The HIPC Initiative

A Practice Note

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Acronyms

AFRODAD	-	African Forum and Network on Debt and Development
BEAC	-	Banque Centrale des Etats de l'Afrique Centrale
CAFOD	-	Catholic Agency for Overseas Development
CARICOM	-	Caribbean Community Secretariat
CEMLA	-	Centro de Estudios Monetarios Latinoamericanos
CIDSE	-	Cooperation Internationle Pour le Developpement et la Solidarite
CS	-	Commonwealth Secretariat
CSO	-	Civil Society Organisation
DDI	-	Debt for Development Initiative
DMFAS	-	Debt Management and Financial Analysis System
DRI	-	Debt Relief International
DRMS	-	Debt Recording and Management System
ECLAC	-	Economic Commission for Latin America and the Caribbean
ESAF	-	Enhanced Structural Adjustment Facility
EURODAD	-	European Network on Debt and Development
FfD	-	Financing for Development
GDP	-	Gross Domestic Product
HIPC	-	Heavily Indebted Poor Countries
IDA	-	International Development Association
LICUS	-	Low-Income Countries Under Stress
MDG	-	Millennium Development Goals
MEFMI	-	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
ODA	-	Official Development Assistance
OECD	-	Organisation for Economic Co-operation and Development
OPEC	-	Organisation of the Petroleum Exporting Countries
PRGF	-	Poverty Reduction and Growth Facility
PRSP	-	Poverty Reduction Strategy Paper
PSIA	-	Poverty and Social Impact Analysis
SILIC	-	Severely Indebted Low-Income Countries
SIMIC	-	Severely Indebted Middle-Income Countries
SURF	-	Sub-Regional Resource Facility
UNCTAD	-	United Nations Conference on Trade and Development
UNU/WIDER	-	United Nations University World Institute for Development Economics Research
WAIFEM	-	West African Institute for Financial and Economic Management

Executive Summary

The HIPC initiative represents a significant break from traditional debt relief. It provides at least 90 per cent debt cancellation from Paris Club members; it covers debt owed to multilateral institutions (World Bank, International Monetary Fund and regional development banks); and it links debt relief more directly to poverty reduction.

The HIPC Ministers of Finance, however, have voiced concerns that the current HIPC initiative is insufficient and too slow. The various issues that are being debated on improving the HIPC initiative include the criteria for defining debt sustainability, linking debt relief to MDG financing, expanding country eligibility, revisiting the nature and scope of conditionalities, avoiding over-optimistic forecast, addressing the crippling effect of litigation, and increasing HIPC funding.

UNDP has a rich experience in supporting debt management. It can further assist in addressing the above concerns by:

1) lobbying for a stronger link between debt relief and the MDGs, particularly by participating in the processes of estimating MDG financing needs and channelling the debt dividend to basic social services and MDG needs.

2) promoting participation by civil society organisations and local authorities in the PRSP process to help ensure strong linkages between poverty reduction and debt relief

3) intensifying support to capacity development in debt management and debt negotiation through joint programmes with UNCTAD, other international or regional institutions, and CSOs

4) advocating for changes in the concept of debt sustainability, especially for making the debt-to-budget ratio a full-fledged criterion of the HIPC initiative to be applied to *all* HIPC countries.

5) contributing to debt sustainability through pro-poor macro-economic and fiscal policy advice and trade policy initiatives to generate adequate foreign exchange and budget revenue that are less debt-dependent.

1. Introduction

The eighth MDG and the Monterrey Consensus stipulate that debt relief is crucial to attain the agreed targets by 2015. The Heavily Indebted Poor Countries (HIPC) Initiative – started in 1996 by the World Bank and International Monetary Fund – was a significant break from traditional debt relief because:

a) it promised, to the poorest and most indebted nations, much higher levels of debt cancellation compared with the traditional mechanisms of the Paris Club (which offer as much as two-thirds reduction of official debts), multilateral institutions and other co-operative creditors. Bilateral creditors of the Paris Club promised to cancel as much as 90 per cent of their foreign loans.

b) for the first time, debt relief included the debt owed to multilateral institutions such as the World Bank, the IMF and the regional development banks. Traditionally, multilateral debts were exempted from the burden sharing principle of debt relief.

c) the initiative also allows for a more comprehensive tackling of poor countries' debt with all the co-operative creditors (including non-Paris Club creditors and commercial creditors), agreeing to one deal rather than separate negotiations with each entity.

d) the initiative, for the first time, linked external debt relief to poverty reduction.

