

Web Box 3.3

Heavily Indebted Poor Countries and Multilateral Debt Relief Initiatives

To be considered for assistance under the Heavily Indebted Poor Countries (HIPC) Initiative,¹ a country must (1) be eligible to borrow from the World Bank's International Development Agency, which provides interest-free loans and grants to low-income countries, and from the IMF's Poverty Reduction and Growth Trust (see "Financing for the Twenty-First Century" in Chapter 4); (2) face an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms; (3) have established a track record of reform and sound policies through programs supported by the IMF and World Bank; and (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 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 the agreed sustainability threshold (the "decision point"); the country may immediately begin receiving "interim relief" on its debt service falling due. To reach its "completion point," at which time its creditors are expected to provide the full debt relief committed to at its decision point, the country must (1) establish a further track record of good performance under programs supported by the IMF and World Bank; (2) implement satisfactorily key reforms agreed at the decision point; and (3) adopt and implement in a satisfactory manner its PRSP for at least one year.

As of the end of FY2010, debt reduction packages under the HIPC Initiative had been approved for 35 countries that have reached their decision points, 29 of them in Africa, providing US\$51 billion (in end-2007 net present value terms) in debt service relief. In total, the IMF has committed SDR 2.3 billion and disbursed SDR 1.8 billion under the initiative. Five additional countries are potentially eligible for HIPC Initiative assistance. In FY2010, [no] new countries reached the decision point under the initiative. Of the 35 countries that have reached their decision points, 28 had reached their completion points as of the end of FY2010, including four countries, the Islamic Republic of Afghanistan, the Central African Republic, the Republic of Congo, and Haiti, that reached their completion points during the year. In 2005, to help accelerate progress toward the United Nations Millennium Development Goals, the HIPC Initiative was supplemented with the Multilateral Debt Relief Initiative (MDRI),² which allows 100 percent relief on eligible debts from three multilateral institutions—the IMF, the World Bank, and the African Development Fund—for countries completing the HIPC Initiative process. In 2007, the Inter-American Development Bank also decided to provide additional debt relief to the five HIPCs in the Western Hemisphere. Under the MDRI, the Fund provides debt relief to member countries with annual per capita incomes at or below US\$380, as well as to countries with annual per capita incomes above that threshold that reach the completion point under the HIPC Initiative. The MDRI relief covers the full stock of eligible debt owed to the IMF at the end of 2004 that remains outstanding at the time debt relief is provided.

An initial group of 19 countries (17 HIPCs that had reached the completion point and two non-HIPC countries with per capita income below the established threshold) qualified for and benefited from MDRI relief in January 2006. In all, 28 countries have qualified for and received MDRI relief from the Fund, including, most recently, the Central African Republic in July 2009 and the Republic of Congo in January 2010 (see Web Table 3.3). Total relief provided by the IMF since the initiative began is SDR 2.73 billion.

¹For further information on the initiative, see "Factsheet: Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative" (www.imf.org/external/np/exr/facts/hipc.htm).

²For further information on the initiative, see "Factsheet: Multilateral Debt Relief Initiative" (www.imf.org/external/np/exr/facts/mdri.htm).