Alternatives to HIPC for African Debt-Distressed Countries:

Lessons from Myanmar, Nigeria, and Zimbabwe

Tendai Biti, Benjamin Leo, Scott Morris, and Todd Moss

Abstract

Despite the success of the Heavily Indebted Poor Countries (HIPC) initiative in reducing the debt burdens of low-income countries, at least eleven Sub-Saharan African countries are currently in, or face a high risk of, debt distress. A few of those currently at risk include countries that have been excluded from traditional debt relief frameworks, notably Eritrea, Sudan, and Zimbabwe. For countries outside the HIPC process, this paper lays out the (formidable) steps for retroactive HIPC inclusion. It then explains two successful debt relief efforts outside of HIPC (Myanmar's 'HIPC-lite' process in 2013 and Nigeria's discounted buyback in 2005) and one effort that has so far stalled (Zimbabwe). The paper concludes with lessons for countries seeking exceptional debt relief treatment.

Tendai Biti is a distinguished visiting fellow at the Center for Global Development (CGD) and former Finance Minister of Zimbabwe. Ben Leo is a Senior Fellow and Director of the Rethinking U.S. Development Policy initiative at CGD and a former official in the U.S. Treasury and White House. Scott Morris is a Senior Fellow at CGD and former senior official in the U.S. Treasury. Todd Moss is a Senior Fellow and Chief Operating Officer at CGD and a former official at the U.S. Department of State. The authors are thankful for input and comments on earlier drafts of this paper from colleagues and several anonymous reviewers. The authors are solely responsible for any errors in fact or judgment.

CGD is grateful for contributions from the African Development Bank in support of this work.

Tendai Biti, Benjamin Leo, Scott Morris, and Todd Moss. 2016. "Alternatives to HIPC for African Debt-Distressed Countries: Lessons from Myanmar, Nigeria, and Zimbabwe." CGD Policy Paper 073. Washington DC: Center for Global Development.
http://www.cgdev.org/publication/alternatives-hipc-african-debt-distressed-countries-lessons-myanmar-nigeria-and-zimbabwe

Center for Global Development
2055 L Street NW
Fifth Floor
Washington DC 20036
202-416-4000
www.cgdev.org

Center for Global Development
www.cgdev.org

CGD Policy Paper 073
January 2016

Contents

I. Overview

Most Sub-Saharan African countries' debt dynamics finally have returned to normalcy. This has followed nearly four decades of progressively more generous debt relief initiatives, deep economic restructuring, and strong economic growth more recently. Beginning in the 1980s, official bilateral creditors began rescheduling obligations after global commodity prices collapsed and external indebtedness ratios became increasingly unsustainable. These short-term liquidity measures then were followed by bilateral debt relief and later by the Heavily Indebted Poor Countries (HIPC) initiatives in 1996 and 1999. Finally, the Multilateral Debt Relief Initiative (MDRI) delivered 100 percent debt cancellation for qualifying countries' obligations to the International Monetary Fund (IMF), World Bank, and African Development Bank (AfDB). Under HIPC and MDRI, African countries alone received $106 billion in nominal debt stock relief.[1]

Currently, the region's aggregate external indebtedness ratios are more favorable than in many other developing regions. For instance, Sub-Saharan Africa has an external debt-to-exports ratio of 85 percent compared to 148 percent in Latin America and the Caribbean, 153 percent in emerging and developing Europe, and 127 percent amongst the Commonwealth of Independent States.[2] Moreover, external debt service ratios are the lowest amongst all developing regions.[3]

Despite this widespread progress, the chapter of unsustainable African debt levels has not closed completely. Several countries either remain in, or at high risk of experiencing, debt distress. Broadly speaking, there are three categories of debt-vulnerable countries in Sub-Saharan Africa. These include: (1) HIPC/MDRI eligible countries that have not yet received comprehensive debt relief; (2) countries that are in debt distress but not eligible for multilateral debt relief initiatives; and (3) countries that benefitted from past debt relief initiatives, but once again have unsustainable debt levels. Each of these groups face unique economic, political, and financial challenges that require targeted and customized policy responses.

In this paper, we focus primarily on debt vulnerable African countries that are not eligible for, or have exited from, formal debt relief initiatives. It is organized as follows. Section II provides a summary of the HIPC Initiative and MDRI mechanisms. In section III, we briefly analyze existing debt dynamics in African countries, including indebtedness levels, borrowing trends, and debt distress risks. Section IV outlines several options for dealing with unsustainable debt levels in non-HIPC eligible countries. Among other things,

---

[1] IMF and World Bank, Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Statistical Update, 2013

[2] IMF, 2015 World Economic Outlook report, April 2015, table B16.

[3] In Sub-Saharan Africa, the aggregate external debt service ratio is 15 percent of exports. This compares to: CIS (40 percent), emerging and developing Asia (30 percent), emerging and developing Europe (60 percent), Latin America and the Caribbean (37 percent), and the Middle East and North Africa (17 percent). Source: Ibid.

these options draw from recent ad hoc experiences in Myanmar, Nigeria, and Zimbabwe. Lastly, we provide a series of policy recommendations for regional institutions' consideration.

II. HIPC and MDRI Efforts

Since the mid-1990s, the HIPC Initiative has functioned as the guiding framework for providing comprehensive debt relief to low-income countries. Originally launched by the World Bank and IMF in 1996, it was later enhanced in 1999 to provide deeper and faster debt relief to a broader set of countries. The HIPC Initiative utilizes debt relief to lower countries' external debt situation to levels considered sustainable. Under the Original HIPC Initiative (1996-1999), the target was an external debt-to-exports ratio of 200 percent. The Enhanced HIPC Initiative (1999-current) further reduced the target external debt ratio to 150 percent of exports. The Multilateral Debt Relief Initiative (MDRI, 2005-current) cancelled 100 percent of eligible country claims at the World Bank, IMF, and AfDB.

A. Eligibility Requirements

Countries must meet a number of criteria to become eligible for the HIPC Initiative and MDRI. First, they must be classified as an "IDA/AfDF-only" country. This means that the country is not eligible to receive non-concessional loans from the World Bank and AfDB. Similarly, the country must only be eligible to receive loans from the IMF's Poverty Reduction and Growth Trust (PRGT) and not from the IMF's General Resource Account (GRA).[4]

Second, the country must face an unsustainable debt burden after the full application of traditional Paris Club mechanisms, such as Naples terms.[5] As noted above, the country must have a debt-to-export ratio above 150 percent or a debt-to-government revenue ratio above 250 percent.[6] Only external debt incurred by end-2004 is eligible for HIPC Initiative consideration and debt relief.[7] In this way, the initiative was ring-fenced to a specified group of countries and was not intended as an open-ended commitment to countries that might experience debt distress in the future.

Third, the country must begin to establish a track record of reform. Typically, this step requires an IMF upper credit tranche program (e.g., PRGT program). However, exceptions

---

[4] PRGT lending is limited to low-income countries and GRA assistance is broadly tailored for middle-income countries.

[5] "Naples Terms" provide debt stock reduction of up to 67 percent from Paris Club creditors and re-scheduling terms for remaining debt.

[6] This second ratio is designed to capture countries where the fiscal burden of external debt is particularly acute. Several countries, such as Guyana, have used this so-called fiscal ratio to secure HIPC eligibility.

