjustment programmes with the IMF and World Bank.

Since its launch in 1999, the Initiative has had a 'sunset clause' - a deadline by which countries have to establish a sufficient track record to join the Initiative. Initially this was set at end-2002 but it has been extended to end-2006.

In 2004, the BWI agreed to conduct a further and final analysis of country eligibility, using end-2004 debt data. As a result in April 2006, four new countries (Eritrea, Haiti, Kyrgyz Republic and Nepal)

² For more details on how to implement the Enhanced HIPC Initiative, see Martin, Aguilar and Johnson, 2001.

³ Annex 1 sets out the details of how to compute debt relief under the Enhanced HIPC Initiative.

⁴ Angola, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo DR, Congo Republic, Cote d'Ivoire, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Kenya, Lao PDR, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nicaragua, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Vietnam, Yemen and Zambia.

became potential HIPCs. Afghanistan could also potentially be included once the issues relating to its unverified debt and debts under dispute have been resolved.

After appearing on the initial list, each country conducted a DSA to assess its eligibility for the additional relief provided by Enhanced HIPC, which was based on whether its debt burden was unsustainable after implementing traditional debt relief mechanisms. The criteria used to assess “unsustainability” of debt were that a country had to have:

- either a ratio of present value (PV) of debt/exports of goods and non-factor services⁵ above 150% (in HIPC I 200-250%);
- or a ratio of PV to budget revenue about 250% (in HIPC I 280%), if also fulfilled sub-criteria of an export/GDP ratio above 30% (40% in HIPC I) AND a ratio of budget revenue/GDP above 15% (20% in HIPC I).

As a result of these analyses, several countries (Angola, Bangladesh, Kenya, Tonga, Viet Nam and Yemen) were found to have sustainable debt levels after traditional relief and therefore did not benefit from HIPC relief.⁶ Countries could also choose whether or not they wished to benefit from HIPC relief, and Bhutan, Lao PDR and Sri Lanka have indicated that they do not wish to receive the debt relief.

The Enhanced HIPC Initiative also specifies a process for the delivery of relief which consists of two phases and two key points for its implementation (see Chart 1).

- the “**first phase**”, which originally lasted three years from the point when the country received “Naples terms” service treatment (67% reduction on a present value basis) from the Paris Club (also known as traditional relief), along with comparable actions by other bilateral and commercial creditors.⁷ During this period, the country's interim Poverty Reduction Strategy Paper (I-PRSP) also needs to be approved by the IMF and World Bank Boards. This phase ends with:
- the “**Decision Point**” at which a country's eligibility for HIPC debt relief is determined on the basis of whether or not it achieves debt sustainability following stock treatment on Naples terms, the amount of relief required to achieve sustainability is determined, and the country enters
- the “**interim or second phase**”, during which it receives 90% flow reduction (“Cologne terms”) from the Paris Club and other non-multilateral creditors⁸, as well as interim debt relief from some multilateral institutions. This was also originally a fixed period of 3 years.
- the “**Completion Point**”, at which the bulk of the relief is provided, including the percentage of stock reduction by the Paris Club (normally 90% but sometimes more or less) necessary to achieve sustainable debt ratios, comparable treatment by other bilateral and commercial creditors, and the remaining portion of relief from multilateral institutions.⁹

During the implementation of the Enhanced HIPC Initiative, the Bretton Woods Institutions have become more flexible about the timing of debt relief in two ways:

- reducing the period, provided that the country has developed an interim PRSP; and
- introducing a “floating” completion point according to which any HIPC implementing all the economic policy conditions set for its completion point by the BWIs, implementing its full PRSP for one year, and maintaining a track record with the IMF for one year (through a PRGF or a Staff-Monitored Programme), could receive debt relief sooner. However, in practice, because of the large

⁵ To take into account the exceptional export variations from one year to the other and to neutralise its effect to the maximum. The retained principle is to take the average of all exports over the 3 last years. The calculations of all ratios is done from amounts in USD.

⁶ Under HIPC I 7 additional countries (Benin, CAR, Ghana, Honduras, Lao PDR, Senegal and Togo) were ineligible.

⁷ For more details of the Paris Club and its Naples and other terms, see Vilanova and Martin 2001.

⁸ In practice, a country can receive more or less than 90% PV reduction from these creditors, depending on burden-sharing arrangements.

⁹ During this process, each country has to complete a complicated and lengthy series of tasks to gain debt relief - see Martin, Aguilar and Johnson 2001.

number of triggers or conditionalities for completion point, many HIPCs have found it to be “fleeing” rather than floating - ie the second period has lasted much longer than 3 years.

Moreover, in 2001, the Bretton Woods Institutions introduced the concept of “topping up”, under which any country at completion point, whose economy had performed less well than expected at decision point, could receive more debt relief to ensure debt sustainability. Experience of topping up has been excessively restrictive from HIPC viewpoints, as discussed in Box 1.

Box 1: Topping Up HIPC Relief at Completion Point

If a country's debt indicators are worse at completion point than expected at decision point, and above the debt sustainability thresholds, the Enhanced HIPC Initiative allows for topping up of debt relief if the deterioration is due to exogenous factors that lead to a fundamental change in the country's economic circumstances.

To consider country eligibility for topping up, the IMF and the World Bank conduct a DSA prior to completion point. Initially, it was assumed that topping up would take place if HIPC relief was insufficient to attain sustainability but eventually, over the protests of HIPCs and some G8 countries, the need for topping up was assessed after the additional bilateral cancellations provided by Paris Club creditors (even though these were supposed to provide an extra sustainability cushion below the HIPC thresholds).

The factors which can change a country's circumstances are as follows:

- Higher disbursements of new loans. For example, Niger had to borrow extra amounts to offset a shortfall of EU grant disbursements, and the BWIs accepted this borrowing as essential. The BWIs have made clear that “irresponsible” new borrowing by HIPCs between the decision and completion point would prevent application of topping up.
- Lower outcomes for exports and budget revenue. For example, in Rwanda, export growth projections at decision point were 11% pa but Rwanda achieved only 9%.
- Variation of discount and exchange rates, reflecting changes in international currency and financial markets, changing the calculation of the present value of debt. For example, lower discount rates at completion point will increase present value, as will depreciation of the US dollar vis-a-vis other currencies. Different discount and exchange rates were major factors in enabling Ethiopia to qualify for topping up.¹⁰

If after analysing and quantifying these factors, the Bretton Woods Institutions determine that these changes were beyond the control of the HIPC, the country qualifies for topping up. As end-2006, five countries (Burkina Faso, Ethiopia, Malawi, Niger, and Rwanda) have qualified for topping up totalling US\$1.6 billion in present value terms. For Burkina Faso, topping up arose mainly because of high new borrowing which had been anticipated at decision point, and was necessary to finance essential poverty reduction spending. In Niger, all three factors contributed to an unsustainable debt burden.

¹⁰ There was a considerable debate among BWI Board members as to whether such “technical factors” should be taken into account, but eventually this was resolved positively. For more technical details, see International Monetary Fund and International Development Association (2003); and International Monetary Fund and IDA (2004).

In Rwanda, the higher PV of debt to exports ratio was explained by lower exports, the depreciation of the US dollar and the decline in discount rates. For Ethiopia, the depreciation of the US dollar and the decline in discount rates were the major reasons, while exports were slightly lower. The Gambia, Guinea and Guinea-Bissau may also benefit from topping up when they reach completion point.

However, several other countries have not been able to obtain topping up because their unsustainability was not held to be “medium-term” or “fundamental”. For example, in Benin the indebtedness indicator stood just 5% above the 150% PV/export threshold and fell below the threshold two years after the completion point. For Zambia, though the PV/exports ratio was 14% above the sustainability threshold in the completion point year, it was sustainable thereafter. Sierra Leone was similar to Zambia, becoming sustainable a year after reaching its completion point and therefore it too did not receive topping up. In the case of Mauritania, its PV/export ratio was unsustainable for only 4 years.

As of end-2006, 30 countries¹¹ have reached their decision points under the Enhanced HIPC Initiative and nineteen countries have reached their completion point, as shown in Table 1. Five countries qualified for “topping-up” relief (Burkina Faso, Ethiopia, Malawi, Niger and Rwanda).

Total relief for these countries is estimated to be US\$35.4 billion on a present value basis (US\$62 billion on a nominal basis). Relief from multilateral institutions is US\$17.9 billion or 51% of the total, while the remaining US\$17.5 billion, or 49%, is from bilateral and commercial creditors. The Bretton Woods Institutions estimate that, for HIPCs reaching decision point, annual debt service payments relative to exports and revenues, have fallen from an average of 16% and 24% in 1998-99 to 7.3% and 11.7% respectively in 2005. These ratios are projected to decline still further to an average of 5.9% and 8.9% in 2008.

Quite a few HIPCs have experienced considerable delays in reaching decision point (Burundi, CAR, Comoros, Congo Republic, Cote d'Ivoire, Democratic Republic of Congo, Liberia, Somalia, Sudan and Togo). There have been two main reasons for this: political instability or war in the countries, and delays meeting the IMF track record resulting largely from such instability.¹²

Many have also experienced delay in reaching completion point (Cameroon, Chad, Gambia, Guinea, Guinea-Bissau, Honduras, Madagascar, Malawi, Sao Tome and Principe, Sierra Leone and Zambia).¹³ The three main reasons have been:

- Being off-track with the IMF because of difficulties implementing the Poverty Reduction and Growth (PRGF) conditionalities or in negotiating a new programme.
- Not implementing the country-specific completion point trigger conditions detailed in the decision point document of the country; and
- Underestimation of the time required to finalise the Poverty Reduction Strategy Paper (PRSP) and difficulties in implementing this programme for one year.

¹¹ Excluding Côte d'Ivoire which reached its Decision Point in March 1998 under the original HIPC Initiative, but has not reached decision point under the Enhanced HIPC

¹² See IMF/World Bank HIPC Progress Report September 2006 (available at www.imf.org), Annex II for a detailed discussion of the problems facing each of these countries

¹³ See IMF/World Bank HIPC Progress Report September 2006 (available at www.imf.org), Annex III for a detailed discussion of the problems facing each of these countries

In most cases, completion point delays are due to non-compliance with IMF conditionalities, especially fiscal expenditure overruns¹⁴ As recently indicated by the IMF and World Bank (HIPC Progress Report September 2006, para 7), over time the delays between decision and completion points have been increasing from 0.2 to 5.5 years.

As of September 2006, there were 11 HIPCs (Central Africa Republic, Comoros, Cote d'Ivoire, Eritrea, Haiti, Kyrgyz Republic, Liberia, Nepal, Somalia, Sudan and Togo) which have not yet reached decision point and the potential costs for them are shown in Table 2¹⁵. For the Kyrgyz Republic, the preliminary DSA for qualifying for HIPC has been done and it is expected to reach decision point in 2007. However, Eritrea needs to establish a track-record with the BWI and Nepal has not yet made any decision regarding its participation in HIPC.

In spite of these achievements, HIPC debt relief has been considered insufficient to ensure that countries maintain long-term debt sustainability and achieve the Millennium Development Goals (MDGs) for poverty reduction by 2015. As a result, creditors have taken three further initiatives to provide relief additional to Enhanced HIPC:

- during 1999-2003, most OECD creditor governments agreed to write off 100% of bilateral debt (see section 3.3.3).
- in September 2004, the United Kingdom launched an initiative to relieve post-completion point countries' debt service to IDA and the AfDB, by providing grants to pay it (see section 5.3.1).
- the Multilateral Debt Relief Initiative (MDRI). In July 2005, the G8 proposed the cancellation of post-HIPC countries' debts to the IMF, IDA and ADF, and the international community agreed by mid-2006 (see section 5.3.2).

All of the above initiatives appear initially to be standardised and straightforward in their procedures and in how creditors will provide relief. However, in practice, the provision of debt relief to low-income countries has proven to be much more complex, including considerable variation of terms for different countries, and very different degrees and methods of participation by different creditors. As a result, HIPCs have had considerable problems mobilising the full amounts of relief to which they are entitled.¹⁶

¹⁴ For more details on this non-compliance, see Debt Relief International 2005.

¹⁵ Haiti subsequently reached its decision point in December 2006.

¹⁶ For an excellent case study of the complexities of negotiating HIPC relief for Cameroon, see Caisse Autonome 2004a.

CHART 1: THE HIPC INITIATIVE

STARTING POINT	FIRST PHASE 3 YEARS	DECISION POINT	SECOND PHASE + / -3 YEARS	'FLOATING' COMPLETION POINT
BILATERAL & COMMERCIAL CREDITORS	67% REDUCTION (NAPLES TERMS) ↑	67% STOCK REDUCTION (NAPLES TERMS) ↓		
		IF PV/XGS > 150% OR PV/DBR . 250% ↑	90% FLOW REDUCTION (COLOGNE TERMS)	90% STOCK REDUCTION (COLOGNE TERMS)
			ADDITIONAL CANCELLATIONS BY BILATERAL CREDITORS ↑	
MULTILATERAL CREDITORS		↑	FRONT LOADING OG INTERIM DEBT SERVICE RELIEF	REMAINING MULTILATERAL RELIEF
		IF PV/XGS < 150% AND PV/DBR < 250% ↓		
		EXIT		

Table 1: HIPC Country Progress and Debt Relief, as of end-2006

Country	Decision point	Completion point	Debt relief committed in PV terms ¹ (US\$ millions)					% PV reduction ³	Estimated nominal debt service relief (US \$ millions)
			Total	Bilateral ²	Multilateral	IMF	World Bank		
Completion point countries (21)									
Benin	July 2000	March 2003	265	77	189	24	84	31	460
Bolivia			1,302	425	876	84	194		2,060
original HIPC	Sept 1997	Sept 1998	448	157	291	29	54	14	760
enhanced HIPC	Feb 2000	June 2001	853	268	585	55	140	30	1,300
Burkina Faso			553	83	469	58	231		930
original HIPC	Sept 1997	July 2000	228	32	196	22	91	27	400
enhanced HIPC	July 2000	April 2002	196	35	161	22	79	30	300
topping up		April 2002	128	16	112	14	61	24	230
Cameroon	Oct 2000	April 2006	1,267	945	322	37	176	27	4,917
Ethiopia			1,982	667	1,315	60	832		3,275
enhanced HIPC	Nov 2001	April 2004	1,275	512	763	34	463	47	1,941
topping up		April 2004	707	155	552	26	369	31	1,334
Ghana	Feb 2002	July 2004	2,186	1,084	1,102	112	781	56	3,500
Guyana			591	223	367	75	68		1,353
original HIPC	Dec 1997	May 1999	256	91	165	35	27	24	634
enhanced HIPC	Nov 2000	Dec 2003	334	132	202	40	41	40	719
Honduras	July 2000	April 2005	556	215	340	30	98	18	1,053
Madagascar	Dec 2000	Oct 2004	836	474	362	19	252	40	1,900
Malawi			1,057	171	886	45	622		1,628
enhanced HIPC	Dec 2000	Aug 2006	646	164	482	30	333	44	1,025
topping up		Aug 2006	411	7	404	15	289	35	603
Mali			539	169	369	59	186		895
original HIPC	Sept 1998	Sept 2000	121	37	84	14	43	9	220
enhanced HIPC	Sept 2000	March 2003	417	132	285	45	143	29	675
Mauritania	Feb 2000	June 2002	622	261	361	47	100	50	1,100
Mozambique			2,023	1,270	753	143	443		4,300
original HIPC	April 1998	June 1999	1,717	1,076	641	125	381	63	3,700
enhanced HIPC	April 2000	Sept 2001	306	194	112	18	62	27	600
Nicaragua	Dec 2000	Jan 2004	3,308	2,175	1,134	82	191	73	4,500
Niger			664	234	428	42	240		1,190
enhanced HIPC	Dec 2000	April 2004	520	211	309	28	170	53	944
topping up		April 2004	142	23	119	14	70	25	246
Rwanda			696	65	631	64	382		1,316
enhanced HIPC	Dec 2000	April 2005	453	56	397	44	228	71	839
topping up		April 2005	243	9	234	20	154	53	477
Senegal	June 2000	April 2004	488	212	276	45	124	19	850
Sierra Leone	March 2002	Dec 2006	675	335	340	125	123	81	950
Tanzania	April 2000	Nov 2001	2,028	1,006	1,020	120	895	54	3,000
Uganda			1,003	183	820	160	517		1,950
original HIPC	April 1997	April 1998	347	73	274	69	160	20	650
enhanced HIPC	Feb 2000	May 2000	656	110	546	91	357	37	1,300
Zambia	Dec 2000	April 2005	2,499	1,168	1,331	602	493	63	3,900
Total			25,138	11,442	13,691	2,033	6,832		45,027
Decision point countries (10)									
Burundi	July 2005	mid-2007	825	124	701	28	425	92	1,465
Chad	May 2001	2007	169	35	134	18	68	30	260
Congo, Dem. Rep.	July 2003	Q2 2007	6,311	3,837	2,474	472	831	80	10,389
Congo Republic	March 2006	Q4 2007	1,679	1,561	118	8	49	32	2,881
Gambia	Dec 2000	Q2 2007	66	17	49	2	22	27	90
Guinea	Dec 2000	Q1 2007	543	215	328	31	152	32	800
Guinea Bissau	Dec 2000	Q4 2009	416	212	204	12	93	85	790
Haiti	Dec 2006	Q4 2008	140	20	120	3	53	15	213
Sao Tome & Principe	Dec 2000	mid-2006	97	29	68	-	24	83	200
Total			10,246	6,050	4,196	574	1,717		17,088
Total relief committed			35,384	17,492	17,887	2,607	8,549		62,115
% of total				49.4%	50.6%	7.4%	24.2%		

1/ At decision or completion point. Difference between total and sum of bilateral and multilateral = commercial debt. 2/ Includes commercial debt. 3/ Common reduction factor, after traditional relief. Sources: IMF and World Bank

Table 2: Estimated Cost of Debt Relief for Potential HIPCs, as of September 2006

(US \$ billions, end-2005 PV terms)

	Post completion point countries (19)	Interim countries (10)	Total post-decision point countries (29)	Pre-decision point countries (11)	Total HIPCs (40)
Multilateral Creditors, of which:	5.4	15.3	20.7	8.6	29.3
World Bank	2.4	7.4	9.8	3.1	12.8
IMF	0.8	2.3	3.1	2.5	5.6
AfDB	1.6	1.9	3.5	1.0	4.5
laDB	0.0	1.4	1.4	0.1	1.5
Bilateral creditors: of which	6.2	12.8	19.0	11.5	30.5
Paris Club	5.6	9.6	15.2	7.1	22.3
Non-Paris Club	0.6	3.2	3.8	4.4	8.2
Commercial creditors	0.8	0.7	1.5	1.8	3.4
Total	12.4	28.8	41.2	21.9	63.2

Source: IMF

3. RENEGOTIATING BILATERAL DEBT: THE PARIS CLUB

3.1 THE PARIS CLUB¹⁷

The Paris Club is a group of creditor governments (almost all members of the OECD) which renegotiates both loans they have made directly to developing countries, and loans by the private sector which their export credit agencies have guaranteed. Created in 1956 to renegotiate Argentina's debt, it was originally designed to be an exceptional mechanism, to provide one-off “rescue” operations which would re-establish the debtor country's creditworthiness by changing its debt service profile. In the HIPC Initiative, this institution is responsible for reducing debt owed to OECD countries.

3.1.1 Paris Club Negotiations: Mechanisms and Aims

There are two stages to Paris Club negotiations: multilateral and bilateral. At the multilateral talks, all creditors meeting together decide on the overall terms and conditions of debt restructuring, based on the lowest common denominator of creditor willingness to provide relief, and produce a framework agreement called an Agreed Minute, which is signed jointly by the participating creditors and the debtor. It includes:

- the categories and types of debt to be restructured (long and/or short-term; debt resulting from ODA and/or non-ODA loans; stock, service, arrears and/or previously rescheduled debt)
- the “cutoff date” (the date after which any debts contracted are not treated)
- the rescheduling dates (either the consolidation period during which service falling due will be treated, or the “as of” date at which stock is treated)
- the grace and maturity periods and repayment profiles
- the conditions which the debtor must meet in order for the creditors to implement the agreement.

Following the multilateral agreement, the debtor has to negotiate bilaterally with each creditor institution (which can mean several institutions per creditor country) to agree the details of how the multilateral agreement will be applied. This includes :

- the type of interest rate (fixed or variable),
- the level of any fixed interest rate,
- the base interest rate for any variable rate,
- the margin above the base interest rate to cover creditor costs,
- any additional administrative fees, and
- the penalty margin (the additional interest payable if the debtor falls into arrears);
- the dates of payment of the debt service
- the detailed treatment of interest arrears and their payment dates.

3.1.2 Key Paris Club Principles

Prerequisites

A country wishing to restructure its debt with the Paris Club must:

- prepare documents demonstrating that it is not able to meet its financial obligations;
- prepare a request detailing what debt relief it wishes to obtain, as well as a detailed database of its debt stock and scheduled service; and
- be implementing a macroeconomic programme supported by the IMF.

Participants

The Paris Club consists largely of OECD governments, though it is open to a request for participation by any non-OECD government (which has meant that in the past Brazil and various Arab creditor governments have participated). For each debtor, a threshold of debt is defined (between SDR0.25 and SDR1 million, depending on the overall size of the debt to be restructured with the Club). If debt to a creditor exceeds this threshold, the creditor is a “participant”; if not it is an “observer”¹⁸. International organisations such as the IMF, World Bank, OECD, UNCTAD and regional development banks are also allowed to observe, with the IMF having a more important role in that it provides technical advice to the negotiations on the level of relief which a country needs.

Conditions

In order to ensure that the country is making maximum efforts to improve its capacity to repay the Club members and to implement the agreement, the creditors generally insist on five conditions which the debtor must execute while they implement the agreement:

- maintenance of an agreement with the IMF during the consolidation period
- payment on schedule of unstructured debt (and clearance of any unstructured debt by a particular date)
- negotiation of comparable terms with other (especially non-Paris Club bilateral and commercial) creditors; and
- signature of bilateral agreements with Paris Club creditors by a particular date.
- transparent information-sharing with the Paris Club Secretariat on all the conditions.

3.1.3 Types of Restructuring

The Paris Club has gradually evolved through offering a series of different terms to low-income countries during the last 20 years, as shown in Table 3. Before 1988, they used standard terms, only slightly lengthening grace and maturity or including more debt as additional steps for low-income countries. However, since 1988, the Club has introduced debt reduction for low income countries, with 33% reduction under the Toronto Terms, 50% under London Terms,¹⁹ and 67% under Naples Terms. Under HIPC I, the Club applied Lyon Terms (up to 80% reduction of the present value), and under HIPC II, Cologne Terms (up to 90%). Before the HIPC decision point, countries received 67% reduction. The Lyon or Cologne Terms were applied to debt service falling due during the interim period, and to debt stock at the completion point. In exceptional cases, the Club found itself obliged to go beyond 90% relief in order to provide the amount of relief which was required of it under HIPC to make the debt sustainable (see 3.2.2).

¹⁸ Observers have no vote in negotiating the agreement and do not sign the Agreed Minute

¹⁹ The terms are named after the location of the G8 Summit where they were agreed in principle.

Table 3: Paris Club Multilateral Terms

Debt Type	Cologne Terms (HIPC II)*		Lyon Terms (HIPC I)		Naples Terms	
	Flow (DP)	Stock (CP)	Flow (DP)	Stock (CP)	Flow (pre-DP)	Stock (non-HIPC)
Concessional (ODA) debt						
cancellation %	0%	0%	0%	0%	0%	0%
rescheduling %	100% of service	100% of stock	100% of service	100% of stock	100% of service	100% of stock
maturity (years)	40	40	40	40	40	40
grace (years)	16	16	16	16	16	16
interest rate	less than or equal to original rate	less than or equal to original rate	less than or equal to original rate	less than or equal to original rate	less than or equal to original rate	less than or equal to original rate
Non-Concessional (non-ODA) debt						
Debt reduction option (Option A)						
cancellation %	90%	90%	80%	80%	67%	67%
rescheduling %	10%	10%	20%	20%	33%	33%
maturity (years)	23	23	23	23	23	23
grace (years)	6	6	6	6	6	6
interest rate	market rate	market rate	market rate	market rate	market rate	market rate
Debt service reduction option (Option B)**						
cancellation %	0%	0%	0%	0%	0%	0%
rescheduling %	100%	100%	100%	100%	100%	100%
maturity (years)	125	125	40	40	33	33
grace (years)	65	65	8	8	0	3
interest rate	reduced rate	reduced rate	reduced rate	reduced rate	reduced rate	reduced rate
Previously resch.debt	TOP UP RELIEF TO 90%		TOP UP RELIEF TO 80%		TOP UP RELIEF TO 67%	
Debt Conversion						
ODA debt	no limit		no limit		no limit	
non-ODA debt	30% or SDR 40m		20% or SDR 30m		20% or SDR 30m	
* - Cologne Terms are benchmark terms: countries may receive less or more depending on the relief needed to reach sustainability						
** - a third alternative was to reschedule with very low interest rates (0.0001%) and a single bullet maturity of between 6 and 350 years						
Source : Debt Relief International, IMF, World Bank, www.clubdeparis.org						

To reduce the present value by the desired percentage, three mechanisms are used. For concessional debts resulting from ODA loans, the reduction is achieved by rescheduling to extend substantially the grace and maturity periods of the loan, and maintaining its original interest rate. For non-concessional debts (those not resulting from ODA loans), creditors choose one of two options²⁰ which aim to satisfy creditor institutional and legal constraints (principally laws which prevent up-front cancellation of debt) while assuring an equivalent PV reduction during the repayment period.²¹

Option A : up-front cancellation of the percentage of the debt required, and rescheduling of the rest at the market interest rate;

Option B : rescheduling of the debt at a dramatically reduced interest rate and over a longer period than under Option A.

²⁰ Originally there were three options including one for interest capitalisation, but this was dropped under HIPC due to its complexity and inability to provide 80-90% debt relief.

²¹ The period varies according to the Terms used - see Table 3 for details.

3.2 MULTILATERAL NEGOTIATIONS UNDER THE HIPC INITIATIVE

In analysing debt reduction negotiated under the HIPC Initiative, it is important to distinguish clearly among: (i) the reduction terms for different debt categories during the interim period and at the completion point, especially the options chosen by creditors to apply the terms, (ii) the additional cancellations agreed at the multilateral Club meeting; (iii) the treatment of arrears and “special debts”; and (iv) the suspension of relief during the HIPC process.

