INTER-AGENCY TASK FORCE
ON FINANCING FOR DEVELOPMENT

Issue Brief Series

Debt crisis resolution

International Monetary Fund (IMF)

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1. Introduction

The Addis Agenda makes clear that debtors and creditors need to work together to resolve unsustainable debt situations when they do occur. The Addis Agenda reaffirms commitment to support the remaining HIPC-eligible countries that are working to complete the HIPC process. It encourages consideration of further debt relief steps and/or other measures for countries affected by severe natural disasters and social or economic shocks that undermine a country's debt sustainability. In recognition of increasing access of developing countries to international financial markets, the Addis Agenda welcomes reforms to *pari passu* and collective action clauses proposed by International Capital Market Association and encourages countries issuing bonds under foreign law to take further actions to include those clauses in all their bond issuance. It also recognizes the "Paris Forum" initiative by Paris Club.

2. Stocktaking

2.1 Actions by official creditors

The HIPC Initiative was launched in 1996 by the IMF and World Bank, with the aim of ensuring that no poor country faces a debt burden it cannot manage. Since then, the international financial community, including multilateral organizations and governments have worked together to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries. In 2005, to help accelerate progress toward the United Nations Millennium Development Goals (MDGs), the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI), which provided for 100 percent relief on eligible debt from three multilateral institutions—the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF)—to a group of low-income countries.

The HIPC Initiative and MDRI are nearly complete, with 36 countries having already reached the completion point under the HIPC Initiative (Table 1). Three countries—Eritrea, Somalia, and Sudan—have yet to start the process of qualifying for debt relief under the Initiative. While Zimbabwe met the indebtedness criterion for eligibility under the HIPC Initiative, it did not qualify for debt relief under the initiative based on 2013 data. At this time, Zimbabwe's HIPC qualification remains unclear. The authorities intend to proceed with their arrears clearance strategy outside the HIPC framework. Debt relief under the Initiative has alleviated debt burdens substantially in recipient countries and has enabled them to increase their poverty-reducing expenditure by over one and a half percentage points of GDP between 2001 and 2014.

Table 1: HIPC Eligible Countries (as of end-June 2016)

36 Post-Completion-Point HIPCs 1/			
Afghanistan	Congo, Dem. Rep. of the	Haiti	Niger
Benin	Congo, Rep. of	Honduras	Rwanda
Bolivia	Côte d'Ivoire	Liberia	São Tomé and Príncipe
Burkina Faso	Ethiopia	Madagascar	Senegal
Burundi	Gambia, The	Malawi	Sierra Leone
Cameroon	Ghana	Mali	Tanzania
Central African Republic	Guinea	Mauritania	Togo
Chad	Guinea-Bissau	Mozambique	Uganda
Comoros	Guyana	Nicaragua	Zambia
3 Pre-Decision-Point HIPCs 2/			
Eritrea	Somalia	Sudan	

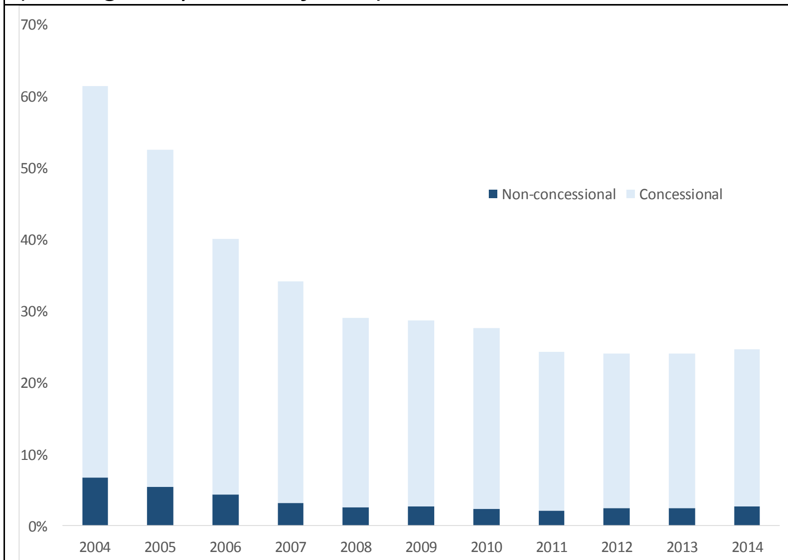
1/ Countries that have qualified for irrevocable debt relief under the HIPC Initiative.

2/ Countries that are eligible or potentially eligible and may wish to avail themselves of the HIPC Initiative and MDRI.