In June 1999, the enhanced HIPC initiative replaced the original HIPC. The threshold levels for debt relief were lowered, more debt relief was promised and more countries were allowed to become eligible. It also increased the financial resources for interim debt relief before countries reached the completion point. Box 1 explains the criteria for HIPC eligibility.

There are 42 HIPC countries – 34 in Sub-Saharan Africa, 4 in Latin America, 3 in East Asia and 1 in the Middle East. Thirty-one of them are among the 59 countries identified as priority countries in the 2003 Human Development Report in terms of their risk of not reaching the MDGs.

As of end of July 2003, 8 countries reached completion point (see Table 1), 19 countries reached decision point, 11 countries had yet to be considered for a debt relief programme under the enhanced HIPC initiative and 4 countries were considered to have a sustainable external debt situation. Box 2 describes the stages of the HIPC process.

Table 1 indicates that the original and enhanced HIPC initiatives have resulted in around $31.4 billion (in 'net present value' terms) worth of *committed* debt cancellation. It is difficult to obtain figures on the debt *actually* cancelled since the World Bank and IMF only report on commitments at decision point – most of which will only be obtained if the country reaches completion point.

Box 1: Criteria for HIPC eligibility

The country must be poor
Poor countries are those that are eligible for concessional assistance from the International Development Association (IDA) of the World Bank; and from the IMF's Poverty Reduction and Growth Facility (PRGF – formerly called the Enhanced Structural Adjustment Facility - ESAF).

The country must be heavily indebted
The country should have unsustainable external debt after traditional debt relief mechanisms such as the Paris Club creditors. If after availing of the 'Naples terms', the country's external debt is still unsustainable, the poor country becomes eligible to be called a Heavily Indebted Poor Country (i.e. HIPC).

First criterion for debt sustainability
Countries with unsustainable external debt are those whose 'net present value' of external debt exceeds 150 per cent of the export revenues. Most HIPC countries enter the initiative on the basis of this criterion – 21 out of 26 countries so far. The 'net present value' helps measure the value of the country's external debt more correctly. For instance, a debt of $10 billion is different if it is paid at concessional terms (say 2 per cent annually over 30 years) than if it is paid at commercial terms (say 9 per cent annually over 10 years). Obviously, the latter is more expensive for the debtor and should be valued higher than the former. The 'net present value' estimates all annual debt payments in the coming years and values (discounts) them in current prices.

Second criterion for debt sustainability
Countries with a large export sector could meet the above criterion for debt sustainability but may actually face an unmanageable debt situation from the perspective of the national budget. Since most external debt is owed by the public sector, external debt payments can be unsustainable compared with the national budget, even when the debt-to-export ratio appears manageable. For countries with very open economies – i.e. those whose exports of goods and services account for more than 30 per cent of gross domestic product (GDP) – and performing satisfactorily in their fiscal effort – i.e. budget revenues above 15 per cent of GDP – the external debt is deemed unsustainable if its 'net present value' exceeds 250 per cent of the budget revenue. The five HIPC countries where this criterion has been used include Ghana, Guyana, Honduras, Mauritania and Senegal.

Box 2: Stages in the Enhanced HIPC Initiative

Countries participating in the HIPC initiative have to go through two stages before they obtain debt relief. To reach the *decision point*, a HIPC country must: (i) have at least three years of track record of good performance with structural adjustment and reform programmes; and (ii) prepare a Poverty Reduction Strategy Paper (PRSP) or interim PRSP. The World Bank and IMF decide whether a country satisfies these requirements.

Once the decision point is reached, the creditors commit debt relief to be delivered at the completion point. These commitments include: (i) at least 90 per cent debt reduction for Paris Club debts, (ii) comparable treatment on stock of debt by other bilateral and commercial creditors, and (iii) additional debt relief by multilateral creditors sufficient for the countries to achieve debt sustainability – based on the two criteria discussed in Box 1. The amount of debt relief is estimated based on the latest available data at decision point.