3.2.1 Reduction Terms

ODA debt

The ODA terms agreed at the multilateral level were standard, involving a grace period of 16 years and maturity of 40 years. There was no scope for negotiation by debtors.

Non-ODA debt - Choice of Options

The key issue on non-ODA debt was which option creditors chose to apply the percentage reduction needed. Until the HIPC Initiative, roughly half of the Paris Club creditors chose each option. This was reflected in the agreements for 67% reduction before decision points, and in some interim period agreements under HIPC I.

However, as the HIPC Initiative progressed, an increasing number of creditors switched from Option B to Option A (see Table 4). This was partly because the length of maturity periods required under Option B to reduce PV by 90% was anything up to 350 years, which led creditors to appreciate that costs of managing the debt over such a long period were not worth the service to be received. Several creditors therefore either changed their legal or accounting positions to facilitate debt cancellation using Option A, or decided to switch options where they had a choice, especially at completion point (including the export credit agencies of Austria, Belgium, Denmark, Italy, Spain, Switzerland, the UK and the USA, and the government of Russia). As a result, under HIPC II the vast majority of creditors chose Option A. As of end-2006, no creditor was still choosing Option B at completion point.

In the case of debt to Russia, the situation was more complicated, with Russia cancelling varying proportions of debt before the multilateral meeting (see Box 2)

The option chosen was potentially very important for the debtor, because the choice of Option A (with a higher interest rate and shorter repayment period) could mean a higher service burden for the debtor in the early years, whereas on the other hand, Option B implies much longer-term debt management costs.

There is, however, not much evidence that debtor negotiation had much influence on the choice of options, as these were mainly determined by overall legal constraints preventing up-front cancellation by the creditor institution, or the accounting treatment given to debt relief and therefore its effects on the financial position of the institution.

TABLE 4: RESULTS OF PARIS CLUB BILATERAL NEGOTIATIONS

	DEBT TYPE	OPTION	AGENCY	BASE INTEREST RATE	MARGIN (%)	PENALTY PREMIUM (%)
Austria	C	na	ADA	Fixed :2-4%	0	+0
	NC	B to A	OEKB	EURIBOR	0,6	+0
Belgium	C	na	MFA	Fixed 0-2%	0	+0-1
	NC	B to A	ONDD	EURO=EURIBOR; USD=LIBOR	0,5-0,75	+0-2
Brazil	NC	B	Banco do Brasil	LIBOR	1-1,5	+1
Canada	C	na	CIDA	Fixed : 0,5-2	0	+0
	NC	A	Canadian Wheat Board	Prime or LIBOR	1	+1
	NC	A	Exp Dev Canada	LIBOR	1-1,2*	+1
Denmark	C	na	DANIDA	Fixed : 2,5%	0	+0
	NC	B to A	EKF	DK=Fixed : USD=LIBOR	0,5	+0
Finland	C	na	FINNIDA	Fixed : 1-2%	0,2-0,5	+0
France	C	na	CFD/AFD	Fixed: 2,5-5	0	+0-1
	NC	A	COFACE	EURO=EURIBOR (or Fixed), Other Currencies LIBOR	0-1,5	+1
	NC	A	Banque de France		0-1,5	+1
Germany	C	na	KfW	Fixed : 1-3	0	+0-1
	NC	A	Hermes	EURIBOR +0,2	0,1-0,5	+0-1
Israel	NC	A	Exp Insur Corp	LIBOR	1.125	+0,75-1
Italy	C	na	Concessional	Fixed: 4	0	+0
	NC	B to A	Mediocredito	Fixed: 1,5-3	-	+0
	NC	B to A	SACE	EURO=EURIBOR, other LIBOR	0,5-1	+0

TABLE 4: RESULTS OF PARIS CLUB BILATERAL NEGOTIATIONS

DEBT TYPE		OPTION	AGENCY	BASE INTEREST RATE	MARGIN (%)	PENALTY PREMIUM (%)
Japan	C	na	OECF/JICA	Fixed: 1-4	0	+0
	NC	B to A	NEXI	Fixed : 3.5	0.5	+0
	NC	B to A	MITI	Bond rate	0.5	+0
Netherlands	C	na	MDC	Fixed : 2.5	0	+0
	NC	A	Atradius	EURIBOR to Fixed	0,2-1	+0-1
Norway	C	na	NORAD	Fixed : 2.5	0	+0
	NC	A/B	GIEK	Fixed 6-7	0.5	+1
Portugal	C	na	Treasury	Fixed : 3-4	0	+1
Russia	NC	B to A	MinFin	LIBOR	0.4	+0.5-1
Spain	C	na	ICO	Fixed : 2.5-4.5%	0	+0-1
	NC	B to A	CESCE	EURIBOR or US Bond rate	0,3-0.5	+0,2-1
Sweden	NC	A	EKN	SEK=STIBOR ; USD=LIBOR	0.5-0,75	+0-0,25
Switzerland	C	na	SDC	Fixed : 2.5	0	+0
	NC	B to A	ERG	Swiss Bond Rate	0.5-1	+0
UK	C	na	DFID	Fixed : 2-3	0	+0
USA	NC	B to A	ECGD	LIBOR	0-1,5	+0-0.5
	C	na	USAID	Fixed : 2.25-4.5	0	+0
USA	C	na	PL480	Fixed : 2-3	0	+0-1
	NC	B to A	Eximbank	FFB****	0-0,5	+0

NOTES : * EDC also charges additional costs/fees - see Section 3.3.1. ** Cost of Treasury Bills with maturity of less than 1 year na = not applicable

3.2.2 Paris Club Cancellations Beyond HIPC Terms

As discussed in Annex 1, debt relief requirements from each creditor are calculated on a proportional burdensharing basis.

In exceptional circumstances, in order to provide sufficient debt relief on the agreed burdensharing basis to make the HIPC's debt sustainable at the completion point, Paris Club creditors have had to go beyond the standard 90% debt reduction (because the amount of debt eligible for reduction did not provide the amount of PV reduction needed). In this case, creditors had 3 options:

- to increase the percentage by which eligible debt would be reduced. In practice this became largely irrelevant because HIPCs either were sustainable with 90% reduction of pre-cutoff date debt, or needed action on post-cutoff date debt.
- to change the cut-off date in order to include more debt as eligible. Moving the cutoff date was common practice in extreme circumstances before 1984, and was done several times for DRC and Sudan. However, the only countries to benefit from moving the cutoff date under HIPC have been Ghana, whose cutoff date was moved from 1 January 1983 to 29 June 1999, and Malawi, which had its date moved from 1 January 1982 to 1 January 1997. This is because creditors have become increasingly reluctant to move this date, fearing that it might set precedents for much larger debtors. As a result, it had to be fully justified by the HIPC debt sustainability analysis showing that there was no other way for the country to receive enough relief to make its debt sustainable under the HIPC Initiative. Debtors therefore needed to argue this case strongly in preparing pre-completion point DSAs.
- include part or all of the post-cutoff date debt in the relief provided.²² This happened in the case of several HIPCs, notably Burkina Faso, Cameroon, Mali, Nicaragua, Niger, Senegal, Tanzania and Uganda). Again this is done only when HIPC Initiative documentation shows that it is essential - so it is vital that the HIPC participates fully in the DSA exercise to ensure it gets its maximum relief entitlement.

When HIPC II was introduced, the issues of including post-cutoff date debt and moving the cutoff date threatened to become regular items of controversy in the Paris Club, with some creditors pushing hard for the Paris Club to share the burden and others arguing that they could not touch post-cutoff date debt. However, the decision by the international community to include the additional 100% cancellations by many creditors in the HIPC relief (rather than allowing it to be additional) has relaxed this tension in all but the most extreme cases (Ghana and Malawi).

Box 2: Treatment of Debt to Russia

Russia has been a Paris Club member since 1997, but debts to Russia remain complex to renegotiate because they have some special features as follows:

- 1) debts due to Russia were denominated in roubles but the original contracts contained the stipulation that the exchange rate used for their repayment would be the rate at the date of signature of the agreement. In general this was 0.65 roubles to the US\$, compared to a January 2007 exchange rate of 26.5 roubles to the US\$. When Russia joined the Club, all debts were converted into US\$ at the fixed rate.
- 2) To enter the Paris Club and offset the overestimation caused by the fixed exchange rate, Russia agreed to cancel 70% of the debt (or 80% if it was primarily military). The Paris Club and Russia agreed on which countries would receive 70% or 80%, based on Russian information about which debts were military.
- 3) Russia was also allowed to charge interest on arrears to debtor countries, which had not been its practice before joining the Club.
- 4) Finally, Russia was allowed to apply to the debts the same cutoff date as the Paris Club, which it also had not done before.

These decisions caused major problems for HIPC debtors. Many of them had felt that the level of debt was overstated as the rouble exchange rate collapsed, and therefore decided to accumulate arrears rather than pay the inflated amount. Many (including Benin, Burkina Faso, Congo, Guinea and Mali) also considered that their debts were predominantly military, because they had financed largely defense-related operations agreed to as part of bilateral military cooperation agreements, when Russia did not. Most also objected to the sudden imposition of large amounts of extra interest on arrears. Many were also left with large amounts of debt service to pay because they had large post-cutoff date debts. However, they were given little room to negotiate: they were simply told about the conversion into dollars and the cancellation level (with insufficient explanation of the basis for deciding whether debts were military), although they were allowed to negotiate extension of the payment period on the post-cutoff date debts for up to 10 years if necessary to reduce their service burden.

Thereafter, until 2005 Russia applied Paris Club terms using Option B to the remaining debt which, leaving aside the exchange rate and late interest, would imply a debt reduction of 94-98%. However, HIPCs often found negotiating room on two issues: i) the interest rates used by the Russians were often too high to permit the PV reduction required under Option B (so they negotiated them down substantially); and ii) the late interest had therefore been overcalculated. Mali had even to renegotiate its initial bilateral agreement because it did not provide enough relief.

However, in 2006, the Russian Parliament passed a law permitting 100% debt cancellation, as a result of which Russia has switched to using Option A in Paris Club agreements and has agreed to cancel 100% of debt bilaterally going beyond Club terms.

3.2.3 Treatment of Special Debts and Arrears

A few debts to Paris Club member governments, which were of considerable importance to some debtors were categorised as “special debts” by the Paris Club and treated differently (See Box 3).

It is important to note that before HIPC, all arrears accumulated on pre-cutoff date debt before the “as of” date (the date as of which the agreement will apply) of a Paris Club agreement were treated on the terms received at the country's last Paris Club meeting (all arrears on post-cutoff date debt are payable immediately). As a result, many countries received only 67% rather than 80-90% reduction on their arrears as at decision point, though at completion point any outstanding arrears were given the same percentage reduction as the rest of the stock.

However, the requirement to pay these debts could often mean that debtor countries had to pay far more debt service than before the relief agreement, if they had been accumulating arrears before the agreement. As a result, where debtor countries demonstrated that it was needed to reduce the immediate debt service burden, they did manage to obtain deferral of arrears, interest on arrears, and postcutoff date debt service for periods of between 3 and 10 years (Cameroon and Zambia). In addition, Honduras and Nicaragua received exceptional treatment of a complete moratorium on all of their debt service for 2-3 years after the devastation caused to their economies by Hurricane Mitch in 1998. Nevertheless, even if these concessions reduced debt service temporarily, they increased service over the medium term by adding interest on arrears to the stock.

Moreover, it is possible to negotiate the “as of” date (though it does need to be less than three months before the meeting date). The closer to the date of the multilateral agreement the as of date is pushed, the higher the costs for interest charges accrued on arrears, thus reducing the present value of relief provided. It is the prerogative of the debtor country to specify an “as of” date when making its request to the Club for relief. Guyana saved itself US\$111,000 by negotiating an “as of” date which was one month earlier for its Paris Club agreement of 2004.²³

3.2.4 Suspension of Relief

One of the major conditions for Paris Club relief is implementation of an IMF programme through the consolidation period. Traditionally, multiyear Paris Club relief agreements are applied in annual tranches, with each tranche dependent on successful execution of the IMF programme. Therefore, if the IMF suspends its programme with the debtor country, the Paris Club agreement is suspended and can be cancelled.

Under HIPC, this principle was intended to be continued. In practice, the Club has written to several countries which fell off track with their IMF programme, warning them of possible suspension or cancellation, and some Club member governments have started sending payment demands to countries, but available information indicates that HIPCs did not pay and the arrears were treated in the completion point Paris Club agreement. In addition, if the HIPC has continued to have an IMF programme but faces a delay in its completion point because it has not met certain trigger conditions or implemented its full PRSP for 1 year, the Club has extended the Cologne flow treatment for a longer consolidation period until completion point is reached

Box 3: “Special” Debts to Paris Club Creditors

Some “special debts” to Paris Club creditors are more difficult to renegotiate. Several HIPCs owe debts to public enterprises of Club governments which before HIPC were excluded from Club agreements. These were debts to France for unpaid services such as hospitals, postal and “monetary” (advances from the Banque de France to the central bank of the debtor country); and debts to the UK’s Commonwealth Development Corporation (CDC), a public enterprise which was privatised in 1999. France had also excluded from the Club loans made directly to debtor country parastatals which had no explicit debtor government guarantee.

HIPC has allowed significant steps forward in treating these debts. For example, France cancelled 42% of Mali’s “monetary” debt, as well as 100% of Malian parastatals’ debt. In addition, during the privatisation of CDC, it was agreed that all debts due to the company would benefit from Paris Club-comparable treatment, and they have been 100% cancelled on the same basis as other bilateral debts to the UK (ie service between decision and completion point, stock at completion point - see Section 3.3.3).

On the other hand, the postal and hospital debts have not been renegotiated. France has insisted that these debts arose from services provided rather than from loans, and therefore ineligible for Club treatment. It has also argued that their short-term status excludes them, even though many have become long-term as they have been in arrears for some time, and though several past Paris Club agreements have included short-term debt. Because the IMF includes such debts in its calculation of HIPC-eligible debt and burdensharing, the failure to cancel them is undermining somewhat the debt sustainability of the HIPCs concerned.

3.3 BILATERAL PARIS CLUB NEGOTIATIONS UNDER HIPC

3.3.1. Bilateral Paris Club Agreements

After the multilateral agreement, the debtor has to negotiate implementation agreements with each major creditor agency. Table 4 also shows the creditor agencies and main results. The main issues are:

Interest Rates

- *the type of rate (fixed or variable)*. Debtors generally prefer fixed interest rates to protect themselves against rate fluctuations and facilitate planning of future interest payments. Most creditor aid agencies have always had fixed rates; but most non-aid agencies traditionally had little flexibility here, being obliged to negotiate variable rates linked to the market rate applicable to loans in that currency, or to government bond borrowing rates (which are usually slightly lower than commercial market rates) to ensure that service levels matched fluctuations in market rates. However, during HIPC, some creditors have switched to fixed rates to simplify calculations.

- Creditor agencies using fixed rates at the end of 2006 include all the aid agencies plus the export credit agencies of Denmark and Norway, Mediocredito of Italy, the Japanese Eximbank, and the Portuguese Treasury
- Agencies using variable rates include the export credit agencies of most Club members, as well as the Banco do Brasil, Canadian Wheat Board, and Japanese Ministry of Trade and Industry. However, those using Paris Club Option B have used fixed reduced interest rates for rescheduling.
- *the level of the fixed rate.* Many creditor agencies are legally constrained to use the same fixed rate over time. Given the general fall in inflation and international interest rates since the 1980s, when most of the original loans were made, this has meant that they are making considerably higher real/market-compared returns now. Those which are not so constrained have tried to negotiate rates which are considerably higher than market rates, to protect themselves against possible rate fluctuations. In addition, some agencies using Option B in the early years of HIPC appeared not to be able to calculate correctly the interest rates which would provide the level of PV reduction needed, so that debtors which checked creditor proposals thoroughly negotiated 1-3% reductions in interest rates. Finally, some countries negotiated much lower rates from Japan as its market interest rates became close to 0 in the late 1990s.
- *the margin above the interest rate.* Margins are designed to cover the administrative costs of restructuring for the creditor, including travel to negotiate agreements (though debtors have to bear their own travel costs). As shown in Table 4, for some agencies margins varied, and could be substantially reduced by negotiation. In addition, it is obviously in debtor interests not to travel to negotiate wherever possible. There has been some progress here under HIPC as more agreements have become virtually standard and can be negotiated by correspondence.
- *any additional administrative fees.* The Export Development Corporation of Canada is the only agency which is known to charge additional fees to debtors, including a one-time non-refundable administrative fee and legal, travel and documentation expenses (other creditors include it in their margins above the base rate). Guyana successfully managed to negotiate this fee down from US\$29,000 to US\$5,000 over time, and the fee was cancelled with the debt stock in 2004 at completion point.²⁴
- *the penalty interest margin.* This was the extra amount of interest payable if countries fell into arrears. Table 5 shows that for some creditors it could be negotiated down or even eliminated. On the other hand, some creditors using Option B tried to apply penalty rates based on the full market rate, though most debtors managed to eliminate this and return to using the reduced Option B interest rate as the basis for the penalty margin. Of course, if a penalty margin is agreed, then the debtor needs to be extra vigilant in ensuring that all government agencies meet the payment dates.

Dates of Payment and Treatment of Arrears

Another important issue to negotiate in bilateral agreements was the date and frequency of payments of the resulting debt service (see also Goreux and Martin 1992). Some creditors allow flexibility here, which enable debtors to negotiate a longer period before the first payment, thereby avoiding incurring extra penalties on arrears. Others allow some flexibility on payment dates frequencies, which means that debtors can negotiate to ensure that payments do not fall due during months of the year when they have other major debt service burdens or lower levels of tax revenues.

Procedures and Delays

The Paris Club multilateral agreement fixes a deadline for concluding the bilateral agreements, typically of between 6 and 12 months. Few HIPCs have managed to meet these deadlines. Some debtors are responsible for this delay, not starting contacts with creditors early enough, or having communication difficulties. However, the analysis underlying this study confirms earlier analysis (Goreux and Martin 1992; Martin 1991) in indicating that patterns of delay are largely linked to creditors. Though some (especially those with standard terms, such as Austria and the USA) tend to negotiate agreements within deadlines, others (notably Brazil, Italy, France and Japan) often take much longer, even as long as 2 years, largely due to communication delays, lack of mutual diplomatic representation, or language problems. Sometimes agreements with these creditors have to be negotiated in a hurry as the date of the next Paris Club multilateral meeting arrives.

3.3.2 Debt Conversions²⁵

Initially used by some debtors to reduce foreign exchange demands of debt service, conversions have also become ways to promote investment in sectors seen as priorities by debtors (education, environment, health, rural employment and small-scale enterprises). To undertake a conversion operation countries need to define: (i) their objectives, (ii) the loans to convert, (iii) the target sectors and potential investments, (iv) the types and minimum amounts of eligible debts, (v) the procedures, (vi) the level of up-front cancellation/discount required (vii) the conditions and speed of disbursement of local funds and (viii) put in place the structures and procedures to monitor and audit the resources and evaluate the impact of the conversion.

However, few HIPCs have included conversions in debt reduction strategies, because:

- the sectors for which creditors want to use resources are not debtors' priorities.
- the short payment periods (3-4 years) of the local resources for the conversion can reduce budget liquidity for other spending purposes.
- use of the local currency resources from conversions can increase inflation if they are released into the economy rapidly (over 3-4 years).
- some (including Paris Club) creditors have tried to offer conversion terms which are not as concessional as those of the Club and would therefore breach its agreement.
- conversions can have high transaction costs for monitoring and evaluation.
- Investors using the proceeds can divert them to other unintended purposes.

²⁵ For much more detail on debt conversions, see Moye 2001.

Box 4: Debt Conversion Programmes

- Belgium : the export credit agency Office National du Ducroire (OND) sells debts and the Ministry of Development buys them to finance development projects.
- Canada : aid agency CIDA administers a programme for the environment and development).
- France : the 1992 « Libreville Fund », intended conversions for development projects for Cameroon, Congo, Côte d'Ivoire et Gabon (middle-income countries at the time). France has also sold COFACE's export credit debts to private investors for investment in equity.
- Germany : since 1992, a programme of ODA debt conversions to benefit the environment and poverty reduction, administered by the Ministry of Economic Cooperation and Development.
- Italy : the 1996 Finance Law authorised conversions but few have been agreed.
- Netherlands : has converted ODA debts for development and environmental protection
- Spain : has authorised sales of debts owed by several countries including Morocco.
- Sweden : the export credit agency EKN authorises debt conversions on a case-by-case basis
- Switzerland : the Debt Reduction Office has converted debt for development in 18 countries.
- UK : the export credit agency ECGD manages a programme of debt sales.
- USA : the Enterprise for the Americas Initiative (EAI), administered by the Treasury, converted ODA debts in 7 Latin American countries into equity investments. The 1998 tropical forest conservation law permitted conversion to protect tropical forests.

Most important, as the proportion of debt to be cancelled up-front by the creditor has risen to 90% under HIPC, conversions provide little financing for development. As a result, most debt conversions took place before HIPC: for example Benin converted debt with Belgium (at 33%); and Nicaragua with Finland (10%) and Germany (20%), all to finance the social sectors. Benin also bought its debt back from Italy at 22% of face value, and Guinea at 10%, both for investment in the health sector. Several creditors retain debt conversion programmes (see Box 4), but most of these are not used by HIPCs, apart from those run by France, Italy and Spain, which conduct their additional cancellations through what is essentially debt conversion (see Section 3.3.3 and Box 5).

3.3.3 Additional Bilateral Cancellations

Beyond the Paris Club multilateral agreement, Club creditor members have gone further to provide 100% cancellation of certain debts on a voluntary basis (ie one which does not oblige other Club creditors to follow suit). However, it is important to remember that these resources are included in HIPC relief calculations. Many originally understood the G8 Cologne Summit as having implied that the “additional” cancellations would allow HIPCs to bring their debt sustainability down well below HIPC

thresholds, but instead (after some debate among the G8 and other creditors) they were counted into HIPC assistance - apart from that provided by Norway, which insisted on waiting until HIPC was completed, in order to make its relief fully additional.

Table 5 shows the latest progress with Paris Club member countries providing 100% cancellation. In analysing this table it is important to distinguish between pre- and post-cutoff date debt, and between ODA and non-ODA debt, as well as assessing when creditors provide the cancellation (before or at the decision point, or at the completion point). The conclusions are that:

- Almost all creditors are cancelling 100% of pre-cutoff date ODA debt. In many cases these initiatives do not depend on progress in the HIPC process - creditors had cancelled all ODA debt before HIPC was introduced. The only systematic exceptions are Ireland, which never made any ODA loans, and Russia which has treated all its loans as non-ODA. A few creditors have indicated exceptions for individual debtors: Canada because of Myanmar's human rights record, and the Netherlands for interim period service for some countries, though it will cancel stock for all HIPCs at completion point.
- Almost all creditors (even now including Israel and Russia) are also cancelling 100% of pre-cutoff date non-ODA debt. In addition, Norway was so disappointed that the international community decided to count additional cancellations as part of HIPC relief that it cancels this debt only AFTER completion point, to ensure it provides genuinely additional relief.
- Creditors are also cancelling 100% of post-cutoff date ODA debt. According to the IMF (IMF/World Bank HIPC Status Report 2006), the exceptions are Austria, Denmark which cancels only loans contracted and disbursed before 27 September 1999, Italy which cancels loans incurred before the Cologne Summit (20 June 1999), Spain which cancels post-cutoff ODA only on a case-by-case basis, and Switzerland.
- Finally, the majority of creditors also cancel post-cutoff non-ODA debt. As this is typically the debt least likely to be cancelled, virtually no creditors cancel it entirely - most (including Canada, Germany, Italy, Russia, the UK and the US) cancel only debt contracted before the G8 summit at Cologne in June 1999 (and Denmark debt contracted before 27 September 1999). Norway will cancel debts contracted later but only AFTER completion point, to ensure its relief is additional to HIPC. According to the IMF (IMF/World Bank HIPC Status Report 2006) and information available from HIPCs, Austria, Belgium, France, Japan, the Netherlands and Sweden do not cancel this debt, and Spain and Switzerland do so only case-by-case.
- Almost all creditors apply their cancellations to debt service during the interim period and stock at the completion point. The exceptions to this are: Austria, which does not apply relief to all HIPCs in the interim period; the Netherlands, which will provide 100% flow relief for only 12 countries²⁶; Switzerland, which reserves the right not to cancel 100% until completion point if countries have major political or human rights problems; and France, Italy and Spain, which use the proceeds of the additional cancellation for specific development projects (see Box 5 on France).
- On the other hand, more positively, the UK has been even more advanced since 2000, cancelling all service from (even pre-decision point) HIPCs, and reimbursing pre-decision point service paid to it when decision point is reached.

²⁶ Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Mali, Mozambique, Nicaragua, Rwanda, Tanzania, Uganda and Zambia).

TABLE 5: PARIS CLUB ADDITIONAL CANCELLATIONS

Creditor country	Countries covered	Debt Relief Additional to the HIPC Initiative					Method of delivery	
		ODA					Decision Point	Completion Point
		pre-cutoff date	post-cutoff date	pre-cutoff date	post-cutoff date	Non-ODA		
Australia	HIPCs	100%	100%	100%	100% 1/	1/	1/	
Austria	HIPCs	100%	-	100%	-	case by case, flow	stock	
Belgium	HIPCs	100%	100%	100%	-	100% flow	stock	
Canada	HIPCs 2/	2/	2/	100%	100%	100% flow	stock	
Denmark	HIPCs	100%	100% 3/	100%	100% 3/	100% flow	stock	
Finland	HIPCs	100%	4/	100%	4/	-	-	
France	HIPCs	100%	100%	100%	-	100% flow 5/	stock	
Germany	HIPCs	100%	100%	100%	6/	100% flow	stock	
Italy	HIPCs	100%	100% 7/	100%	100% 7/	100% flow	stock	
Japan	HIPCs	100%	100%	100%	-	-	stock	
Netherlands	HIPCs	100% 8/	100%	100%	-	90-100% flow 8/	stock	
Norway	HIPCs	9/	9/	9/	9/	-	-	
Russia	case-by-case	-	-	-	-	-	stock	
Spain	HIPCs	100%	case by case	100%	case by case	-	stock	
Sweden	HIPCs	-	10/	100%	-	-	stock	
Switzerland	HIPCs	100%	-	100%	case-by-case	flow 11/	stock	
United Kingdom	HIPCs	100%	100%	100%	100% 12/	flow 12/	stock	
United States	HIPCs	100%	100%	100%	100% 13/	100% flow	stock	

Sources: Paris Club Secretariat, IMF/IDA (April 2006)

1/ A 100 percent mention in the table indicates that the debt relief provided under the enhanced HIPC initiative framework will be topped up to 100% through a bilateral initiative.

