

# Meeting of Multilateral Development Banks on Debt Issues Washington D.C., July 11-12, 2007

## Chairman's Summary

### 1. Introduction

On July 11 and 12 the World Bank hosted the 2007 annual meeting of multilateral creditors in Washington D.C.<sup>1</sup> Representatives from sixteen multilateral financial institutions participated in the meeting,<sup>2</sup> and two bilateral creditors attended as observers.<sup>3</sup> The meeting focused on progress in implementing the HIPC Debt Relief Initiative and the Multilateral Debt Relief Initiative (MDRI), debt sustainability (including arrears clearance and the treatment of 'fragile states'), and debt management capacity building in low income countries. A summary of the discussions follows.

### 2. Discussions

**Status of HIPC and MDRI implementation:** World Bank staff presented an update on progress in implementation of the HIPC Initiative based on preliminary findings of the status of implementation report.<sup>4</sup> Staff informed participants that, since the last annual MDB meeting in June 2006, Malawi, São Tomé and Príncipe and Sierra Leone had reached completion point, while Haiti and Afghanistan had reached the decision point.<sup>5</sup> To date, 31 countries have reached their decision points, of which 22 have reached their completion points.<sup>6</sup> It is possible that a further four to six HIPCs may reach their completion points by end-2008, while the Central African Republic and Liberia may reach decision point by end-2007.

In discussing the progress of pre-decision point countries, staff noted that the upcoming arrears clearance process for Liberia is representative of the growing complexities that now confront the MDB community. Participants recognized the importance of collaboration to facilitate smooth arrears clearance for such countries to enable them to reach the HIPC decision

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<sup>1</sup> Since 2003, the MDBs have met 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.

<sup>2</sup> 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), Central African States Development Bank (BDEAC), Central American Bank for Economic Integration (CABEI), Corporación Andina de Fomento (CAF), 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 Development Fund (NDF), OPEC Fund for International Development (OFID), and the World Bank.

<sup>3</sup> The bilateral observers were the Kuwait Fund for Arab Economic Development (KF) and the Saudi Fund for Development (SF).

<sup>4</sup> Annexes I and II of the Chairman's Summary provide detailed information on the status of implementation of the HIPC Initiative, including modalities for the delivery of debt relief by each MDB, as well as total committed debt relief by country.

<sup>5</sup> In April 2007, after World Bank and IMF Board approval of the preliminary document, Afghanistan became the 41<sup>st</sup> country to become eligible under the HIPC Initiative.

<sup>6</sup> All of the 9 interim countries are currently on track with their macroeconomic programs. Of these, 6 have completed full PRSPs, 3 of which have established at least a one-year satisfactory record. Political tensions, however, remain a source of concern in several countries.

point as early as possible. In this connection, OFID presented their modalities for arrears clearance. As background, the AfDB described its proposed framework of enhanced engagement in fragile states. In this vein, the group was also informed that the EC has started a process to develop a strategy for dealing with states in ‘fragile situations’. Participants agreed that efforts to strengthen creditor coordination and dialogue were yielding positive results, but that more needed to be done to streamline the process.

Staff informed participants that, in August 2006, the Boards of the Bank and Fund decided that the sunset clause of the Initiative be allowed to take effect at end-2006 and that countries that are assessed to have met the income and indebtedness criteria based on end-2004 data be grandfathered. This ensures that all potentially eligible HIPCs have the possibility of benefiting from debt relief under existing debt relief initiatives. In this connection, it was explained that countries that met the criteria but indicated that they did not wish to avail themselves of the Initiative may reconsider their decisions at any time in the future. In the meantime, these countries will not be included in the list of HIPCs that would be regularly reviewed in future status of implementation reports.

Participants also discussed debt cancellation beyond the Enhanced HIPC Initiative by the IDA, the IMF, the AfDF and the IaDB. AfDF’s participation in the MDRI, which commenced in September 2006, is expected to total approximately US\$7.4 billion for 33 HIPCs in nominal terms, including 18 countries that have already qualified. The Inter-American Development Bank briefed participants that the IaDB’s Board of Governors approved in March 2007 the “Multilateral Debt Relief and Concessional Reform at the Inter-American Development Bank” proposal to provide debt relief to Latin America’s HIPCs (Bolivia, Guyana, Haiti, Honduras, and Nicaragua). Effective January 2007, 100 percent debt relief was provided to the four completion point countries through the IaDB soft window (FSO) at a total cost of approximately US\$3.4 billion (end-2004 cut off date) in nominal terms. Debt relief will be provided to Haiti upon reaching HIPC completion point. No external resources have been provided to IaDB to finance the deepened debt relief.