At decision point, Paris Club members start to provide rescheduling of debt payment flows while multilateral creditors provide interim relief at their discretion. Other bilateral and commercial creditors are urged to provide debt relief on comparable terms as members of the Paris Club. All creditors are supposed to continue to provide support within the framework of the PRSP or interim PRSP.

To reach the c*ompletion point,* the country must have implemented, based on a fully completed PRSP, a comprehensive poverty reduction strategy, including macro-economic stabilisation and structural adjustment. At this point, all creditors provide the debt relief committed at the decision point. Interim debt relief provided between decision and completion points counts toward this. All groups of creditors provide equal reduction (in ‘net present value’ terms) on their claims as determined by the sustainability target. Debt relief is provided without further policy conditionality.

2. Debates on How to Improve HIPC

The various issues that are being debated on how to improve the initiative include the following seven points. These points provide important information on the key debates and issues concerning HIPC but do not necessarily reflect UNDP's position, which is specifically stated in the section entitled UNDP's Role in the HIPC Initiative.

(i) Debt sustainability analysis

The main criterion for HIPC eligibility is the ratio of external debt to export revenues. Only countries with exports comprising 30 per cent or more of their GDP would have their debt-to-budget ratio considered. There are those who argue that both debt-to-export and debt-to-budget ratios should be used. If either ratio goes beyond the threshold, then the country would be considered as having unsustainable debt. This will ensure that both bottlenecks to paying debts – foreign exchange earnings and government revenue – are considered in determining a country's debt situation. This is particularly true since much of HIPC debt is public or publicly guaranteed debt.

Many also argue that domestic debt servicing should be included in any debt sustainability analysis for they involve a country's capacity to pay its overall debts. A switch in borrowing from external to domestic sources can present a falsely optimistic picture of the debt situation if only external debt is examined. Similarly, the import needs of poor countries are not incorporated in the debt sustainability analysis. The foreign exchange capacity should incorporate import needs in countries with a limited industrial base and capital sector, as well as those requiring considerable food imports and other essentials.

(ii) Linking debt relief to MDG financing

The severest criticism of the debt sustainability analysis comes from the HIPC countries themselves. HIPC ministerial meetings have repeatedly pinpointed that the initiative does not systematically link the amount of debt relief and to the financing gap vis-à-vis the MDGs. The Ministers suggest that the estimation of the MDG financing gap be included in the PRSP. Some analyst have proposed that, in the debt sustainability analysis, the amount of exports and budget revenues needed to achieve MDGs should be netted out from the base revenues from which debt payments will be drawn from.

The thresholds of 150 per cent of export revenues and 250 per cent of budget revenues in defining debt sustainability have been criticised as being too arbitrary. The debt-to-export and debt-to-budget ratios do not ensure that debt relief will be sufficient for meeting the MDGs. The numerators are the debt stock, which does not ensure that annual debt servicing will not impinge on the financing needs for MDGs. EURODAD and other civil society organisations (CSOs) have called for debt payment caps limiting annual principal and interest debt payments to percentages of exports, the national budget or GDP. The 2003 Human Development Report mentions a debt cap where debt relief would be provided so that debt servicing does not exceed 2 per cent of GDP annually.

Jubilee Research and other CSOs propose debt relief based on the model of Chapter 9 of the US legal code for municipalities or local government bankruptcy proceedings. A debtor

would declare inability to service its debts and asks for debt restructuring. An independent arbitration panel (similar to the judges of a court) would arrange a restructuring agreement. Stakeholders could testify and demand a cancellation of 'odious' debt incurred by corrupt or irresponsible regimes, which did not accrue to the benefit of the citizens. This, the CSOs say, would help in keeping the debt payments from impinging on urgent development needs. The IMF has proposed a similar scheme (called the Sovereign Debt Restructuring Mechanism) but targeted not to HIPC countries but to highly indebted middle-income countries with substantial commercial debts. This proposal was not supported by the US and commercial creditors at the 2003 meeting of the IMF and World Bank.

