

Private Sector Restructurings in HIPC Countries

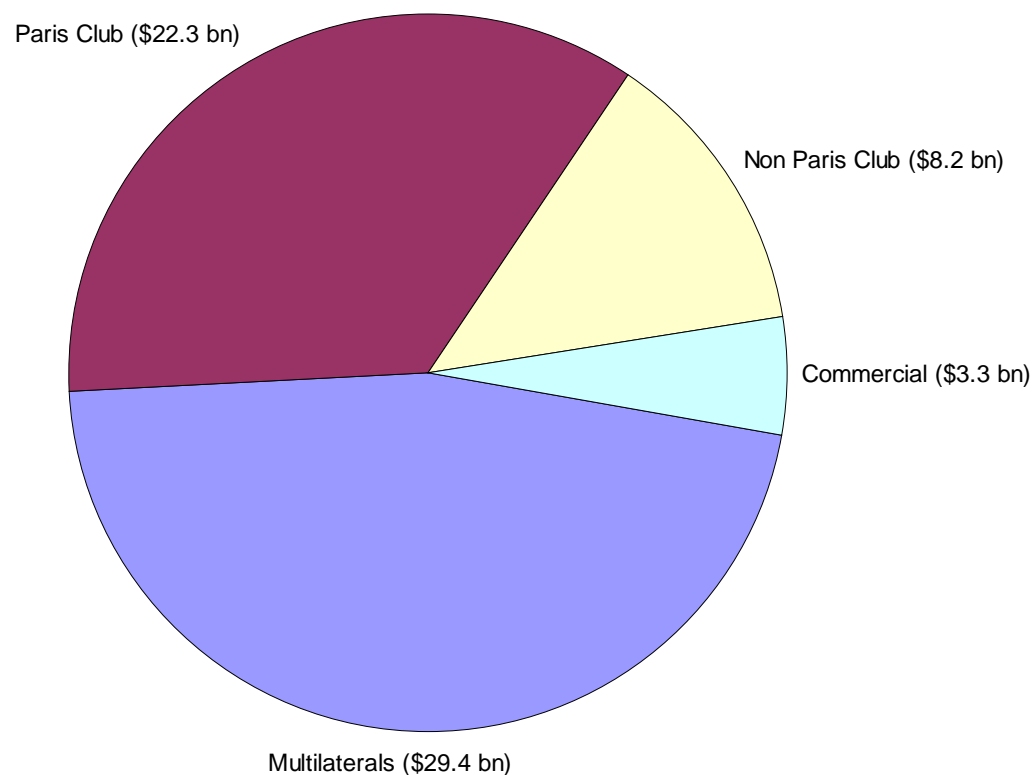
Comments on the IDA-Debt Reduction Facility (New) Framework

I. Commercial Creditors Participation to the HIPC Initiative

Commercial Creditors Participation to the HIPC Initiative

- Commercial creditors expected debt relief towards the 40 HIPCs amounts to \$3.3 billion (5.2% of total estimated costs)
 - Expected debt relief at Decision Point for 30 countries amounts to \$1.5 billion
 - Expected debt relief for 10 Pre-Decision Point countries amounts to \$1.8 billion

HIPC DEBT RELIEF CONTRIBUTIONS (YEAR END 2005)



But commercial creditors have forgiven \$6.6bn of debt (or \$6.1bn debt relief) to 18 HIPC countries through 19 buyback operations completed between 1991 and 2004 under the IDA-Debt Reduction facility.

