

## **Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative**

*The Joint IMF-World Bank's comprehensive approach to debt reduction is designed to ensure that no poor country faces a debt burden it cannot manage. To date, debt reduction packages under the HIPC Initiative have been approved for 36 countries, 30 of them in Africa, providing US\$76 billion in debt-service relief over time. Three additional countries are eligible for HIPC Initiative assistance.*

### **Debt relief key to poverty reduction**

The HIPC Initiative was launched in 1996 by the IMF and World Bank, with the aim of ensuring that no poor country faces a debt burden it cannot manage. Since then, the international financial community, including multilateral organizations and governments have worked together to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries.

In 1999, a comprehensive review of the Initiative

3) have established a track record of reform and sound policies through IMF- and World Bank supported programs

4) have developed a [Poverty Reduction Strategy Paper \(PRSP\)](#) through a broad-based participatory process in the country.

Once a country has met or made sufficient progress in meeting these four criteria, the Executive Boards of the IMF and World Bank formally decide on its eligibility for debt relief, and the international community commits to reducing debt to a level that is considered sustainable. This first stage under the HIPC Initiative is referred to as the decision point. Once a country reaches its decision point, it may immediately begin receiving interim relief on its debt service falling due.

**Second step: completion point.** In order to receive full and irrevocable reduction in debt available under the HIPC Initiative, a country must:

1) establish a further track record of good performance under programs supported by loans from the IMF and the World Bank.

2) implement satisfactorily key reforms agreed at the decision point.

3) adopt and implement its PRSP for at least one year.

Once a country has met these criteria, it can reach its completion point, which allows it to receive the full debt relief committed at the decision point.

**Countries receiving debt relief.** Of the 39 countries eligible or potentially eligible for HIPC Initiative assistance, 34 are receiving full debt relief from the IMF and other creditors after reaching their completion points. Two countries have reached their decision points and one of them, Chad, has benefited from interim debt relief. Three countries, which have been identified as potentially eligible for HIPC Initiative assistance, have not yet reached their decision points.

### **Debt relief frees up resources for social spending**

Debt relief is one part of a much larger effort, which also includes aid flows, to address the development needs of low-income countries and make sure that debt sustainability is maintained over time. For debt reduction to have a tangible impact on poverty, the additional money needs to be spent on programs that benefit the poor.

**Boosting social spending.** Before the HIPC Initiative, eligible countries were, on average, spending slightly more on debt service than on health and education combined. Now, they have increased markedly their expenditures on health, education, and other social services. On average, such spending is about five times the amount of debt-service payments.

**Reducing debt service.** For the 36 countries receiving debt relief, debt service paid, on average, has declined by about two percentage points of GDP between 2001 and 2010. Their debt burden is expected to be reduced by about 90 percent after the full delivery of debt relief (including under the MDRI).

**Improving public debt management.** Debt relief has markedly improved the debt position of post-completion point countries, bringing their debt indicators down below those of other

HIPCs or non-HIPCs. However, many remain vulnerable to shocks, particularly those affecting exports as seen during the current global economic crisis. To reduce their debt vulnerabilities decisively, countries need to pursue cautious borrowing policies and strengthen their public debt management.

### **IMF debt relief complemented by other sources**

About 45 percent of the funding comes from the IMF and other multilateral institutions, and the remaining amount comes from bilateral creditors.

The total cost of providing assistance to the 39 countries that have been found eligible or potentially eligible for debt relief under the enhanced HIPC Initiative is estimated to be about \$76 billion in end-2010 net present value terms.

is financed by bilateral contributions and resources from the Fund itself, mainly investment income on the proceeds from off-market gold sales in 1999. These funds [PRG-HIPC Trust](#).

Resources available in the trust are currently insufficient to finance the cost of debt relief to all countries that meet the initial conditions for debt relief. [JT&T EMC /Span AM](#)

Given the voluntary nature of creditor participation in the HIPC Initiative, the IMF and the World Bank will continue to use moral suasion to encourage creditors to participate in the Initiative and to deliver fully their share of HIPC Initiative debt relief.

The IMF and World Bank will also continue to improve their ability to monitor the delivery of HIPC Initiative debt relief. The IMF will continue to address issues related to participation in the HIPC Initiative during its regular consultations and other missions to creditor countries.

List of Countries That Have Qualified for, are Eligible or Potentially Eligible and May Wish to Receive HIPC Initiative Assistance (as of September 2012)

<b>Post-Completion-Point Countries (34)</b>		
Afghanistan	Ghana	Mozambique
Benin	Guinea	Nicaragua
Bolivia	Guinea-Bissau	Niger
Burkina Faso	Guyana	Rwanda
Burundi	Haiti	São Tomé & Príncipe
Cameroon	Honduras	Senegal
Central African Republic	Liberia	Sierra Leone
Republic of Congo	Madagascar	Tanzania
Democratic Republic of Congo	Malawi	Togo
Ethiopia	Mali	Uganda
The Gambia	Mauritania	Zambia
<b>Interim Countries (Between Decision and Completion Point) (2)</b>		
Chad	Comoros	
<b>Pre-Decision-Point Countries (3)</b>		
Eritrea	Somalia	Sudan