The recommendations of the HIPC Ministers and the CSOs imply a new type of debt sustainability analysis that is more sensitive to the financing needs of MDGs. The implications would be that (i) the amount of debt relief for countries that reach the completion and the decision point would have to increase; (ii) more low-income countries would become eligible for HIPC support; and (iii) more funds for the HIPC Trust Fund would be required.

(iii) Possible inclusion of more countries

The World Bank has identified severely indebted low-income countries (SILIC) as countries whose 'net present value' of external debt is higher than 220 per cent of exports and/or more than 80 per cent of gross national income. At the end of 2001 (latest year for which data are available), the SILIC countries not included in the HIPC list include Indonesia, Kyrgyz Republic, Moldova, Nigeria, Pakistan and Tajikistan. Jubilee Research claims that there is arbitrariness to the picking of countries for inclusion in the HIPC list. It is not clear why that list should be limited to countries with IDA and PRGF concessional loans. Nigeria, for instance, satisfied all the criteria of being low-income and heavily indebted but was removed from the HIPC list in 1998. Indonesia has even a larger external debt than Nigeria, and Pakistan also has a large external debt. Including these three countries would require a significant amount of additional financing, which assumedly would not be forthcoming.

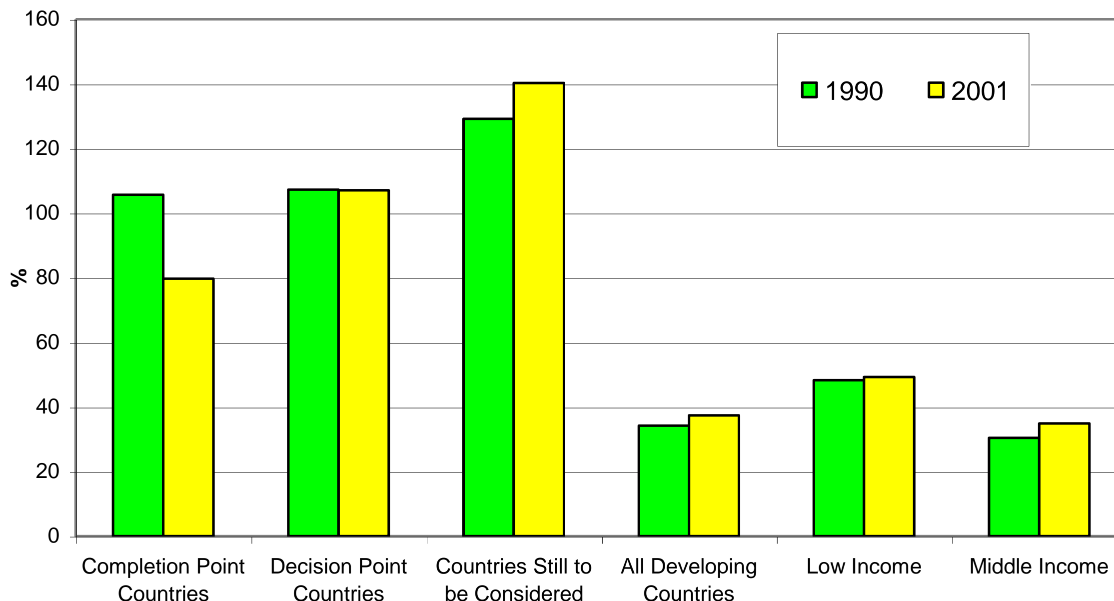
There are several middle-income countries with large numbers of poor people where debt service obligations impede MDG progress. The World Bank identifies 13 severely indebted middle-income countries (SIMIC), which include Argentina and Brazil. Mechanisms have to be found to provide significant debt relief to such countries, since they do not qualify for traditional debt relief such as 'the Naples terms'. However, much of their debt is owed to commercial creditors, which have hardly co-operated in debt cancellation, even within the HIPC initiative. Still, some emphatically point out that a good start could be made with the reduction of bilateral and multilateral debts of these countries, which are quite sizeable.