Source : Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) - Status of Implementation – August 21st 2006

Commercial Creditors Participation to the HIPC Initiative

- Commercial creditors have generally delivered debt relief before HIPC Decision Point
 - 16 DRF operations out of 19 (84%) were closed before the HIPC Decision Point
- IDA DRF operations have been priced outside of the HIPC framework
 - Due to limited resources, and failing a Common Reduction Factor, pricing approach was “lowest possible price”
 - Approach led to substantial holding outs by professional investors, and rewarded “passive” creditors

Country	Closing Date	Decision Point	Completion Point	Debt Relief	Participation	Litigation
Niger	03-1991	12-2000	06-2004	89,4%	99,0%	No
Mozambique	12-1991	04-2000	09-2001	94,1%	64,0%	No
Guyana	11-1992	11-2000	12-2003	91,7%	100,0%	Yes
Uganda	02-1993	02-2000	05-2000	92,9%	89,0%	Yes
Bolivia	05-1993	02-2000	06-2001	90,5%	94,0%	No
Sao Tome	08-1994	12-2000	03-2007	94,1%	87,0%	No
Zambia	09-1994	12-2000	04-2005	93,5%	78,0%	Yes
Sierra Leone	09-1995	03-2002	12-2006	92,3%	73,0%	Yes
Nicaragua	12-1995	12-2000	01-2004	95,3%	81,0%	Yes
Ethiopia	01-1996	11-2001	04-2004	95,3%	80,0%	Yes
Mauritania	08-1996	02-2000	06-2002	94,1%	98,0%	No
Senegal	12-1996	06-2000	04-2004	88,2%	96,0%	No
Togo	12-1997			92,6%	99,0%	No
Cote d'Ivoire	03-1998			85,8%	100,0%	No
Guyana II	08-1999	11-2000	12-2003	94,7%	62,0%	Yes
Guinea	04-2000	12-2000		92,3%	75,0%	No
Honduras	08-2001	07-2000	04-2005	93,3%	90,0%	Yes
Cameroon	08-2003	10-2000	04-2006	95,2%	79,0%	Yes
Tanzania	04-2004	04-2000	11-2001	94,1%	88,0%	No

Source : Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) - Status of Implementation – August 21st 2006

II. Nicaragua Buyback II – Implementing the new DRF Framework

IDA-Debt Reduction Facility Guidelines - 2004 Key Improvements

- **Main purpose : Increasing creditor participation to complement the HIPC Initiative and reduce litigation risks**

	Modifications to IDA-DRF Guidelines	IIF Principles Application
OPERATIONS FOR HIPC POST DECISION POINT COUNTRIES	<ul style="list-style-type: none"> ■ Future buyback operations to be implemented after the country reaches the Decision Point. ■ Common Reduction Factor determined at Decision Point applicable to all creditors. 	<ul style="list-style-type: none"> ■ Transparency and Disclosure (DSF/DSA)
RECOGNITION OF INTEREST	<ul style="list-style-type: none"> ■ Future buyback operations will take into account interest components. 	<ul style="list-style-type: none"> ■ Fair Treatment.
INCREASED PARTICIPATION RATE REQUIREMENT	<ul style="list-style-type: none"> ■ Closing of future buyback operations will be subject to higher participation thresholds to provide for a comprehensive and final solution. 	<ul style="list-style-type: none"> ■ Closer Debtor-Creditor Dialogue and Cooperation.