2/ Canada, including Bangladesh, Canada has granted a moratorium of debt service as of January 2001 on all debt disbursed before end-March 1999 for 13 out of 17 HIPCs, with debt service due to Canada. Eligible countries are Benin, Bolivia, Cameroon, Congo (Rep. Dem.), Ethiopia, Ghana, Guinea, Honduras, Madagascar, Rwanda, Senegal, Tanzania, and Zambia. 100% cancellation will be granted at completion point. As of July 2004, Canada has provided completion point stock of debt cancellation for Benin, Bolivia, Guyana, Senegal and Tanzania. 100% of ODA claims have already been cancelled on HIPCs, with the exception of Myanmar's debt to Canada.

3/ Denmark provides 100% cancellation of ODA loans and non-ODA credits contracted and disbursed before September 27, 1999.

4/ Finished, no post-COD claims.

5/ France cancellation of 100% of debt service on pre-cutoff date commercial claims on the government as they fall due starting at the decision point. Once countries have reached their completion point, debt relief on ODA claims on the government will go to a special account and will be used for specific development projects.

6/ Belgium proposes to cancel debt claims incurred before June 20, 1999, depending on a consensus with Paris Club creditors.

7/ Belgium proposes to cancel debt claims incurred before June 20, 1999 (the Cologne Summit). At decision point, cancellation of the related amounts falling due in the interim period. At completion point, cancellation of the stock of remaining debt.

8/ The Netherlands: 100% ODA (pre- and post-cutoff date debt) will be cancelled at decision point; for non-ODA: in some particular cases (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Mali, Mozambique, Nicaragua, Rwanda, Tanzania, Uganda and Zambia), the Netherlands will write off 100% of the consolidated amounts on the flow at decision point, all other HIPCs will receive interim relief up to 90% reduction of the consolidated amounts. At completion point, all HIPCs will receive 100% cancellation of the remaining stock of the pre-cutoff date debt.

9/ Norway has cancelled all ODA claims. Due to the current World Bank/IMF methodology for recalculating debt reduction needs at HIPC completion point, Norway has postponed the decisions on whether or not to grant 100% debt reduction until after the completion point.

10/ Sweden has no ODA claims.

11/ Switzerland: In principle 100% cancellation of pre-cutoff date non-ODA debt. However, Switzerland claims the right at the decision point to forgive only 90% in case of major political and/or political weaknesses.

12/ United Kingdom: beyond 100% full write-off of all debts of HIPCs as of their decision points, and reimbursement at the decision point of any debt service paid before the decision point.

13/ United States: 100% post-cutoff date non-ODA treated on debt assumed prior to June 20, 1999 (the Cologne Summit).

Another important step was taken in October 2006, when Norway cancelled debts worth US\$80 million owed by 5 countries including 1 HIPC (Sierra Leone) on the basis that it shared responsibility for the failure of the related projects. This was the first time cancellation had been provided on the basis of a creditor accepting responsibility for bad lending, without additional conditions linked to an IMF programme (though Sierra Leone's cancellation took place after completion point to make it additional to HIPC). The cancellation was also to be funded by money additional to Norway's aid budget.

There are two important negotiating implications of these bilateral cancellations:

- 1) they cannot be negotiated - changes in creditor cancellation policies have come entirely from international pressure to cancel more debt. As a result, countries tend just to receive letters informing them that the debt is cancelled. However, especially with the less efficient creditors, these letters may be delayed, so it is vital to keep up to date on bilateral cancellation initiatives and not to pay service wrongly!
- 2) the percentage of bilateral debt cancelled has varied considerably depending on the creditor composition of the debt a country owes to the Paris Club.

At first sight, these mechanisms for additional cancellations seem very positive. However, France, Italy and Spain implement their additional cancellation through debt conversions, as they insist that its local currency equivalent is spent on development projects and programmes. If these are additional to those planned in the government budgets, they do not free up resources for the government's top priority projects and programmes.²⁷ For France, this programme is called the Contract of Debt Reduction for Development (see Box 5). The four main problems with these mechanisms are:

- the need to put the additional expenditures into the debtor's national budget
- the need to have enough liquidity to pay the debt service up front
- the delay in reimbursing the equivalent of the debt service through new grants
- the complex negotiation, approval, monitoring and evaluation procedures.

Nevertheless, insofar as they provide resources to finance projects which are genuinely debtor country top priorities and were included in the PRSP before the conversion was proposed, they can provide (albeit less flexible than other additional cancellations) resources for supporting HIPC development and poverty reduction programmes.

²⁷ Japan also initially (because it was unable legally to cancel debts) accepted the additional service and reimbursed it with grants. However, the grants often

Box 5: Debt Reduction for Development Contracts (C2D)

The French government provides its 10% additional cancellation beyond HIPC through contracts for debt reduction for development. These cover ODA debts and are put in place at the time of the HIPC completion point. It applies to 17 countries in the French Zone de Solidarité Prioritaire (Burundi, Cameroon, Congo, Côte d'Ivoire, DRC, Ghana, Guinea, Liberia, Madagascar, Mauritania, Mozambique, Rwanda, Sao Tomé and Príncipe, Sierra Leone, Sudan, Tanzania and Uganda) as well as 5 other countries (Bolivia, Honduras, Malawi, Myanmar and Nicaragua).

The C2D mechanism has two main objectives: (i) to finance poverty reduction and the MDGs and (ii) to maximise debtor country ownership by conducting the operations through the debtor budget. France defines the potential beneficiary sectors as being: primary education and vocational training; primary health and the fight against major epidemics (especially AIDS) ; decentralised infrastructure (including energy, roads and water); and the management of natural resources. Recurrent and investment expenditures by central or local government and CSOs are eligible for funds.

C2Ds work through refinancing - ie the debtor country pays the debt service and is reimbursed through new grants. They can form part of existing or new sectoral programmes, finance institutional support to such programmes, and finance project, sectoral or budget support (though with an emphasis on earmarked budget support). The precise modality in each country is defined by a joint French-debtor government mission. Thereafter the spending is implemented by a Committee made up of representatives of the French and debtor government, which works in close cooperation with civil society and decentralised government structures.

Six principles are seen as key in executing C2Ds: (i) putting the resources through the national budget, (ii) ensuring that the expenditure is included in the PRSP, (iii) ensuring coherence with the rest of the French aid programme, (iv) maximising speed of disbursement, effectiveness and quality of the expenditures, (v) ownership of the projects by the country, monitoring of the funds and their results and (vi) coordination and harmonisation with other donors, and close cooperation with CSOs and decentralised governments.

3.4 KEY ISSUES IN PARIS CLUB NEGOTIATIONS

3.4.1 Multilateral Negotiations

Most aspects of the multilateral agreement, notably the terms and conditions of the Agreed Minute, are relatively standard under HIPC. The only room for negotiation by the HIPC government is on the following aspects:

- *The need to provide more than 90% relief on pre-cutoff date debt*, requiring therefore up to 100% relief on the pre-cutoff date debt, movement of the cutoff date, or treatment of all or part of the post-cutoff date debt
- *Treatment of arrears, interest on arrears, moratorium interest and post-cutoff service* through their deferral at decision point or their inclusion in the reduction, where this can be shown to be essential for reducing the debt service or PV burdens.
- *The option (A or B) chosen by creditors*. A few creditors have flexibility to change option.
- *The de minimis level*, ensuring that it includes the debt owed to all the creditors.
- *The dates by which arrears have to be cleared and bilateral agreements concluded*.

The first two of these issues have really to be negotiated with the Bretton Woods Institutions and the Paris Club Secretariat in advance of the multilateral meeting - ie proving during the process of calculating the debt sustainability analysis and analysing the potential contributions of creditors that additional steps are necessary. However, in practice, especially for those debtors coming to the Club relatively soon after the introduction of new terms, the design of their practical application was occurring during that debtors' negotiation.

Some HIPCs have received their "interim flow" treatment from the Club without a formal meeting or negotiation - creditors meet and decide terms and the Secretariat of the Club writes to the debtor informing it of the results. This practice is not desirable from a debtor point of view as it deprives them of the opportunity to negotiate any of the above issues. Some countries have therefore insisted on a negotiation well before the Club meeting is due on the grounds that some of these issues needed to be discussed.

3.4.2 Bilateral Negotiations

Overall, the room for negotiation is considerably greater in the bilateral negotiations, though it varies greatly depending on the creditor. Some creditor agencies have terms strictly defined by law, but others have considerable flexibility to adjust terms depending on the negotiating skills of the debtor as well as bilateral political and economic relations.

The main possibilities for negotiation in the bilateral agreements are:

- (with some creditors) the choice of whether interest rates are to be fixed or variable.
- (with some creditors) the level of fixed rates (in addition to checking that the rates offered under Option B are correctly calculated).
- (with some creditors) the margin above the base interest rates
- (with some creditors) the penalty margin for arrears
- dates of payment or restructured and non-restructure service.
- (in the rare cases where conversions are used), the use of their funding for projects and programmes which are already in the budget and PRSP, to make sure that the funding they provide is genuinely additional, as well as simplifying as far as possible the other conditions and management structures for the conversions.
- taking maximum advantage of additional cancellation mechanisms and ensuring that debt service is not paid to creditors during delay in formal notification.

4. NON-PARIS CLUB BILATERAL DEBT²⁸

4.1 NEGOTIATING MECHANISMS, PROCEDURES AND PRINCIPLES

This chapter discusses debts owed to non-Paris Club bilateral creditors. As already discussed in Chapter 2, the HIPC Initiative framework is intended to guarantee equal burdensharing among all creditors, and assumes in its calculations of the level of debt relief that all creditors will participate on a burdensharing basis. This means that all bilateral creditors are expected to provide the same degree of debt reduction - in other words non-Paris Club bilateral creditors are to provide 90% present value reduction equivalent to the Paris Club Cologne Terms. As discussed in Chapter 3, the Paris Club also includes a clause in its agreements obliging debtors to seek these “comparable” terms from all non-Paris Club creditors.

On the other hand, non-Paris Club bilateral creditors were the group which was least consulted about the design of HIPC. The Paris Club was fully consulted about the proposals coming from the G8, which were adapted in their detailed implementation to the legal and institutional constraints the creditors faced; and the multilateral creditors attended regular meetings organised by the World Bank at which they could discuss problems and work out how best to implement the Initiative. However, there was no similar forum for non-Club bilaterals and, as a result, many debtors and the BWIs have had to undertake a painstaking process of explaining to these creditors how the Initiative works and how they might participate. Some creditors have found themselves playing “catch-up” with the latest G8 and Paris Club Initiatives, where they have just implemented comparable terms only to find that they are no longer comparable.

In addition, there is no formal multi-creditor mechanism for restructuring debts owed to non-Paris Club bilateral creditors, unless they decide to participate in Paris Club meetings. As a result, the negotiation procedures are entirely bilateral, and generally much more time-consuming and complex than those of the Club members. Generally they begin after the Paris Club multilateral meeting, because the Club agreement sets deadlines for reporting on the progress made in reaching comparable agreements.

The issues to be discussed are essentially the same as those in the multilateral and bilateral Paris Club meetings, ie the categories and types of debt to be rescheduled; the rescheduling dates, the grace and maturity periods and repayment profiles, the type and level of interest rates, margins and penalty rates, debt service payment dates and treatment of arrears. However, there are at least 3 important differences:

1. most non-Club creditors did not apply a cutoff date or a de minimis level until the arrival of the HIPC Initiative, though they have gradually learned to introduce both, thereby reducing the debt eligible for restructuring.
2. non-Club members generally set far fewer conditions for executing the agreements, limited to clearance of arrears by a particular date and payment of unstructured debt on schedule.
3. the scale of documentation which the debtor needs to prepare for the negotiations is much more limited to a letter containing a brief request, and data showing why it needs debt relief.

However, in preparing the documents, it is vital to take into consideration the attitude of the non-Club creditors to the HIPC Initiative and the Paris Club. Though those which are participating in HIPC are happy to be reminded that they need to maintain burdensharing under HIPC and comparability with the

²⁸ As discussed in 3.1.2, some non-OECD governments have participated reasonably regularly in past Paris Club agreements. As a result, Brazil, Israel and Russia are discussed in Chapter 3. This chapter discusses all governments which do not normally participate in Paris Club agreements - including Arab governments.

Club, others which are not participating are not much interested in these factors and in extreme cases may be antagonised by references to initiatives and institutions which they have played little or no part in designing.

A final important difference is that there is no forum for sharing information about the terms non-Club creditors have given to debtors (whereas such information on the multilateral Club agreements is largely public). As a result it is extremely difficult for HIPCs (and the Bretton Woods Institutions) to track what is being committed, and this has been the area in which the HIPC CBP has provided the most assistance in sharing information among HIPCs since 1997.

It is also an area in which (partly due to lack of information, and in some cases due to less close relations with the governments concerned) the BWIs and the Paris Club secretariat have been much less able to assist HIPCs in ensuring that they receive relief as required under HIPC. As discussed in more detail in Chapter 7, the HIPC Initiative has no legal force and therefore relies on “moral suasion” to convince creditors to participate. Since around 2004, especially where the debtor government itself has been proactive with these creditors, and has requested assistance, HIPCs indicate that the IMF has gradually become more active, especially with creditors which are its members (for example using Article IV consultations with them to remind them of HIPC comparability issues, and educating creditors on HIPC methodology). For example, they have helped South Korea to work out how to provide comparable relief to Uganda, explained the need for comparable assistance to Burundi and Libya, and conducted a survey of non-Paris Club creditors and debtors to identify prospects for relief.²⁹

4.2 RELIEF UNDER THE HIPC INITIATIVE

Table 6 shows the scale and terms of relief provided by non-Paris Club bilateral creditors in the context of the HIPC Initiative. Several points stand out:

4.2.1 Participation

- very few non-Paris Club creditors provide Club-comparable relief to all debtors: only Czech Republic, Slovak Republic, South Africa, South Korea and Tanzania.³⁰
- many creditors have provided relief to some debtors but not others. These include Algeria, Argentina, Bulgaria, China, Cuba, Egypt, Guatemala, Hungary, India, the Kuwait Fund, Libya, Mexico, Poland, Romania, Rwanda, the Saudi Fund and Venezuela. In the cases of China, Cuba and Venezuela, relief has depended in particular on having good political relations with the creditor.
- some creditors have promised comparable relief to all debtors but taken a long time to deliver and have not so far signed (Colombia, Costa Rica, Honduras and Morocco)
- A large number of creditors have not participated in the Initiative at all. Of these:
 - some (Iraq, Romania, ex-Yugoslavia) have sold their loans to third parties such as commercial institutions or vulture funds in order to gain an immediate return, thereby opening up prospects for lawsuits by the new creditors. Others (Burundi, Côte d'Ivoire, Libya) have attempted to sue directly and Taiwan has gained judgement against Niger (see Chapter 7 for more details on lawsuits).

²⁹ See also IMF/World Bank HIPC Status Report September 2006, Section D.

³⁰ Trinidad and Tobago is not included here because debt to it was treated in the Paris Club.

- some have provided or offered relief which was not comparable with HIPC terms, in many cases because discussions began or were concluded before HIPC.
- several have refused to provide relief on the grounds that they are also HIPCs, severely-indebted or cash-constrained countries and lack the resources to write off debts. They include Angola, Burundi, Cameroon, Côte d'Ivoire, DPR Korea, DRC, Niger, Nigeria, Senegal, Togo, Zambia and Zimbabwe.
- the UAE (Abu Dhabi Fund) has agreed only to restructure arrears.
- Cape Verde has argued that Sao Tome's debts constitute payments to workers which if unpaid would make them destitute, and so insisted on full payment;
- Ecuador, Iran, the Kuwait Investment Authority, Peru, Poland and Bulgarian and Indian commercial creditors have argued that they have legal barriers to debt cancellation (though as seen in Chapter 3, and in the case of Venezuela for non-Paris Club creditors, laws can be changed)
- Egypt and Iraq argue that they have considerable debt burdens; and
- Libya, North Korea, Oman, Serbia and Taiwan argue that they have not been sufficiently consulted about the Initiative and therefore do not feel obliged to participate. Libya at one stage indicated its willingness to participate in the Initiative but then in July 2004 replaced HIPC with a bilateral initiative.
- the BWIs indicate that countries such as Algeria, Costa Rica and Serbia have little idea of how HIPC works
- the reasons for non-participation by Namibia and Thailand are unclear.

One vital factor encouraging relief has been assistance from OECD donors: Guatemala provided relief when Spain bought its debt and cancelled it 100%; and Tanzania when Austria funded a buyback of Uganda's debt at 10% of face value. Honduras also has promised relief to Nicaragua with the hope of mobilising donor funds for the purpose. A very small amount of donor funding for debt relief among developing countries could clear embarrassing small amounts of debt and provide relief to both creditor and debtor, allowing both developing countries to free resources to fund the MDGs. HIPC Finance Ministers have been advocating such a solution for several years,³¹ but only Austria, Norway and Spain have so far seemed interested in funding such solutions.

4.2.2 Timing and Terms of Relief

- in terms of the timing of relief, virtually no non-Paris Club creditors have provided interim period relief, apart from China and the Kuwait Fund, which have deferred and restructured arrears respectively. Far more creditors have preferred to provide a one-off treatment of the stock at completion point (sometimes before).
- most of the creditors have not opted for Paris Club options. Those restructuring concessional debt (eg Kuwait Fund, Republic of Korea) reduced their interest rates and extended their grace and maturity to reach the amount of PV relief required. Others with less concessional debt have rescheduled on approximately Option A terms (Algeria) or reduced interest rates (Bulgaria), or both (Slovak Republic) in order to provide the PV relief needed.

- Very few creditors have followed the Paris Club in providing more than 90% relief on pre-cutoff date debt (see 4.3 below), changing the cutoff date or relieving post-cutoff date debt.
- Most creditors did not apply different treatment to arrears. Most, for example Algeria, preferred to treat all outstanding debt in the same fashion. The exception has been the Adu Dhabi Fund which has restructured only arrears and not on Paris Club comparable terms.
- Relief was not suspended by any creditors. However, on the other hand, some debtor countries have assumed that debts did not exist any more because creditors had stopped asking for repayment. This is highly unrecommended practice, because debts should never be assumed to be written off until they have been. Mauritania has recently shown spectacularly how undesirable this can be, having considered debts to most Arab creditors “passive” during the HIPC process because they were not being demanded, but then receiving payment demands from several Arab creditors (especially Kuwait) AFTER its HIPC completion point, which have rendered its debt highly unsustainable again.
- There have been no “special debts” requiring special treatment.
- However, non-Paris Club creditors have treated non-concessional debts very differently from concessional debts. Bulgaria, China, Kuwait and India have written off direct bilateral loans but not those made by export credit agencies, parastatals or commercial/investment companies

4.2.3 Interest Rates

- *Type of Rate (fixed or variable)*: virtually all creditors preferred fixed interest rates (apart from China and India on commercial loans)
- *Level of Fixed Rates*: almost all creditors maintained the original level of the interest rate, because they were either treating ODA loans or choosing the equivalent of “Option A” of the Paris Club. However, Bulgaria, South Korea, the Kuwait and Saudi Funds, and the Slovak Republic all reduced interest rates to lower levels, and countries needed to check proposals thoroughly to ensure they provided the requisite PV relief under HIPC.
- *margin above interest base rate/ administrative costs*: virtually no creditors insisted on applying a margin to cover their costs, apart from India and China on commercial debts. No creditors have been recorded as charging additional administrative fees.
- *penalty interest margin*. No creditor except Algeria has charged a penalty margin.

4.2.4 Procedures and Delays

Because of the lack of knowledge of HIPC procedures and terms by the creditors, their unwillingness to provide comparable relief, the difficulties of making contact between creditors and debtors given the absence of a coordinated forum such as the Paris Club, and the fact that major multilaterals and Paris Club creditors take negotiating precedence, the negotiation of relief with non-Paris Club creditors has taken much longer than negotiations with other creditors. Creditors which decided on relatively clear and standard procedures (such as China, Kuwait Fund, the Slovak Republic and South Africa) thereafter took relatively little time to conclude agreements (6-18 months), but others often took 3-4 years. In some cases, such as between Nicaragua and Taiwan, delay in agreement has meant that the PV of the outstanding debt has become smaller than the PV relief needed under HIPC, implying that HIPC-comparable relief is now impossible unless earlier debt service is refunded.

TABLE 6 - BEST TERMS AGREED WITH NON-PARIS CLUB BILATERAL CREDITORS

	TYPE OF DEBT	GRACE PERIOD	MATURITY PERIOD	BASE INTEREST RATE	MARGIN %	PENALTY %
Algeria	Concessional	7	24	2%	0	+1
Angola			No agreement to relief - creditor is HIPC and lacks resources			
Bulgaria			Buybacks at 8-16% of face value but rapid payment of rest			
	Bilateral	Comparable relief	Reduced from 5% to 0%	0	+4	
Burundi	Commercial		No debt relief - see lawsuits in Chapter 7			
Cape Verde			No relief provided but initial threats of lawsuits dropped - see Chapter 7			
China			No comparable treatment - debt was workers remittances			
	Commercial	No HIPC-comparable relief		LIBOR	1	+1
Colombia	ODA	Comparable - cancels 100% of stock at end 2004 if diplomatic relations				
Costa Rica		IMF indicates promised comparable treatment to Honduras				
Cote d'Ivoire		Agreed to provide comparable relief but still being negotiated				
Cuba		No agreement to relief - creditor is HIPC and lacks resources - but has dropped lawsuit				
Czech Rep		Cancels 100% for countries with good relations				
DRC		Buybacks at 10-16% of face value - comparable with Lyons or Cologne				
Ecuador		No agreement to relief - creditor is HIPC and lacks resources				
Egypt		No agreement to relief - legal constraints to cancellation cited				
Guatemala		No agreement to relief				
Honduras		Buyback of debt by Spain, then HIPC comparable relief provided				
Hungary		Indicated similar operation to Guatemala possible				
Hungary	Commercial	90% cancellation, reschedule rest over 16 years, 0 grace, 0% interest during grace				
India	ODA	Comparable - lines of credit 100% written off				
ECC Corporation		No comparable relief		LIBOR	2	+1
Iran		No agreement to relief - cites legal constraints to cancellation				
Iraq		No agreement to relief for 7 countries - sold debt to commercials who are litigating				

NEGOTIATING DEBT REDUCTION IN THE HIPC INITIATIVE AND BEYOND

	TYPE OF DEBT	GRACE PERIOD	MATURITY PERIOD	BASE INTEREST RATE	MARGIN %	PENALTY %
Korea (DPR)			No agreement to relief			
Korea (Rep)	Concessional			Reduced from 2.5% to 1%		+2
Kuwait	Kuwait Fund	10	30	1-4.5%, reduced to 0.5-2%	0	+0
	Kuw Inv Authority		No agreement to participate in HIPC - needs to change law			
Libya			Mixture of cancellation, conversion at 20% and payment - usually not comparable			
Mexico			90.5% cancellation under HIPC I			
Morocco			Promised but not yet delivered comparable relief			
Namibia			No agreement to relief			
Niger			No agreement to relief - creditor is HIPC and lacks resources			
Nigeria			No agreement to relief			
Oman			No agreement to relief for 6 countries			
Poland			80% cancellation and 20% for embassy costs - comparable HIPC I			
Peru			No agreement to participate in HIPC - cites legal constraints			
Romania			Buybacks at 8-10% of face value but sold some debts to commercial			
Rwanda			Comparable relief for Uganda but not DRC			
Saudi Arabia	Saudi Fund (if fully disbursed)"	10	30	Reduced from original to 1-2%	0	+0
Serbia (ex-Yugo)			Some ex-parastatals buyback at 95% discount, many seeing then lawsuits - see Chapter 7			
Slovak Rep	Commercial	6	23	0% for 10 years then 3% for 3	0	+1
South Africa			Cancels 100% of debt			
Taiwan			No agreement to relief for 11 countries - sued Niger - see Chapter 7			
Tanzania			Buyback of Uganda debt funded by Austria @ 10%, remainder cancelled			
Thailand			No agreement to relief			
UAE	Abu Dhabi Fund (arrears only)	5	12	Not comparable - 2%	0	0
Venezuela			100% cancellation for countries with good relations			
Zambia			No agreement to relief - creditor is HIPC and lacks resources			
Zimbabwe			No agreement to relief - creditor is severely indebted and lacks resources			
Note	Relief to all debtors		Relief to some debtors			No Relief

Sources: HIPC Governments, IMF/World Bank September 2006

In practical terms, difficulties encountered by debtors have included: (i) long delay in creditor reaction to initial requests for HIPC-comparable terms; (ii) initial creditor proposals which were not HIPC-comparable, resulting in several rounds of negotiations; (iii) major communication and language difficulties, resulting very often in the need for the debtor to visit the creditor capital in order to negotiate final agreements.

4.2.5 Conversions and Buybacks

As can be seen in Table 6, some non-OECD creditors have been particularly attached to conversions or buybacks, even if they have to cancel 80-95% of the debt up-front to provide terms which are comparable with Lyon or Cologne Terms. This reflects their wish for up-front payments in foreign or (debtor) local currency in order to fund their budgets or spending on embassies or investments in the debtor country. In particular:

- Argentina has conducted buybacks and conversions (for rural development) at between 8% and 16% of face value;
- the Czech Republic has conducted buybacks and conversions (for the social sectors) at 10-16% of face value
- Guatemala's cancellation of Nicaragua's debt involved use of the proceeds for the Spanish debt conversion system;
- Libya initially proposed only conversions, for either equity stakes in local companies, or to pay recurrent expenses or tax liabilities of Libyan embassies. However, when it became obvious these could not be considered comparable, it switched to proposing a combination of up-front cancellation and conversion. Generally even these offers have not been found to be HIPC-comparable and therefore have been rejected by debtors, but Uganda did find that its combination was HIPC-comparable.³²
- Romania has agreed buybacks at 8-10% of face value.
- Tanzania agreed to an Austrian-funded buyback of Uganda's debt.