[7] This also means that end-2004 data is utilized to determine whether the country's external indebtedness ratios are unsustainable.

have been made to utilize a staff-monitored program to establish a performance track record. Lastly, it must begin developing a Poverty Reduction Strategy Paper (PRSP), either on an interim- or formal-basis.[8]

B. HIPC/MDRI Debt Relief Process

In broad terms, the HIPC/MDRI debt relief process entails three distinct stages. This includes: (1) interim HIPC debt relief ("decision point"); (2) irrevocable HIPC debt relief ("completion point"); and (3) 100 percent cancellation of remaining eligible multilateral debt obligations (MDRI relief). Each of these stages is briefly detailed below.

Interim HIPC Relief ("Decision Point")

Once becoming HIPC-eligible, a country must meet a series of performance criteria before receiving interim debt service relief. First, the country must establish a track record of macroeconomic stability. Historically, the IMF and World Bank required sustained performance for 18 months, although the time requirement has been reduced for many countries. Second, the country must finalize its Interim Poverty Reduction Strategy Paper. Lastly, the country must clear any outstanding arrears to the World Bank, IMF, and AfDB. After this, World Bank and IMF staff will complete a formal loan-by-loan sustainability analysis to determine the country's indebtedness level and the amount of debt relief required to lower its external ratios to sustainable levels.[9] Lastly, the World Bank and IMF Executive Board of Directors must formally decide that the country should begin receiving interim debt service relief on a provisional basis (HIPC Decision Point status).

Irrevocable HIPC Debt Relief ("Completion Point")

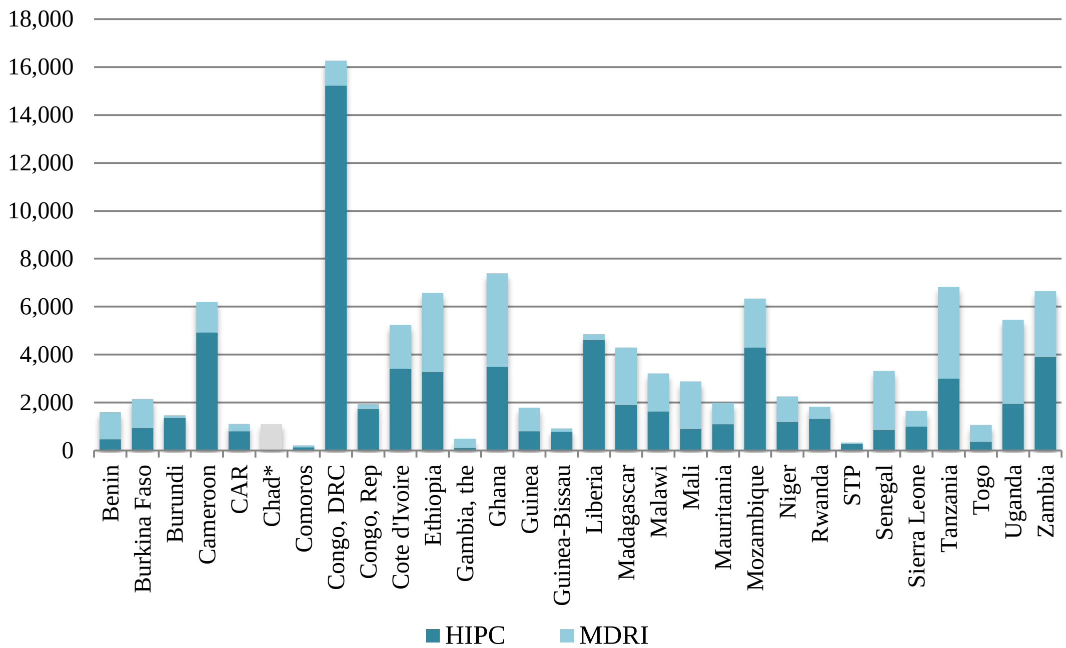
To qualify for irrevocable HIPC debt relief, the country must meet additional performance criteria. First, it must continue to maintain macroeconomic stability under an IMF-supported program for one year, such as a PRGT. Second, the country must implement key structural and social reforms as agreed at the HIPC Decision Point. Lastly, the country must implement the Poverty Reduction Strategy Paper satisfactorily for one year. At this point, the World Bank, IMF, and AfDB Executive Board of Directors formally consider and approve irrevocable debt relief (HIPC Completion Point status). The HIPC framework also

[8] PRSPs outline the relevant macroeconomic, structural and social programs that will promote growth and reduce poverty. They usually also estimate the associated external financing required for effective implementation.

[9] These calculations assume a standard Naples Terms treatment of Paris Club debt (67 percent NPV reduction) in determining the amount of IFI debt relief required. After which, the World Bank and IMF determine a 'common reduction factor' required by all creditors to bring the respective country's external debt-to-exports ratio to 150 percent. Therefore, the Paris Club would be required to implement another debt treatment to implement the common reduction factor (on top of the Naples Terms treatment). The IFIs would only apply the common reduction factor to their existing loans under the HIPC Initiative.

includes a “topping-up” provision by which additional debt relief can be applied in exceptional cases to offset exogenous factors that have fundamentally changed the country's economic circumstances.

Figure 1 – Nominal HIPC/MDRI Debt Relief, USD Millions[10]



Source: IMF and World Bank

MDRI Assistance

In 2005, G-7 nations took the additional step of forcing the World Bank, IMF, and - AfDB to cancel 100 percent of their remaining concessional debt claims outstanding.[11] MDRI eligibility is directly tied to the HIPC Initiative.[12] Countries automatically receive 100 percent debt cancellation upon reaching HIPC Completion Point.

[10] Chad received irrevocable HIPC and MDRI assistance in late April 2015. As of writing, specific details on the breakdown between each initiative was unavailable. Source: http://www.imf.org/external/np/sec/pr/2015/pr15183.htm

[11] Under MDRI, countries receive 100 percent debt relief on all remaining debt obligations prior to operable cutoff dates. The cutoff dates for eligible disbursed and outstanding debt are: (1) IDA – December 31, 2003; (2) AfDF – December 31, 2004; and IMF – December 31, 2004. Debt contracted and/or disbursed after these cutoff dates are ineligible for MDRI relief.

[12] However, the IMF provided 100 percent debt cancellation for two non-HIPCs (Cambodia and Tajikistan). These countries did not receive similar relief from the World Bank or other regional multilateral development banks.

In this manner, there are no additional eligibility requirements for MDRI debt relief assistance.

HIPC/MDRI Debt Relief

To date, African countries have received nearly $110 billion in nominal debt relief under the HIPC Initiative and MDRI. The largest recipients, by committed volume, include: Democratic Republic of Congo ($16.3 billion), Ghana ($7.4 billion), Tanzania ($6.8 billion), Zambia ($6.7 billion), and Ethiopia ($6.6 billion). In total, 30 African countries have benefitted under these two initiatives. Currently, three countries remain eligible for future HIPC/MDRI relief (Eritrea, Somalia, and Sudan).