IMPLICATIONS

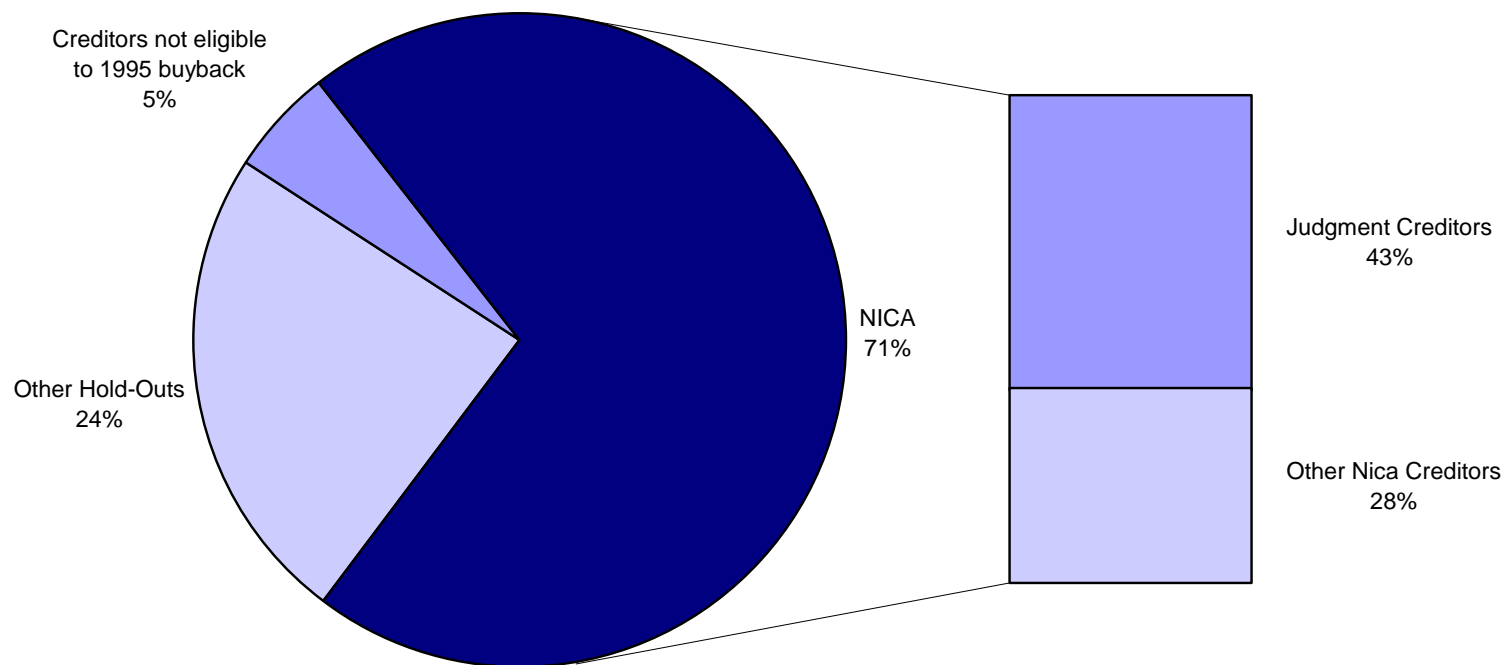
DRF practice is moving away from “best (lowest) possible price” approach towards the “best possible comprehensive deal” for the debtor country.

Characterized by improved dialogue and increased flexibility

Nicaragua Buy-Back II: Cooperation and Dialogue with Creditors

- Nicaragua buyback I was closed in Dec. 1995 (81% participation). HIPC Decision Point reached in Dec. 2000
- Nicaragua buyback II stock of eligible external debt amounts to US\$ 1.41 billion as at March 31, 2007
 - Hold out financial institutions claims account for 95% of total debt
 - Comprises 3 creditors holding judgments awarded by US District Court for the Southern District Court of New York
- Cooperation and dialogue started early 2005 with committee representing 75% of total hold outs
 - Nicaragua International Creditors Association regroups all judgment creditors and is chaired by Greylock Capital

