Meeting of Multilateral Development Banks on Debt Issues
Washington D.C., June 21-22, 2006

Chairman's Summary

1. Introduction

On June 21 and 22 the World Bank hosted the 2006 annual meeting of multilateral creditors in Washington D.C.[1] Representatives from 14 multilateral institutions participated in the meeting,[2] and two bilateral creditors attended as observers.[3] The meeting focused on debt relief and debt sustainability in low income countries in the context of the HIPC Debt Relief Initiative and the Multilateral Debt Relief Initiative (MDRI). A summary of the discussions follows.

2. Discussions

HIPC status of implementation update: World Bank staff presented an update on progress in implementation of the HIPC Initiative, noting that 2006 marks the Initiative's tenth anniversary.[4] Staff informed participants that since the last annual MDB meeting in June 2005, Cameroon had reached its completion point, while Burundi and the Republic of Congo had reached the decision point. It is possible that a further three HIPCs – Malawi, São Tomé and Principe, and Sierra Leone – will reach their completion points in 2006. To date, 29 countries have reached their decision points, of which 19 have reached their completion points.[5] The total committed debt relief to these countries is estimated to be $41.3 billion in 2005 NPV terms, which represents a 10 percent increase over the previous estimate ($37 billion in 2004 NPV terms).[6] This increase is largely attributed to the inclusion of Rwanda's topping up and updated information on the Republic of Congo and Cameroon.

The presentation also indicated the main issues proposed for discussion in the upcoming Status of Implementation Report, underscoring that the report would for the first time present progress in implementing the MDRI. The recently approved Board document on the ring-fencing exercise was discussed, which identified 11 countries that meet the income and indebtedness criteria at end-2004 and might wish to avail themselves of the Initiative. These include seven

[1] Since 2003, the MDBs have decided to meet on an annual basis, rather than on a semi-annual basis, which was the previous practice, with the understanding that ad-hoc meetings on special topics could be arranged between these annual meetings, if necessary.
[2] The following organizations were represented at the meeting: African Development Bank (AfDB); Arab Bank for Economic Development in Africa (BADEA); Asian Development Bank (AsDB); Caribbean Development Bank (CDB); Corporación Andina de Fomento (CAF); European Bank for Reconstruction and Development (EBRD); European Commission (EC); European Investment Bank (EIB); Inter-American Development Bank (IaDB); International Fund for Agricultural Development (IFAD); International Monetary Fund (IMF); Islamic Development Bank (IsDB); Nordic Investment Bank (NIB); and the World Bank.
[3] The bilateral observers were the Kuwait Fund for Arab Economic Development (KF) and the Saudi Fund for Development (SF).
[4] Annexes I, II and III provide detailed information on the status of implementation of the HIPC Initiative, including delivery of debt relief by each MDB, as well as total committed debt relief by country.
[5] Of the interim countries, six face interruptions or delays in their macroeconomic programs, while four have no PRGF in place.
[6] Total costs for the 40 potentially HIPC-eligible countries are estimated to be $62 billion in end-2005 NPV terms.

countries that had been previously identified as HIPCs (Central African Republic, Comoros, Côte d'Ivoire, Liberia, Somalia, Sudan and Togo) and four new countries (Eritrea, Haiti, the Kyrgyz Republic and Nepal).[7] In this connection, it was explained that countries that met the criteria but do not wish to avail themselves of the Initiative may reconsider their decisions at any time in the future.

In view of the scheduled expiration of the sunset clause at end-2006, a number of countries may not be able to benefit from debt relief under the HIPC Initiative. In discussing the implications of expiration, some participants observed that the advent of the MDRI may make it difficult to justify. World Bank staff reported that the process of obtaining guidance on the sunset clause from the Boards of the Bank and Fund was underway. It is tentatively expected that a document will be presented to the Boards of the Bank and the Fund prior to the Annual Meetings in September this year.

Staff also informed participants that responsibility for managing the Debt Reduction Facility for IDA-only countries was recently assigned to the Economic Policy and Debt Department within the World Bank. The Facility provides grant funding to eligible countries to allow them to buy back, at deep discounts, their debts owed to commercial creditors.

Update on the Low-Income Country Debt Sustainability Framework (DSF): World Bank staff updated participants on progress in implementing the joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (LICs). To date, in excess of 40 joint Debt Sustainability Analyses (DSAs) have been conducted. The Bank expects that this coverage will extend to all IDA-only countries in the near future. IDA grant allocations for FY2007 will be based on these DSAs, where available. A review of the DSF was discussed at the Boards in April 2006. A second review of the DSF is being prepared by Bank and Fund staff for presentation to the Boards in October.

The second review will examine three key emerging issues: (i) the moderate risk rating category may need refinement into subcategories; (ii) domestic debt needs to be dealt with more systematically within the framework; and (iii) MDRI implications and prospects for improved coordination among creditors around the DSF.