(iv) Revisiting conditionalities

Most CSOs and HIPC ministers feel that debt relief is too slow and too timid. The chart below depicts the external debt-to-GDP ratios for various groups of countries for 1990 and 2001. Only HIPC countries that reached completion point saw a significant reduction of external debt vis-à-vis GDP in the 1990s. However, more than six years after the launch of

the initiative, only eight countries reached completion point. According to the original schedule, 19 countries should have reached completion point by mid-2003.

Chart: External Debt to GDP Ratio



Source: Derived from data in World Development Indicators 2003, World Bank

Many HIPC countries cannot advance to completion point due to their inability to comply with conditionalities set under the structural adjustment programmes of the multilateral institutions. Others are conflict-ridden and cannot attain the requirements of proper governance and/or transparency.

It is not unreasonable for bilateral and multilateral donors to set conditions so as to ensure that debt relief will be put to good use. Transparent and accountable governance is often one of these conditionalities. The World Bank has identified a group of low-income countries under stress (LICUS), which include conflict-ridden countries and countries with weak governance and administrative capacities. But the critics claim that improving governance, enhancing administrative capacity and resolving crises and conflicts takes a long time; there must be interim mechanisms to allow debt relief to benefit poor people in these countries.

The critics argue that there are various ways of channelling debt relief funds in such situations. Even governments that lack transparency or have weak capabilities often have agencies or local authorities that are capable of disbursing funds effectively and efficiently for basic social services. To supplement this, emergency assistance can also be channelled through international agencies and civil society organisations, as has been done in the past during famine, natural disasters and civil war.

Another category involves macro-economic conditionalities such as fiscal and monetary tightness, liberalisation and privatisation. The IMF, World Bank and some Organisation for Economic Co-operation and Development (OECD) countries justify this by arguing that to ensure that the debt dividend will not be wasted, the country should have a viable macro-economic programme. Again, there are major contradictory views on the nature of pro-poor macro-economic policies from the CSOs and HIPC countries. In 2002, the HIPC Ministers stated that the delay in the HIPC initiative is not due to the lack of a national consensus on poverty reduction strategies, as some suggest, but because of the "continuing failure to streamline IMF and World Bank conditionality sufficiently, which is undermining ownership". The Ministers proposed to: (i) reduce the number of structural conditions to those that are essential to growth and poverty reduction; avoiding micro-management of their economies; (ii) approve more flexible macro-economic frameworks; and (iii) move faster on the methodology for *ex-ante* Poverty and Social Impact Analysis (PSIA) so that practical tools can be applied by HIPCs themselves.

In the spirit of the HIPC Ministers' propositions, the critics argue that each country should have adequate policy space to determine its own development priorities and strategies – appropriate to its economic, social and political conditions. Thus, even if the IMF and the World Bank want to reserve part of the debt relief funds based on compliance with their structural adjustment programmes, there could be a separate facility for debt relief whose only conditionality is that the funds go towards achieving the MDGs. UNDP can play a critical role in ensuring that debt relief are channelled to human development and basic social services.

(v) Over-optimistic export and growth forecasts

Jubilee Research claims that two countries graduating to completion point (Burkina Faso and Uganda) found that their 'net present value' of external debt in 2002 was not sustainable based on HIPC's own definition of debt sustainability. Also disturbing was the fact that 16 out of the 26 countries with HIPC debt relief found either their debt-to-exports or debt-to-budget ratios deteriorating in 2001 and 2002.

Several observers, including the HIPC Ministers, state that the IMF and the World Bank are often over-optimistic in their economic projections. To address this, the World Bank and IMF allow countries to receive debt relief beyond those applicable at completion point if external conditions worsen export revenues, which is called 'topping up'. So far, only Burkina Faso has received 'topping-up'. The HIPC Ministers recommend the provision of automatic and rapid contingency financing, based on annual reassessments of debt sustainability. In response, the World Bank and IMF are looking to provide a contingency facility for HIPC countries hit by exogenous shocks after achieving completion point.