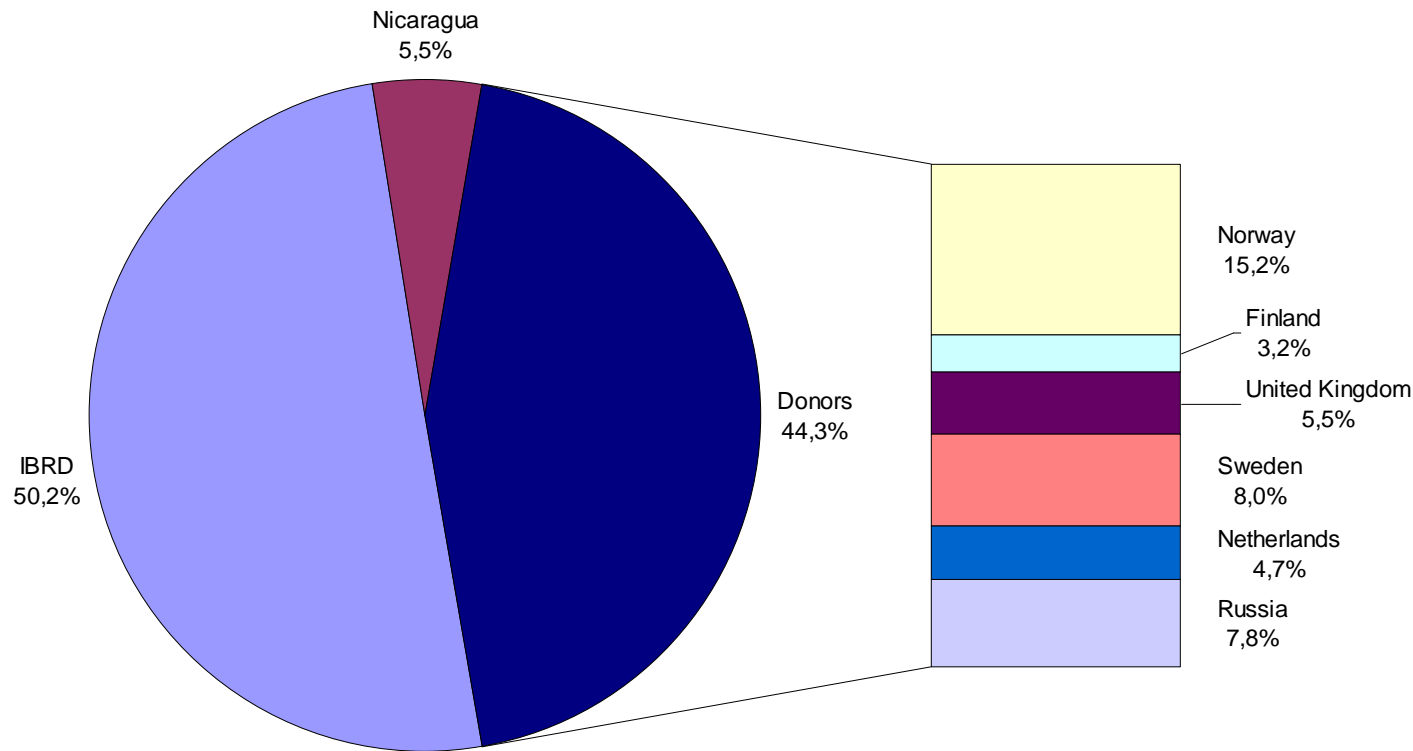
NICARAGUA BUY-BACK II – BREAKDOWN OF ELIGIBLE COMMERCIAL DEBT (MARCH 31 2007)