The IDA, the IMF, and the AfDF have delivered debt relief through the MDRI, and the IaDB through the 2007 initiative described above. The total cost for all four institutions is expected to amount to approximately US\$48.0 billion in nominal terms. They have so far cancelled the debt of 22 post-completion point countries at a cost of approximately US\$37.6 billion in nominal terms.

**Dealing with commercial debt – the Debt Reduction Facility (DRF) for IDA-only countries:** World Bank staff presented the objectives and modalities of the DRF, established in 1989 to help heavily indebted, low-income countries extinguish external commercial debt where this is impeding growth and poverty reduction. Financed from IBRD net income and bilateral contributions, the DRF provides preparation grants to fund legal and financial advisers and implementation grants to finance debt buybacks. Participants were informed of the operating rules of the DRF and of certain policy changes introduced in 2004, as well as of the Board’s recent decision to extend the facility until 2012. To date, 22 operations have been completed in 21 countries, with the result that US\$8 billion in commercial debt has been extinguished. The World Bank Board of Executive Directors recently approved a second commercial debt reduction operation for Mozambique, expected to extinguish about US\$175 million of debt, and a second commercial debt reduction operation for Nicaragua (addressing US\$1.4 billion of debt)

will be considered by the Board soon. Participants welcomed the application of this initiative and noted its usefulness in helping to reduce potential litigation against HIPCs, but underscored that it would also need to be complemented by other measures.

**Application of the Low-Income Country Debt Sustainability Framework (DSF):** Fund staff updated participants on progress in implementing the joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (LICs), noting changes to the framework recently endorsed by the Boards of the Bank and the Fund. Participants emphasized that the ultimate purpose of the DSF is to enable borrowers to develop appropriate financing strategies, consistent with development plans and poverty-reduction objectives.

Participants also noted that the Bank and Fund boards stressed the need to accelerate dissemination of the DSF to creditors and borrowers. Current efforts to achieve this objective were discussed and participants expressed an interest in contributing actively to this process, with the AfDB proposing to arrange discussions on the DSF with other stakeholders during its annual meetings, and to organize DSF workshops in Mali and Malawi by end-2007 in close partnership with IDA, IMF and the EC.

IFAD informed participants about its recent adoption of the DSF as a tool to inform its financing decisions, and about the implications it is expected to have operationally.

**Debt management capacity building in low income countries:** World Bank and IMF staff presented a joint paper on debt management recently approved by the Boards of the Bank and the Fund.<sup>7</sup> Experience with strengthening Public Debt Management (PDM) frameworks and capacity in developing countries was reviewed, underscoring that many countries, particularly LICs, continue to face a range of policy, institutional and operational challenges. Participants were informed that, going forward the Bank and Fund will continue to respond to demand by individual countries, undertake capacity building and knowledge dissemination, and monitor and analyze financial risks in debt structures.

Beyond this, the Boards have endorsed an enhanced program to strengthen debt management capacity. As a first step, a special effort is being made to support development and implementation of effective Medium Term Debt Strategies (MTDS) in LICs. This will be part of longer-term joint Bank-Fund capacity building assistance. Consultation on the methodology will be carried out as needed with regional development banks and other institutions, including the private sector.

To track progress, this joint work will be complemented by periodic assessments through application of the Debt Management Performance Assessment Tool (DeMPA), a recently developed methodology for assessing performance through a comprehensive set of indicators spanning the full range of government debt management (GDM) functions. The DeMPA is expected to highlight strengths and weaknesses in GDM practices in each country, facilitate the design of plans to build and augment capacity and institutions, and also allow the monitoring of progress over time in achieving the objectives of GDM consistent with international sound

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<sup>7</sup> “Strengthening Debt Management Practices: Lessons from Country Experiences and Issues Going Forward” (March 2007)

practice. The MTDS and DeMPA initiatives will be tailored for individual countries, complement existing programs, and be undertaken in close consultation with country authorities, other providers of technical cooperation, and bilateral donors.

Participants found this to be a timely and important initiative and expressed a keen interest to scale up their collaboration with the Bank and the Fund in the program. Participants noted the need to be selective when choosing countries and to ensure consistency with public financial management reforms.

### **3. Other Items**

It was agreed that the next annual meeting would take place in a year's time. In the interim period, participants agreed to advance the agenda on debt sustainability, debt management capacity building, and other related issues, including through active participation in other relevant fora.