However, in many cases, initial offers of buybacks or conversions have not provided relief comparable with HIPC and have therefore been rejected by HIPC debtors, largely because even if their "headline" up-front cancellation of the debt was the same as the Paris Club, they did not provide comparability in the repayment profile of the remaining uncanceled amounts (ie 6 years of grace, 23 of maturity along the lines of Paris Club Option A). This has resulted (similarly to the Paris Club) in a declining use of buybacks and conversions as the percentage of cancellation required rose to 90% with HIPC II.

4.3 ADDITIONAL CANCELLATIONS BEYOND HIPC

Very few non-Paris Club creditors have provided cancellations beyond Paris Club terms. However, since 2004 there has been a considerable movement to 100% cancellation:

- China now cancels 100% of ODA debt stock outstanding at the end of 2004, for countries with which it has diplomatic relations
- Cuba now cancels all outstanding bilateral debt owed by countries with which it has good political relations
- India cancels 100% of bilateral concessional debt; and

³² See "Uganda Gets Debt Relief from Libya", in Strategies for Financing Development Issue 24, the HIPC CBP newsletter available at www.hipc-cbp.org.

- South Africa has since 2000 cancelled 100% of HIPC debt.
- Venezuela cancels 100% of bilateral debt owed by countries with good relations.³³

4.4 KEY ISSUES TO NEGOTIATE WITH NON-PARIS CLUB CREDITORS

At the initial stages of the HIPC Initiative, HIPCs had considerably more leeway to negotiate different types and terms of relief with non-Paris Club creditors. Many of the negotiations discussed cancellation, rescheduling, conversion and buybacks at the same time. However, by the end of 2006, most non-Paris Club creditors which are providing HIPC-comparable relief have formalised the ways in which they do so, therefore leaving relatively little room for negotiation.

In this context, the main issues for negotiation are:

- Whether creditors will participate or not. This often involves a lot of education of creditors about how HIPC works and what would constitute comparable terms and (for creditors which are not hostile to the Paris Club or the BWIs) cooperation with the BWIs to exert moral suasion on the creditors.
- Constant exchange of information with other HIPCs, the HIPC CBP implementing organisations and the BWIs on the latest terms achieved so that these can be applied to a wider group of debtors, or on promises of relief at the global level so that these can be concretised at country level.
- Constant vigilance to ensure that risks of lawsuits are minimised, by discouraging sales of debts to third parties and being proactive in negotiations.
- Attempts to mobilise donor resources to help clear debts owed to other severely indebted (including HIPC) countries.
- Pressing wherever possible to change laws so as to allow debt cancellation.
- Verifying that interest rate reductions, and grace and maturity period extensions, actually provide HIPC-comparable relief
- Ensuring debts to all creditors are actively renegotiated and not considered “passive”.
- Resisting margins and penalty premiums above base interest rates.
- Pushing for the fastest possible relief in order to ensure that HIPC terms can be met, if necessary by visiting the capitals of creditors which are open to negotiation.
- Carefully analysing buyback and conversion proposals to ensure they are comparable.
- Benefiting to the maximum from additional cancellations beyond HIPC.

Most important, HIPCs should not give up when initial responses from non-Paris Club creditors are negative. Instead, they should discuss negotiations with other HIPCs and the international community, and design specific negotiating strategies (such as using bilateral political relations to the maximum) to convince each creditor to provide relief. The history of non-Paris Club relief under HIPC has been one of gradual advances based largely on individual HIPCs pushing relentlessly for comparable terms, and future steps to full participation by these creditors will depend on similar HIPC determination

³³ Brazil and Israel, which are discussed in Chapter 3 because they have participated in the Paris Club for some countries, have also cancelled all debts owed to them by low-income African countries.

5. MULTILATERAL DEBT RESTRUCTURING

5.1 HIPC EXPERIENCES OF MULTILATERAL DEBT RELIEF

Most multilateral institutions have agreed to participate in the Initiative, and have obtained the appropriate institutional approvals. Multilateral institutions have elaborated various modalities to deliver their assistance. Reviewing countries' experiences of negotiating and implementing multilateral debt relief under the framework of the Enhanced HIPC Initiative shows that the multilateral institutions have been quite strict in applying the modalities that they have established.

Most of the main multilateral development agencies, such as the African Development Bank, Inter-American Development Bank, International Development Association and International Monetary Fund, have agreed to provide significant amounts of interim relief between the decision and completion points, with the bulk of their relief coming at completion point. However, most other multilateral creditors only provide relief when a country reaches completion point. These modalities can be divided into two categories: debt service reduction and refinancing of existing stock of debt or future debt service payments.

All the major multilateral organisations have chosen the first mechanism. They are described below and set out in Table 7:

5.1.1 The African Development Bank Group (ADB/ADF/NTF)

The AfDB Group can provide up to 40% of its total relief in the interim period, with an annual debt service reduction of 80% or more. Only three countries have received more than 80%: Guinea-Bissau, which received 100% due to its inability to pay debt service (93% financed by the AfDB and 7% by grants from donors), and Chad and Sao Tome and Principe, which received reductions of 82% and 81%, respectively.

At Completion Point, debt service reduction is also applied, but the AfDB group has generally provided its share of relief in a shorter period (17.5 years on average) than IDA, because it provided a higher percentage of debt service reduction. However, there is considerable variation in the period (from 6 years for Senegal to 43 years for Mozambique), reflecting AfDB's future service profile and whether countries have AfDB debt, which would need to be repaid (and therefore allows relief to be provided) more rapidly.

Funding is channelled through the HIPC Trust Fund. Table 8 details the terms of ADF and ADB debt relief by HIPC.

5.1.2 The European Union (EU) and European Investment Bank (EIB)

The European institutions reduce their debt service (by up to 100%) until the present value of required relief is obtained, starting at the Decision Point. Grants are provided to repurchase non-concessional loans. There is no variation of percentages or scope for negotiation.

5.1.3 The Inter-American Development Bank (IADB)

IADB assistance is delivered by forgiving 50% of annual debt service on its concessional Fund for Special Operations (FSO) loans in 2001-2008, and writing off some principal payments on FSO loans in 2009-2019. IDB provides a maximum of 30% of its assistance in the interim period.

Latin American HIPCs have received much less annual debt service reduction than that provided by the AfDB to African countries. In addition, the IADB has not provided any front-loading of relief. The IADB has also generally spread its relief over a longer period than the AfDB: in the case of Bolivia it simply maintained the period of original HIPC.

Funding for IADB relief has been provided by a combination of IADB's own resources and donor funds. Annex 2 details IADB debt relief.

5.1.4 The International Fund for Agricultural Development (IFAD)

IFAD cancels 100% of debt service until the present value of the required relief is obtained, starting at the Completion Point. In the interim period, it provides only assistance to clear outstanding arrears. IFAD uses a self-administered trust fund to provide its assistance. Again there is no scope for discussion as to percentages or periods of relief.

5.1.5 The International Monetary Fund

The IMF's reduction in debt service is provided in such a way as to smooth the country's debt service to the IMF, and reduce the ratio of IMF debt service to exports below 5%. It also provides its assistance over a shorter period than the other multilateral institutions because its loans have shorter maturity (only 10 years).

The IMF provides up to 60% of its total relief or 20% per year (for a maximum of three years) during the interim period, via annual debt service reduction of up to 100%.³⁴ Guinea-Bissau, Mozambique, Rwanda, Sierra Leone, and Tanzania were able to maximise their interim relief with debt service reduction of 70% or more during their interim period, because otherwise their IMF service ratios would have been excessive. For Zambia, the IMF surpassed its limit on interim relief (rising to 75%), as the country was facing debt service to exports ratios above 25% for four years, principally due to a rise of IMF service payments.

At Completion Point, the IMF provides the remaining relief using a country-by-country schedule. For Ethiopia, Guinea-Bissau, Nicaragua, Rwanda, and Sierra Leone, delivery has been front-loaded (with an average service reduction of 70% or more) to reflect country capacity to repay debt, as well as topping up of relief for Ethiopia and Rwanda.

Its participation takes the form of special PRGF grants deposited into an escrow account to cover principal payments to the IMF. Like the World Bank, it delivers its interim assistance on a yearly basis. Relief at Completion Point is provided in one tranche in the escrow account and is irrevocable, although the debt service impact is realised on an annual basis. Table 9 details the terms of IMF debt relief by HIPC.

³⁴ The IMF delivers its assistance solely by reducing principal payments, in order to guarantee repayments of interest on IMF loans.

5.1.6 The Nordic Development Fund (NDF)

NDF cancels 100% of debt service until the present value of the required relief is obtained, starting from the Completion Point. NDF channels its resources through the HIPC Trust Fund. This is another creditor without any scope for discussion of percentages or periods.

5.1.7 The World Bank Group (IBRD and IDA)

The World Bank provides a maximum of one third of its total relief during the interim period, by reducing annual debt service by 50% or more. In general the Bank decided to stick to this minimum level, but some countries (Bolivia, DRC, Guinea-Bissau, Mozambique, Nicaragua, Rwanda, Sao Tome and Principe, Sierra Leone, and Zambia) were able to maximise interim relief (receiving between 80% and 100% reduction of debt service payments), to reduce high interim service burdens. At Completion Point, it provides its remaining assistance through annual IDA debt service reduction of 50% or more, or through repurchasing IBRD debt stock.

World Bank relief is funded by the HIPC Trust Fund, through either the purchase and cancellation of outstanding IDA credits or servicing a portion of the country's IDA debt. Interim assistance is delivered on a yearly basis, whereas at Completion Point, debt relief is provided in one tranche, and is irrevocable, however the liquidity impact is still realised on an annual basis. Table 10 details the terms of IDA and IBRD debt relief by HIPC.

The major drawback of the method used by IDA to deliver its assistance is that HIPCs have to wait a very long time before getting the full amount of debt relief. Delivery is spread 10 to 36 years depending on the amount of relief and the percentage of debt service reduction: for most HIPCs, the average period is 21 years. The exceptions reflect the following circumstances:

- Some countries, such as Cameroon and Honduras, had shorter periods because IBRD debt was repurchased at Completion Point, delivering relief more quickly.
- Some countries, such as Burkina Faso, Mali and Mozambique, had long delivery periods under the original HIPC agreement, but Enhanced HIPC chose to reduce the period.
- For other countries, such as Burundi, Guinea Bissau and Sao Tome and Principe, the longer period reflects the time required to deliver IDA's share of debt relief through the annual percentage reductions agreed - higher percentages could have reduced the period.

In addition, a few HIPC countries were able to have delivery of relief front-loaded after completion point (DRC, Guinea-Bissau, Mozambique, Nicaragua, Rwanda, Sao Tome and Principe, Sierra Leone, Uganda, and Zambia) with service payments reduced by 75% or more particularly in the years immediately following completion point.

Topping up of IDA relief at completion point also led to greater flexibility. Burkina Faso, Ethiopia, Malawi, Niger and Rwanda received higher post-completion point service reductions as a result, though Rwanda and Malawi also had their relief periods extended as well.

5.1.8 Relief by Rescheduling/Refinancing (BADEA/OPEC/IsDB)

Most other multilateral institutions have opted to provide relief by rescheduling or refinancing their debt service on highly concessional terms by lengthening the maturity and grace period, with a low interest

rate. These include notably the Arab Bank for Economic Development in Africa (BADEA), the Islamic Development Bank (IsDB), and the OPEC Fund. The debt relief is then calculated as the difference between the present value of the consolidated loan and the original present value of the institution's portfolio, as described in Box 6.

Many of these institutions do not provide interim relief unless a HIPC has accumulated arrears with them before reaching Decision Point, in which case they reschedule the arrears on concessional terms, and the present value reduction provided by such rescheduling is then deducted from the total relief to be delivered by these organisations at completion point.

Box 6: Computing HIPC Debt Relief through Refinancing

Multilateral institutions such as OPEC, BADEA, and IsDB deliver their relief by refinancing their portfolio, or some designated loans, with concessional credits with longer maturity and grace periods, and lower interest rates. Terms offered by these institutions vary for each HIPC based on the present value reduction the creditor has to provide, and the original terms of the relevant loans.

For example:

- BADEA has agreed terms ranging from 0-3 year grace periods, 11-34 year maturity and 0-1% interest.
- BCEAO rescheduled Senegal's debt over 24 years with no grace period and interest free.
- BOAD provided partial service cancellation to Senegal to meet its PV contribution.
- EADB provided 10 year maturity with zero grace period at 4% to Uganda
- Islamic Development Bank (IsDB) has agreed terms ranging from 0 to 1 year of grace, 25 to 30 year maturity, and generally reduced interest to 0%.
- OPEC Fund has provided terms ranging from 3 to 5 years of grace, 19 to 23 years of maturity, and 1-3% interest.

The HIPC debt relief represents the difference between the present value of the refinancing loan and the present value of the debt stock refinanced, using the six month average of the appropriate CIRR rate. For example, if the creditor is to provide US\$10 million of relief in PV terms, and if the present value of the eligible stock of debt is US\$15 million, then the present value of the refinancing loan or rescheduled stock should be equal to US\$ 5 million.

5.1.9 Problems with Creditor Participation

Virtually all multilateral creditors have indicated a willingness in principle, to participate in Enhanced HIPC, and half of them (representing 90% of multilateral claims) have formally approved specific mechanisms to deliver HIPC debt relief. However, there have been many administrative and financing delays for specific institutions: it took 9 years for the East and West African Development Banks (EADB and WADB) to confirm their participation mechanisms and actually provide relief.

TABLE 7: MULTILATERAL CREDITORS : CONTRIBUTIONS FO THE HIPC INITIATIVE

Creditor	Between Decisionand Completion Points	After Completion Point
African Development Bank/Fund (ADB/ADF)	Debt service relief ceiling of 80% annual service (90% in exceptional cases to achieve total PV reduction) and max 40% of total PV relief	Debt service relief: max 80% of annual service due, until remaining 60% PV relief is delivered within 15 years
Andean Development Corporation (CAF or ADC)	Front-loaded stock of debt relief over a period of 5 years To be determined	Front-loaded stock of debt relief
Arab Fund for Economic and Social Development (AFESD)	To be determined	Concessional refinancing with 0.5% interest rate, 10 years grace, 40 years maturity
Arab Monetary Fund (AMF)	75% debt service reduction over 5 years	Case-by-case via partial debt service reduction and concessional rescheduling of arrears
Arab Bank for Economic Development in Africa (BADEA)	Cleanance of arrears only reduction: (0-3 years grace, 11-34 years maturity, 0-1% interest)	Reschedule 100% stock on terms needed to produce PV
Caribbean Development Bank (CDB)	100% debt service relief on selected loans PV reduction, partly using donor assistance	100% debt service relief on selected loans needed to provide
CARICOM Multilateral Clearing Facility (CMCF)	Reschedule 100% stock at lower interest rate and extended maturity needed to produce PV reduction	Cancel accrued interest and reschedule rest on terms needed to produce PV reduction, partly using donor assistance
Central American Bank for Economic Integration (CABEI)	Cancellation of arrears, rescheduling of stock at lower interest rate and longer maturities	Partial cancellation and re-schedule remaining stock at lower interest rate and/or with extended maturity
Central Bank of West African States (BCEAO)	No relief	Concessional rescheduling over 24 years, no grace, no interest
East African Development Bank (EADB)	No relief	Refinance on terms needed to provide PV reduction, eg 0 grace, 10-year maturity, 4% interest
European Investment Bank (EIB)	Forgive 100% annual debt service on identified loans	Prepayment of loans to produce PV reduction
European Union (EU)/European Commission (EC)	Forgive 100% debt service reduction	Grants to provide full or partial cancellation to produce PV
Financial Fund for the Development of the River Plate Basin (FONSPLATA)	Under original framework: concessional loan restructuring	Cancellation of up to 25% not exceeding US\$4 million in PV terms
Inter-American Development Bank (IDB)	Maximum of 33% of total PV relief. Debt service relief of 50% of annual service due.	Debt service relief: 50% of annual service due on ISO loans and subsidy to selected Ordinary Capital loans to 2008. Beyond 2008, selective cancellation of principal for ISO loans outstanding before 2000
International Fund for Agricultural Development (IFAD)	Cleanance of arrears only	Forgive up to 100% of PV relief
International Monetary Fund (IMF)	Up to 100% of annual debt service; not to exceed 60% of total PV relief (75% in exceptional cases) or 200% in any one year (25% in exceptional cases)	Forgive up to 100% of debt service, until PV reduction provided. Remaining 40% of PV relief
Islamic Development Bank (IsDB)	Rescheduling or refinancing of arrears during interim period maturity and 0% interest	Rescheduling or refinancing with 0-1 year grace, 25-30 years
Nordic Development Fund (NIDF)	No relief	Forgive 100% debt service, until PV reduction provided
Nordic Investment Bank (NIB)	Case-by-case treatment of arrears	Case-by-case, percentage of debt service forgiven over 3 years
OPEC Fund: Organisation of Petroleum Exporting Countries Fund for International Development	Case-by-case treatment of arrears	Case-by-case including refinancing with new loans (1-3% interest, 19-23 years maturity with 3-5 years grace); reduction of interest and service charges of existing loans; restructuring principal repayments
West African Development Bank (BOAD)	Debt stock or service reduction needed to produce PV contribution	Debt stock or service reduction needed to produce PV
World Bank*** <i>International Development Association (IDA)</i>	Debt service relief: 50% or more of annual service due (100% in exceptional cases to achieve total PV reduction) Front-loading = max 1/3 of total PV relief, up to 50% in exceptional cases	Debt service relief: 50% or more of annual service due. To be delivered within 20 years of DP
<i>International Bank for Reconstruction and Development (IBRD)</i>	IDA grant = IBRD share of relief in period Front-loading = max 1/3 of total PV relief	IDA credit to prepay debt = remaining PV relief

Debt relief not yet approved for any HICs. Arab Petroleum Investment Corporation (APICORIP), * Bank of Central African States (BEAC)
 Central American Monetary Stabilization Fund (FONCEM), * Eastern and Southern African Trade & Development Bank (PTA Bank), Economic Community of West African States (ECOWAS)
 Fund for Solidarity & Economic Development of the West African Economic Community (FOSIDEC), Great Lakes States Development Bank (RDEGL)
 Minimal Aid and Loans Guarantee Fund of the Council of the Franczone (FGLGLE), Sources: HIPC and IBWIS documents

TABLE 8: DELIVERY OF ADB GROUP AND IADB HIPC DEBT RELIEF AT END-2006

	Decision Point ¹	Completion Point ²	% ADB/ ADF debt/total in PV terms ³	Interim Relief (% reduction in annual debt service payments)	Relief at Completion Point (% reduction in annual debt service payments)	Number of years
African Development Bank and Fund (AfDB and AfDF)						
Benin	July 2000	March 2003	37.6	80%	80% until 2009	10
Burkina Faso ⁴	July 2000	April 2002	15.2	100% repurchase of AfDB loans and some AfDF credits	80% to 2015	16
Burundi	July 2005	mid-2007	18.1	80%	80%	na
Cameroun	Oct 2000	April 2006	6.2	80%. Interim limit reached in Oct 2003	43% to 2007/08	8
Chad	May 2001	2007	27.5	82%. Interim relief lapsed from end-2004-July 2005	82% to 2012	11
Congo, Dem. Rep.	July 2003	Q2 2007	14.3	80% AfDF, 77% AfDB	80% AfDF to 2031, 77% AfDB to 2023	28
Congo Republic	March 2006	Q4 2007	5.6	80%	80%	na
Ethiopia ⁵	Nov 2001	April 2004	14.7	80%	80%	12
Gambia	Dec 2000	Q2 2007	23.6	80%. Interim limit reached in July 2003	80%	20
Ghana	Feb 2002	July 2004	6.5	80%	80% to 2013	13
Guinea	Dec 2000	Q1 2007	9.8	80%. Interim limit reached in October 2003	80% to 2015	15
Guinea Bissau	Dec 2000	Q4 2009	14.6	100% (financed 93% from AfDB, 7% from donors)	93% to 2026	27
Madagascar	Dec 2000	Oct 2004	7.2	80%	80% to 2011	10
Malawi ¹	Dec 2000	Aug 2006	13.5	80%. Interim limit reached in 2004	80% to 2016 (excluding topping up)	16
Mali	Sept 2000	March 2003	12.8	80%	80% to 2010	10
Mauritania	Feb 2000	June 2002	10.9	80%	80% to 2011	11
Mozambique	April 2000	Sept 2001	7.3	80%	80% to 2042	43
Niger ¹	Dec 2000	April 2004	7.1	80%	80% to 2019	19
Rwanda ¹	Dec 2000	April 2005	16.5	80%	80% to 2025	24
Sao Tome & Principe	Dec 2000	mid-2006	34.7	81%. Interim relief lapsed from end-2004 to July 2005	81% to 2019	19
Senegal	June 2000	April 2004	10.0	80%. Interim limit reached in Sept 2003	80% to 2006	6
Sierra Leone	March 2002	Dec 2006	6.4	80%. Interim relief lapsed from end-2004 to July 2005	80% to 2036	34
Tanzania	April 2000	Nov 2001	6.6	80%	80% to 2017	17
Uganda	Feb 2000	May 2000	9.0	80%	80% to 2013	13
Zambia	Dec 2000	April 2005	4.5	80%. Limit reached in 2003	80%	22
Inter-American Development Bank (IADB)						
Bolivia	Feb 2000	June 2001	35.1	50%	Average 31.2% to 2010, average 67.6% to 2020, average 11.1% to 2030	30
Guyana	Nov 2000	Dec 2003	28.1	25% of total relief	Reduction debt service of FSO loans to 2008	11
Haiti	Dec 2006	Q4 2008	43.1	Reduction in debt service + concessional rescheduling of arrears	Reduction in debt service	na
Honduras	July 2000	April 2005	37.4	Average of 32% until 2002, Interim limit reached July 2002	Average of 34% until 2008	9
Nicaragua	Dec 2000	Jan 2004	15.9	22% of total relief	Reduction debt service of FSO to 2019	19

¹ Under the Enhanced HIPC Initiative. ² After delivery of traditional relief at decision point. ³ Including topping up of relief at completion point.

Sources: Country Decision and Completion Point documents.

TABLE 9: DELIVERY OF IMF HIPC DEBT RELIEF AT END-2006

	Decision Point ¹	Completion Point ¹	% ADB/ ADF debt/total in PV terms ²	Interim Relief (% reduction in annual debt service payments)	Relief at Completion Point (% reduction in annual debt service payments)	Number of years
Benin	July 2000	March 2003	17.2	Average of 31.6% until 2002	Average of 33% until 2007	9
Bolivia	Feb 2000	June 2001	6.3	Average 32% until 2001	Average of 33.9% until 2007	6
Burkina Faso ³	July 2000	April 2002	10.9	Average of 46.6% until 2002	Average of 69.7% until 2007	8
Burundi	July 2005	mid-2007	3.4	Average of 20.1% until 2007	Average of 50% until 2015	11
Cameroun	Oct 2000	April 2006	2.9	Average of 21.5%, interim relief suspended in 2004	Average of 21% until FY2010	10
Chad	May 2001	2007	13.4	Average of 40% until 2003, relief suspended in 2004	Average of 22% until 2010	10
Congo, Dem. Rep	July 2003	Q2 2007	7.5	Projected to average 31.5% to 2007. Interim relief suspended in Aug 2005	Average of 66.8% until 2012	10
Congo Republic	March 2006	Q4 2007	0.5	Interim relief not yet delivered because financial assurances of 70% not yet committed	Average of 69.8% to 2011	6
Ethiopia ³	Nov 2001	April 2004	2.9	Average 40% until FY2003	Average of 86% until FY2010	9
Gambia	Dec 2000	Q2 2007	3.4	Average of 16.8% until 2003, Interim relief suspended in Dec 2003	Average of 20% until 2009	9
Ghana	Feb 2002	July 2004	7.6	Average of 72% until 2004	Average of 37.5% until 2009	8
Guinea	Dec 2000	Q1 2007	4.1	Average of 24.8% until 2003, Relief suspended in 2003	Average of 34.3% until 2007	7
Guinea Bissau	Dec 2000	Q4 2009	2.9	100% in 2001-02, 64.4% in 2003, Interim relief suspended at end-2001	Average of 70.2% until 2010	10
Guyana	Nov 2000	Dec 2003	8.0	Average of 39.5% until 2003	Average of 53.8% until 2009	9
Haiti	Dec 2006	Q4 2008	2.2	Average 15.6%	18.4% in FY2009 declining to 6.1% in 20016 and 15.9% in 2007	11
Honduras	July 2000	April 2005	4.9	52.5% in 2001, 10.7% in 2002, interim limit reached in Oct 2002,	Average of 39% until 2007 but resumed in 2004.	8
Madagascar	Dec 2000	Oct 2004	2.3	53% in 2001-03	Average of 26% until 2007	7
Malawi ³	Dec 2000	Aug 2006	4.7	Average of 45% until 2003, Interim relief suspended in 2002 and 18	Average 60% until 2013 months in 2003-05	13
Mali	Sept 2000	March 2003	10.8	Average of 25.5% until 2002	Average 40% until 2007	9
Mauritania	Feb 2000	June 2002	7.2	83.5% in 2000, 55.6% in 2001	Average of 40.5% until 2008	8
Mozambique	April 2000	Sept 2001	6.0	100% in 2000, 91% in 2001	Average of 63% until 2009	10
Nicaragua	Dec 2000	Jan 2004	3.0	no relief in 2001, avg 20% in 2002-03	Average of 76% until 2009	7
Niger ³	Dec 2000	April 2004	5.3	Average of 38% until 2003	Average of 53 % until 2008	8
Rwanda ³	Dec 2000	April 2005	9.6	Average 64% in 2001-02, 0.5% in 2003, 75% in 2004	Average 85% until 2009	10
Sao Tome & Principe	Dec 2000	mid-2006	0	No IMF borrowings	No eligible IMF borrowings	-
Senegal	June 2000	April 2004	8.7	Average of 18% until 2003, Interim relief suspended end-2002	Average of 32% until 2006 to April 2003	7
Sierra Leone	March 2002	Dec 2006	18.5	Average of 85.8% to 2005	Average of 78.2% until 2011	10
Tanzania	April 2000	Nov 2001	6.2	78.0%	Average of 36.3% until FY2008	10
Uganda	Feb 2000	May 2000	13.9	62%	Average of 52% until FY2008	9
Zambia	Dec 2000	April 2005	13.3	Average of 62% until 2003. Interim limit reached end-2003	97% in 2005, 54% in 2006, 32% in 2007	7

¹ Under the Enhanced HIPC initiative. ² After delivery of additional relief at decision point. ³ Including wiping up of relief at completion point. Source: Country Decision and Completion Point documents.

