European Investment Bank

The EIB’s HIPC debt relief contribution(s)
  - The case of Ghana -
  - Limits & innovative solutions –

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The EIB & the EU – HIPC debt relief implementation

Reminder - Two distinct debt relief contributions

- The European Investment Bank (EIB) implements HIPC debt relief:
  a) on its own behalf and,
  b) on behalf of the European Union (EU).

Both contributions are treated separately because HIPC debt relief funds originate from different sources:

- from the 8 & 9th European Development Fund (EDF*) for the EU and,
- from the EIB’s profit and loss account for the EIB.

* The EDF is the main instrument for providing Community aid for development cooperation in the ACP States and OCT.
The EIB’s HIPC implementation

General policy

- The modalities of EIB’s debt relief are slightly unusual. Indeed, the EIB provides debt relief to countries where it is exposed with own resources loans and the amount of the debt relief is calculated on the basis of that exposure.

- However, when it comes to delivering debt relief, the EIB’s Board decisions of 1998 and 2000 provided that the Bank should apply its debt relief only to EU loans from the European Development Fund.

- In 2008, however, EIB’s Board allowed to restructure loans with protracted arrears in Liberia, Côte d’Ivoire, Togo and DRC. (These are all project loans, not quick disbursing policy loans)
The EIB’s HIPC implementation

The restructuring and its limits

- The restructuring takes into account the stock of debt at Decision Point when arrears are frozen and recovery suspended by the EIB. The repayment of the stock of debt is divided in 4 or 5 instalments. Debt relief is applied to each instalment: The country pays a part of the instalment and the EIB contributes to the residual up to the limit of the country’s entitlement.

- Restructuring of EIB loans on own resources in arrears was only possible through a mechanism like the HIPC initiative. Reason: the EIB has no mechanism to restructure loans in a normal context. The restructuring had to be strictly ring-fenced.
The EIB’s HIPC implementation

The Ghanaian case and the impact of the crisis  Part 1/2

- Ghana reached the Completion Point in 2004.

- EU implementation took place in 2005

- The EU intervened on all outstanding loans in Ghana, leaving insufficient room for the EIB to intervene with its own contribution.

- The new EIB rules put in place in 2008 allowed the EIB to intervene on EIB loans on own resources. This exception was restricted to arrears restructuring and was not applied to Ghana (as there were no EIB arrears in Ghana).
The EIB’s HIPC implementation

The Ghanaian case and the impact of the crisis  Part 2/2

- Two proposals were made to apply debt relief to an EIB loan on own resources. The first proposal was rejected by the Board for technical reason.

- The second proposal was withdrawn by our Management Committee because of concerns about the potential impact on the Banks preferred creditor status.

- In the current circumstances (crisis), we had to look for an alternative approach to deliver the Bank’s residual debt relief to Ghana (about 48 M EUR).
The EIB’s HIPC implementation

Innovative Solution

The EIB approached its sister institution, the European Commission.

The EIB’s HIPC debt relief contribution will now be used to reinforce the Commission’s efforts to help Ghana reach the MDG’s (10th EDF MDG Contract). It involves transferring to the EU the amount of support due by the Bank.

The EIB’s contribution would thus be used by the Commission, on behalf of the Bank, to increase aid flows to Ghana in support of poverty reduction and achievement of the Millennium Development Goals (MDGs) which is fully consistent with the objectives of the HIPC Debt Relief Initiative.

The principle has been agreed and we hope to be able to implement the EIB’s debt relief contribution in the coming months.
Conclusion

Dixit: Albert Einstein

“As far as the laws of mathematics refer to reality, they are not certain, and as far as they are certain, they do not refer to reality”.

This obviously is also valid for HIPC

Thank you for your attention