III. Current African Debt Dynamics

A. Indebtedness Levels

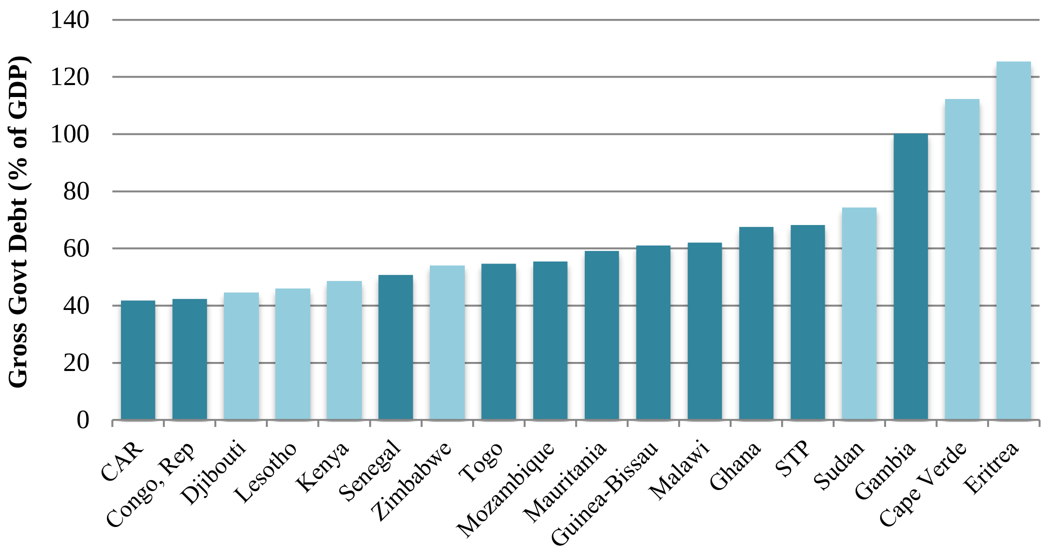
Despite widespread progress, Sub-Saharan Africa remains home to several of the most heavily indebted developing countries in the world. These include: Eritrea, Cape Verde, and the Gambia. Each of these countries has public debt obligations exceeding 100 percent of GDP.[13] In fact, Eritrea and Cape Verde are the third and fourth most indebted developing countries with public debt-to-GDP ratios of 125 percent and 112 percent, respectively.[14] A second tier of countries – including Sudan, São Tomé and Príncipe, Ghana, Somalia, and Zimbabwe – also have high indebtedness levels.[15] All of these countries have public debt obligations exceeding 50 percent of GDP. In addition, several African countries (Somalia, Sudan, and Zimbabwe) have been in debt distress for several decades after defaulting on payment obligations to official creditors.

[13] This includes both external and domestic debt obligations by the respective country governments. For additional methodological details, see the statistical appendix of the April 2015 IMF World Economic Outlook Report (http://www.imf.org/external/pubs/ft/weo/2015/01/).

[14] Jamaica is the most heavily indebted country, with a public debt-to-GDP ratio of 141 percent, followed by Lebanon (134 percent).

[15] Somalia has been in debt distress for several decades and is broadly considered to have among the highest external indebtedness ratios in the world. However, there are no reliable debt obligation data due to the collapse of the Somali state in the early 1990s. A full debt reconciliation process will be required to determine the country's actual obligations.

Figure 2 – Most Heavily Indebted Sub-Saharan African Countries (2014)[16]



Source: IMF WEO database (April 2015)

Note – Light blue shading indicates that the country has not received HIPC/MDRI debt relief

B. Recent Borrowing Trends

Many African country's debt ratios have trended upwards in the last few years, even after the immediate impact of the global financial crisis. Of the 15 most heavily indebted African countries, eleven have witnessed an increase in their public debt ratios since 2010.[17] The sharpest deteriorations occurred in Cape Verde, the Gambia, Malawi, and Ghana. Significant net government borrowing has contributed to these trends in several countries. By illustration, government primary net borrowing has averaged 11 percent in Cape Verde since 2010 (see figure 3 below).

[16] Excludes market-access countries (Angola, Botswana, Equatorial Guinea, Gabon, Mauritius, Namibia, Seychelles, South Africa, and Swaziland).

[17] These include: Cape Verde, the Gambia, Ghana, Guinea-Bissau, Kenya, Lesotho, Malawi, Mozambique, Senegal, Sudan, and Togo.

Figure 3 – Change in Public Indebtedness Levels, 2010-2014

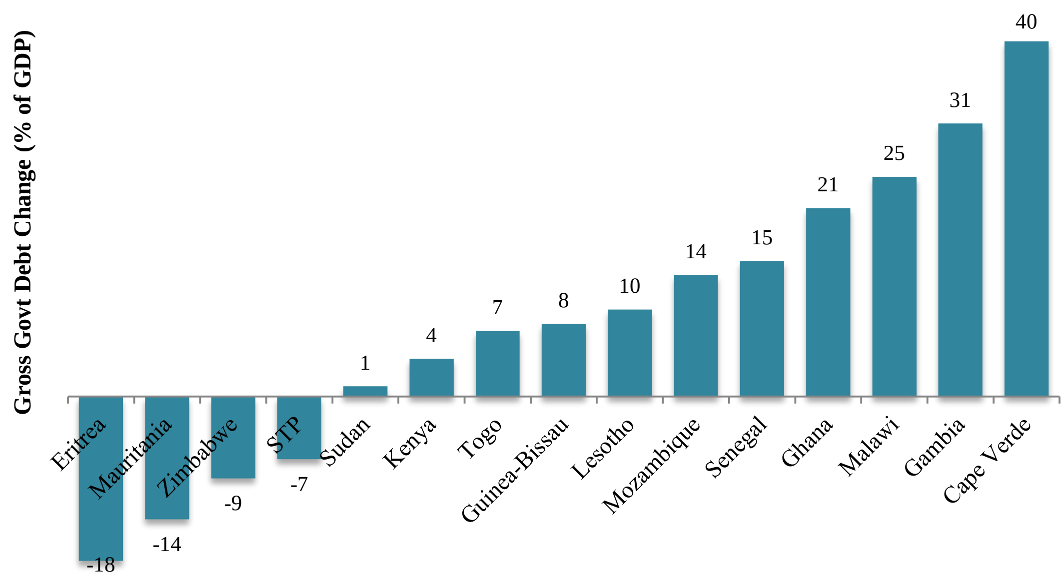
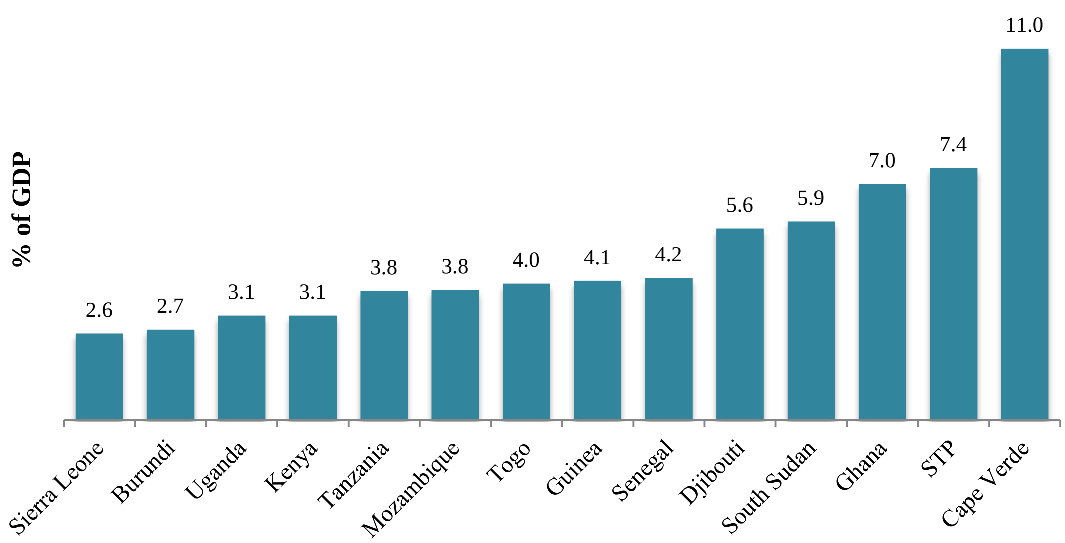


Figure 4 – Average General Government Primary Net Borrowing, 2010-2014[18]



[18] This represents the simple average of general government primary net borrowing between 2010 and 2014.