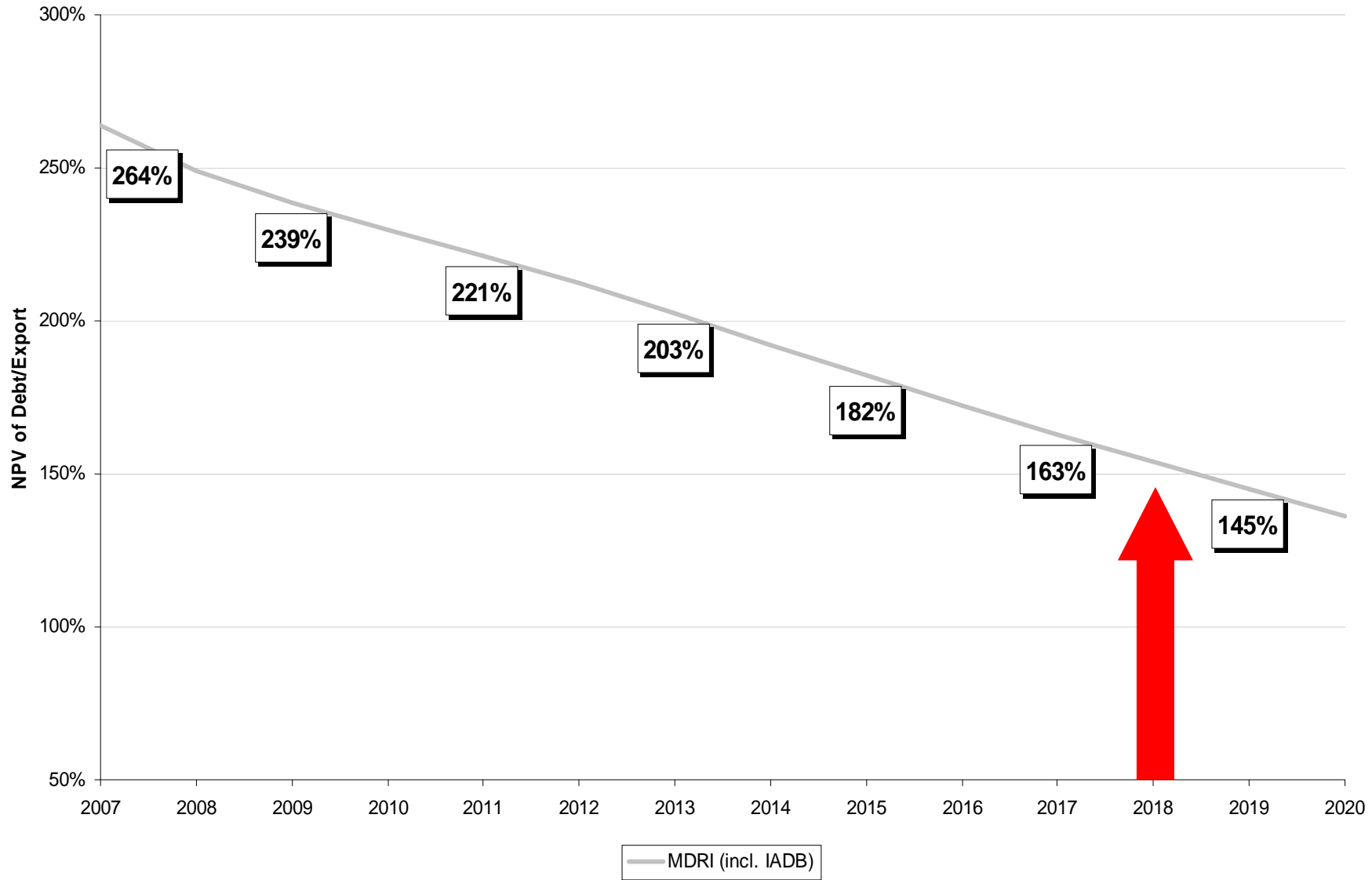
Nicaragua Buyback II : Early Support from World Bank and Donors

- Pricing strategy supported by World Bank staff under new DRF framework approach
- Funding mobilized after two Donors' Conferences. Donors contributions account for 44.3% of the total.
 - Six different donor countries offered to participate to the operation
 - First ever participation to an IDA Buy-back operation by Finland and the Russian Federation
 - Nicaragua was authorized by Parliament to use its own reserves to provide funds to the operation