Sources:
IMF Factsheet: HIPC Initiative (https://www.imf.org/external/np/exr/facts/hipc.htm)
International Monetary Fund – The World Bank (2016), "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Statistical Update" (March)

Debt stock in LICs that received HIPC/MDRI debt relief and/or are at high risk of external debt distress remain low on average. HIPC/MDRI debt reliefs have lowered the level of external debt in recipient countries considerably. While non-concessional debt, as defined by the Development Assistance Committee of the OECD, has risen modestly in recent years, the overall level of external debt stock remains low (Figure 1).

Figure 1: Composition of External Debt Stock in LICs that received HIPC/MDRI debt relief and/or are at high risk of debt distress 1/ 2/ (Average, in percent of GDP)



Sources: World Bank International Debt Statistics.
1/ Kiribati, Marshall Islands, Micronesia, Timor Leste, Tuvalu, Somalia, and South Sudan are excluded.
2/ The definition of concessional term follows the one by the Development Assistance Committee (DAC) of the OECD.

The IMF has continued to implement new facilities to help countries cope with natural disasters and other shocks. IMF's **Catastrophe Containment and Relief Trust (CCR)** was established in 2015 to expand the scope of qualifying events for debt relief under its predecessor Post-Catastrophe Debt Relief Trust from catastrophic natural disasters to public health disasters. Liberia, Sierra Leone, and Guinea have tapped the CCR in 2015 to cope with the fallout from the Ebola outbreak. The IMF also increased access limits to its emergency lending windows by 50 percent in 2015 through the **Rapid Credit Facility (RCF)** and **Rapid Financing Instrument (RFI)**. The RCF provides rapid and concessional financial assistance to LICs facing an urgent balance of payments need, without the need for program-based conditionality, while the RFI provides rapid financial assistance to all member countries facing an urgent balance of payments need, without the need to have a full-fledged program in place. The interest paid on RCF loans was also set permanently at zero percent. In 2015, Iraq and Vanuatu tapped RFI while Central African Republic, Dominica, the Gambia, Liberia, Madagascar, Nepal, and Vanuatu tapped RCF.

There have been three incidences of sovereign debt restructuring involving private creditors under IMF-supported programs since 2015. In 2015, Grenada was in default and completed a restructuring of bonds issued as part of its 2005 restructuring. The restructuring involved principal haircut and 5-year maturity extension. Two countries also restructured their debt held by private creditors as part of pre-default debt operations in 2015-16. In 2015, Ukraine restructured its sovereign and sovereign-guaranteed Eurobonds, City of Kyiv Eurobonds and sovereign-guaranteed state owned enterprise (SOE) external commercial loans, with terms involving principal haircuts and maturity extensions on most of the restructured debt. In addition, selected non-guaranteed SOE external liabilities were also restructured, with terms involving only maturity extensions. In April 2016, Mozambique swapped existing Eurobonds with new bonds that carry higher interest rates and mature three years later than the original bonds.

2.2 Additional mechanisms, including involving private creditors

In October 2014, the IMF endorsed key features of enhanced collective action and *pari passu* clauses in international sovereign bond contracts to reduce their vulnerability to holdout creditors in case of a debt restructuring. A progress report on the implementation of these clauses was published in September 2015. As of that time, over 60 percent of new issuances of sovereign bonds (in nominal principal terms) had included clauses consistent with these recommendations. A subsequent progress report will be issued to the IMF's Board this fall. The IMF continues to encourage the use of the enhanced clauses and monitors their inclusion in new issuances of international sovereign bonds.

In December 2015, **the IMF revised its policy on arrears to official bilateral creditors**. The reform process was initiated in 2013 as a response to the increasingly diverse landscape for official finance. The revised arrears policy encourages official bilateral creditors to reach agreement through the Paris Club or other representative fora, consistent with the parameters of the IMF program. If a representative agreement cannot be reached within the Paris Club, and creditor consent is not in place, the IMF can still consider lending into arrears owed to official bilateral creditors under carefully circumscribed circumstances.[1] The policy is expected to strengthen incentives for collective action among official bilateral creditors and promote more efficient resolution of sovereign debt crises. The implementation of the revised policy has started, and preliminary experience suggests the policy is promoting dialogue between member countries and their official bilateral creditors.

3. Policy options and recommendations for corrective action

The work currently undertaken by the IMF appears to be on track and no corrective actions are required.

[1] Namely, there is need for prompt support and the member is pursuing appropriate policies; the debtor is making good faith efforts to reach an agreement consistent with IMF program parameters; and the decision to lend into arrears will not have an undue effect on the IMF's ability to mobilize official financing packages in the future.