TABLE 10: DELIVERY OF DEBT RELIEF BY WORLD BANK AS OF END-2006

	Decision Point ¹	Completion Point ²	% ADB/ ADF debt/total in PV terms ²	Interim Relief (% reduction in annual debt service payments)	Relief at Completion Point (% reduction in annual debt service payments)	Number of years
Benin	July 2000	March 2003	76.7	25.3% in 2000, 50.3% in 2001, 46.5% in 2002	average 42.7% to 2013, 23.4% in 2014	15
Bolivia	Feb 2000	June 2001	16.9	Under HIPC1: 100% for 1998-2000. Under HIPCII, 96.3% in 2001	50.4% to 2013, 36.6% in 2014	13
Burkina Faso ⁴	July 2000	April 2002	40.3	45% in 2000, 85% in 2001, 67% in 2002	average 70% until 2019, 44.5% in 2020, average 15.6% to 2029	30
Burundi	July 2005	mid-2007	51.4	39% in 2005, 90% to 2007	90% to 2028, 89% from 2029-37, 65% in 2038	34
Cameroun	Oct 2000	April 2006	12.1	For IBRD debt: 45% with IDA grant. Interim limit reached in March 2003	For IBRD debt: IDA credit to prepay. For IDA: 57% to 2020	20
Chad	May 2001	2007	50.7	34% in 2000, 50% thereafter	50% to 2014, 16% on 2015	16
Congo Dem. Rep.	July 2003	Q2 2007	13.2	45% in 2003, 90% to 2007	90% to 2024, 45% in 2025	23
Congo Republic	March 2006	Q4 2007	2.9	37% in 2006, 50.5% to 2007	50.5% to 2020, 15.3% in 2021	16
Ethiopia ³	Nov 2001	April 2004	42.4	Average 48%	90% to 2018/19, and 65.8% in 2019/20	19
Gambia	Dec 2000	Q2 2007	33.4	50% to 2003. Interim limit reached in Dec 2005	50% to 2021, 17% in 2022	12
Ghana	Feb 2002	July 2004	47.2	53% in 2002, 67% to 2004	67% to 2021	22
Guinea	Dec 2000	Q1 2007	19.9	50%	50% to 2015	15
Guinea Bissau	Dec 2000	Q4 2009	22.4	100% (90% by IDA, 10% by donor funds in HIPC Trust Fund)	90% to 2025	26
Guyana	Nov 2000	Dec 2003	12.5	58.6%	59.4% to 2019, 52.1% in 2020	20
Haiti	Dec 2006	Q4 2008	37.6	36.7% + concessional rescheduling of arrears	50% in FY2009 and 27.6% in FY 2010	3
Honduras	July 2000	April 2005	26.1	For IBRD: 50% by IDA grant. Interim limit reached in July 2002	For IBRD debt: IDA credit to prepay 96% of debt service to 2010. For IDA: 50% to 2010	11
Madagascar	Dec 2000	Oct 2004	30.7	50%	51% to 2020	20
Malawi ⁵	Dec 2000	Aug 2006	61.1	55.26%	86.3% to 2043	43
Mali	Sept 2000	March 2003	34.1	20% in 2000, 59% in 2001, 55% in 2002	avg 52% to 2010, avg 23% for 2011-20, avg 2% for 2012-29	30
Mauritania	Feb 2000	June 2002	20.1	63%	Average 59% to 2019	20
Mozambique	April 2000	Sept 2001	20.3	91% in 2000, 83% in 2001	avg 82% for 2002-08, avg 57% in 2009-10, avg 50% for 2010-23, avg 45% for 2024-35	36
Nicaragua ⁴	Dec 2000	Jan 2004	8.7	avg 81%	avg 77% for 2004-10, avg 67% for 2011-23	23
Niger ³	Dec 2000	April 2004	32.7	avg 64%	78.2% to 2020	20
Rwanda ⁴	Dec 2000	April 2005	50.2	Average 84%	85% in 2005, 90 % for 2006-26, 14% in 2027	26
Sao Tome & Principe	Dec 2000	mid-2006	24.6	100% for 2001-03	90% to 2023, 81% in 2024	25
Senegal	June 2000	April 2004	34.4	17.5% in 2000, avg 43% in 2001-03. Interim limit reached in Sept 2003.	30% in 2004, average 47% for 2005-09, 12% in 2010	10
Sierra Leone	March 2002	Dec 2006	18.3	88.5%	Average 90% to 2022	20
Tanzania	April 2000	Nov 2001	36.2	69.1%	avg 62.8% from 2002/03 to 2019/2020	20
Uganda	Feb 2000	May 2000	54.4	63.5% in 1999/20005	75.5% in 2000/01, 71.4% in 2001/02, avg 46.1% for 2002/03-2019/20	20
Zambia	Dec 2000	April 2005	24.4	84.2% to 2003, 69% in 2004	Average 67% to 2010, average 62% for 2011-20	20

^{1/} Under the Enhanced HIPC Initiative. ^{2/} After delivery of traditional relief at time of Enhanced HIPC decision or completion point DSA. Includes IBRD debt for Cameroon, Honduras and Cote d'Ivoire.

^{3/} Including topping up of relief at completion point. ^{4/} No relief on debt service to IBRD falling due in 2000-01. ^{5/} Interim period for HIPC II was just 3 months for Uganda. **Sources:** Country Decision and Completion Point documents.

In addition, some smaller multilateral creditors, albeit with a small share of debt, have not yet agreed to provide debt relief. According to the BWIs, these include: the Banque des Etats de l'Afrique Centrale (BEAC) which is owed US\$40 million in 2005 PV terms, the Eastern and Southern African Trade and Development Bank (PTA Bank) with US\$10 million, the Banque de Développement des Etats des Grands Lacs (BDEGL) with US\$8 million, the Economic Community for West Africa States (ECOWAS) with US\$17 million, the Conseil de l'Entente (FEGECE) with US\$3million, the Fondo Centroamericano de Estabilizacion Monetaria (FOCEM) with US\$2 million, the Fund for Solidarity and Development (FSID) with US\$ 1 million, and the Arab Petroleum Investment Corporation (APIC) with US\$1 million. Most of these organisations constitute either multi-country payments clearing systems which do not expect to provide relief on payment arrears, or sub-regional development banks which have been closed or are very short of resources. In some instances, those which have not yet decided to participate in HIPC may represent a risk of lawsuits for HIPC countries (see Chapter 7 for details). Creditor organisations which have recently decided to participate include the CARICOM Multilateral Clearing Facility (CMCF) and the Development Bank of Central African States (BDEAC), both using donor funds.

Finally, for the countries that have qualified for topping up, only the major multilateral institutions (such as the AfDB, the European Union, IFAD, IMF and World Bank), have fully committed to deliver their share of this additional relief: many other institutions are still in discussions with HIPCs on how to achieve this.

5.2 IMPLICATIONS FOR HIPC NEGOTIATING STRATEGIES

What do these experiences suggest for HIPC negotiating strategies? The key elements are:

5.2.1 Negotiating Processes

The survey of HIPCs conducted for this study indicates a clear division into three types of negotiating processes:

- Several creditors (EU, IFAD, NDB) have completely fixed relief terms so there is no negotiation, although several debtors such as Nicaragua still initiated the process or correspondence about relief due to administrative delay on the creditor side.
- Major multilateral development institutions such as the AfDB, IADB, IMF and World Bank have tended to initiate the process by making a proposal to the HIPC, based on producing relatively low and smooth debt service ratios for the HIPC (and stable costs for themselves). In most cases the HIPC has accepted this proposal, but in some cases further discussion has ensued.
- For the other multilateral institutions (eg BADEA, CABEL, CAF, EADB FOCEM, FONPLATA, IsDB and the OPEC Fund), many HIPCs such as Benin, Bolivia, Niger, Nicaragua and Uganda have initiated contacts (partly because these institutions took considerable time to decide how to provide relief and then to begin applying the decision). In most cases these negotiations were very time consuming and lengthy, even extending well beyond completion point, partly because initial proposals by some creditors failed to meet HIPC comparability requirements (see Box 8 below).
- In recent years the World Bank has become increasingly active in helping HIPCs to reach agreements with other multilateral institutions, especially by explaining to the institutions how to ensure their terms are comparable with HIPC. According to HIPC governments, it helped them with the CABEL, CDB, CMCF, EADB and OPEC Fund.

5.2.2 Clearing Arrears

Many HIPCs had large arrears to multilateral institutions before HIPC. HIPC stipulates that all arrears to multilateral creditors must be cleared before Decision Point. Arrears to the IMF and/or major MDBs were a significant problem for Burundi, Democratic Republic of Congo, Guinea-Bissau and Sierra Leone, and will be a problem for CAR, Comoros, Cote d'Ivoire, Liberia, Somalia and Sudan.

Clearing arrears to these creditors have involved the following types of mechanisms:

- a Multilateral Debt Fund financed by donor grants (Burundi)
- refinancing by donor grants (Guinea-Bissau, Sierra Leone).
- refinancing by a bridging loan whereby one creditor provides a loan to repay the IMF arrears, which is then repaid from the resumption of disbursements from the IMF.
- systems established by the international organisations themselves (AfDB, IMF and World Bank) to refinance or clear arrears using in part their own resources, which have gradually been made more flexible over time.

The most complex and flexible arrangements so far have been for DRC (see Box 7).

Box 7: Clearing DRC's Arrears

In the case of the Democratic Republic of Congo, its long prior period off track with the IMF and with poor relations with the international financial community meant that when it re-established these relations during 2001-02, very complex mechanisms were needed to clear huge arrears (80% of total debt or US\$10.6 billion) which had accumulated. Of these, 17% were owed to multilateral creditors, including US\$779 million to the African Development Bank Group, US\$503 million to the IMF, US\$190 million to IDA, and US\$128 million to the IBRD. The international community designed the following mechanisms for clearing these arrears:

- a bridging loan to clear arrears to the IMF, provided by Belgium, France, Sweden and South Africa, which was repaid through the first tranche of a PRGF loan
- a further bridging loan to clear arrears to the World Bank Group and on an EU loan administered by the IDA, provided by Belgium and France, which was repaid by the first tranche of an IDA Economic Recovery Credit loan
- a grant to clear US\$49 million of arrears to the African Development Fund, provided by AfDF internal resources.
- clearing of interest arrears to the AfDB through the combination of a bilateral grant, an AfDF new loan, and a small (US\$1 million) upfront payment by the DRC. Thereafter principal payments were rescheduled over 20 years, including a 2 year grace period. Donors paid the initial interest on this rescheduling, which was then transferred into a revolving account to pay all the interest throughout the rescheduling period.

A larger group of debtors including Niger, Rwanda, Sao Tome and Uganda had arrears to other multilateral creditors such as BADEA and OPEC. Uganda's case was the most extraordinary in that it had accumulated arrears on a loan which had never been disbursed (because the repayment schedule on the loan was based on the commitment date)! These arrears were usually cleared by a combination of up-front cash payments and rescheduling or refinancing on more concessional terms, as part of the overall negotiations on HIPC relief. The initial position of these creditors was generally very tough, demanding large up-front payments, and in the early years of HIPC some debtors made such payments, but gradually creditors became somewhat more flexible and moved to general use of rescheduling or refinancing (see also 5.1.8 and 5.2.4).

When computing the amount of relief that each creditor must provide on a burden sharing basis at decision point, any outstanding arrears to creditors must be deducted as burden sharing is done on the basis of debt outstanding excluding arrears.

5.2.3 The IMF and the MDBs - Frontloading

The most important issue for HIPCs in negotiating with the IMF and the major MDBs has been to receive "front-loading" (ie maximising in the earlier years) of their relief from those multilaterals which will vary annual service relief percentages (AfDB, IADB, IMF and World Bank). This involves maximising interim relief between the Decision and Completion Points up to the ceiling of each

multilateral institution, by achieving the highest possible percentage of debt service reduction each year, and maximising frontloading after the Completion Point by reducing the period over which relief is provided and increasing the percentage of service reduction in the early years³⁵. Discussions on frontloading must take place before Decision Point as multilaterals have been very reluctant to change relief profiles thereafter (except when “topping up”).

In the few cases of such discussion, HIPCs have used three main arguments to support their case:

- the lack of liquidity for paying interim debt service (and the wish to avoid falling into arrears in the interim period),
- the need to have sustainable debt service ratios. In determining interim assistance, the multilaterals analyse service to exports ratios between decision and completion points, and try to keep it below 15-20% (generally they have aimed well below 15%); and
- the need to frontload increased poverty reduction expenditures to attain the Millennium Development Goals more rapidly. The multilaterals are also supposed to take into account country absorptive capacity to make additional expenditures, so in theory a country with lower absorptive capacity would receive less relief. However, there is no detailed analysis in the BWI's Decision Point documents of absorptive capacity.
- ensuring that HIPC provides additional net transfers of resources to fund the attainment of the MDGs. This applied particularly for two groups of countries.
 - those which prior to HIPC had established a Multilateral Debt Fund (MDF),³⁶ whereby bilateral donor grants were used to pay debt service to multilateral creditors. Since these MDFs stopped operating at decision point, unless there was significant front-loading of interim relief, countries lost under HIPC (since they had to pay more debt service from their own resources than before HIPC). For five countries (Bolivia, Guinea-Bissau, Mozambique, Nicaragua, and Rwanda), IDA significantly front-loaded relief to take account of this potential loss.
 - those with significant multilateral arrears prior to HIPC (Burundi, DRC, Guinea-Bissau). HIPC stipulated that countries had to clear these arrears, and pay future service (including on rescheduled arrears) on schedule, in order to restore financial relations and disbursements by multilateral creditors. To avoid a large rise in the debt service burden, the BWIs assessed the amount of service which the country's budget could afford, and sometimes heavily frontloaded relief to achieve this level.

Some discussions have been problematic because multilateral institutions have wished to avoid frontloading in order to spread their costs over a longer time period, and have also wished to keep the percentage of service cancellation broadly stable over time. In some cases according to HIPCs it has taken considerable high-level lobbying by the HIPC and friendly G8 countries to gain more flexibility from the multilateral institutions.

In addition, some HIPCs have found it technically difficult to reach the interim ceilings, because service due to the institutions and therefore potential relief in the interim period are low. One advantage of having a remaining margin for interim relief is that this allows a country to receive more interim relief if its completion point is delayed (see 5.3 below).

³⁵ It is important to note that relief provision from EU, IFAD and the NDF/NIB cannot be negotiated - but they are already frontloaded to the maximum from the time when they begin providing relief.

³⁶ For an early discussion of MDFs, see Martin 1994; UNCTAD 1995

In addition, these multilateral creditors have usually decided on the loans to which debt service reduction is to be applied. However, they have not always been very good about communicating this information to HIPC countries, making operational debt management more difficult. For example, the lack of information complicates the regular updating of the external debt database and the application of relief to the relevant loans. As a result, countries have had to wait for the creditor's notice of payments to initiate the internal debt service payments procedures, thereby increasing the risk of payment delays and the possibility of incurring payment penalties.

5.2.4 Other Multilateral Creditors - Ensuring HIPC Comparability

The survey of HIPC countries (as well as experience of assistance provided to countries by the HIPC CBP) has demonstrated that negotiations with other multilateral creditors have often been the most complex in the Initiative. This is because initial proposals submitted by various creditors have not always complied with the Common Reduction Factor for the PV of debt established under HIPC. This has especially been true when there has been considerable delay between decision point and the date of signature of relief agreements: if countries pay service in the interim, there may even be insufficient eligible service left by the time of agreement for creditors to deliver their necessary share of relief. Due to such delay, when receiving these creditors' proposals, HIPC countries have had to verify not only that their assistance is equal to their share of relief computed at decision point, but also to update this calculation to the date of the delivery of the assistance, using the appropriate discount rate. Box 8 shows an example of how complex Guyana and Nicaragua's with the OPEC Fund were.

Box 8: Negotiating with the OPEC Fund: Guyana and Nicaragua

Guyana concluded its HIPC relief agreement with the OPEC Fund on December 21, 2005, two years after completion point, and after three and a half years of negotiations, initially through exchange of correspondence and later in face-to-face negotiations at the OPEC Fund's Headquarters in Austria. Guyana had only one loan outstanding to the OPEC Fund, which chose to deliver its relief by rescheduling this loan and providing a new concessional loan of US\$7.5 million. Guyana initially argued against a new loan, preferring a write-off or rescheduling, but eventually agreed to discuss terms of rescheduling and new loan.

In identifying the terms necessary to provide HIPC relief, the OPEC Fund argued that Guyana should bear some of the cost for the delay in reaching an agreement, and sought the use of an 'implementation date' of December 31, 2002. This meant the calculation of debt relief would assume that the new loan was disbursed three years earlier than it actually was, overstating the relief via the new loan and allowing less generous terms of rescheduling on the existing loan. Guyana argued strongly bearing any cost for the delay and insisted that the 'implementation date' should be either the signature date of the relief agreement or December 2004. The terms finally agreed extended the maturity of the existing loan by 16 years and reduced the interest rate from 2% to 0% (though the OPEC Fund would not reduce the service charge of 1%), and provided the new loan at 0% interest, 1% service charge, 25-year maturity and 5-year grace.

Under this agreement, the proceeds of the new loan are paid in full by the OPEC Fund into an interest bearing account mutually agreed by both parties. The funds in the account are then used to pay debt service to the OPEC Fund on both the existing loan and the new loan until they are exhausted.

In the case of Nicaragua OPEC had to provide US\$15 million of PV relief. Nicaragua conducted two separate rounds of negotiations with OPEC. During May 2001 to May 2002 it negotiated a new loan to provide interim relief by paying service falling due until mid-2003, on terms of 20-year maturity, 5-year grace, 1% interest plus 1% service charge. This provided US\$ 4 million of relief.

During June 2003 to July 2004 it negotiated a second loan on the same terms. Initially OPEC tried to insist on calculating the PV reduction from the date of negotiation rather than the Decision Point, but eventually the Decision point date was agreed, reducing the relief provided to US\$3 million. This meant that by 2004 OPEC had provided 47% of its relief. As the current loan will pay Nicaragua's service to OPEC only until mid-2007 Nicaragua has already contacted OPEC to negotiate another loan to provide the remaining relief.

5.2.5 Consequence of Completion Point Delays

Another key aspect to watch is the possible consequence of Completion Point delay. As interim relief is not irrevocable, but delivered on a year-by-year basis, one major consequence for HIPCs is that the IMF suspends delivery of relief if a country falls off-track with its IMF programme, as experienced, for example, by the Gambia, Guinea, Guinea Bissau and Malawi. Delays in negotiating a new PRGF agreement can also lead to suspension of IMF relief, as happened to Senegal in 2003 and Cameroon in 2004. Furthermore, other major multilateral creditors and the Paris Club may link their delivery of interim relief to being on-track with a Fund programme. As Paris Club agreement dates are usually coincident with IMF programmes and lapse when a PRGF programme ends, delays in negotiating a new PRGF agreement can result in Paris Club creditors requesting to be paid until an extension of the lapsed agreement is concluded. This happened to the Gambia, Guinea and Malawi, although they did not agree to pay.

Another difficulty faced by HIPC countries is exhausting their interim relief by reaching the limits set by the major creditors (as described in section 5.1). This problem has been particularly acute for HIPCs with non-concessional IBRD and AfDB loans, because their interim relief was front-loaded to reduce the high debt service on these non-concessional debts. For example, Cameroon, which has debts to both IBRD and AfDB, received maximum interim relief from the World Bank (33%) and AfDB (40%) under the assumption that it would reach its completion point by 2002 or 2003, but did not reach completion point until 2006! Senegal also reached its interim relief IDA and AfDB limits 9 months before its completion point, and Honduras also reached IADB and World Bank limits on interim relief 33 months before completion point. Zambia reached its AfDB and IMF limits in 2003, 18 months before its completion point.

Some countries such as the Gambia and Guinea have suffered from both the exhaustion of their interim relief from the AfDB (and IDA in the case of the Gambia), and the suspension of their IMF relief, due to the long delay between decision points in 2000 and completion points (not reached by 2006) as shown in Tables 8 - 10. Chad and Guinea-Bissau will also reach their 33% IDA limit unless they reach completion points shortly. Nevertheless, to overcome this problem in part, the IDA Board approved in September 2004 new guidelines to extend interim relief to 50% in exceptional circumstances (where the Board considers that the country has satisfactory performance in IDA programmes and with structural reforms).

The major consequence resulting from the delay in reaching completion point and/or being off-track with an IMF programme is the rise of debt service payments as the country has to pay the original amount due. Alternatively if a country cannot service the payments, then this has resulted in a return to accumulating arrears, as in Guinea-Bissau. For Cameroon, the delay cost the country US\$437 million between April 2003 (date of the original completion point) and December 2005, representing, on average, 6.3% of budget revenues. For Zambia, reaching the IMF's limit on interim debt relief in 2003 meant the Government had to service its IMF debt in full in 2004, at a cost of US\$254 million. As a result, Zambia's 2004 ratios of debt service to exports and to budget revenue were 21.9% and 40.8% respectively, compared to 5.3% and 9.4% in 2005 the year of its completion point.

However, if a country stays on track with the IMF and has not reached its interim ceiling, major multilateral institutions have agreed to deliver additional interim assistance. Under these circumstances, Chad and the DRC have received additional interim relief.

5.3 POST-HIPC MULTILATERAL DEBT RELIEF INITIATIVES

5.3.1 UK Debt Initiative

Despite the success of the Enhanced HIPC Initiative, some post-completion point countries were still facing heavy debt burdens, with high debt service ratios and insufficient funding to reach the Millennium Development Goals. As a result, in September 2004, the United Kingdom launched an initiative to pay the UK's share of post-HIPC countries' debt service payments to IDA and the African Development Fund, to enable them to spend more on health, education and infrastructure to achieve the MDGs. The UK also called on other developed countries to join this initiative, under which the UK Government has paid 10% of post-HIPC countries debt service payments to IDA and ADF. This service relief is on payments due, after HIPC relief including topping up, from 1 January 2005 (ie on disbursed outstanding debt as of end-2003) until the date of qualification for the Multilateral Debt Relief Initiative (see 5.3.2).³⁷

This additional relief has been available to all low-income (IDA-only) countries with sufficiently robust public expenditure management systems to ensure that the savings from the additional relief will finance progress towards the MDGs. The list therefore included all of the countries which were then post-HIPC (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Mali, Mauritania, Mozambique, Nicaragua, Niger, Senegal, Tanzania, Uganda) as well as a number of other countries, such as Armenia, Mongolia, Nepal, Sri Lanka and Vietnam, where the World Bank had assessed the countries capable (on

³⁷ The 10% is equivalent to the UK's share of donor contribution to IDA financing. In April 2005, Canada and the Netherlands indicated their intention to join this Initiative, which would have increased the percentage to 16.3%, but did not finalise this before the MDRI superseded the UK Initiative and therefore it does not apply.

the basis of their public financial management) of using direct budget support well. For HIPCs which reached completion point after end-2005 this Initiative was superseded by the MDRI.

5.3.2 Multilateral Debt Relief Initiative (MDRI)

In July 2005, the G8³⁸ proposed the immediate writing off of some multilateral debts of post-HIPC countries. Under this initiative, 100% of the eligible debt owed to the African Development Fund (ADF), the International Development Association (IDA) and the International Monetary Fund (IMF), is to be cancelled. The deal is worth \$40 billion for countries, which had achieved completion points by mid-2005, and as much as \$55 billion as countries qualify. In January 2007, the the Inter-American Development Bank (IADB) agreed to provide debt cancellations of US\$ 3.4 billion.

For some post-HIPC countries with a high proportion of ADF, IDA and IMF debt, this Multilateral Debt Relief Initiative (MDRI) cancels 80-90% of their debt, reducing their PV/exports ratio below 50%-60%. However for the Latin American HIPCs, MDRI led to significantly less debt cancellation, until the IADB agreed to join MDRI and provide debt relief in January 2007.

To be eligible for MDRI, countries must have reached their HIPC completion points. In the case of the IMF non-HIPCs with per capita income below US\$380 are also eligible.³⁹ As many of the then potentially eligible post-HIPCs had reached completion point some time before, they were required to reconfirm eligibility by meeting three conditions: (1) satisfactory 6-month PRGF performance, (2) satisfactory performance in implementing a PRSP and (3) no deterioration in the quality of public expenditure management (PEM) since completion point. These additional conditions only applied to post-completion point countries as at end-2005 because subsequently countries will be meeting these conditions in order to reach completion point.

As at end-2005, there were 17 eligible HIPC countries and all but Mauritania had met the performance criteria and qualified for IMF relief under the MDRI.. Although Mauritania failed to qualify immediately for relief because its macroeconomic performance and the management of its public finances had substantially deteriorated since its June 2002 completion point, it completed the remedial actions and qualified for MDRI in June 2006. Cameroon, Malawi and Sierra Leone qualified for MDRI on reaching their completion points in 2006. In terms of non-HIPC countries, Cambodia and Tajikistan have qualified for the IMF's MDRI.

³⁸ The Governments of Canada, France, Germany, Italy, Japan, Russia, UK and USA.

³⁹ This is to conform to its principle of uniformity of treatment for all IMF member countries.