C. Risk of Debt Distress

At a regional level, Sub-Saharan African countries' risk of debt distress has declined significantly compared to five years ago largely due to strong economic growth and continued benefits from comprehensive debt relief. Under their Debt Sustainability Framework, the World Bank and IMF assign countries debt distress ratings on an ongoing basis.[19] This framework determines "sustainable" debt levels based upon: (1) countries' current and projected indebtedness ratios; and (2) institutional and policy performance levels.[20] The underlying premise is that poorly governed countries are more likely to become debt-distressed at lower indebtedness levels.[21]

Figure 5 – DSF Debt Burden Thresholds

Policy Performance	Present Value of Debt (as %)			Debt Service (as %)	
	Exports	*GDP*	*Revenues*	*Exports*	*Revenues*
Weak	100	30	200	15	18
Medium	150	40	250	20	20
Strong	200	50	300	25	22

Source: World Bank and IMF

Currently, nearly three-quarters of evaluated African countries are either at low or moderate risk of debt distress (29 out of 40).[22] However, eleven countries are in, or at high risk of, debt distress. These include: Burundi, Central African Republic, Chad[23], Djibouti, Eritrea, Ghana, Mauritania, São Tomé and Príncipe, Somalia, Sudan, and Zimbabwe. All of these countries, except Ghana and Mauritania, were classified as high risk in 2009/2010 as well. We expect that the World Bank and IMF will revisit Cape Verde's

---

[19] The framework is applied to all countries that are eligible for concessional financing from the World Bank and regional multilateral development banks.

[20] For additional details, see https://www.imf.org/external/np/exr/facts/jdsf.htm.

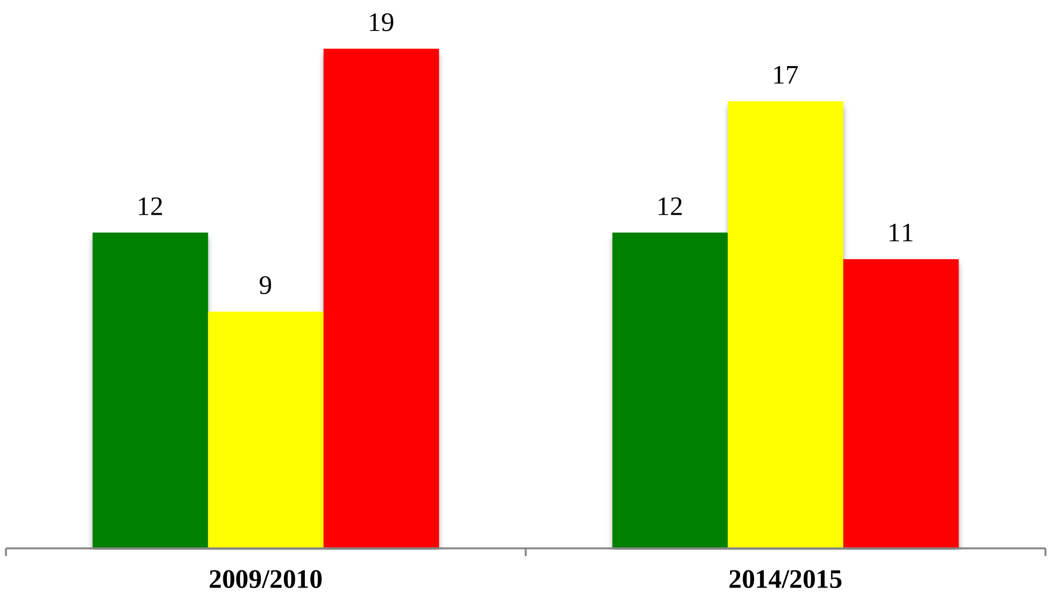
[21] Performance levels are based upon the World Bank's and African Development Bank's Country Policy and Institutional Assessments (CPIA), which evaluate countries according to 16 policy categories. A "poor performing" country is defined as having a CPIA score of less than 3.25 (out of 6). In operational terms, IDA and AfDF compare these debt distress thresholds against current and projected debt ratios to determine risk classifications. In turn, these classifications determine whether a country should receive grants, loans, or a combination of the two.

[22] This is based upon each country's most recent IMF and World Bank Debt Sustainability Analysis.

[23] Chad received HIPC/MDRI debt relief in April 2015, which has now reduced its debt distress rating.

moderate risk classification given its very high indebtedness ratios, which are projected to increase further over the medium term.[24]

Figure 6 – Risk of Debt Distress, IDA/AfDF Eligible Countries



Source: Various IMF and World Bank staff documents

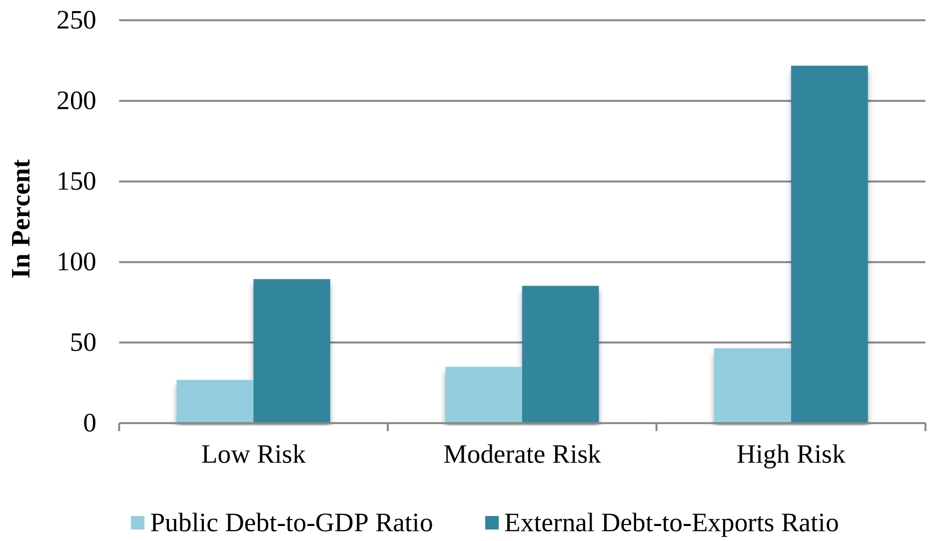
High-risk countries have much higher indebtedness ratios than other evaluated countries. On average, countries with a high risk of experiencing debt distress have a public debt-to-GDP ratio of nearly 60 percent and a nominal external debt-to-exports ratio of 220 percent.[25] By comparison, low risk countries have an average debt-to-GDP ratio roughly one-half that (33 percent) and an external debt-to-exports ratio of roughly 90 percent.[26]

[24] According to the IMF, Cape Verde's public debt-to-GDP ratio is projected to reach 123 percent by 2017.

