

Amar Bhattacharya, Geske Dijkstra, Martin Gilman, Florence Kuteesa, Matthew Martin, Mothae Maruping, Wayne Mitchell and Rosetti Nayenga

HIPC Debt Relief

Myths and Reality

Edited by
Jan Joost Teunissen and
Age Akkerman

FONDAD

Forum on Debt and Development (FONDAD)

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Director: Jan Joost Teunissen

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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.