MDB representatives commended progress in implementing the DSF and efforts to improve the DSAs (e.g., customized stress-testing), an issue raised last year. Some participants asked how domestic debt is expected to be included in the risk analysis. Staff responded that, so far, DSF modalities allow only for a qualitative assessment of the implications of domestic debt for the risk rating (Vietnam was cited as a case in point). It is an empirical question that requires, and is receiving, further scrutiny.

Participants agreed that, while strengthened coordination among MDBs in conducting LIC DSAs is desirable, the ultimate goal is for countries themselves to adopt the DSA as a tool to improve decision-making. Several participants also requested that MDBs be given an opportunity to submit their inputs into DSAs to help strengthen creditor coordination and

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[7] This final list of potentially eligible HIPCs has been endorsed and closed by the Boards of the Bank and Fund. However, the Boards could decide to amend the list on a case-by-case basis to include countries whose data are verified to meet the relevant thresholds at end-2004.

dialogue. Finally, it was suggested that, apart from MDBs and export credit agencies, the Fund and Bank's outreach activities should include credit-rating agencies.

Some representatives raised concerns about the potential sensitivity of the risk rating to small changes in the CPIA and, in turn, the possible impact of the CPIA on the terms of IDA (and other) assistance to the country. World Bank staff remarked that options are being studied to reduce such sensitivity but also noted that the DSF allows room for judgment precisely to take into account such considerations.

Progress in Implementation of the Multilateral Debt Relief Initiative (MDRI): Staff from the Fund, the World Bank and the African Development Bank presented progress in MDRI implementation. The Fund, whose modalities were approved in November 2005, reported that it has delivered relief to 21 countries to date. The total cost to the IMF for these countries is estimated at SDR2.5 billion (about $3.7 billion). The Bank is expected to commence MDRI delivery on July 1 to the 19 post-completion point countries, at an estimated cost of about $26 billion. The World Bank presentation also described the effects on recipient countries' IDA allocations, and it was noted that compensatory financing from donors will be allocated to all IDA-only countries in accordance with the Performance Based Allocation system. AfDB staff presented the details of AfDB participation in the MDRI, which is expected to amount to a total of approximately US$8.5 billion for all countries.

Further practical topics were discussed relating to MDRI implementation. With regard to MDRI and topping up under the HIPC Initiative, it was clarified that MDRI assistance is assessed in addition to HIPC assistance, implying that topping up is calculated prior to the assessment of MDRI debt relief. On the implications of the MDRI for other MDBs, IADB staff reported that the IADB is examining the issue of whether to provide debt relief analogous to MDRI in its four post-completion point client countries. On country coverage, staff of the IMF clarified that inclusion of Cambodia and Tajikistan in the Fund's implementation of the MDRI is due to the equality of treatment provision governing the Trust Fund that provides part of the resources for IMF assistance under the MDRI.

The Free-Rider Issue: MDB representatives discussed the issue of free-riding following a presentation by World Bank staff. Increased non-concessional borrowing by countries receiving grants or debt relief could undermine the goal of reduced risk of future debt distress. Participants were informed that the Board of the World Bank will shortly discuss a paper on this issue, which proposes a two pronged strategy: (1) borrower disincentives to reduce the incidence of unwarranted non-concessional borrowing, and (2) encouraging lenders to make increased use of the DSF as a coordination tool. Participants discussed the general approach to dealing with free-rider risks and emphasized the importance of country ownership of prudent debt management. They also encouraged flexibility where some potentially high return projects might warrant special exceptions.

Evaluation update of the HIPC Initiative: Staff from the World Bank's Independent Evaluation Group (IEG) presented an update of their evaluation of the HIPC Initiative, which reinforced the conclusions of the original study. First, the update suggests that HIPC resources have been additional to aid to the recipient countries. Second, debt relief does not guarantee debt sustainability. Third, the study also underlined the need for HIPCs to maintain good policy performance and sound debt management to avoid future debt sustainability problems.

Discussion focused on the need to consult with other MDBs in coming to an assessment of the Initiative, and on the fact that in the short term it made more sense to focus evaluation on the effects of debt relief on policy performance and the level and pattern of public spending rather than economic growth.

The debt relief reporting template: World Bank staff reported on a pilot launch in November 2005 of the MDB debt reporting template covering Ethiopia, Mali, and Nicaragua. By mid-June 2006, nine of the 14 participating MDBs had submitted templates, delivering only half of the 26 templates required by the exercise. Feedback from the responding MDBs was nonetheless positive and it was recognized that, in spite of time requirements and capacity constraints, the initiative is in the interest of the MDB community. Moreover, the MDRI will increase shareholder demand for harmonized debt-relief reporting and representatives agreed on the importance of achieving a critical mass of MDBs reporting via the template. It was agreed to launch the first comprehensive reporting exercise in July with a submission deadline of end-October 2006, limiting coverage to post-completion point countries, with the data collected to be processed in time for the Spring Meetings.

3. Other Items

It was agreed that the next annual meeting would take place in a year’s time. Prior to that, a special meeting could be called if the need arises.