[25] Since debt stock figures are not available for all countries in net present value terms, we present these figures in nominal terms. Due to the concessional nature of many countries' borrowing, appropriate caution should be used when interpreting these figures.

[26] This is comparison is particularly significant since the Low-Income Country Debt Sustainability Framework (DSF) determines countries' risk ratings based upon institutional performance and indebtedness ratios. Higher performing countries are presumed to have a higher debt carrying capacity, thereby allowing them to have higher external indebtedness ratios and still maintain a low or moderate risk of experiencing debt distress.

Figure 7 – Indebtedness Ratios, by Debt Risk Classification

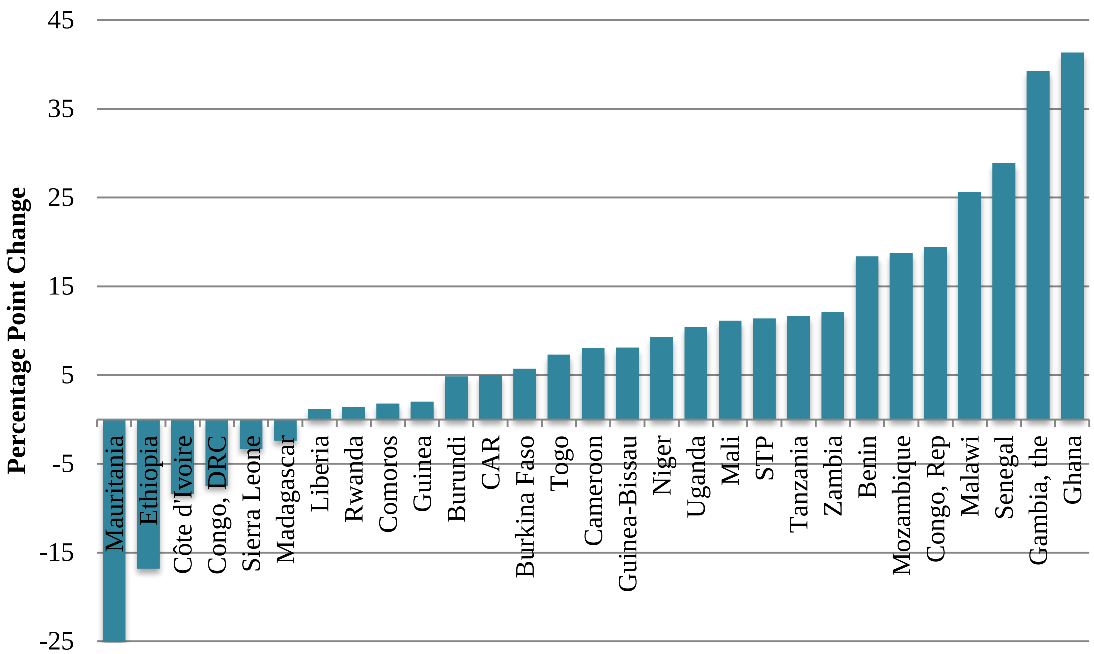


Source: IMF WEO database, World Bank WDI database, and authors' calculations

Of the high-risk countries, five have previously benefitted from comprehensive debt relief under the HIPC and MDRI initiatives. These include: Burundi, Central African Republic, Ghana, Mauritania, and São Tomé and Príncipe. Typically, this means that they either have re-accumulated unsustainable debt obligations, experienced an economic decline during the intervening period, and/or experienced a sharp deterioration in policy performance.[27] The remainder are either ineligible for formal multilateral debt relief mechanisms (Djibouti and Zimbabwe) or have failed to complete the related processes (Eritrea, Somalia, and Sudan) due to a range of policy, security, and political factors.

[27] In the Central African Republic, due to its low policy performance rating (CPIA = 2.38), it has much lower permissible indebtedness ratios. For reference, see figure X above (DSF Debt Burden Thresholds).

Figure 8 – Public Gross Debt to GDP Ratios, Current Versus HIPC/MDRI Exit



Source: IMF WEO database and authors' calculations

IV. Debt Relief Options

For countries outside the HIPC process, there are several options that could be pursued for seeking debt relief. The sections below outline: (a) steps required for retroactive inclusion in the HIPC Initiative; (b) Myanmar's successful experience with a 'HIPC-lite' process; (c) Nigeria's successful experience with a discounted buyback; and (d) Zimbabwe's stalled plans to date.

A. HIPC Reclassification and Retroactive Inclusion

In 2004, World Bank and IMF shareholders closed the list of HIPC eligible countries. A number of previously ineligible countries were "grandfathered" into the Initiative based upon their external indebtedness ratios at the time. These include: Afghanistan, Eritrea, Haiti, and the Kyrgyz Republic. Several heavily indebted African countries, including Zimbabwe, were not grandfathered for eligibility due to a variety of reasons.[28] The IFIs have sufficient legal flexibility to revisit HIPC eligibility for additional African countries in the future. However, such action would require strong political support from World Bank, IMF,

[28] For instance, Zimbabwe was not grandfathered into HIPC since it was classified as an IDA/AfDF blend country. Other countries, which now are considered as having a high risk of experiencing debt distress, did not qualify due to lower indebtedness ratios based upon the aforementioned end-2004 cutoff.

and AfDB shareholders. Importantly, prospective countries likely would need to clearly meet several eligibility criteria, consistent with the approach of the original initiative.

IDA/AfDF Only Classification. To be considered for HIPC/MDRI eligibility, African countries must be classified as IDA/AfDF only. This classification entails two separate considerations. First, their gross national income (GNI) per capita must be below the institutions' operational cutoff, which currently is set at $1,215.[29] Second, the respective country cannot be considered creditworthy for non-concessional loans from the World Bank and AfDB. These institutions' staff has the authority to make IDA/AfDF classification decisions, but often seek guidance from their Board of Directors in practice.

HIPC Debt Ratio Thresholds. As noted previously, the prospective country must also face an unsustainable debt burden after the full application of traditional Paris Club mechanisms. Specifically, it must have a debt-to-export ratio above 150 percent or a debt-to-government revenue ratio above 250 percent. Only external debt incurred by end-2004 is considered in these calculations.

Reclassification Scenarios. Of the heavily indebted African countries, only Zimbabwe is a clear case for HIPC reclassification. It has a GNI per capita ($860) below the IDA/AfDF operational cutoff and fails the creditworthiness test.[30] In addition, previous studies found that Zimbabwe's external debt ratios clearly exceeded the HIPC thresholds.[31] However, updated analysis will be required for a formal determination. Cape Verde does not meet the reclassification requirements, despite its unsustainable debt ratios. It has a GNI per capita just above the cutoff ($1,290) and is classified as an IDA/AfDF blend country. Further information and analysis is required in the case of Djibouti, which has a high debt distress risk classification. For instance, there is no GNI per capita data available since 2005.[32]

B. Myanmar Model – 'HIPC-Lite' with a Bilateral Champion

Myanmar's debt treatment provides a very recent example of Paris Club action with a number of features potentially relevant to African countries in the years ahead. In January 2013, the Paris Club announced agreement on a debt treatment focused exclusively on Myanmar's $9.9 billion in related loan arrears.[33] The agreement included a 50 percent reduction in net present value terms of the debt in arrears (with exceptions for deeper

---

[29] For details, see http://www.worldbank.org/ida/borrowing-countries.html.

