

GOAL

To ensure deep, broad and fast debt relief with a strong link to poverty reduction.

ELIGIBILITY

- IDA-Only & PRGF eligible
- Heavily indebted (i.e. NPV of debt above 150% of exports or above 250% of government revenues)
- Good track record of reform

HIPC

DEBT INITIATIVE FOR
HEAVILY INDEBTED
POOR COUNTRIES

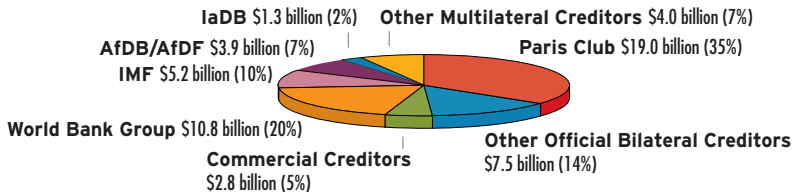


**LAUNCHED AT BANK-FUND
ANNUAL MEETINGS IN 1996
AND ENHANCED IN 1999**

ANNUAL MEETINGS 2004

Potential costs of the HIPC Initiative by creditor group

(Total cost: \$54.5 billion, end-2003 NPV terms)¹



¹ 37 HIPCs. Excludes those likely to be sustainable (Angola, Kenya, Vietnam and Yemen) and Lao P.D.R.

The HIPC initiative has contributed to increased poverty-reducing expenditure for decision point countries (ratio in percent)

		Africa	Latin America	Total
Poverty-Reducing Expenditure/Government Revenue	1999	38.6%	47.6%	40.9%
	2003	47.8%	51.2%	48.5%
Poverty-Reducing Expenditure/GDP	1999	5.5%	10.8%	6.4%
	2003	7.3%	10.7%	7.9%

Achievements of the HIPC Initiative

- Debt relief approved for 27 countries amounting to \$54 billion in nominal debt service relief.
- Fourteen countries have reached completion point and have been granted \$29 billion dollars in unconditional debt service relief.
- NPV of external debt of 27 approved HIPCs cut by approximately two-thirds (with other forms of debt relief).
- Social expenditures are increasing substantially, in part financed by resources freed up by HIPC relief. Poverty-reducing government spending is projected to rise from less than twice that of debt-service payments to almost four times.

Challenges

- Establishing a good track record of reform in the 11 pre-decision point countries yet to receive debt relief under the HIPC Initiative. Many of these countries are affected by conflict and/or have protracted arrears problems.
- Ensuring full participation by all creditors to support the countries' efforts towards debt sustainability;
- Beyond debt relief, maintaining long-term debt sustainability will require efforts by the HIPCs and the international community to ensure prudent borrowing practices, suitable concessional financing, sustained and broad based growth, a more diversified export base and increased access to markets in developed countries.

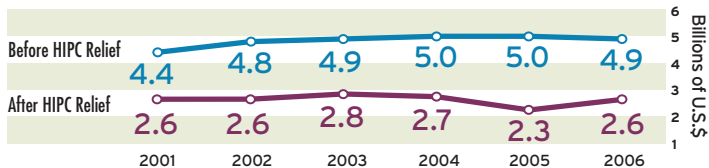
Debt stocks of HIPCs reduced by two-thirds

27 decision point countries, US\$ billion 2003 NPV terms



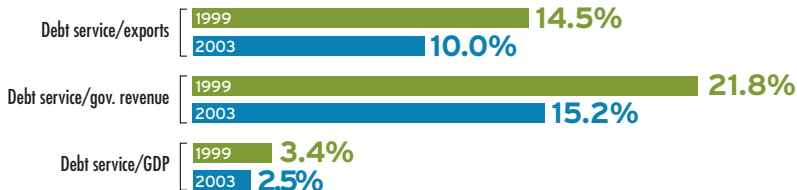
Projected debt service obligations fall substantially

27 decision point countries



Significant decline in debt service ratios after HIPC relief

27 decision point countries



Debt indicators of HIPCs fall to levels comparable to other non-HIPC developing countries

	27 DECISION POINT HIPCS		Non-HIPC developing countries 2002
	Before HIPC relief 1999	After HIPC relief 2004 ¹	
NPV of debt-to-exports	274%	141%	143%
NPV of debt-to-GDP	61%	33%	39%
Debt service-to-exports	15%	9%	15%

¹ Projections

Status of HIPC countries

Completion Point 14 countries

BENIN	BURKINA FASO	GHANA	MALI	MOZAMBIQUE	NÍGER	TANZANIA
BOLIVIA	ETHIOPIA	GUYANA	MAURITANIA	NICARAGUA	SENEGAL	UGANDA

To reach completion point, countries must maintain macroeconomic stability under a PRGF-supported program, carry out key structural and social reforms, and implement a Poverty Reduction Strategy satisfactorily for one year. Debt relief is then provided irrevocably by the country's creditors.

Decision Point 13 countries

CAMEROON	CONGO, DEM. REP.	GUINEA	HONDURAS	MALAWI	SÃO TOMÉ AND PRÍNCIPÉ	ZAMBIA
CHAD	THE GAMBIA	GUINEA-BISSAU	MADAGASCAR	RWANDA	SIERRA LEONE	

To reach decision point, countries should have a track record of macroeconomic stability, have prepared an Interim Poverty Reduction Strategy through a participatory process, and cleared any outstanding arrears. The amount of debt relief necessary to bring countries' debt indicators to HIPC thresholds is calculated, and countries begin receiving debt relief on a provisional basis.

Pre-Decision Point 11 countries

BURUNDI	COMOROS	CÔTE D'IVOIRE	LIBERIA	SOMALIA	TOGO
CENTRAL AFRICAN REPUBLIC	CONGO, REP. OF	LAO PDR	MYANMAR	SUDAN	