TABLE 11: COUNTRY COVERAGE FOR IMF AND IDA DEBT RELIEF UNDER MDRI AS AT END-2006

Countries eligible as of end-2006	
Post-HIPC countries qualifying for relief	Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Sierra Leone, Tanzania, Uganda, Zambia
Non-HIPC countries	Cambodia, Tajikistan
Countries that will be eligible once they reached HIPC completion point	
Post-decision point countries	Burundi, Chad, Congo Republic, Democratic Republic of Congo, The Gambia, Guinea, Guinea-Bissau, Haiti, São Tomé and Príncipe
Pre-decision point countries	Central African Republic, Comoros, Côte d'Ivoire, Eritrea, Kyrgyz Republic, Nepal, Togo
Protracted arrears	Liberia, Somalia, Sudan

Source: IMF

The debt eligible for MDRI cancellation is the disbursed outstanding debt as of end-2004 for the IMF, AfDF and IADB. However for IDA it is the debt outstanding as of end-2003. Furthermore, all debt service payments made between end-2004, or end-2003 for IDA, and the date a country qualifies for MDRI relief are not eligible for relief and will not be reimbursed. While the IMF and ADF implemented MDRI cancellations in January 2006, IDA did so as of 1 July 2006, at the start of its fiscal year, and the IADB did so on 1 January 2007. Table 12 summarises the details of MDRI implementation for the IMF, IDA, AfDF and IADB.⁴⁰

TABLE 12: IMPLEMENTING MDRI, AS OF END-2006

	IMF	IDA	ADF	IDB
Eligible countries	HIPC countries and non-HIPC IMF member states with per capita income < US\$380	HIPC countries	HIPC member states	FSO member states
Qualifying countries as of Dec 2006	<p>Post-completion point HIPCs: Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Malawi, Mali, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Sierra Leone, Tanzania, Uganda, Zambia</p> <p>Non-HIPC countries: Cambodia, Tajikistan</p>	<p>Post-completion point HIPCs: Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Malawi, Mali, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Sierra Leone, Tanzania, Uganda, Zambia</p>	<p>Post-completion point HIPCs: Benin, Burkina Faso, Cameroon, Ethiopia, Ghana, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Tanzania, Uganda, Zambia</p>	<p>Post completion point FSO countries: Bolivia, Guyana, Honduras, Nicaragua</p>
Eligible debt	Disbursed outstanding debt as of end-2004	Disbursed outstanding debt as of end-2003	Disbursed outstanding debt as of end-2004	Disbursed outstanding FSO debt as of end-2004
Debt relief and timing	<ul style="list-style-type: none"> For qualifying countries: 100% cancellation of the eligible debt at end-January 2006. For remaining countries, 100% cancellation of eligible debt when completion point is reached. 	<ul style="list-style-type: none"> For qualifying countries: 100% cancellation of the eligible debt as of 1 July 2006. For remaining countries, 100% cancellation of eligible debt in the quarter after reaching completion point. 	<ul style="list-style-type: none"> For qualifying countries: 100% cancellation of the eligible debt at end-January 2006 (to be backdated). For remaining countries, 100% cancellation of eligible debt when completion point is reached. 	<ul style="list-style-type: none"> For qualifying FSO countries: 100% cancellation of the eligible FSO debt as of January 1, 2007.

TABLE 12: IMPLEMENTING MDRI, AS OF END-2006 CONTINUED

	IMF	IDA	ADF	IDB
Debt service payments	Eligible debt must continue to be serviced until country qualifies for MDRI. There is no reimbursement of this debt service.	Eligible debt must continue to be serviced until country qualifies for MDRI. There is no reimbursement of this debt service.	Eligible debt must continue to be serviced until country qualifies for MDRI. There is no reimbursement of this debt service, with the exception of the back-dated payments above.	Eligible debt must continue to be serviced until country qualifies for MDRI. There is no reimbursement of this debt service.
Implications for future creditor flows	<ul style="list-style-type: none"> There is no change in new lending policy or terms 	<ul style="list-style-type: none"> Debt service forgiven in a year is deducted from annual IDA allocation of disbursements Reallocation of donor resources (equal to annual MDRI relief) across all IDA-only countries. 	<ul style="list-style-type: none"> Debt service forgiven in a year is deducted from annual ADF allocation of disbursements Reallocation of donor resources (equal to annual MDRI relief) across all ADF countries 	<ul style="list-style-type: none"> New resources flows to be reduced by 25% and will be less concessional parallel loans (blend of FSO and OC resources) Cancellation of undisbursed balances of approved but non-committed loans as of Jan 1, 2007 up to total of \$210 million Part of relief is to be exchanged against existing funds due to be repaid in local currency in 2010-13
Additionality of relief	Debt relief is additional	Debt relief is not fully additional.	Debt relief is not fully additional.	Debt relief is not fully additional.
Financing of debt relief	IMF resources	Additional donor resources to compensate IDA for debt service forgiven	Additional donor resources to compensate ADF for debt service forgiven	IDB FSO resources

As can be seen from the implementation modalities, the MDRI is not providing the 100% debt cancellation of debt to the major multilateral institutions promised by the G8 leaders. Furthermore, not all MDRI debt relief is providing truly 'additional' resources for post-HIPC countries. Although the IMF's MDRI relief is fully additional, this is not the case for IDA, ADF and IADB.

For IDA and ADF the annual debt service forgiven under MDRI is to be deducted from the country's annual disbursement allocation, so that the net flows, after MDRI relief, remain the same. Thereafter, each country will receive a small increase in flows because the total amount of debt service foregone by these creditors will then be reallocated amongst all IDA-only⁴¹ and ADF-eligible countries respectively, which will result in an increase in IDA and ADF disbursements for both post-HIPC and other eligible IDA-only and ADF countries, as discussed in Box 9

Box 9: Implementing IDA and ADF Relief under MDRI

IDA and ADF are implementing MDRI through a two-step process. The following describes the modalities for IDA. ADF modalities are the same however the compensatory mechanism provides considerably higher compensation as almost all ADF-only countries are also HIPCs.

The two-step process is as follows:

1. The debt service payments forgiven annually will be deducted from the country's annual IDA allocation of disbursements. So, for example, if in fiscal year 2006-07 under IDA-14 a country has an initial IDA allocation for disbursements⁴² of \$100 million and under MDRI it is to receive debt service relief of \$40 million, then the debt relief of \$40 million will be deducted from its initial \$100 million IDA allocation. Therefore the country's new IDA disbursements in 2006-07 will be \$60 million. So although the country's flows from IDA remain unchanged at \$100 million, the MDRI relief is not additional to what the country would have received in IDA disbursements, without MDRI.
2. However there is a compensatory mechanism whereby each country will receive some additional IDA disbursements.⁴³ This is because the total amount of IDA debt relief provided annually, that is the funding by donors to compensate IDA for the foregone debt service payments, will be reallocated across all IDA-only countries, except gap countries, proportional to their share of IDA disbursements. As a result all IDA-only countries receive a small additional IDA allocation.

The impact of the two-step process is as follows in the case in Benin, for example:

- Benin's IDA-14 allocation is SDR 169 million over the three year FY 2006-2008.
- The MDRI relief for FY 2007-2008 is SDR 18 millions which is the amount of cancelled debt service payments on its IDA debt outstanding as of end-2003.
- As a result net new disbursements, before the reallocation across all IDA-only countries, will be

⁴¹ Except 'gap' countries, which are those with GNI per capita exceeding the IDA operation threshold (\$965 for fiscal year 2006) for two consecutive years.

⁴² The IDA allocation under IDA-14 is determined on the basis of IDA's Performance-Based Allocation (PBA) system.

⁴³ This allocation is done on the basis of the PBA system.

SDR 151 million (SDR 169 million less SDR 18 million), which with the MDRI relief (SDR 18 million) means net flows are the same.

- On the basis of the reallocation across all IDA-only countries, Benin will receive an additional allocation of SDR 4.2 million for FY 2007-08.
- As a result, there is small increase in Benin's IDA-14 net flows from SDR 169 million to SDR 173 million.

The IADB relief is not fully additional resources because of the way in which it is being implemented whereby the cost of the relief is being met from internal FSO resources. This is being achieved by reducing eligible countries' total resource allocations by 25% and access to new concessional resources, cancelling undisbursed loan approvals and exchanging part of the debt relief against countries' local currency contributions to the FSO, as detailed in Box 10 below

Box 10: Implementing IADB Relief Under MDRI

The IADB is financing the cost of its debt relief by the following changes to the delivery of future resource flows to its eligible member states :

- There is to be a 25% reduction in total IADB loan allocations for Bolivia, Guyana, Honduras and Nicaragua (excluding Haiti which is to receive mainly grants, see below). The effect of this is to reduce the IADB's overall allocation of resources from \$400 million to \$288 million per annum.
- For Bolivia, Guyana, Honduras and Nicaragua, the lower level of resources will be in the form of parallel loans, which is a blend of concessional Fund for Special Operations (FSO), with a grant element of about 60%⁴⁴, and nonconcessional Ordinary Capital (OC) loans. Up to now all four countries have been able to access only concessional FSO resources, however with this change the concessional nature of their future IADB borrowings will be reduced as they will now be borrowing a significant proportion of new resources on OC terms. The proportion of FSO and OC resources making up the new parallel loans from 2007-2015 will be country specific, as shown in Table 13 below. For the four post-HIPC countries this means FSO resources will total approximately US\$ 88 million per annum with the remaining being on non-concessional OC terms

Table 13: Lending Mix for Post HIPCs Under DSF as of 2007

Country	FSO Allocations	OC allocation
Bolivia and Honduras	25%	75%
Guyana and Nicaragua	50%	50%
Haiti: 2007-2010	\$50million in grants	
2011+	\$20 m in grants/ \$20million FSO loans	

Source: IADB

- The country specific FSO - OC lending mix is to be determined on the basis of the BWI's Debt Sustainability Framework (DSF) and the IADB's Performance Based Allocation (PBA) system, which is to be reviewed and updated to be more in line with that of IDA. On this basis, better performing countries (Bolivia and Honduras) are expected to benefit from higher resource allocations, while poorer performers (Guyana and Nicaragua) may loose.
- For Haiti, new resources will consist of up to \$50 million in annual grants for the years 2007-2010 and thereafter Haiti will have a maximum allocation of \$20 million in grants and \$20 million in FSO loans annually.
- For all the four eligible countries, the undisbursed balances of approved but non-committed loans, as of 1 January 2007, are cancelled. If the total cancelled amount is less than US\$ 210 million, then there will be a proportional reduction in future loan approvals and disbursements on a country-by-country basis to make up the difference between the amount cancelled and US\$ 210 million. The undisbursed balances to be cancelled are those which are not being disbursed in a timely fashion and are not likely to meet their development objectives.
- For the five countries, part of the IADB debt relief (totalling US\$ 258 million) is to be exchanged against existing funds which are due to be repaid to the IADB in local currency in 2010-13. These local currency conversions are to be cancelled and the amounts offset against the debt service due on current FSO loans. If the debt service due is less than the currency conversion requirement, then the remaining obligation will be carried forward. The implications of this are set out in Table 8 below.
- For the period 2007-10, \$30 million of FSO resources will be allocated to technical assistance and from 2010 to 2015 this will be \$20 million.
- In addition, the IADB is to reduce the administration expenses born by the FSO to 15% of the total IADB administrative expenses through 2010, with a further reduction to 11.25% by 2015. The cost of this will average about \$75 million per annum.

6. COMMERCIAL DEBT RENEGOTIATIONS

6.1 BACKGROUND: THE BRADY PLAN

Participation of commercial creditors (largely international banks and suppliers of goods) in the Enhanced HIPC Initiative has been extremely complex to secure. Yet it is becoming increasingly important because the HIPCs which are latecomers to the Initiative (Congo, Cote d'Ivoire, Liberia, Sudan) have very large commercial debts (13-35% of total debt). Low participation of these commercial creditors could stop a HIPC getting relief from the IMF (which requires creditors holding 70% of eligible debt to participate at decision point, and 80% at completion point, before it will provide relief. Already Congo has suffered a delay in receiving IMF assistance because not enough commercial creditors were participating. In addition, as discussed in Chapter 7, litigation is proliferating and discouraging participation.

This is somewhat surprising in view of the relatively long history of commercial debt reduction for severely indebted countries. In 1989, Nicholas Brady, former US Treasury Secretary, recognised that the traditional commercial bank debt restructuring mechanisms (through what is known as a London Club arrangement) used during the 1980s were insufficient to solve debt crises. He proposed the “Brady Plan” under which the IMF, the World Bank, and bilateral creditor governments would provide funds for debtor countries to reduce their debts by buying them back from their creditors or swapping them for other types of cheaper debt, through a menu of options. This initiative was primarily used by 19 middle-income countries, and included only one HIPC (see Box 11).

Box 11: Cote d'Ivoire's Brady Plan Agreement

Only Cote d'Ivoire among HIPCs negotiated a Brady debt and debt service reduction agreement, which was partly financed by the IDA Commercial Debt Reduction Facility. Its menu contained three options, and included interest arrears, as follows:

- Debt buyback: US\$681 million was bought back from creditors at a 76% discount,
- Par bond (with a reduced interest rate): US\$1.4 billion was exchanged for a par bond (a bond whose face value was equal to that of the original debt) to be repaid over 20 years, with a 10 year grace period. The interest rate increased from 2% in the first 7 years to Libor + 13/16% thereafter.
- Discount bond: US\$159 million was converted into discount bonds (with a 50% discount on the original face value of the debt) with a 30 year bullet (one-time) repayment, whose interest rate increased from 2.5% in the first two years to Libor + 13/16% for the last 19 years.

Both bonds were collateralised by international institutions and OECD governments.

6.2 IDA COMMERCIAL DEBT REDUCTION FACILITY

For most HIPC countries, the IDA Commercial Debt Reduction Facility (DRF) has been the main mechanism used to provide relief on commercial debt (banks and suppliers). Officially launched in August 1989, the DRF provides grants to low-income countries to reduce their commercial debt. IDA normally contributes a maximum of US\$10 million to each country, so donors such as Canada, the EU, France, Germany, the IADB, the Netherlands, Sweden, Switzerland, and the USA have provided grant cofinancing to top up the IDA funding (see Table 14). In 1992, the use of IDA DRF funds was extended to finance the hiring of financial and legal advisors to help debtors to prepare debt reduction operations (still within the US\$10 million ceiling). In June 2004, the procedures and modalities of the IDA Debt Reduction Facility were substantially revised and extended until July 2007.⁴⁵

6.2.1 Country Eligibility

To qualify for the DRF, the debtor must be an IDA-only country with a heavy debt burden, an adjustment programme acceptable to IDA, and a debt management strategy. The debt management strategy presented by the country to IDA must show that the use of the facility will resolve the country's indebtedness to its commercial creditors, and that the country will seek debt relief from its official

creditors, thereby enhancing the country's growth and development.

6.2.2 Procedures and Implementation

To conclude a DRF operation, HIPCs must follow the following procedures:

- send a formal letter to IDA requesting access to DRF resources, which defines the amount of grants required for contracting financial and legal advisors to carry out the operation.
- once this is approved by the IDA Board, sign a grant agreement with IDA for the TA, and hire financial and legal advisors through competitive bidding (IDA can provide draft terms of reference and contracts, and a list of potential advisors for consideration)
- reconcile its commercial debt with creditors in order to determine the eligible amount, including the stock of debt, principal and interest arrears, and penalties.
- enter into contacts with the commercial creditors (usually through its financial advisor) to determine market expectations about the terms, and prospects for creditor participation. If there is a more formal structure representing creditors, such as a Bank Advisory Committee (see Box 12), the debtor and its financial advisors may enter into negotiations with it.
- the advisor then reports to Government and IDA on specific findings of these contacts, suggesting a strategy with terms, and the minimum threshold of creditor participation necessary for the operation to be accepted as resolving the country's commercial debt problem.
- once IDA, Government and the advisors agree on a formal strategy and determine the financing needs (the amount of eligible debt multiplied by the repurchase price).
- IDA and the Government mobilise grant cofinancing from other donors, the IDA Board approves a formal grant agreement request to finance the operation to its Board, and IDA and the Government sign the grant agreement for the operation.
- the operation is then launched in the market and the offering memorandum elaborated by the advisors is distributed to the creditors to solicit their participation.
- once the threshold level of participation has been achieved, the operation is “closed” by creditors indicating their intention to participate and their choice of options (if a choice exists), submitting documents which waive key clauses of original loan agreements that were designed to secure equal treatment of lenders, and submitting title documents to the original loans. They then receive either cash (for a buyback) or new bonds or other instruments.

Box 12: Role of Creditor Advisory Committees⁴⁶

For countries with a large number of commercial creditors, creditors have formed an Advisory Committee. In the case of commercial banks, this has usually been known as the London Club because initial meetings of the first cases were held in London. In the cases of suppliers, they have been known by other names based on where they met, such as the Club de Kinshasa. They are composed of a limited number of creditors designated to act on behalf of the others. Membership of the committee is based on the level of each bank's exposure, but also takes into account regional balance, to improve communications and ensure coverage of all banks' views. The bank with the largest exposure usually heads the Committee while the remaining banks act as regional coordinators.

⁴⁶ For more details on the London Club and Bank Advisory Committees, see Martin 1991 or Rieffel 2003.

The Committees have five main objectives:

- to maximise debt repayments while taking account of a country's ability to service its debt, based on analysis of balance of payments projections supplied by the IMF;
- to ensure comparable treatment of creditors and that commercial creditors are well treated;
- to ensure that trade and commercial finance continue to flow as normally as possible so as to maintain an economic base for country debt service payments
- to avoid debtor country political difficulties during the negotiation/implementation of the agreement
- (eventually) to enable debtor country to return to international capital markets.

The Committee generally creates sub-committees to facilitate its work, especially an economic sub-committee which analyses economic and financial developments in the debtor country and liaises with the IMF to ensure that an adjustment programme underpins the debt restructuring.

The Committee fulfils the following roles:

- assisting in mobilising debt data from the creditor side to expedite reconciliation.
- designing an initial proposal for the debt reduction operation, including maturity, pricing and fees in the case of a rescheduling, and the terms and options for the menu other than rescheduling to be offered to creditors (in a few cases, middle-income country debtors assisted by advisors have designed the initial proposal).
- agreeing in principle with the debtor country on the general features of the agreement to be included in a “heads of terms” document, as well as eventually on the details of the agreement in a “term sheet”. During this process the Committee keeps other banks constantly updated on progress.
- discussing the term sheet with other banks and mobilising their participation, sometimes through a joint “roadshow” of visits to major financial centres (such as Frankfurt, London, New York, Paris and Tokyo), in order to reach a critical mass of participation and avoid “free riders” who will insist on higher payment than other creditors.
- assisting the debtor to “close” the deal through (if necessary formal signing of the agreement) and exchange of debt documents and payments.

6.2.3 Eligible Debt

Under the original DRF guidelines, only uninsured medium and long-term commercial bank debt, uninsured short-term suppliers credits, overdrafts and trade credits which have been in arrears for some time are eligible for DRF operations. Since 1992, DRF resources can be used to reduce short-term debt providing that this does not impair the debtor's access to short-term credits. However, debt owed to the Paris Club, bilateral debt (government to government) and debt guaranteed by third parties is not eligible. DRF funds were to be used only to repurchase principal in a single operation, implying that interest arrears and penalties had to be written off. Since 2004, the DRF can also include interest arrears and penalty interest.

6.3 HIPC EXPERIENCES OF THE IDA DRF⁴⁷

Since 1989, 20 HIPC countries⁴⁸ have taken advantage of the DRF, enabling them to reduce their commercial debt by US\$ 7.1 billion (see Table 14). Total resources used to finance these operations amounted to US\$538 million, of which 36% came from IDA, 34% from donor grants, and 30% from other sources, notably the debtors' own resources.

Two key variables are assessed in analysing the success of these operations:

- *the discount on the face value of the debt which was achieved.* The repurchasing price averaged 12.8 cents/US\$, implying a discount of 87.2%, but the average discount (or the implied debt forgiveness contained in the operation) has been 93% if the implied write-off of interest arrears (estimated at US\$ 3.5 billion) is included. As can be observed from Table 13, seven HIPCs (Ethiopia, Guyana with its second operation, Mauritania, Mozambique, Nicaragua, Sao Tome and Principe and Yemen) obtained a discount of 90% or more. Prices ranged from 76% for Cote d'Ivoire to 97% for Yemen.

The price of the country's debts when they were traded on the secondary markets for such debts⁴⁹ should have been the main guide to the price of a debt reduction operation, but this was difficult to apply for HIPCs as there was virtually no secondary market in the debts of many HIPCs. The absence of a secondary market was also helpful in discouraging recalcitrant creditors from holding out in the prospect of selling their debt to others in such a market (or speculators from trying to push up prices in such a market to increase the price of the DRF operation). Even when there was a secondary market (as in the case of Cameroon), neither creditors nor advisors cited its prices unless they agreed with their negotiating positions. The financial and legal advisors on the operations therefore had during the reconciliation exercise to assess the minimum price likely to ensure the threshold level of participation by private creditors, while obtaining as deep a discount as possible. Three other factors often cited by advisors as helpful (and mentioned in the survey of HIPCs for this study) were the limits to donor financing available, the precedent established by other operations, and constraints imposed by the rules of the DRF such as the non-inclusion of interest arrears (which no longer applies since 2004) and the necessity for a deep discount in order for IDA to approve the operation. In the 2004 revision to DRF procedures, it was also agreed that wherever possible, advisors would aim for a purchasing repurchasing price equivalent to the common reduction factor (traditional plus HIPC relief) applied in the HIPC framework, giving them another source of leverage. On the other hand, there were two main factors making large discounts more difficult: refusal by some international investment funds (sometimes known as vulture funds) to accept large discounts or forgive interest arrears; and creditor country legislation which does not permit cancellation of nominal debt.

- *the level of participation by creditors.* This averaged 86% of eligible debt. Though nine countries (Bolivia, Cote d'Ivoire, Guyana with its first operation, Mauritania, Niger, Senegal, Togo, and Yemen) achieved 90% participation, eight operations fell below 85%, and Mozambique reached only 64%. It is worth noting that most of the countries with the highest participation rate also offered higher repurchase prices (ie achieved lower discounts), though there is not a strict relationship between the two (Mauritania and Yemen notably achieved high discounts and participation). It is vital to maximise creditor participation, to diminish the risk of future lawsuits by creditors (see

⁴⁷ For high quality case studies of countries using the IDA DRF, see Gueye 2002 on Senegal and Caisse Autonome 2004b on Cameroon.

⁴⁸ Including DRC which is preparing an operation. Guyana has used the facility twice, and Mozambique and Nicaragua are currently conducting their second operations. Albania is the only non-HIPC to have used it.

⁴⁹ For an early analysis of secondary markets, see Cohen and Portes 1990.

Chapter 6). In many of the buybacks, the most difficult aspect was persuading recalcitrant creditors to participate by the time of the closing date, usually requiring intensive persuasion and arm-twisting by the Bank Advisory Committee, legal and financial advisors, and home country governments of some creditors. In line with the experience on price levels, the two most recalcitrant groups of creditors were those (especially investment funds) who had bought the debt in the secondary market or a private transaction, in the expectation of greater returns; and those whose home country legislation did not permit (or provide sufficient tax incentives for) debt cancellation. Nevertheless, regulations and tax treatments concerning provisioning for bad loans, as well as requirements for banks to meet capital adequacy guidelines, do not appear to have been a significant impediment to commercial creditor participation in DRF operations, largely because regulatory and tax authorities have modified their rules to enhance bank participation in debt reduction. However, differential treatment of different instruments has influenced certain creditors' to reject specific debt reduction options, and therefore convinced some financial advisors to introduce additional options into their operations to enhance participation.

The three cases of menus of options were in Cote d'Ivoire, where a Brady-style deal included par bonds with very long maturity in order to maximise participation by French and US banks, and a discount bond option which appealed to Japanese banks. In Senegal, the operation included a discount bond priced at 20% guaranteed with a zero coupon bond that could be used in the local economy (to pay taxes or participate in privatisation). This was attractive to many French creditors with subsidiaries or plans to expand in Senegal. Since 1993, debt-for-development swaps have been included, allowing commercial banks to sell their debt to NGOs at the same price as the buyback. Only Zambia included such an option (see Box 13 below). US creditors particularly opted for this for reasons relating to charitable tax deductions.⁵⁰ In the 2004 revision of the DRF, it was decided that this pressure to achieve a threshold of participation by the time of a previously-fixed closing date should be relaxed in three ways: by allowing multiple closing dates for operations, so as to pay "early" creditors while awaiting further participation; by allowing a second DRF operation to encourage creditors to participate which had refused the first time; and by removing the requirement for a participation threshold in these second operations, to allow closing with low participation levels if necessary.

The main innovations introduced over the years have been:

- *differential prices for different debt types*: in Sierra Leone, commercial banks received 15% on the dollar while suppliers received only 8% (because their debts were older).
- *exceptions to the IDA US\$10 million ceiling*: apart from small excesses due to technical assistance grants, these have been reserved for countries with large amounts of debt where applying the ceiling would have meant asking bilateral donors for too much money. These countries were Cote d'Ivoire, Nicaragua, Sierra Leone and Zambia.
- *flexibility on eligible debt*: for Ethiopia, eligible debt included dollar-denominated Russian debt, while in Yemen, donor funds were used to retire Russian suppliers debt (80% of the amount outstanding). Commercial debt owed by parastatals to foreign parastatal companies was also repurchased in several operations including Mauritania and Sao Tome.

Box 13: Debt for Development Swap: The Case of Zambia⁵¹

Under the debt buyback operation for Zambia in 1994 which involved more than 5000 creditors, non-governmental organisations such as UNICEF, CARE and World Vision participated in the debt-for-development option whereby they purchased or were donated commercial debt to be exchanged with the Government of Zambia for funds to finance their development projects.

The NGOs repurchased about US\$9.3 million at a discount of 89%, the same price offered to commercial banks. However, the Government of Zambia agreed to pay a 50% premium in local currency to the participating agencies because they were spending their funds on approved development projects. Thus for one dollar invested in the debt, the NGO received US\$1.50 to spend. The resulting US\$14 million financed a variety of health, environmental, education, low-income housing, and micro-enterprise projects.

Most HIPC's have found DRF operations very time consuming for their staff (four years of intensive work in the case of Cameroon). The main difficulty is the process for reconciling claims, which must be exhaustive so as not to leave out any eligible debt. It is complicated by: the lack of accurate debt databases in some HIPC's; the sale or transfer of some debts to new holders, who are unknown to the debtor, and different creditor methodologies to compute penalty interest.

Financial and legal advisors are critical to success, particularly in surveying creditors to determine the possible repurchasing price, and convincing them to participate. Most HIPC's indicated that they were impressed by the quality of services received. Nevertheless, as their services are very expensive (averaging over 2.5% of the total costs of the operations), negotiating a flat fee for the whole operation is important, so as not to have to renegotiate the contract if it expires before the buyback is concluded. In addition, although IDA requires the HIPC's to set up a task force of government staff to work with the advisors, HIPC's indicate that there is virtually no transfer of skills from the advisors to HIPC staff. As a result few national officials know how a price was set, or why creditors did or did not participate, and few HIPC's are equipped to lead negotiations for a second buyback as allowed under the new guidelines, or to elaborate a defence strategy if sued later (see Chapter 7).