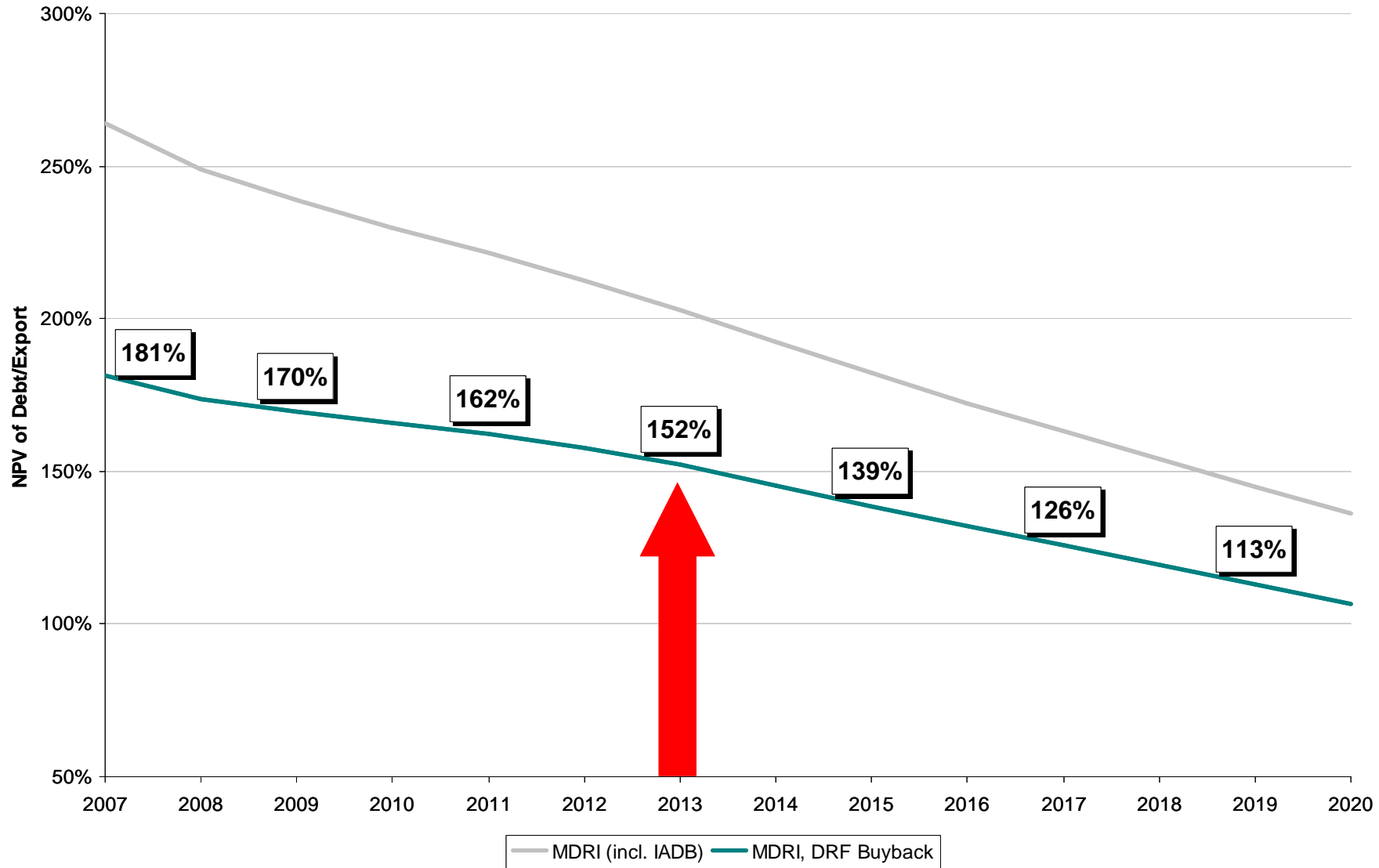
NICARAGUA BUY-BACK II - CONTRIBUTIONS BREAKDOWN



