HIPC Debt Relief
Myths and Reality

Edited by
Jan Joost Teunissen and
Age Akkerman

FONDAD
Forum on Debt and Development (FONDAD)

FONDAD is an independent policy research centre and forum for international discussion established in the Netherlands. Supported by a worldwide network of experts, it provides policy-oriented research on a range of North-South problems, with particular emphasis on international financial issues. Through research, seminars and publications, FONDAD aims to provide factual background information and practical strategies for policymakers and other interested groups in industrial, developing and transition countries.

Director: Jan Joost Teunissen
HIPC Debt Relief

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Abbreviations

AERC African Economic Research Consortium
AfDB African Development Bank
AfDF African Development Fund
BWIs Bretton Woods institutions
CABEI Central American Bank for Economic Integration
CAFOD Catholic Agency for Overseas Development
CIRR rates Commercial Interest Reference Rates (official lending rates of export credit agencies)
DAC Development Assistance Committee of the OECD
DFID Department for International Development (UK)
DSA Debt Sustainability Analysis
ECAs export credit agencies
EIB European Investment Bank
ESAF Enhanced Structural Adjustment Facility
ESAIDARM Eastern and Southern African Initiative in Debt and Reserves Management
EU European Union
EURODAD European Network on Debt and Development
FDI foreign direct investment
G-7 Group of Seven (Canada, France, Germany, Italy, Japan, UK, US)
G-8 Group of Eight (G-7 + Russia)
GDP gross domestic product
GNI gross national income
GNP gross national product
HIPCs heavily indebted poor countries
HIPC I original HIPC Initiative (1996)
HIPC II Enhanced HIPC Initiative (1999)
IADB Inter-American Development Bank
IBRD International Bank for Reconstruction and Development (World Bank)
IDA International Development Association
IFIs international financial institutions
IMF International Monetary Fund
IOB Policy and Operations Evaluation Department of the Dutch Ministry of Foreign Affairs
MDGs Millennium Development Goals
MEFMI Macroeconomic and Financial Management Institute of Eastern and Southern Africa
NCM Dutch export credit agency
NEPAD New Partnership for Africa’s Development
NGO non-governmental organisation
NPV net present value (see Glossary)
ODA official development assistance
OECD Organisation for Economic Cooperation and Development
OED Operations Evaluation Department (of the World Bank)
OPEC Organization of the Petroleum Exporting Countries
PAF Poverty Action Fund (Uganda)
PRGF poverty reducing growth facility
PRSC poverty reduction support credit
PRSP poverty reduction strategy paper
PV present value (see Glossary)
SADC Southern African Development Community
SDR special drawing right
SILICs severely indebted lower-income countries
SIMICs severely indebted middle-income countries
SPA Special Programme of Assistance
STABEX multiple-purpose funding instrument of the EU used both for development and trade policies
TRIPS trade-related aspects of intellectual property rights
UK United Kingdom
UN United Nations
UNCTAD United Nations Conference on Trade and Development
US United States
WB World Bank
Glossary

**Completion Point:** The date at which a country completes the key structural reforms agreed at the HIPC decision point, including implementation of its poverty reduction strategy. The country then receives the bulk of HIPC debt relief without further policy conditions. As of January 2004, 10 countries reached completion point: Benin, Bolivia, Burkina Faso, Guyana, Mali, Mauritania, Mozambique, Nicaragua, Tanzania, and Uganda.

**Cutoff Date:** The date prior to which loans must be contracted in order to be eligible for rescheduling. The cutoff date is usually 6 to 12 months before the date of the first rescheduling agreement and typically remains fixed in all subsequent rescheduling.

**Debt Overhang:** The excess of a country’s external debt over its long-term capacity to pay.

**Decision Point:** The date at which HIPC debt relief is committed and begins on an interim basis, to be followed by HIPC completion point.

**Enhanced HIPC Initiative:** A major review of the HIPC Initiative in 1999 to provide deeper, broader and quicker debt relief.

**HIPCs (heavily indebted poor countries):** There are currently 42 countries defined by the IMF and World Bank as HIPCs. HIPC criteria include assessment by the World Bank and IMF showing a “potential need for HIPC debt relief” and per capita income below $785, with entitlement to borrow on IDA-only terms from the World Bank and from the IMF’s PRGF.

**London Club:** An informal grouping of commercial banks who meet to determine a common approach to rescheduling commercial bank debt to a country. The London Club does not have a secretariat comparable to the Paris Club.
**Millennium Development Goals (MDGs):** Goals for poverty reduction and development agreed by the United Nations in 2000.

**NPV (Net Present Value):** See PV.

**Paris Club:** The forum of creditor governments belonging to the Development Assistance Committee of the OECD to negotiate the rescheduling of the debts owed to them – mainly aid loans and guaranteed export credits. Rescheduling is actually put into effect by a series of bilateral agreements negotiated separately by each individual creditor some time after the Paris Club agreement.

**Poverty Reduction and Growth Facility (PRGF):** Established as the Enhanced Structural Adjustment Facility (ESAF) in 1987. Used as the IMF’s concessional lending facility, which provides finance for Poverty Reduction Strategy Papers (PRSPs).

**Poverty Reduction Strategy Paper (PRSP):** PRSPs describe the country’s macroeconomic, structural and social policies and programmes to promote growth and reduce poverty, as well as associated external financing needs and major sources of financing. In order for a country to qualify for multilateral debt relief, access PRGF and IDA concessional lending, it must produce a PRSP.

**PV (Present Value) (of debt):** The discounted sum of all future debt service at a given rate of interest. If the rate of interest is the contractual rate of the debt, by definition, PV equals the nominal value, whereas if the rate of interest is the market interest rate, then PV equals the market value of the debt. Present Value is sometimes mis-described as Net Present Value.