⁵¹ For more details on the techniques of debt conversions, see Moye 2001

TABLE 14: HIPC COMMERCIAL DEBT REDUCTIONS USING THE IDA DEBT REDUCTION FACILITY

HIPC Countries	Date	Principal and Interest bought back (US \$ million)	% of eligible principal extinguished	Purchase price ¹ (cents/US\$)	Total cost of operation ² (US\$ million)	IBRD resources used (US\$ million)
Countries with completed debt buybacks						
Niger	March 1991	207	99	18	19.4	8.4
Mozambique	December 1991	198	64	10	13.4	5.9
Guyana I	November 1992	93	100	14	10.2	10
Uganda	February 1993	177	89	12	22.6	10.2
Bolivia	May 1993	170	94	16	27.3	9.8
São Tome and Príncipe	August 1994	170	87	10	1.3	1.3
Zambia	September 1994	408	78	11	25	11.8
Sierra Leone ³	September 1995	286	73	13	31.5	21
Nicaragua	December 1995	1819	81	8	89.2	40.8
Ethiopia	January 1996	284	80	8	18.8	6.2
Mauritania	August 1996	89	98	10	5.8	3.2
Senegal ⁴	December 1996	112	96	20	15	7.5
Togo	December 1997	74	99	13	6.1	5.1
Cote D'Ivoire ⁵	March 1998	2027	100	24	173.9	20
Guinea	March 1999	61	75	13	8.7	5.6
Guyana II	August 1999	34	62	9	3.4	1.2
Yemen ⁶	February 2001	675	91	3	11.4	7.6
Honduras	August 2001	13	90	18	2.6	0.6
Cameroon	August 2003	266	79	14.5	40.1	10.2
Tanzania	April 2004	97	88	12	12.2	4.9
Total/average		7099.9	86.2	12.8	537.8	191.2

¹ Of original face value.

² Represents resources of IBRD, donors, and contributions from certain recipient countries. These figures also include US\$ 15 million of technical assistance grants and closing costs and other related expenses.

³ Two tier operation. Commercial debt was bought back at 15 cents and suppliers credits at 8 cents.

⁴ 16 cents for the cash buy back and 20 cents for long term bonds.

⁵ The number relates only to the cash buy-back operation of the DDSR.

⁶ Excludes the buyback of nonParis Club debt financed by bilateral donors.

Source: World Bank

7. LAWSUITS

7.1 THE BACKGROUND

One key characteristic of international debt relief measures such as HIPC Initiative, which is often forgotten, is that they have no legal force in individual national legal jurisdictions unless passed into law with enforcement provisions through a specific legal instrument.

Paris Club agreements, agreements for IDA-funded commercial debt reduction operations, and agreements signed with international financial organisations providing debt relief under HIPC, nevertheless contain certain clauses which are intended to push other creditors and debtors to agree terms which provide as much relief as all other creditors are doing.

Historically, the degree to which these clauses have had any effect has been based on a huge amount of hard work by Paris Club governments and the Secretariat, debtor governments themselves, the Bretton Woods Institutions and, in the case of the IDA-funded commercial debt reduction operations, financial and legal advisors hired by governments (funded by IDA or bilateral donor grants) specifically to help convince commercial creditors to participate in the operation.

Most of the IDA-funded debt reduction operations, for example, received initial responses from a substantial minority - or even in one case a majority - of creditors, indicating that they would not participate and threatening to sue for full recovery of their debt. The same was also true of the Brady Plan commercial debt reduction operations in the 1980s. Yet, through a variety of technical and legal arguments, and with the help of some political pressure and tax relief for creditors from various OECD governments, they convinced creditors to participate - to the extent that there have been relatively few lawsuits launched against debtors since the latest wave of the developing country debt crisis began in the 1980s.

However, there have nevertheless been some very prominent suits which have threatened to undermine major debt relief agreements, and they have generated a considerable amount of literature on these issues (see for example Bratton 2004; Fisch and Gentile 2004; Singh 2003 and the references they cite), but much of which has been a debate among legal academics as to the applicability of certain legal principles.

7.2 THE SITUATION UNDER HIPC

Yet there are now a growing number of creditors who are refusing to participate in HIPC-style relief. There are several reasons for such non-participation:

- Creditors do not feel that they have been consulted on or involved in the design of debt relief programmes;

- Creditors are not being sufficiently pressed politically to participate in debt relief
- Creditors (especially low-income governments) are themselves relatively poor and do not feel able to provide relief
- Creditors believe that once countries have come through the HIPC process, their ability to repay their remaining debts is enhanced because they have achieved “sustainable” levels of debt, as assessed by the HIPC Initiative and reflected in improved secondary market prices for their debts.
- The remaining creditors are those which have always been reluctant to provide relief, and which ignored past Paris Club and IDA commercial debt reduction agreements.
- Creditors are seeing that lawsuits can be successful because the international community is doing little to counteract them legally.

As a result, HIPC Finance Ministers have repeatedly complained about growing prevalence of lawsuits by creditors refusing to participate in HIPC Initiative, both through their own HIPC-CBP sponsored HIPC Finance Ministers' Network since 1998 and through the Commonwealth HIPC Finance Ministers Forum since 2000.⁵²

In this context, this chapter presents the HIPC CBP's own knowledge of country experiences, and suggests key counter-measures which the international community and HIPC's themselves can take in order to avoid, frustrate or defeat lawsuits.

7.3 COUNTRY EXPERIENCES⁵³

7.3.1 The Scale of the Problem

Table 15 shows legal actions of which the HIPC CBP is aware in January 2006:

- at least 20 HIPC's (Angola, Bolivia, Cameroon, Congo Republic, Cote d'Ivoire, DRC, Ethiopia, Guyana, Honduras, Madagascar, Mozambique, Nicaragua, Niger, Sao Tome e Principe, Sierra Leone, Tanzania, Uganda, Yemen, Zambia) have been subject to or threatened with lawsuits since the HIPC Initiative was launched in 1996.
- the total amount of debt covered by the lawsuits is US\$1.99 billion.⁵⁴ This is relatively small compared to the total amount of debt of the HIPC's (US\$188.6 billion). However, a more accurate way to measure the problem is to take into account that around roughly 92% of that total debt is to be written off as part of the HIPC Initiative and additional debt relief steps by bilateral creditors as well as the latest deal at the G8 summit in Gleneagles. As a result, the debt subject to lawsuits represents over 10% of the remaining debt. Based on the calculations of the BWIs (IMF/World Bank HIPC Status Report September 2006), it is also 28% more than the debt relief provided by commercial creditors, and litigated debts can reach 13-15% of national GDP.

⁵² See the HIPC Finance Minister's Network communiqués on the HIPC CBP website at www.hipc-cbp.org.

⁵³ This section is based on the responses of countries to HIPC CBP, Commonwealth and IMF/World Bank questionnaires, as well as many communications on this issue received from individual HIPC's by HIPC CBP implementing partners (see also IMF 2004, 2003, 2002). It includes recent as well as current lawsuits, and also pending threats of lawsuits - which Status Reviews of the HIPC Initiative such as IMF/World Bank 2005 do not.

⁵⁴ This calculation is based on aggregating the judgments or settlements reached so far, and applying the average settlement level to the outstanding cases (excluding those which were dropped or are only threats).

Table 15: Legal Actions Against HIPCs Since 1990

Debtor	Creditor	Creditor Type	Legal Domicile of Creditor	Location of Lawsuit	Original Claim (US\$m)	Judgment for Creditor (US\$m)	Status
Angola	Annadale Associates (co-guaranteed STP)	Commercial (ex-Yug parasutatal)	UK	France	3	8.9	In arbitration
Bolivia	Salah Turkmani	Unclear - bought bonds at discount	US	US	0.277	0.267	Creditor won
Burkina Faso	Cote d'Ivoire	Bilateral	Cote d'Ivoire		10.5	0	Threat revoked
Cameroon	Winslow Bank (orig. Midland Italy)	Commercial	Bahamas	UK/US/France	9.9 (€8.3)	46.3 (€38.8)	Creditor won
	Del Favero Spa (orig. Midland Italy)	Commercial	Italy	UK	2.8 (€2.4)	4.6	Creditor won
	Sconset Ltd	Commercial (fund)	British Virgin Is	Switzerland	18.2		Arbitration pending
	Gracechurch Capital	Commercial (fund)	Cayman Islands	France	8.9	---	Case pending
	Antwerp Investments	Commercial (fund)	British Virgin Is	Switzerland	13.3		Arbitration
Congo, Rep*	ITOH Middle East	Commercial	Bahrain	France	9.8	7.2	Settlement
	GAT	Commercial	Lebanon	France	77	78.3	Creditor won
	FG Hemisphere Assoc LLC	Commercial (fund)	US	US	35.9	151.9	Creditor won
	AF CAP Inc	Commercial (fund)	Bermuda	US	5.9	19.2	Creditor won
	Berrebi	Commercial	France	France	1.91	7.75	Creditor won
	Kensington Internat'l	Commercial (fund)	Cayman Is	France	30.6	118.6	Creditor won
	Walker Int'l Holdings	Commercial (fund)	British Virgin Is	France	12.9	38.7	Creditor won
	Commissimpex	Commercial	Congo	Congo	19.7	96.6	Arbitration
Cote d'Ivoire	Elliott Associates	Commercial	US		8	10	Settlement
DR-C	Energoinvest	Commercial (ex-parasutatal)	FR Yugoslavia	France then US	55.8	81.7	Creditor won
	KHD Humboldt	Commercial	Germany	na	23.5	80.4	Creditor won
	Red Mountain	Commercial	US	UK and US	27	8.2	Settlement
	GAT	Commercial	Lebanon	France	19		Arbitration
	First Internat Bank	Commercial	Israel				Threat outstanding

Table 15: Legal Actions Against HIPCs Since 1990 continued

Debtor	Creditor	Creditor Type	Legal Domicile of Creditor	Location of Lawsuit	Original Claim (US\$m)	Judgment for Creditor (US\$m)	Status
Ethiopia	Kintex	Commercial (ex-parastatal)	Bulgaria		8.7	8.7	Out of court settlement
	Yugoimport	Commercial (ex-parastatal)	FR Yugoslavia		122.7	172.7	Arbitration
Guyana	Booker Tate	Commercial	UK	ICSID	6.8	12	Case dropped
	Citizens Bank	Bondholder	Guyana	Guyana	26.4		Pending
	Kissoon, Correia, Ruston Bucyrus	3 Bondholder	Guyana	Guyana	0.6		Threatened
	Export Services + Green Mining	Suppliers	US	US/Guyana	14.1	5.3	Government won arbitration but paid ii interest
Honduras	Laboratorios Bago	Commercial	Argentina		1.45	---	Pending
Madagascar	AGIP	Commercial	France	France	55	55	Creditor won
Mozambique	Yugoimport	Commercial (ex-parastatal)	FR Yugoslavia		10.9	---	Pending
Nicaragua	LNC Investments	Commercial	US	UK	26.3	87.1	Creditor won
	GP Hemisphere Associates	Commercial	US	UK	30.9	126	Creditor won
	Van Eck Emerging Markets	Commercial	Argentina	UK	10.5	62.5	Creditor won
	Leucadia	Holding Co bought bonds on Zary mkt	US	US	26	87	Creditor won
	Greylock Global Opport.Master Fund	Commercial (fund)	British Virgin Is	US	10.5	50.9	Creditor won
	Hamsah Investments	Commercial (fund)	British Virgin Is	US	2.5	11.6	Creditor won
Niger	Libya	Bilateral	Libya	Libya	67.9	---	Threat outstanding
	Exlm Bank Taiwan	Government	Taiwan	US	60	72.3	Creditor won
	Banque Belgoise	Commercial	Belgium	Belgium	4.2	---	Case pending
Sao Tome e Principe	Annadale Assoc	Commercial (ex-parastatal)	UK (ex-FRY)	France	3	8.9	Case dropped - sued Angola instead

Table 15: Legal Actions Against HIPC's Since 1990 continued

Debtor	Creditor	Creditor Type	Legal Domicile of Creditor	Location of Lawsuit	Original Claim (US\$m)	Judgment for Creditor (US\$m)	Status
Sierra Leone	J&S Franklin	Commercial	UK	UK	1.1	2.4 (paid 2)	Creditor won
	UMARCO	Commercial	France	UK	0.6	--- (paid 0.1)	Pending
	Exec. Outcomes	Commercial	US	UK	19.5	28.5 (paid 1.1)	Creditor won
	Chatelet Invest.	Commercial	S.Leone	UK	0.4	---	Pending
	Industrie Biscotti	Commercial	Italy	UK	5.3	---	Pending
	Seacem Int.	Commercial	Norway	UK	3.7	3.7	Settlement (2)
	Yugoslav parastatal	Commercial (ex-parastatal)	FR Yugoslavia		104.9	---	Threat outstanding
Uganda	Banco Arabc Esp.	Commercial	Spain	Uganda	1	2.7	Creditor won/paid
	Burundi	Bilateral	Burundi		1.6		Case dropped
	Transroad Ltd.	Commercial	UK	UK then Uganda	5.5	20.6	Creditor won/paid
	Industry of Construction	Commercial (ex-parastatal)	FR Yugoslavia	Uganda	7	9	Creditor won/paid
Sours Fap Famos	Commercial	Commercial	FR Yugoslavia	Uganda	1.3	1.8	Creditor won/paid
	Commercial (ex-parastatal)						
	Bilateral		Iraq		2.6	6.4	Creditor won
Iraq Fund for Ext Dev	Shelter Afrique	Multilateral	Kenya		0.1	0.9	Settlement 0.1
	Gvt of Libya	Bilateral	Libya		17.9		Threat dropped
Yemen	PTA Bank	Multilateral	Kenya		1.2		Case Dropped
	Cardinal	Commercial (bought from Czech Rep 12%/)	Germany	UK	8.2	2.7	Settlement
Zambia	Camdex	Commercial (bought from Kuwait)	Cayman Is.	UK	40	100	Creditor won
	Donegal	Commercial (fund)	British Virgin Is	UK	15.4		Pending
	Connecticut Bank	Commercial	US	US	0.9	0.9	Creditor won/paid
TOTAL SUBJECT TO THREATS OR LITIGATION TOTAL UNDER LITIGATION AND FOR WHICH SETTLEMENTS KNOWN	Fap Famos	Commercial (ex-parastatal)	FR Yugoslavia	Zambia/UK	16.1	26.0	Out of court settled Payment returned
				1091.5	794.49	1719.02	

- even more important is the potential liquidity burden for HIPCs from settlements. In the worst cases, such as Uganda and Sierra Leone, lawsuit payments to creditors are as high as 35% and 34% respectively, of their total debt service in one year.

Another way to measure the scale of the problem is to look at the potential risk exposure of each country to lawsuits. Given current suits, Table 16 gives an indicative idea of the amounts a selection of countries could have to pay if lawsuits had to be settled in one year, compared to budget revenue, debt service and expenditure on health and education.

The potential burden of lawsuits varies greatly from one country to another. Ethiopia, Nicaragua and Niger appear to be most negatively affected by lawsuits with a ratio of lawsuit costs to debt service obligations in one year of over 200%. The cost of lawsuits in relation to annual expenditure on health and education at 25% and above for these countries and Zambia is worrying. Countries such as Bolivia and Yemen appear to be less affected by lawsuits, with ratios of lawsuit cost to health and education expenditure, debt service and budget revenue all under 1%. However, on average the HIPCs being sued do face a significant burden from creditor litigation. The potential cost of lawsuits represents 18% of annual health and education spending, 59% of debt service and 5% of budget revenue.

Countries	Millions of US\$				Lawsuits as % of		
	Health and Educ Exp	Debt Service	Budget Revenue	Lawsuit	Health and Educ Exp	Debt Service	Budget Revenue
Bolivia	1050.0	321.8	2000.0	0.3	0.0%	0.1%	0.0%
Cameroon	794.9	259	52.6	51.7	6.5%	20.0%	98.3%
Ethiopia	659.4	89.8	1243.9	181.4	27.5%	202.0%	14.6%
Guyana	102.9	33.3	2260.8	12.0	11.7%	36.0%	0.5%
Madagascar	245.8	59.6	656.9	55.0	22.4%	92.3%	8.4%
Nicaragua	454.5	83.2	665.6	425.1	93.5%	510.9%	63.9%
Niger	146.6	22.7	270.4	76.5	52.2	337.0%	28.3%
Yemen	1489.2	286.8	3584.9	2.7	0.2%	0.9%	0.1%
Zambia	302.9	429.9	7768.5	126.9	41.9%	29.5%	1.6%
Average	582.9	176.2	2056.0	103.5	17.8%	58.7%	5.0%

7.3.2 Who are the Creditors ?

Contrary to some earlier discussion (which focused largely on “vulture funds”), the range of creditors and creditor types is very broad. The vast bulk of debts are either:

- debts to commercial creditors (banks, suppliers etc) left over from IDA commercial debt operations because they refused to participate in the operations;
- or
- debts to non-OECD governments (Burundi, Cote d'Ivoire, Libya, Taiwan, Yugoslavia) which are also refusing to participate in the HIPC Initiative.⁵⁵

One especially interesting commercial company (often wrongly described as a multilateral organisation) has been Shelter Afrique, which has sued Uganda. This company is jointly owned by 37 African

governments (including Uganda), the African Development Bank, African Reinsurance Corporation and Commonwealth Development Corporation. It finances housing projects for low and middle-income homeless households, making a lawsuit which would deprive Uganda of resources for anti-poverty spending even more ironic.

However, there is also one multilateral creditor - the PTA Bank - which has started a suit against Uganda.⁵⁶ The PTA Bank is a regional bank established to facilitate trade among members of the Eastern and Southern African Preferential Trading Area (PTA), of which bizarrely Uganda is a member.

It is generally true that the creditors most likely to sue are those which are the most excluded from international discussions on financial issues - Taiwan and Yugoslavia for example. This is partly because they feel less consulted about international initiatives and therefore have no inclination to participate. It is also because the break-up of Yugoslavia has led to a situation where holding of "title" to the debt is very hard to establish. One way to overcome such problems is to bring such pariahs back into the fold - for example, Iraq was threatening and launching lawsuits against several HIPCs before its government was overthrown; and Libya's attitude to HIPC participation became more positive once sanctions against it were ended (though, as discussed in Chapter 4, this has now been reversed).

Another strong feature influencing the launching of lawsuits is the status of diplomatic relations between creditor and debtor. In the case of Niger, Taiwan sued because Niger had switched diplomatic allegiances to the People Republic of China in 1996.

Far more of the lawsuits have actually been launched by the original creditors themselves - sometimes at the suggestion of "enterprising" lawyers who may be employed on a large % "fee for recovery" basis. A few suits have been launched by funds or individuals who have purchased debts in the international secondary markets for debt.⁵⁷ This practice was highlighted most notably by the case of Elliott Associates against Peru in 1996-2001.⁵⁸ One particularly shaming early HIPC example of this was in Zambia, where a group of Zambian policymakers and businessmen got together to buy a debt owed by the Bank of Zambia to Kuwait, using a front company called Camdex in the Cayman Islands, and then launched a lawsuit against their own government ! However, vulture funds have not been particularly prevalent under HIPC until 2004-06, when there has been a considerable proliferation for Cameroon, Congo Republic and Zambia, indicating that they see good business openings.

A particular danger comes from coordinated campaigns of lawsuits. This can take the form of a coordinated campaign by local lawyers to represent a variety of creditors and sue the same government repeatedly, or efforts by a creditor to sue multiple countries for recovery of debt which they all owe to the same creditor (see Box 14).

Box 14: Lawsuits on Ex-Yugoslav Debt

Since 2003, a particularly virulent set of lawsuits has been pursued on debts owed to ex-Yugoslav parastatal companies by a legal entity which is not the original creditor. It began in Uganda, and has since spread to Angola (for a debt co-guaranteed with Sao Tome e Principe), DRC, Ethiopia, Mozambique, Nicaragua, Tanzania and Zambia.

⁵⁶ In addition, more recently, domestic creditors in Democratic Republic of Congo and Sierra Leone have been launching increasing amounts of lawsuits in response to being offered settlements at a low percentage of face value through buyback operations.

⁵⁷ For details of how secondary markets work, see Cohen and Portes 1990.

⁵⁸ See Financial Times 2002.

Among the tactics used by the suing entity are:

- Generally suing in domestic courts of HIPCs where it feels HIPCs have little legal protection.
- Indicating that it has title to the debt (ie has bought it or been given it by the original creditor - or power of attorney to act on behalf of the creditor - but failing to provide full proof that it does
- Using any written contact which acknowledges the existence of a debt as an excuse to override national statutes of limitations on court cases.
- Bribing legal officers, judges and other officials in governments and central banks in order for them to side with the entity in suggesting it should be paid.
- Seizing assets of - or attempting to imprison - senior officials of the government who are resisting lawsuits or payment.
- Laundering the money through complicated linked bank accounts. In one case a central bank received a settlement paid back again because the US bank concerned had closed the payee's bank account under US anti-money-laundering legislation.

Perhaps the worst example of this entity's tactics emerged when, in one of the countries which had been sued, some government officials decided that the story of the lawsuit needed to be divulged to the press in order to stop future suits being dealt with in an underhand or corrupt way. The head of one of the national debt management units was attacked by armed men, but fortunately escaped, and had thereafter to have bodyguards assigned to protect him by his government.

It should be noted that the total amount of HIPC debts to ex-Yugoslav companies is more than US\$100 million, and that another 8 countries owe this type of debt.

7.3.3 Where are the Lawsuits Occurring?

More than two thirds of the lawsuits are occurring in either UK or US jurisdictions. This is not necessarily because the jurisdiction defined in the original contract is that of the UK or US. It seems therefore as though some creditors, when able to choose jurisdictions because the contract does not specify one, are opting for the UK and US. Some authors (Bratton, Fisch and Gentile) provide evidence that these jurisdictions have changed their laws in recent decades to more clearly favour judgments in favour for creditors, and though others see this as more of a clarification of the legal position (which has always favoured performance or enforcement of contracts), it is clear that creditors see these jurisdictions as more likely to deliver rapid favourable judgment. This reflects several factors: that UK/US courts are seen as more creditor-friendly, have a speedier trial process, creditors are more familiar with these courts and share English language with them, and may be more likely to overlook defects in formalities at the time of executing debt contracts.

Another increasing recent trend has been for creditors or other entities to sue in the national courts of HIPCs. This is because, depending on the state of the legal system in each HIPC, law officers may be ill-

informed of any legal implications of Paris Club or HIPC, due in part to poor coordination within Government. They may therefore find almost automatically in favour of the plaintiff on the grounds that commercial contracts need to be respected. In many cases, given the low pay levels of legal officers, judges and government officials, it is easier to convince them to concede suits or to advise government to settle out of court, sometimes employing substantial bribes or threats of force. In the case where the plaintiff is close to some sections of government (or in the case of Zambia, where the plaintiffs were a nominee company which was run by then current Zambian policymakers!), the plaintiff can even add political leverage to financial and physical pressure.

7.3.4 What Are the Outcomes ?

Debtors have almost universally lost lawsuits when these have come to court, whether in international courts or in national courts. Very few have been taken to arbitration panels (only Guyana-Booker Tate which went to ICSID (International Centre for the Settlement of Investment Disputes) and was dropped by the new owners of Booker Tate, the Big Food Group, before ICSID reached judgement). Even an initial victory by Bolivia against Salah Turkmani was overturned (see below). These victories reflect decisions by courts based on precedents, which have largely dismissed the principles of sovereign immunity for commercial obligations, *pari passu* and comparability issues, claims of wrongful assignment, and of deliberate intent to sue (for more details see Bratton, and Fisch and Gentile). The only known case of a permanent victory by a debtor is that of Madagascar against AGIP.

Typically the judgements against debtors are given within 6-12 months of initial summons. They oblige debtors to pay the original amounts of the debt, plus interest and fees accrued on the debt while it has been in arrears, and the legal costs of the plaintiff. As a result, amounts awarded against the debtors have varied from 1 to 6 times the original face value of the debt, with the average being 2.1 times. As discussed in Chapter 6, the IDA Commercial Debt Reduction Facility has recently decided to be more open to including interest on arrears in the amount eligible for payment. This might reduce the number of lawsuits by giving creditors a higher payment compared to the original face value of the debt, but could also encourage creditors to sue for full accrued interest payments on arrears.

The amounts awarded against debtors have varied considerably, with judgments due ranging from US\$1 million to US\$153 million. However, more than 14 settlements have exceeded US\$50 million - which is a huge amount to pay in 1 year compared to government's revenue or other expenditures (see Table 16). As discussed in Box 14, one country was lucky enough to get the money back because the payee's bank account was closed due to suspicions of money-laundering activities!

It is important however to note that out of court settlements have generally been an effective way of reducing the amounts due, to around 75% of the original claim. In some cases settlements have also allowed payments to be spread over 1-2 years, reducing the immediate budgetary burden. The degree to which reduced settlements are possible has depended on:

- the stage of the legal discussion at which a settlement is proposed (preferably as soon as the first serious legal steps are taken);
- the age of the debt (which can work either way as it can either lead a creditor to accept lower amounts for old debts which have been written off, or increase accumulated interest and arrears);
- the manner in which a creditor has acquired debt from another - if it has been bought at a low

- percentage of original face value, it may accept lower settlements,
- the quality of the legal support provided to debtors or creditors.

Fortunately, many creditors winning in international courts have been unable to enforce their judgement and actually get paid, largely because HIPCs do not have any assets at the international level which could be seized in lieu of payment (or have moved their assets to non-accessible jurisdictions such as offshore banking centres), or because creditors are under international sanctions and therefore cannot be paid. Some have suggested that this makes the problem less urgent - but the existence of unsettled court judgments against a country (or indeed of pending litigation) can undermine HIPCs' attempts to reestablish commercial financial relations with the international community (by reducing access to trade finance, bank credit lines for the private sector, and adding higher risk premiums to amounts charged for government contracts)⁵⁹.

On the other hand, especially when lawsuits are threatened or launched in local courts, there has been a growing tendency for many debtors to settle out of court. The debts then simply “disappear” from national debt databases, without ever entering into the list of lawsuits. In addition, once judgment is given in local courts, it becomes much easier for creditors to seize assets of government or even government officials, thereby forcing the government to settle rapidly. In one HIPC alone, debts exceeding a value of \$50 million have been settled in this way. The HIPC CBP estimates that out of court settlements in the last 3 years total at least US\$400 million. Because there is no system for tracking such events, the scale of the problem has been widely underestimated and underplayed by the international community.