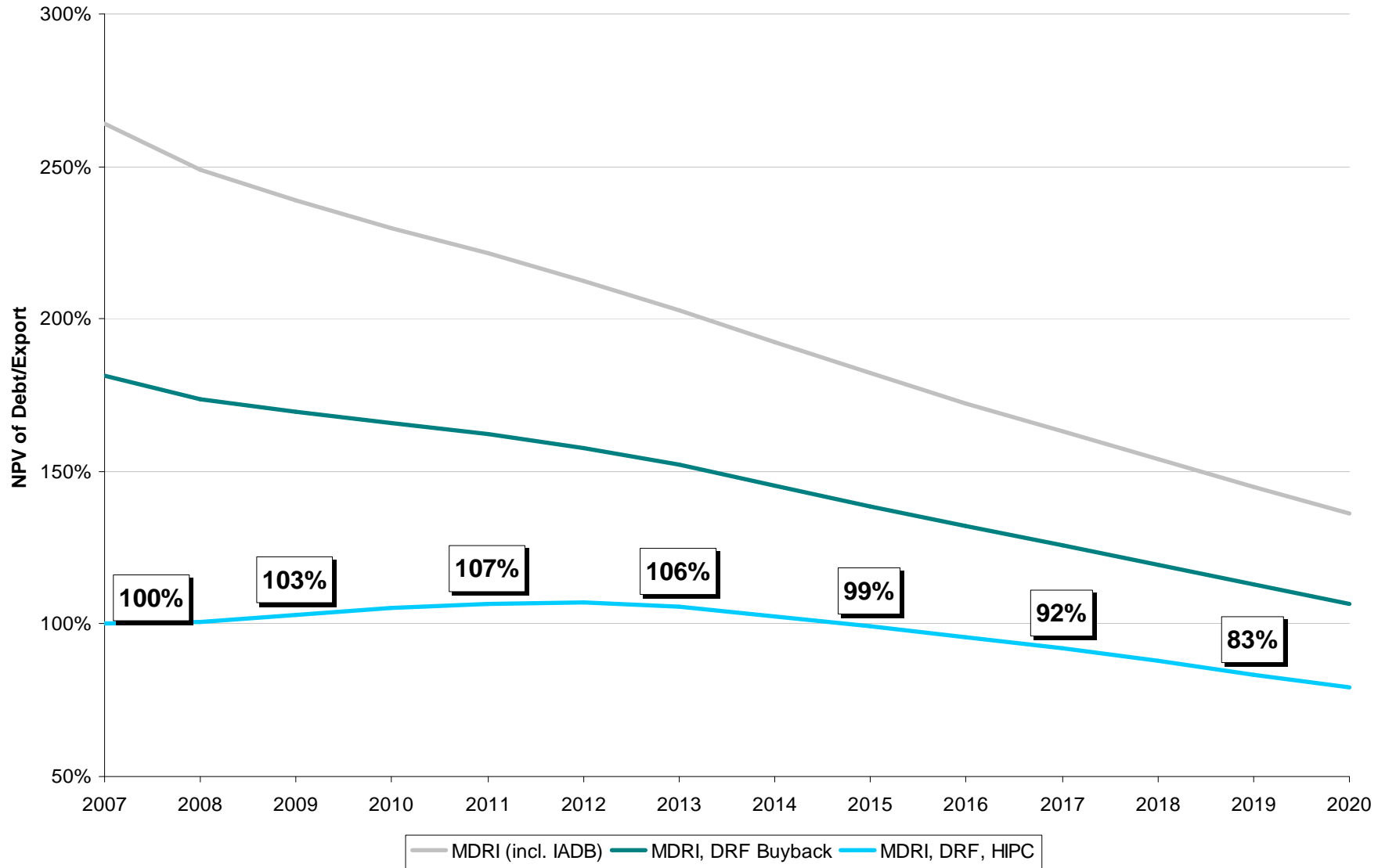
Nicaragua : MDRI Impact on Debt to Export Ratio



Nicaragua : DRF Buyback Impact on Debt to Export Ratio



Nicaragua : Non PC Creditors HIPC Participation Impact



III. Non Paris Club Creditors Participation to the HIPC Initiative ?

Nicaragua : Official Non Paris Club Creditors participation to HIPC

- Participation to HIPC of all Non-Paris Club Creditors is required by Nicaragua to meet Debt Sustainability

NICARAGUA – NPV OF DEBT RELIEF AT DECISION POINT (1999) YET TO BE FORMALIZED (\$MILLIONS)	
Multilaterals	10
OPEC Fund (1)	8
FOCEM	2
Non-Paris Club	1 110
Costa Rica (2)	373
Libya	217
Taiwan, Republic of China	119
Iran	109
Honduras (2)	97
Algeria (2)	69
Peru	31
China, People's Republic (2)	21
Serbia	15
Bulgaria (1) (2)	12
Others	48
Total	1 120

1/ Creditor has already delivered some debt relief to Nicaragua under the HIPC Initiative. Amount shown corresponds to debt relief not yet delivered.

2/ Creditor has formally confirmed to the IMF and the WB its commitment to deliver debt relief on all or some claims on HIPCs, but has not yet provided debt relief to Nicaragua.

Source : Banco Central de Nicaragua – May 2007