(vi) Litigation

The non-participation of some creditors – especially by some non-Paris Club countries and commercial creditors – in the HIPC initiative is hindering the efforts. Some of these creditors are threatening litigation and lawsuits against some HIPC countries. Most litigation comes from commercial creditors, who have shown very little interest in participating in HIPC. The World Bank is exploring mechanisms for HIPC countries to

settle their commercial claims through the use of the existing Debt Reduction Facility for IDA countries. They are also increasing assistance for improved data and accounting systems as well as debt management for HIPC countries to protect them from litigation.

(vii) Increasing HIPC funding

If more debt relief is to be committed to the MDGs and to more countries, then substantial amounts of funding will be required. Increasing debt relief goes hand in hand with MDG 8 of achieving significant increases in official development assistance. Lobbying for OECD countries – especially G7 countries – to increase their current low official development assistance (ODA) efforts to the target of 0.7 per cent of their gross national income will yield adequate funds to cover the proposed HIPC revisions.

3. Debt Management

Public debt management involves the formulation of a debt and borrowing strategy and the maintenance of relevant information systems and databases. Experience indicates that there is no *a priori* ‘best’ institutional structure for debt management. Some countries centralise all debt management functions in one agency, others spread them among different agencies (Central Bank, Ministry of Finance, Ministry of Planning, etc.) with different co-ordination arrangements. The analysis of the macro-economic sustainability of debt, and how to spend debt relief requires co-ordination and oversight among various government and non-governmental units under an explicit and clear legal and institutional system. The institutional and legal framework and co-ordination are often the weakest areas in debt management capacity.

The fundamental principle is that borrowing must be kept in line with repayment capacity, taking into account the amount and terms of new borrowing, as well as the vulnerability of income sources (exports/fiscal revenue) to unexpected shocks. A well-managed borrowing policy is essential to avoiding a recurrence of debt problems. It involves ensuring that new loans and grants are as concessional as possible. For a typical HIPC country, the first step is to reduce non-concessional loans to minimum levels. Some have gone further, insisting on zero non-concessional loans, IDA-comparable terms or on giving preference to grants.

Historically, many HIPC countries have relied on external technical assistance to conduct debt negotiations (for example, preparing Paris Club memoranda, commercial debt buyback operations and debt swaps or multilateral debt funds). Such countries need to develop the capacity to renegotiate debt and achieve maximum debt relief. This implies that responsibilities for renegotiating must be clearly defined for each type of creditor. Basic debt management involves the monitoring all types of debt (external and domestic; short, medium and long-term; public, publicly-guaranteed and private sector; multilateral, bilateral, and commercial). Recording must be computerised, and this is generally best achieved through internationally recognised systems such as those of United Nations Conference on Trade and Development – Development Management and Financial Analysis System (UNCTAD-DMFAS) or the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS). To assess long-term debt sustainability, HIPC countries need to conduct long-term economic projections (balance of payments, budget, real, financial), and simulate different scenarios, including testing the impact of potential external or internal shocks.

In order to verify whether the national debt strategy is sustainable, it is essential to check whether debt relief and expected new financing will cover the country’s financing needs for implementing its poverty reduction strategy. These needs should be formulated within the PRSP, itself integrated in a medium-term expenditure framework, with anti-poverty spending easy to monitor and compatible with the MDGs. Most HIPC countries have weak capacity to design and implement fully costed poverty reduction programmes, and to link debt relief to the attainment of the MDGs.

Debt management requires staff with a combination of financial skills (e.g., portfolio and risk management) and analytical skills in macroeconomics. Debt management requires accurate information and data systems. The debt management units must be equipped with computers and trained staff to carry out debt analysis and simulations to update the debt strategy consistent with the evolving prerogatives. Untrained staff, inadequate office space and poor equipment still prevent many debt units from providing the necessary support to policy-makers. In particular, evidence shows that the recruitment and retention of trained staff is a major challenge facing debt management.

4. UNDP's Role in the HIPC Initiative

UNDP's objective in the HIPC initiative is obviously to ensure deeper and timelier debt relief, especially for HIPC and SILIC countries, in order to release funds for poverty reduction, MDG financing and developmental needs.