[30] World Bank, 2015 World Development Indicators database.

[31] Benjamin Leo and Todd Moss (2009), Moving Mugabe's Mountain: Zimbabwe's Path to Arrears Clearance and Debt Relief, Center for Global Development, Working Paper 190.

[32] In 2005, Djibouti had a GNI per capita of $1,030.

[33] http://www.clubdeparis.org/sections/communication/archives-2013/myanmar-20130128/viewLanguage/en

reductions from Japan and Norway)[34], and a rescheduling of the remaining arrears. In dollar-denominated terms, $5.6 billion in arrears were canceled and $4.3 billion was rescheduled.

Myanmar's arrears to Paris Club members represented 77 percent of its bilateral debt at the time of the agreement. However, while most the Paris Club debt was in arrears, Myanmar was current on its $3.2 billion in non-Paris Club debt, primarily credits from the Chinese government.

In contrast from its standard terms, the Paris Club's approach to Myanmar was ad hoc and depended on several key factors, including: (1) Japan's role as a strong political and financial champion within the Paris Club for debt reduction; (2) the unique circumstances of the United States; (3) the presence of China as the second largest bilateral creditor; and (4) the broader international community's attitude toward key political changes within Myanmar. Below are the terms of Myanmar's Paris Club treatment and a summary of the external dynamics that shaped them.

Japan as Champion for Debt Reduction. Japan's role as an aggressive champion for debt treatment demonstrates how a creditor country can affect the pace and terms of debt relief. At the time, Japan was Myanmar's largest bilateral creditor and by far the largest within the Paris Club, accounting for nearly two-thirds of Myanmar's arrears to the Paris Club. The Japanese government used this position to argue forcefully for a debt reduction and rescheduling treatment concerning Myanmar's arrears.[35]

From a debt sustainability perspective, the argument for a Myanmar debt treatment was not obvious.[36] The IMF's debt sustainability analysis showed only a moderate risk of debt distress in 2012.[37] Yet, Japanese officials engaged in extensive diplomatic outreach to other Paris Club members, creating pressure in a number of ways for the group and multilateral institutions to act. For example, Japanese officials circulated their analysis of Myanmar's debt and economy, as well as a template for key conditionalities that could pertain to an agreement, well in advance of the IMF's work in these areas. Japanese officials also signaled their intention to act on debt reduction independent of the Paris Club, with Prime Minister Yoshihiko Noda announcing that Japan would cancel 60 percent of Myanmar's bilateral debt nearly a year before the Paris Club ultimately acted.[38]

The United States as a Non-creditor. The United States facilitated debt reduction for Myanmar by virtue of not having any bilateral credits with the country. Had there been official US debt to forgive, US officials would have had to seek new budgetary authority and funding from

[34] Norway canceled all of its bilateral debt and Japan provided a 60 percent reduction.

[35] http://www.reuters.com/article/2012/09/21/us-japan-myanmar-refile-idUSBRE88K04Q20120921

[36] http://www.cgdev.org/blog/refinance-dont-cancel-burmas-debt

[37] http://www.imf.org/external/pubs/ft/dsa/pdf/2012/dsacr12104.pdf

[38] http://www.japantimes.co.jp/news/2012/04/22/national/japan-to-cancel-60-of-myanmars-debt/#.VWxyIc9Viko

the US Congress in order to participate. Rescheduling of debt owed to the United States does not require Congressional approval or funding. However, any debt stock reduction provided by the United States bilaterally cannot proceed without congressional action.[39]

The Paris Club's solidarity principle means the rest of the creditors would be unwilling to provide reduction if member does not participate. As a result, the bar is set very high for any country's debt reduction if the United States is a creditor. Even if there is political will in the US presidential administration to seek congressional approval (as there might have been had the US been a creditor to Myanmar), the outcome is highly uncertain and the timeline is long. In Myanmar's case, a Paris Club agreement for debt reduction would very likely not have been reached as quickly with US participation, and more likely, the eventual agreement would have only provided rescheduling, with some countries (Japan, certainly) providing relief outside of the formal agreement.

China as a Large Creditor. China's position as Myanmar's second largest creditor (behind Japan) and a non-member of the Paris Club likely led to the unusual agreement to treat arrears up to the cut-off date rather than all official credits. The case of Myanmar highlights the growing tension arising from China's role as a large official creditor and its unwillingness to join the consensus process of the Paris Club when it comes to debt workouts. One of the Club's principles requires that the debtor country seek comparable debt treatment from non-Club members, but in practice, there is very little power behind this principle.

By limiting the Paris Club treatment to arrears, members avoided, at least from a technical perspective, the likely prospect that one of Myanmar's largest creditors would be a "free rider" on the deep debt reduction provided by members. While treatment of arrears defined China's credits as outside the scope of the agreement, the underlying tension remains, and in future cases, it seems likely that Paris Club members will be increasingly reluctant to provide debt reductions or even rescheduling if China and other large non-members are viewed as "free riders". The Paris Club has prioritized efforts to incorporate emerging creditors into their process and proceedings for some time, but has not been successful with China to date.

Debt Relief as a Strategic Instrument. Beyond Japan's advocacy, debt reduction for Myanmar depended critically on a broader political attitude quickly emerging and ultimately prevailing within the Paris Club. A debt treatment was viewed by the membership as a goodwill gesture and a "carrot" to recognize positive political change within the country and to incentivize further reforms. The release of political dissident Aung San Suu Kyi from prison was viewed as a key turning point in the country's political opening, and Aung San Suu Kyi herself became a visible advocate for the easing of sanctions on Myanmar by the international community.

[39] https://www.fas.org/sgp/crs/misc/RS21482.pdf

In parallel with a political opening, prospects for an economic opening in the country was a powerful draw for commercial interests in the Paris Club's member countries. Japan was not alone in needing an agreement to deal with Myanmar's arrears in order to re-launch key bilateral commercial activities, which depended on official credits. The jockeying for favorable positions with the Myanmar government likely contributed to the ultimate generosity of the eventual agreement. Again, China was a factor, with members (and Japan in particular) seeking to distinguish them from a country whose large investments had grown increasingly controversial within Myanmar.[40]

In summary, Myanmar's experience with the Paris Club stands in contrast to the approach defined under the multi-country HIPC initiative, where debt reduction outcomes were much more reliant on technically-determined measures of debt sustainability as a function of need. Outside of this broader umbrella, cases like Myanmar demonstrate that debt treatments can be malleable depending on a range of bilateral actors and non-debt factors. Put differently, if there are large strategic or economic interests at play, then they can determine debt reduction more than traditional, mechanistic measures of debt sustainability.

