



The Debt Reduction Facility for IDA-Only Countries: An Overview

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Objective of the presentation

- A brief overview the Debt Reduction Facility for IDA-Only Countries (DRF)
- A few key messages for Paris Club members and private creditors

Mandate and financing

- The DRF was established by the Boards of IBRD and IDA in July 1989
- Role is to help heavily indebted, low-income countries resolve external commercial debt
- Financed from IBRD net income (about \$218 m. used to date) and grant contributions from other donors (about \$207 m. used to date)
- With approval of the DRF Oversight Committee and the IDA Board, the DRF provides:
 - preparation grants to fund legal and financial advisers
 - implementation grants to finance debt buybacks

Why the DRF is needed

- Many commercial creditors have not provided “proportional burden sharing” debt relief
- Share of commercial debt is high in upcoming HIPC Initiative cases
- Concerns about aggressive acquisition and litigation by commercial creditors
- The DRF is a proven instrument for catalyzing commercial creditor participation in debt relief
- For these reasons, in April 2007 the IDA Board extended the DRF until 31 July 2012

Eligible countries

- “IDA-only” countries which have reached the “decision point” under the Heavily Indebted Poor Countries (HIPC) Initiative
- Acceptable progress with a medium term program for economic development
- A strategy for debt management involving:
 - addressing commercial debt comprehensively
 - substantial relief from official bilateral creditors
 - and which enhances country’s growth and development.

Pre-Decision Point HIPCs

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Afghanistan
Comoros
Côte d'Ivoire
Eritrea
Central African Rep.
Kyrgyz Rep.
Liberia
Nepal
Somalia
Sudan
Togo

Interim HIPCs

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Chad
Congo, Dem. Rep.
Congo, Rep.
The Gambia
Guinea
Guinea-Bissau
Burundi
Haiti

Completion Point HIPCs

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Sao Tome and Principe
Sierra Leone
Benin
Bolivia
Burkina Faso
Cameroon
Ethiopia
Ghana
Guyana
Honduras
Madagascar
Malawi
Mali
Mauritania
Mozambique
Nicaragua
Niger
Rwanda
Senegal
Tanzania
Uganda
Zambia

Eligible debt

- Public and publicly guaranteed uninsured medium and long-term external commercial debt in arrears
- Public and publicly guaranteed uninsured short-term external commercial debt (trade financing, suppliers credit and overdrafts)
- Debt must have been contracted and disbursed before the end of the HIPC “reference year”

Ineligible debt

- Bilateral debt or multilateral debt
- Domestic debt
- Third-party guaranteed debt
- Debt contracted after end of the HIPC “reference year”
- Debt that is time-barred under statutes of limitation

Characteristics of an operation

- Debt buyback prepared and implemented by the Government and its advisers – not by IDA
- Debt purchased at deep discount
- Principal, interest and penalties extinguished
- Comprehensive operation – high participation essential
- Best possible deal – but “proportionate burden sharing” required
- Typically at least 50% of costs of a buyback from other donors

22 DRF operations in 21 countries

Around US\$8 billion of debt has been extinguished:

- US\$ 4.5 billion of principal
- plus US\$ 3.5 billion of interest arrears and penalties

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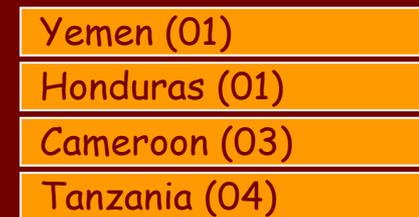
1991-1995

8



1996-2000

4



2000-2005

Future operations

- DRF-supported operations are currently under preparation in Mozambique and Nicaragua
- A DRF preparation grant has been approved for the Democratic Republic of the Congo, with work expected to start soon
- Discussions are under way with a number of other countries including Sierra Leone

Pricing and participation: the past

- To date, buybacks have been priced as a percentage of principal only:
 - Price per dollar of principal has fluctuated from 8 cents to 26 cents
- This has resulted in:
 - uneven treatment of creditors (those with older claims/more interest got a lower effective price)
 - sometimes in low participation (participation has fluctuated from 100% down to as low as 62%)
 - in some cases, need for “clean up” second buybacks (e.g. Guyana, Mozambique, Nicaragua)

Pricing and participation: the future

- In future, buybacks will be priced as a percentage of a broader definition of debt (including interest components)
- Proportionate burden sharing is called for by the Paris Club and the HIPC Initiative
- DRF beneficiary governments and their advisers are required to negotiate the best possible deal
- However, “best possible deal” will be assessed in terms of participation as well as pricing so as to eliminate the need for second buybacks

Future financing

- The DRF can play a bigger role in encouraging commercial creditor participation in the HIPC Initiative
- But only if other donors, including Paris Club members contribute:
 - IBRD net income contributions to the DRF are limited
 - Future DRF demands on IBRD net income will need to be weighed against the competing needs of IDA
- And only if responsible commercial creditors continue to provide debt relief as part of buybacks