So far, UNDP's biggest involvement in the HIPC initiative has been in capacity development for debt management in several countries, especially in Sub-Saharan Africa, where the bulk of HIPC and SILIC countries are located. Policy advisers from Sub-Regional Resource Facilities (SURFs) have sponsored, often with UNCTAD, workshops in debt management, using the DMFAS software. Others are exploring the possibility of similar co-operation with Debt Relief International (DRI). UNDP is a member of the Steering Committee of the HIPC Capacity Building Programme – made up of HIPC countries, donor countries, relevant international and regional CSOs, UNCTAD, World Bank, IMF, DRI and regional development banks. Many UNDP Country Offices maintain links and joint undertakings with many CSOs assisting HIPC countries (see websites below).

UNDP can support the improvement of the HIPC initiative in several ways. Some potential roles and concrete activities that Country Offices can undertake to help in debt relief include:

- Participate in the establishment of a stronger link between debt relief and the MDGs. Estimating the financing gap for achieving the MDGs and comparing it with current debt relief could be a powerful – and quantified – argument for granting bigger debt relief. The MDG financing gap can become the main guide for determining the scope of the HIPC initiative.
- Use the estimates and arguments made in the Human Development Report of 2003 with regard to debt relief, debt dividend and the financing gap, in both advocacy and policy advice.
- Help ensure that debt relief goes to the right sectors; through monitoring the budget share of basic social services (i.e. the 20/20 initiative), gender-sensitive budgeting; aid co-ordination; and specific debt swaps for poverty and for sustainable development (see references on debt swaps).
- Promote wide participation of civil society as well as local governments in the PRSP process and provide policy advice to help ensure strong linkages between poverty reduction and debt relief, and to help direct debt relief funds towards priority areas.
- Assist in capacity development for debt management and debt negotiation through joint programmes with UNCTAD (as undertaken by the Central and Eastern African SURF) or with other international and regional institutions and CSOs (see references for web pages).
- Contribute to long-run debt sustainability, not only through capacity development in the debt management, but through pro-poor macro-economic and trade policy advice to help ensure that HIPC conditionalities are conducive to reaching the

MDGs. In this regard, UNDP can assist in defining and implementing the Poverty and Social Impact Analysis (PSIA) of structural adjustment programmes.

- Lobby for changes in the concept and measures of debt sustainability, especially in making the debt-to-budget ratio a full-fledged criterion of the HIPC initiative to be applied to *all* HIPC countries.

Box 3: HIPC in Burkina Faso

Burkina Faso reached completion point under the original HIPC initiative in July 2000, and under the enhanced HIPC initiative in April 2002. After this, Burkina Faso was hit by adverse external shocks that brought down world prices of cotton and gold (its main exports). This caused its debt-to-export indicator to exceed the 150 per cent threshold even after the HIPC debt relief. Burkina Faso became the first country – and so far the only one – under the enhanced HIPC initiative to receive 'topping up', i.e. additional debt relief after completion point to enable its debt-to-export ratio to drop below 150 per cent.

This treatment is partly due to a productive partnership between government, donors and civil society. From the start, government took the HIPC initiative seriously and worked closely with all donors. In addition, UNDP played a leading role in the PRSP process, through its policy advice and the promotion of civil society participation. This enabled a rapid completion of the PRSP.

Government also created an active Debt Committee, comprising all agencies involved in debt management, together with those responsible for macro-economic policy making. Combined with UNDP's support for capacity development, this led to a reliable and regularly updated debt database with strong capacity for debt sustainability analysis. The experience shows that countries that undertake their own debt sustainability analysis and defend it with the multilateral institutions and creditors – both with UNDP support – can obtain more and faster debt relief.

Box 4: HIPC in Rwanda

In December 2000, more than six years after experiencing severe social conflict, Rwanda reached decision point in the enhanced HIPC initiative, as the country demonstrated strong macro-economic recovery and submitted an interim PRSP. Around $810 million was committed to debt relief – from an estimated external debt of $1.4 billion. Albeit impressive, it may not be sufficient to address Rwanda's poverty situation, which stands at around 60%. Furthermore, the full amount will be obtained only at completion point. With the current interim debt relief, the 'net present value' of Rwanda's debt-to-export ratio still exceeds the sustainability threshold of 150 per cent, which will impact on the planned expansion of social programmes.