C. Nigeria Model – Discounted Buyback from Bilateral Creditors

Nigeria presents another case of an exceptional Paris Club debt treatment. Nigeria's debt profile was unusual in several regards: (a) strong dominance by Paris Club creditors; (b) historical legacy of Nigeria's status at the World Bank; (c) broad creditor support for a particular moment in Nigeria's reform process; and (d) a brief moment of high oil savings. In October 2005, these factors aligned to produce an historic debt relief deal, which is likely unique to Nigeria's particular circumstances at that moment in time.[41]

Paris Club Dominance. At the end of 2003, Nigeria had some $33 billion in external debt, of which 84 percent was owed to bilateral creditors, almost exclusively to members of the Paris Club and nearly all of which was accumulated arrears and penalties.[42] Just four creditors – the United Kingdom, France, Germany, and Japan – accounted for nearly two-thirds of Nigeria's total debt obligations. On the positive side, this meant that Nigeria's creditors already had a standing mechanism and regular forum for restructuring debts. However, Paris Club rules also led to structural impediments, including comparable treatment and the use of World Bank status as a prerequisite for any discounts beyond a standard restructuring. Nigeria had already gone through four previous non-concessional reschedulings, the latest of

[40] http://www.nytimes.com/2012/10/11/world/asia/long-reliant-on-china-myanmar-now-turns-to-japan-for-help.html

[41] The definitive history of Nigeria's Paris Club deal is Thomas Callaghy, "Anatomy of a 2005 Debt Deal: Nigeria and the Paris Club," University of Pennsylvania, 2009.

[42] Todd Moss and Scott Standley, "Double-Standards, Debt Treatment, and World Bank Country Classification: The Case of Nigeria," CGD Working Paper Number 45, CGD, September 2004. See especially Appendix 1.

which had been completed in December 2000.

IDA-only Status. Under the Paris Club's rules, a respective country could not qualify for debt stock relief unless they were classified as "IDA-only" within the World Bank Group. In 2004, this meant a GNI per capita of $865 or less. Moreover, the country could not have access to commercial capital markets, including both IBRD and private finance. Lastly, it had to clearly demonstrate a solid track record in policy performance. At the time, Nigeria was classified as a "IDA-blend" country, which qualified the country for both IDA and IBRD at the World Bank. This meant that Nigeria was disqualified from any concessional treatment at the Paris Club. An independent analysis of Nigeria on these three criteria and comparisons with previous cases of so-called "reverse graduation" showed that Nigeria easily met the conditions to be reclassified.[43] However, the Nigerian government had to formally request this change in World Bank status. Moreover, in practice, the Bank's shareholders also had to agree to the change. Given the overlap between the largest World Bank shareholders and Paris Club creditors of Nigeria's debt, any decision on this reclassification was taken with a view to the creditors' debt negotiation preferences rather than the Bank's technical classification criteria.

Reform Dynamics. Thus, the question of reclassification came down to political support for debt relief from the principal creditors. In the case of Nigeria, which was outside the HIPC initiative, that decision came down to whether the creditors wanted to use debt relief as a means of supporting the political and economic reform processes underway. Democracy had returned to Nigeria in 1999 with the election of Olusegun Obasanjo as President, and debt relief was one of his top economic goals. Then finance minister Ngozi Okonjo-Iweala was highly regarded internationally and had spent much of her career inside the World Bank, which gave her additional credibility among the creditors. Debt relief was viewed in some creditor capitals as an important signal for supporting her fiscal reforms. Conversely, failure to find a resolution to the debt stalemate arguably would have undermined her efforts.[44]

Oil Savings. One of the reforms instituted by Okonjo-Iweala in collaboration with the central bank governor was to accumulate sovereign savings during times of high oil prices. In the early 2000s, Nigeria used a conservative reference oil price in the budget to boost its international reserves, which rose from close to zero in 1999 to $17 billion by December 2004 and $34 billion by early 2006.

The United Kingdom at Champion. The United Kingdom government was at the time a major proponent of extending debt relief mechanisms more broadly and of a deal with Nigeria in particular. As the single largest creditor to Nigeria and an outspoken advocate of the

---

[43] Moss and Standley, 2004.

[44] Nigeria's case for some debt relief was further boosted by the fact that nearly all of the bilateral debt stock was accumulated arrears and penalties from very modest borrowing (Just $2.1 billion in disbursements since 1971 snowballed into $22 billion in stock by 2002.) This the majority of Nigeria's obligations were not based on excessive borrowing, but rather on the mismanagement by previous (and mostly military) governments.

country's reform agenda, the UK was a strong supporter of a deal, frequently raising the issue at fora such as the G8 and in bilateral meetings with other creditors.

Buyback Arrangement. The confluence of these factors allowed for Nigeria and the Paris Club to reach a unique agreement in October 2005 and finalize the deal in April 2006.[45] By that time, Nigeria's debt had further ballooned to $36 billion, of which $30 billion was owed to Paris Club members. The final deal included the Club's first-ever discounted buy-back, where Nigeria paid 24 cents on the dollar for the non-arrears portion of its debt. The overall outcome was the elimination of $30 billion in debt stock in exchange for roughly $12 billion in payments – or $18 billion in debt stock relief.[46] This deal also paved the way for Nigeria to buy back its debt from private creditors, the so-called London Club in 2006-07.

D. Zimbabwe's Stalled Plan for Arrears Clearance and Debt Relief

In February 2009, a power sharing government assumed office in Zimbabwe, which inherited an economy that had lost more than 40 percent of its value since 1997 and experienced inflation at 500 billion percent. Social services had largely collapsed, international reserves had shrunk, and the current account deficit was 28 percent of GDP. The new Government of National Unity (GNU) also inherited a country in prolonged debt distress. As of end-2008, external public debt totaled approximately $6 billion, or 189 percent of GDP. Of this, $4.8 billion or some 80 percent was in accumulated arrears. (see figure 9 below for more recent debt obligation figures[47]).

Debt Sustainability. Based upon historic and current debt levels, Zimbabwe crosses most debt sustainability thresholds (see figure 10).

Formulation of ZAADDS. In March 2010, a coalition inter-ministerial committee recommended a hybrid strategy to the Zimbabwean cabinet that called for a debt resolution premised on three pillars: (1) the removal of international financial sanctions against the country; (2) leveraging of the country's own resources; and (3) the pursuit of traditional methods of debt relief. The Ministry of Finance proceeded to draft a debt blueprint that laid out a pathway using traditional debt relief mechanisms, which was clearly understood as a reference to the HIPC Initiative.

---

[45] Todd Moss, "Resolving Nigeria's Debt Through a Discounted Buyback," CGD, April 2005.

[46] "Nigeria's Debt Relief Deal with the Paris Club," Debt Management Office, Ministry of Finance, Abuja, October 2005.

[47] End-2012 are the latest available debt statistics from the IMF. The Government of Zimbabwe reported similar data to creditors in October 2015 for end-2014, including total debt of $10.8bn and public debt of $6.8bn, of which $5.6bn (82%) was accumulated arrears and penalties. See Government of Zimbabwe, "Strategies for Clearing External Debt Arrears and the Supportive Economic Agenda," September 2015.