7.4 WHAT IS BEING DONE ?

7.4.1 At the International Level

Following continued insistence by HIPC Finance Ministers on the importance of this issue, it was taken up strongly by the UK government in early 2002, when it highlighted the issue of “vulture funds” - investment funds which were buying debt from the original creditors at a discount and then suing the debtors for full repayment of the debt (Financial Times 2002). The UK Treasury and DFID consulted HIPC Finance Ministers and Debt Relief International for their views. Other G8 and HIPC governments also supported firmer actions. As a result, at the Annual Meetings of the Bretton Woods Institutions in September 2002, the Development Committee Communique requested the Bretton Woods Institutions to investigate what they or others could do to provide support to countries to prevent or fight off such lawsuits. The response from the BWIs was delayed and disappointing - indicating that they could not become involved in direct lawsuits because they might risk being sued themselves. This stance may also partly have reflected reluctance by IDA donor governments to fund direct lawsuit defences against their own nationals.

For lawyers, IDA buyback operations and assistance with lawsuits by individual creditors are quite different. IDA buyback operations enable lawyers to help a country with many creditors at once, before the stage of an actual suit, and therefore to avoid getting “inside” any particular case. They therefore do not require any careful assessment of potential conflicts (ie whether the lawyer is representing/has

represented the creditor in another case) and cost a great deal less. However, there is nothing preventing lawyers becoming involved in assisting countries with defences against lawsuits using official funds.

At the same time, as discussed in chapter 6, the extension of the IDA commercial debt buyback facility, on more flexible terms, should provide some scope for additional debt buyback operations for commercial debts, which would (as in the past) provide legal advice for debtors during the course of the operation (and might result in the suspension of settlement of some outstanding actions).

In addition, other organizations have taken up the baton since 2003: following a request from Commonwealth HIPC Finance Ministers, the Commonwealth Secretariat conducted a study of the issue in 2003/04 (Comsec 2004), which reached the conclusions that the problem was extremely important and required urgent action. Based on these conclusions, the Commonwealth Secretariat is intending to establish a “rapid response” legal technical assistance facility, to provide rapid legal assistance to countries facing lawsuits. This initiative was approved in September 2004 at the Commonwealth Finance Ministers meetings, and an office to execute the assistance, known as the “HIPC clinic”, has recently been established.⁶⁰

However, the most active initiative in assisting HIPCs has been Advocates for International Development (A4ID). This is an initiative by the major UK NGOs to involve highly-qualified and experienced litigation lawyers (such as those involved in the IDA commercial debt reduction facility operations) in providing pro bono (ie free) assistance to developing countries across a range of legal issues. It has created a specific group responsible for debt issues, and is already assisting Cameroon, Congo and Nicaragua with lawsuits.⁶¹

A second suggestion made by HIPCs has been that, as many of the contracts with creditors indicate that they can be referred to international arbitration fora such as the International Centre for the Settlement of Investment Disputes (ICSID - a subsidiary of the World Bank), or the International Chamber of Commerce (ICC), these organizations should be mandated/requested to include HIPC and Paris Club agreements as factors in taking their arbitration decisions. However, arbitrators are mandated to settle disputes fairly and in line with international law, so they face the same issues as courts (not being able to take account of HIPC because it is based on neither a treaty nor a contract - though they can play a more positive role in encouraging out of court settlements at lower prices.

A third group of suggestions revolved around the discussion on a Sovereign Debt Reduction Mechanism (SDRM) launched many years ago in global civil society circles and which was taken up by the IMF in 2001, again prompted in considerable part by the lawsuit of Elliott Associates against Peru (IMF 2001). The idea of the SDRM was to prevent actions by rogue creditors during a standstill period while debtors negotiated relief with their creditors, in order to facilitate orderly sovereign debt reduction. It would have had legal force universally in all jurisdictions, to avoid creditors deliberately seeking out jurisdictions in which they could enforce their claims. Some suggested that HIPCs could be included in such a mechanism, thereby giving more legal force to HIPC agreements and obliging creditors to participate in relief. However, this idea was not taken up fully in the SDRM discussions, which appeared to focus largely on emerging market rather than low-income economies. In any case, after considerable debate and much intellectual ferment around the idea, the SDRM has been quietly dropped, largely due

⁶⁰ For details of this office, see www.thecommonwealth.org/Internal/140503/157583/hipc_clinic.

⁶¹ For more details of A4ID, see www.a4id.org/projects/debt/default.aspx or contact nick.flynn@a4id.org

to opposition by the US Treasury.⁶²

Some argue that it has instead been replaced by Collective Action Clauses in bonds, which push creditors to avoid lawsuits and act collectively in the event of defaults by countries.⁶³ However, this means nothing except for the very few HIPCs with international bonds (only Bolivia, Ghana and Guyana). For collective action to be effective for HIPCs, it would need to cover creditors which do not have such contractual documentation, and therefore would be very difficult to apply.

On the other hand, it is possible for HIPCs and other countries to ensure that the way contracts are phrased contains legal stipulations which limit potential creditor claims on future loans, and also limit a creditor's right to assign debt to others wherever possible. While scope for doing this may be somewhat limited, without driving away funding or pushing up its cost, it is nevertheless worth trying when creditors are anxious to lend.

A fourth type of suggestion has been that one could change clauses in secondary market trading contracts in order to restrict scope for legal action. However, as already discussed above, virtually none of the lawsuits against HIPCs have resulted from debts traded in the secondary markets, so this would be of very little help. Experts on secondary markets also indicated that it would be virtually impossible to design effective restrictions.

The final group of suggestions has revolved around actions which could be taken to give legal force to Paris Club and HIPC agreements. At the peak of G8 discussion of this issue in 2002, some OECD governments gave serious consideration to passing laws in their own jurisdictions which would have made Paris Club and HIPC agreements legally enforceable and therefore ruled out lawsuits automatically. However, they ultimately decided that this might risk creating precedents for abrogation of commercial contracts (even though some argued laws could be closely confined to avoid this) and therefore such ideas have been dropped. At the same time, OECD governments listened to suggestions that an international legal document could be agreed at the UN to give force to Paris Club and HIPC comparability, but dropped this as too complex and because it would have been opposed by some G8 governments which see national law as prime.

7.4.2 By HIPCs Themselves

What can HIPCs do? The answer is - a great deal, especially if they get good international support. This can be looked at in two phases - before the lawsuits are threatened or launched, and during/after the lawsuits. However, it is obviously vital in both phases to have excellent government legal officers and international legal advice.

Stage 1 - Before the Lawsuits Start

This is the most vital stage, at which HIPCs can take several preemptive measures which would prevent most lawsuits from ever occurring. They would include:

- passing through their own parliament legal instruments which give force to Paris Club and HIPC comparability clauses. This could be done as part of normal parliamentary approval processes for

⁶² In part this reflected concerns in some quarters (denied in others) that SDRM would undermine the reintegration of poorer countries into the international financial and trading community after the debt reduction process, or would push up prices on future contracts to guard against future defaults.

⁶³ See IMF 2002a and b.

Paris Club agreements or new lending agreements.⁶⁴

- informing and training all officials in related agencies (finance, central bank, accountant and auditor general, attorney or solicitor general, law officers, government lawyers, judges) about the implications of Paris Club and HIPC comparability and their legal force in the HIPC's own jurisdiction, as well as all the legal strategies to be used to prevent or undermine lawsuits.
- informing other debtors of the approach through HIPC CBP/Comsec networks so as to warn them of "risky" creditors in advance.
- establishing a system for early warning within government, based on information gleaned from other creditors, about the risks of lawsuits and the methods used by certain entities or creditors. This will ensure that all agencies are aware of the risks and tactics and able to agree a coordinated government strategy to deal with them.
- under no circumstances agreeing to waive sovereign immunity or acknowledging the debt until the following issues have been fully clarified.
- investigating thoroughly the exact legal status of the entity, as follows:
 - in the case of entities which are not the original creditors, demanding evidence of title to or "assignment" of debt - ie a formal document from the original creditor indicating that the debt has been assigned to or bought by the entity making the approach - and reconfirming this evidence with the original creditor - before agreeing to communicate formally with the new entity.
 - in the case of individuals claiming to represent the original creditors, demanding proof of their legal power of attorney and negotiation from the creditor headquarters (more specifically the unit which normally contacts debtors demanding payment)
 - in the case of the original creditors, verifying their legal status (private sector, parastatal, government agency or multilateral institution) and its implications for potential lawsuits, as well as their financial situation (some bankrupt companies have been known to threaten suits!), and conducting a full underlying analysis of the debt instrument and the circumstances of its execution/establishment.
 - in the event that such proofs are not furnished or that the legal or financial status of the entity precludes a lawsuit, refusing to meet or discuss with the entity.
- in the initial meetings or correspondence with the creditor, adopting a tough stance on four issues:
 - comparability (the legal force of Paris Club and HIPC demands that all creditor provide comparable terms).
 - the pari passu principle - that all winnings from court cases would need to be shared on an equal percentage basis with all other creditors. This is particularly effective in cases where the creditor represents a small fraction of total debt.
 - their low payment capacity and the types of anti-poverty expenditures which will have to be sacrificed for the debt settlement.
 - most important, to avoid renewing creditor rights to sue after expiry of statute of limitations, all correspondence should be phrased in such a way as not to acknowledge the existence of an obligation to pay the creditor.
- involving the home government of the creditor or entity in the issue (especially if they have good political or economic relations with your country and might therefore wish to intervene positively to discourage legal action. This can be especially effective when the entity threatening lawsuits especially parastatal or government links)

⁶⁴ Some argue that unless very carefully designed, this could have two potential risks for future loans and commercial contracts for the country: 1) future lenders could insist on using an overseas governing law for loan contracts and neutral forum for dispute resolution; and 2) they could take their business elsewhere or push up prices to protect against legal restrictions. However, others indicate that provided it was clearly confined to comparability of debt as of a certain cutoff date, it would not have these effects, and would certainly be worth pursuing for the sake of ensuring that all formalities are respected by creditors

Several HIPCs have managed to scare away large numbers of threats of lawsuits using these arguments. For example, in one of the IDA commercial debt reduction operations in the early 1990s, creditors representing around 45% of total debt were talked out of lawsuits, allowing the operation to proceed successfully by reaching its minimum participation threshold. However, it is also vital where possible to go beyond getting a threat dropped and get a legally binding commitment to debt reduction or non-demand of payment, to avoid future relaunching of the lawsuit.

Having a clearly structured framework - such as the IDA buyback - for encouraging creditors to participate - has also been helpful. The decision (see IDA 2004) to extend and make more flexible the IDA Debt Reduction Facility and apply it to 2nd-time buybacks for countries which have already had one, is therefore welcome.

It is also true that some creditors have a very strong argument for launching a lawsuit, if they are very recent lenders to a country, but are nevertheless being proposed to be offered only a small fraction of the face value of the debt, and treated the same as creditors whose debts have been in arrears for many years. In this case, HIPCs would be well advised NOT to include such debts in the debts eligible for HIPC-style relief. Several countries (notably Ghana and Uganda) argued for excluding such “strategic” debts from their HIPC treatment. Those who continue to lend new money while a debtor is in the process of restructuring old debt should receive clear priority treatment, in order to avoid prejudicing future lending.

Finally, it is vital to remember the need for keeping in constant and sympathetic contact with creditors, either directly or through formal structures such as creditor steering committees. Often creditors who are cultivated or fed with information will react positively and avoid lawsuits, while those who are ill-informed or feel neglected may change their minds in a negative direction and launch a suit. Never take a creditor for granted until their participation in HIPC is signed and sealed.

During the Lawsuit

This is almost as vital as the previous stage, especially if the government has forgotten to investigate or raise some of the issues listed above in the pre-lawsuit stage - in which case they should all be dealt with at the earliest possible stage in the lawsuit, preferably well before it comes to court or arbitration - or at the opening sessions of the court - notably the issue of title to the debt, which has often led creditors to drop suits shortly after their launch.

However, there are also additional measures which can be taken to delay or block lawsuits, or to complicate the life of creditors to such a degree that they decide to drop the suit. These include:

- questioning the jurisdiction in which the suit is brought. In the event that the jurisdiction is not clearly specified in the original loan contract (if there is such a contract), HIPCs' lawyers can argue that the location of the suit is incorrect and move to have it relocated to another jurisdiction, or to international arbitration. This may be particularly effective in moving suits away from more fragile local courts, or to jurisdictions where the HIPC has no seizable assets. Even if the contract does not specify a particular governing law, creditors should not be allowed just to “forum shop” indiscriminately.

- demanding a security deposit from the creditor against possible legal costs. This is normal procedure and can involve substantial sums. In the event that a creditor is itself relatively short of liquid funds for such a deposit, the suit may be dropped. Otherwise it can delay the suit, and can also make sure that the creditor is fully aware of the potential costs if it loses the suit, also leading to withdrawal occasionally.
- checking the deadlines for expiry of the right to launch a case in a jurisdiction (statutes of limitation). Often, if a debt is relatively old the creditor will no longer have the right to launch any claim for its recovery - unless a document which can be construed to have acknowledged the obligation to repay has recently been sent to the creditor.
- threatening or launching a countersuit against the creditor if there is any justification for it - for example on the grounds of corruption, money-laundering or shoddy goods or work performed as part of the contract.
- protecting your country's assets - both financial (in bank accounts) and physical (aeroplanes, ships etc). Very few assets are likely to have diplomatic immunity (beyond the embassy and its property, an envoy's residence and personal possessions). Property of a state entity with a clearly separate legal identity may also be immune. However, property in use for commercial purposes may well not be immune - the position differs in each creditor country. On the other hand, enforcement of judgments against a sovereign's non-commercial assets may not be possible without its consent. It is vital to remember to protect assets worldwide (not just in initial jurisdiction) as creditors can use a judgement in one jurisdiction to demand enforcement in others rapidly. It is also possible to pass laws in debtor jurisdictions preventing seizure of assets on comparability grounds.
- if the creditor is from a country with an active NGO campaign on debt issues, getting the NGOs campaigning against them. Almost the only successful example of a country fighting off a lawsuit in recent years involved a strong NGO role (Box 15).

Nevertheless, in spite of these possible measures, it is true that in all except two cases (Guyana vs Booker and Madagascar vs AGIP), the creditor has won once the case has gone to court. Bolivia initially won a case in a US court against a US individual, Salah Turkmani, who bought bonds in the secondary market at a major discount. This judgment was based on three Bolivian arguments:

- that a US court had agreed a 33% of principal (no interest or arrears) settlement for a class action lawsuit by all bondholders in 1995
 - comparability with the Paris Club, and
 - that the US government had signed the Paris Club agreement, binding the US commercial creditor.
- However, this judgement was subsequently overruled in an appeals court.

Therefore the measures to prevent and forestall lawsuits are even more vital, especially as they can sharply reduce the level of settlement (often well below face value in out of court settlements, compared to an average of 2.5 times face value in court judgments).

Throughout the Process

Throughout the process, it is vital to ensure a rapid and clear flow of information within government among different agencies, to avoid any risk of arguments or disagreements among government agencies, or ignorance which creditors or their lawyers can exploit. A process of formal coordination between debt management units and legal units of government is desirable, through a Debt Management

Committee which can invite government law officers to participate in discussions which deal with legal issues. This committee can submit reports upwards to keep the whole Cabinet informed of progress.

These formal structures are not necessarily sufficient. In cases where there is a high risk of bribes and political pressures on officials, their mandates need to be forcefully reiterated and they need strong support from the political bosses in finance ministries and central banks.

Finally, it is vital for HIPCs to keep in contact throughout with three groups when faced with lawsuits, who may be able to help them with ideas and experiences:

1. the HIPC CBP implementing partners and the Commonwealth Secretariat which have a mandate to help countries and considerable information on past experiences - but also need more information on current developments. the HIPC CBP can also circulate information through its private listserv for debt managers: without naming debtor countries, it can tell other countries to watch out for XX person or XX creditor and the tactics they are likely to employ;
2. the Bretton Woods Institutions so that they can publicise more accurate information and ask Board members to intervene to support HIPCs if possible by placing political pressure on a company or friendly country
3. other HIPCs - by emailing or telephoning debt managers listed on the HIPC CBP private website (www.hipc-cbp.org), in order to get information and advice from them on their experiences with a particular creditor, and to warn them of the possibility that creditor XX may sue them as well!

Taking a step back from the immediate assistance which can be provided to debtors during the process of threats of or actual lawsuits, it is also essential to remember the wider actions which can be taken - in part to facilitate immediate assistance. These would include:

- an information clearing-house on past lawsuits and measures taken to prevent or overcome them, or to reduce their negative effects, as well as a risk assessment of creditors which might potentially launch lawsuits;
- preparation of a legal guidance manual for debtors including specific briefing documents to refer to at the different stages of a lawsuit, which suggest immediate strategies and provide legal precedents. If necessary, specific background studies could be commissioned to analyse individual legal issues in more detail.
- establishing an on-call list of experienced sovereign debt litigation lawyers in all the major jurisdictions, prepared to provide pro bono assistance to debtors.
- as necessary, visits by lawyers to developing countries to brief policymakers on legal strategies and on international precedents, as well as to assist in reinforcing local legal frameworks and exchange of information among financial and legal officers.
- presentations to global meetings of policymakers and debt directors, as well as training for debt managers and legal officers, in the issues surrounding litigation.

Box 15: Big Foods vs Guyana: the Power of Citizen Action

In 1976, the Government of Guyana incurred a debt of UK£7,179,613 to Booker McConnell PLC as a result of nationalising its sugar estates. The debt was serviced until 1988. Thereafter, Booker agreed to defer payment while it was appointed manager of the Guyana Sugar Corporation (Guysuco), and subsequently while the Guyanese government decided whether to privatise Guysuco.

While in arrears, the debt was accumulating interest arrears at a rate of 6%. In earlier discussions Booker offered to write off this extra interest. Nevertheless in 2000, Booker announced their intention to take Guyana to international arbitration at the International Centre for the Settlement of Investment Disputes, a subsidiary of the World Bank Group - the location for arbitration specified in the bilateral investment treaty of 1989 between Guyana and the United Kingdom. They claimed that the debt was not a traditional commercial debt, because it resulted from nationalisation, and therefore was not subject to concerns about HIPC Initiative or Paris Club comparability (an argument which is not borne out by BWI HIPC or Paris Club documentation). They also requested penalty interest on the debt, for which Government of Guyana could find no supporting evidence in any loan documentation, as well as all costs, making the total claim £12 million - or 10% of Guyana's GDP.

In 2001, the Government of Guyana solicited the support of UK NGOs to publicise the case, especially on the basis that such a settlement would mean a huge reduction in funding for Guyana's PRSP. The NGOs went to the press and campaigned loudly against Booker. As luck would have it, in 2000 Booker had been acquired by the Big Food Group, which had a large chain of supermarkets known as Iceland, throughout the UK. A campaign of picketing these supermarkets in 2002, including dressing up as "Penguins (the logo of the Big Food Group) Against Third World Debt" led to the dropping of the case by the Big Food Group in March 2003 - at which point the Big Food Group also indicated that it had made provisions against non-payment many years before, and therefore cancelling this debt had no impact on its financial position.

ANNEX I - HIPC DEBT RELIEF COMPUTATION

The multilateral institutions have supported a proportional approach toward sharing the burden of HIPC debt relief between themselves and official bilateral and commercial creditors. Under this approach, debt relief, and hence the costs of the Enhanced HIPC Initiative, are shared by multilateral, bilateral and commercial creditor groups in proportion to their share of the present value of outstanding claims at the time of the country's Decision Point. The following formulas for calculating debt relief and burden sharing at the Decision Point are based on the methodology established by the IMF and the World Bank.

1. *The Common Reduction Factor*

To achieve burden sharing, the Bretton Woods Institutions compute a Common Reduction Factor (CRF) which represents the reduction, in percentage terms, of the present value of debt outstanding required to reach the sustainability threshold of 150% PV/XGS or 250% PV/DBR. This factor also represents the percentage by which each creditor must further reduce the present value of its claims, after all creditors are assumed to have provided traditional debt relief (Naples Terms stock reduction - 67% reduction on a PV basis).

The formula to compute the CRF is as follows:

$$\mathbf{CRF = (R_A - R_E) / R_A}$$

With:

- R_A = Actual PV/XGS (or PV/DBR) ratio at the Decision Point, after the implementation of traditional relief mechanisms (Naples 67% stock reduction).
- R_E = Sustainability threshold ratio on which a country is eligible for debt relief (eg 150% for PV/XGS or 250% for PV/DBR).

The actual ratio used in the calculation of the CRF, and debt relief, are those after the full application of the traditional debt relief mechanisms (implementation of the Naples 67% stock reduction on a present value basis).

The above calculation yields the overall percentage reduction in present value terms required to achieve sustainability. It can be translated into actual amounts of money, in US dollars millions on a present value basis, by the following formulas:

$$\mathbf{D_T = CRF * PV_T}$$

With:

- D_T = Actual amount of debt relief (US\$ millions on a present value basis) required to achieve sustainability.
- PV_T = PV of public and publicly guaranteed external debt (multilateral, bilateral and commercial) at the Decision Point (US\$ millions).

2. *Burden Sharing Among Bilateral and Multilateral Creditors*

As stated above, multilateral, bilateral and commercial creditors are to provide debt relief on a burden-sharing basis: that is, in proportion to their share of debt owed by a country in PV terms. Therefore, if the multilateral creditors' share of the debt, measured in PV terms, is greater than that of the bilateral creditors, then the multilateral institutions will be required to contribute a larger share of the total debt relief.

The following formulas can be used to calculate the amount of debt relief (in US\$ millions) by creditor category:

$$D_M = D_T * (PV_M / PV_T) \text{ or } PV_M * CRF$$

$$D_B = D_T * (PV_B / PV_T) \text{ or } PV_B * CRF$$

With:

- D_M = Amount of debt relief in present value terms (US\$ millions) from multilateral creditors.
- D_B = Amount of debt relief in present value (US\$ millions) from bilateral (and commercial) creditors.
- PV_M = Present value of the country's debt owed to multilateral creditors (US\$ millions).
- PV_B = Present value of the country's debt owed to bilateral (and commercial) (US\$ millions).

Similarly the debt relief to be provided by each multilateral creditor, on a burden sharing basis, can be calculated by using the same kind of formula:

$$D_x = D_M * (PV_x / PV_M) \text{ or } PV_x * CRF$$

With:

- D_x = Actual amount of debt relief (US\$ millions) in present value terms from one multilateral institution.
- PV_x = Present value of debt of the country's debt owed to the multilateral institution (US\$ millions).

3. Burden Sharing Among Bilateral and Commercial Creditors

Once, the Bretton Woods institutions have determined the amount of relief for each creditor category, they further estimate the distribution of relief amongst the bilateral and commercial creditors using the same formula as above.

$$D_{PC} = PV_{PC} * CRF$$

$$D_{NPC} = PV_{NPC} * CRF$$

With:

- D_{PC} = Actual amount of debt relief (US\$ millions) in present value terms from Paris Club creditors.
- PV_{PC} = Present value of debt of the country's debt owed to Paris Club creditors (US\$ millions).
- D_{NPC} = Actual amount of debt relief (US\$ millions) in present value terms from non-Paris Club bilateral and commercial creditors.
- PV_{NPC} = Present value of debt of the country's debt owed to non-Paris Club bilateral and commercial creditors (US\$ millions).

As the amount of relief is calculated after the application of traditional debt relief mechanism (debt stock operation on Naples terms or 67% reduction on a present value basis), the Common Reduction Factor represents the topping up or additional relief that these creditors have to deliver above the previous reduction. The Bretton Woods institutions use the formula below to derive the comparable treatment terms (which they call Required NPV Debt Reduction on Comparable Treatment on Bilateral Debt Based on Overall Exposure):

Comparable Treatment = 67% + (33% * CRF)

The results of these computations are usually presented by the IMF and IDA in a table of the country's Decision Point Document. The example below provides a numerical application of the computation of debt relief under the framework of the Enhanced HIPC Initiative.

4. Example of Computing HIPC Debt Relief

The following provides an example of how to calculate HIPC debt relief using the methodology discussed above.

VALUES USED FOR COMPUTING HIPC DEBT RELIEF

$R_A = 523.4\%$ = Actual present value to exports ratio after application of traditional debt relief

$R_E = 150\%$ = HIPC sustainability threshold for PV/exports ratio

$PV_T = \text{USD}634.2 \text{ millions}$ = Present value of the stock of public and publicly guaranteed external debt

$PV_M = \text{USD}555.8 \text{ millions}$ = Present value of the multilateral debt

$PV_B = \text{USD}77.8 \text{ millions}$ = Present value of the bilateral debt

COMPUTATION OF HIPC DEBT RELIEF

The common reduction factor (CRF) is calculated as follows:

$$\begin{aligned} \text{CRF} &= (R_A - R_E) / R_A \\ &= (523.4\% - 150\%) / 523.4\% = 71.34\% \end{aligned}$$

Total debt relief to which a country is eligible is computed by applying the common reduction factor to the total PV of debt, after traditional relief.

Total Debt Relief (D_T)

$$\begin{aligned} \text{(D}_T\text{)} &= PV_T * \text{CRF} \\ &= 634.2 * 71.34\% = \text{USD}452.44 \text{ millions} \end{aligned}$$

The burden sharing of debt relief by creditor category is in proportion to their share of lending to the country in PV terms. It can be calculated in one of two ways: (1) by applying the common reduction factor to their PV of debt or (2) by multiplying their share of PV times the total amount of debt relief. Both methods are shown below:

Multilateral Debt Relief (DM)

$$\begin{aligned} \text{(D}_M\text{)} &= PV_M * \text{CRF} \\ &= 555.8 * 71.34\% = \text{USD}396.51 \text{ millions} \end{aligned}$$

$$\begin{aligned} \text{or} &= (PV_M/PV_T) * D_T \\ &= (555.8/634.2) * 452.44 = \text{USD}396.51 \text{ millions} \end{aligned}$$

Bilateral Debt Relief (DB)

$$\begin{aligned} (D_B) &= PV_B * CRF \\ &= 77.8 * 71.34\% = \text{USD}55.51 \text{ millions} \\ &= \\ &\text{or} &= (PV_B/PV_T) * D_T \\ &= (77.8/634.2) * 452.44 = \text{USD}55.51 \text{ millions} \end{aligned}$$

BURDEN SHARING AMONG MULTILATERAL INSTITUTIONS

Institutions	PV	CRF	RELIEF
IDA	250.0	71.34%	178.35
IMF	60.8	71.34%	43.37
ADF	150.0	71.34%	107.01
IFAD	55.0	71.34%	39.24
OPEC	40.0	71.34%	28.54
Total	555.8	71.34%	396.51

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