Rwanda's case shows that post-conflict countries require a dual approach of addressing immediate emergency/humanitarian and rehabilitation needs, while at the same time adopting long-term measures to consolidate the nascent economic recovery and build the foundation for sustained growth and poverty reduction. This requires both additional debt relief and additional development assistance.

UNDP supports Rwanda's capacity for debt management, through the purchase of the Debt Sustainability Analysis software, "Debt Pro" and other technical assistance to the staff of the Debt Management Unit. UNDP also plans to support a comprehensive Trade and Debt Needs Assessment to help Rwanda lobby for more flexibility in debt relief disbursements. This flexibility has been recommended for conflict-affected and post-conflict HIPC countries in the past HIPC ministerial meetings.

Table 1: Enhanced HIPC Initiative: Committed Debt Relief and Debt Service Ratios										
Status as of July 2003										
	(in millions of US dollars)						Debt Service/ Exports (%)		Debt Service/ gov revenue (%)	
	Reduction in NPV Terms			Nominal Debt Relief						
	Original HIPC Initiative	Enhanced HIPC Initiative	Total	Original HIPC Initiative	Enhanced HIPC Initiative	Total	1999	2002 (prel.)	1999	2002 (prel.)
Countries That Have Reached Completion Point										
Benin		265	265		460	460	17.1	10.0	17.3	7.6
Bolivia	448	854	1302	760	1300	2060	19.0	17.4	12.7	15.5
Bukina Faso	229	324	553	400	530	930	20.3	7.4	14.8	5.7
Mali	121	417	538	220	675	895	12.3	6.7	19.6	12.7
Mauritania		622	622	0	1100	1100	22.4	10.6	30.4	10.6
Mozambique	1716	306	2022	3700	600	4300	9.4	2.7	12.3	5.8
Tanzania		2026	2026		3000	3000	16.2	6.9	19.8	10.2
Uganda	347	656	1003	650	1300	1950	11.8	8.6	12.9	8.4
Total / Simple Avg of Ratios	2861	5470	8331	5730	8965	14695	16.1	8.8	17.5	9.6
Countries That Have Reached Only Decision Point										
Cameroon		1260	1260		2000	2000	14.6	9.2	24.1	13.0
Chad		170	170		260	260	12.3	11.0	24.0	16.6
Congo, Dem. Rep. of		6300	6300		10000	10000	12.7	na	na	na
Ethiopia		1275	1275		1930	1930	13.9	15.1	11.0	11.3
Gambia		67	67		90	90	15.0	12.5	25.5	34.3
Ghana		2186	2186		3700	3700	21.1	10.2	53.4	30.1
Guinea		545	545		800	800	17.6	10.8	35.3	22.1
Guinea-Bissau		416	416		790	790	10.7	3.7	15.5	7.3
Guyana	256	329	585	440	590	1030	10.4	8.8	35.0	24.8
Honduras		556	556		900	900	10.6	9.1	12.9	18.7
Madagascar		814	814		1500	1500	11.7	6.6	25.0	15.4
Malawi		643	643		1000	1000	13.0	9.7	20.5	14.1
Nicaragua		3267	3267		4500	4500	20.3	16.9	29.7	26.0
Niger		521	521		900	900	5.9	7.2	10.6	11.1
Rwanda		452	452		800	800	39.0	9.6	23.0	6.1
Sao Tome and Principe		97	97		200	200	11.8	8.7	21.4	15.8
Senegal		488	488		850	850	12.0	9.2	22.0	14.8
Sierra Leone		600	600		950	950	39.6	14.1	77.4	17.4
Zambia		2499	2499		3850	3850	14.9	12.7	22.9	20.5
Total / Simple Avg of Ratios	256	22485	22741	440	35610	36050	16.2	10.3	27.2	17.7
Countries Still To Be Considered										
Cote d'Ivoire	345		345	800		800				
Burundi										
Central African Republic										
Comoros										
Congo, Rep. of										
Lao PDR										
Liberia										
Myanmar										
Somalia										
Sudan										
Togo										
Grand Total	**3462**	**27955**	**31417**	**6970**	**44575**	**51545**				

Source: IMF, World Bank

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