

Implementing UK Initiative on IDA and ADF Debt Relief for Post-HIPC Countries

The UK Government is proposing to pay 10% of HIPC's debt service payments to IDA and ADF on the disbursed outstanding debt as of 1 January 2004. This debt service relief will be on payments due, after HIPC relief including topping up, as of 1 January 2004 (ie on disbursed outstanding debt as of end-2003) and it will be provided initially for ten years to end-2014. Thereafter it will be reviewed and possibly renewed as appropriate. For further details, see: <http://www.dfid.gov.uk/news/files/pressreleases/pr-debtreliefsep26.pdf>).

The list of eligible countries, as of April 2005, includes the 18 post-HIPC countries (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia) plus some countries, Armenia, Mongolia, Nepal, Sri Lanka and Vietnam, with sufficiently robust public expenditure management systems to ensure that the additional relief aids progress towards the MDGs.

Implications for DSA implementation in Debt-Pro[®]:

- Loans comprising IDA and ADF disbursed outstanding debt, as of 1 January 2004, will need to be categorised separately as eligible debt for this initiative.
- Effective % debt service reduction for IDA and ADF for 2005-2014 will need to be calculated for Debt-Pro reorganisation assumptions.

For ADF this is straightforward as ADF HIPC relief is 80% debt service reduction per annum:

Pre-HIPC debt service:	100
- HIPC debt relief @80%	<u>- 80</u>
Post-HIPC debt service	20
- UK relief @10%	<u>- 2</u>
Post-UK debt service	18

Effectively % relief including UK initiative = $(100-18)$ expressed as % = 82%

For IDA: the calculation is as follows, where X% is the IDA debt service reduction each year:

Pre-HIPC debt service:	TDS
- HIPC debt relief @ X %	<u>TDS * X %</u>
Post-HIPC debt service	TDS*(100 - X %)
- UK relief @10%	<u>10% * TDS *(100 - X %)</u>
Post-UK debt service	90% TDS * (100 - X %)

Effectively % relief including UK initiative = $(100 - (90\% * (100 - X\%)))$

Participation by other countries

As of April 2005, Canada and the Netherlands have formally agreed to join with the UK and provide additional debt relief on IDA and ADF debt service, in proportion to their share of the IDA-13. The UK's 10% debt service reduction is based on its share in IDA-13. The Canadians and the Netherlands have committed to provide 4% and 2.6 % relief, respectively, on post-HIPC countries debt service to IDA and ADF. The table below sets out the IDA-13 shares of the other G7 and European countries.

Country	Share (%) in IDA13 replenishment
G7 countries	70.0
Canada (committed)	4.0
France	6.0
Germany	10.0
Italy	4.0
Japan	16.0
UK (committed)	10.0
US	20.0
Non-G7 EU countries	12.4
Of which :Belgium	1.6
Denmark	1.6
Ireland	0.2
Netherlands (committed)	2.6
Spain	1.8
Sweden	2.6

If other G7 countries join with Canada, Netherlands and the UK, then their share of IDA and ADF debt relief to be provided to each post-HIPC country will be according to the percentages set out in the table above. The relevant percentages of the participating creditor countries are then aggregated and entered in the formulas above to obtain the effective percentage reduction for Debt-Pro[®] reorganisation assumptions.

Possible Additional IMF Relief

There has also been discussion internationally about the provision of additional relief on IMF debt service, funded through the revaluation or sales of IMF gold holdings. It is possible that agreement on this could be reached in 2005 and if so then there will be 100% debt service relief on IMF payments falling due from 2006-2014.