Figure 9 – Zimbabwe's Debt Obligations by Creditor, end-2012

	Remaining Principal Due	Total Arrears	Principal Arrears	Total Debt
Total	**3,792**	**5,240**	**3,191**	**9,031**
Public and Publicly Guaranteed Debt	1,364	5,240	3,191	6,603
Bilateral Creditors	838	2,638	1,432	3,476
Paris Club	367	2,513	1,348	2,881
Non-Paris Club	471	125	84	595
Multilateral Institutions	525	1,999	1,157	2,525
IMF	-	127	100	127
AfDB	55	606	306	660
World Bank	410	937	564	1,348
European Investment Bank	34	279	152	313
Others	26	51	34	77
Short-Term Debt (RBZ)	-	603	603	603
Private Creditors	2,428	-	-	2,428

Source: IMF Country report No 14/202, July 2014.

Figure 10 – Zimbabwe's Debt Indicators

Year	Debt-to-GDP	Debt-to-Exports	Debt-to-Revenue
2011	57%	142%	215%
2012	54%	176%	269%
2013	52%	190%	187%
2014 (est.)	53%	202%	192%
2015 (proj.)	54%	210%	195%
DSF Thresholds	30%	100%	200%

Source: IMF Country Report No. 15/105, April 2015 and author calculations

In September 2010, a debt plan was produced known as the Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy (ZAADDS). The plan's key objective was to enable Zimbabwe to secure comprehensive external arrears clearance and debt relief from creditors at the same time as laying a solid foundation for economic growth supported by investment from both domestic resources and external support. The initial ZAADDS sign posts were:

- Establishment and operationalization of a debt management office;
- Reengagement with creditors and the international community;
- Establishment of a track record under an IMF Staff Monitored Program (SMP);
- Seeking the reclassification to IDA-only eligibility; and
- Open comprehensive negotiations with creditors for arrears clearance and full debt relief.

The new debt management office within the Ministry of Finance immediately started consolidating all debt claims, data, and proceeded to validate and reconcile figures with creditors.

Restoration of normal relations with the multilateral institutions was a key component of ZAADS. There was an urgent need to normalize relations with the IMF, which had suspended Zimbabwe's voting rights in 2003 and commenced proceedings for compulsory expulsion following sustained arrears to the Fund's General Resources Account. In March 2009, a staff mission was invited to Harare for the first Article IV consultations since 2005. Intense discussions were held in the course of the year resulting in the IMF Executive Board restoring Zimbabwe's voting rights in February 2010.

Getting to a Staff Monitored Program. The pursuit of an SMP would prove to be more elusive. Theoretically, the SMP is an informal cooperation agreement with the Fund where a country agrees to set performance targets. In reality, a program is viewed as a test of commitment and capacity to implement key reforms and sustain macroeconomic stability. In 2010, the Fund set two markers as a precondition to an SMP – improved Central Bank data and a public service payroll audit. Both were eventually completed in late 2011.

However, domestic politics intervened. The threats of an early election and discord in the power sharing agreement delayed further progress in 2012. That year also saw a number of policy slippages connected to a rising wage bill and an accumulation of domestic payment arrears. Nevertheless, an SMP was eventually signed in June 2013, just one month before new national elections. The SMP required that Zimbabwe meet six quantitative fiscal and debt targets. It also contained ten structural benchmarks, including the enactment of new income tax and public finance management legislation.[48]

Post SMP-steps to Debt Relief. To ensure that the SMP would be an entry point to debt relief, a road map was agreed upon at the end of June 2013, which included:

- Publication of the SMP;
- Monthly payments to the IMF's Poverty Reduction and Growth Trust (PRGT);
- A HIPC eligibility assessment by the World Bank and IMF;
- Formal engagement with all creditors including Paris Club creditors, the World Bank, and the African Development Bank;
- Seeking creditor support to mobilize resources for eventual debt relief within the HIPC framework;
- Preparation of a Poverty Reduction Strategy Implementation Policy (PRSIP);
- Moving toward HIPC decision and completion points.

The election was held in July 2013, terminating the power sharing arrangement and resulting in a turnover of ministers. Momentum for economic reform was quickly lost, with the abandonment of the ZAADDS and debt relief roadmap. More broadly, the economy returned to previous troubles. By 2014, the IMF reported that "the economic rebound experienced since 2009 has ended."

The SMP was due to expire at the end of 2013, but Fund management extended the program's period to allow more time for policy adjustments. The first assessment was conducted in March 2014. In May 2014, the IMF concluded that only two out of the six quantitative targets had been met and only four of the ten structural benchmarks had been met. Since then, the Zimbabwean government has improved policy performance, meeting all established targets and benchmarks under a new 15-month SMP agreed in October 2014.[49]

In October 2015, the Government of Zimbabwe presented a new arrears clearance strategy to its creditors that includes (a) using SDR allocations to repay arrears to the IMF, (b) a bridge loan to repay arrears owed to the AfDB and IDA, and (c) a long term loan from an unnamed bilateral creditor to repay arrears to the IBRD.[50] The Government intends arrears clearance to be followed by a resumption of lending from these institutions and, eventually, debt relief from the Paris Club and other creditors. Although mainly symbolic, the Chinese

---

[48] "Zimbabwe: Staff Monitored Program," IMF Country Report 13/193, July 2013.

[49] "Zimbabwe: First review of the Staff Monitored Program," IMF Country Report No. 15/105, April 2015.

[50] "Zimbabwe: Second review of the Staff Monitored Program," IMF Country Report 15/279, October 2015 and Government of Zimbabwe, "Strategies for Clearing External Debt Arrears and the Supportive Economic Agenda," September 2015.

Government announced in December 2015 its intention to cancel $40 million in outstanding debt.[51]

Nonetheless, Zimbabwe is still far from securing irreversible debt stock relief. It still must comply and meet the targets of the SMP particularly reforming the public sector and reducing the wage bill, and convince creditors that it in on a genuine path of economic reform. Although they are outside the formal technical debt relief mechanisms, the nontrivial costs associated with arrears clearance and debt stock relief suggest that creditors will have to be convinced that Zimbabwe's economic and political difficulties have been overcome.

V. Conclusions: Policy Options for Zimbabwe and Other African Countries in Debt Distress

The few remaining African countries with high levels of debt are in a difficult position. The experience of HIPC and the exceptional debt treatment deals for Myanmar and Nigeria however point to a few lessons for Zimbabwe and the other remaining special cases:

1. *Stick to reform plans by showing performance.* A consistent element of both the HIPC/MDRI initiatives and ad hoc cases like Nigeria and Myanmar was the priority placed on policy reforms and performance. Country creditors and MDB shareholders clearly view policy reform (including political aspects of key areas of policy reform) as going hand-in-hand with debt relief. In cases where policy performance is weak, erratic, or where the path for future performance is particularly uncertain, this creditor and shareholder community is likely to resist debt relief mechanisms.

2. *Identify and cultivate a creditor champion.* In each case of ad hoc debt relief, the recipient country had strong financial and political support from a major international power who happened to also be a large creditor. This champion proved critical to rallying the other creditors and overcoming resistance to costs or other barriers standing in the way of an eventual deal.

3. *Find a workable path forward, including benchmarks and financing options*. The negotiation process for both Nigeria and Myanmar was collaborative between the debtor and the creditors. Reasonable and credible benchmarks were mutually agreed and openly monitored. Crucially, the source of financing for any arrears clearance and debt stock relief were not an afterthought but rather an early part of the conversation so expectations and timelines were clear and mutually understood.

[51] "Zimbabwe to make Chinese yuan legal currency after Beijing cancels debt," The Guardian, December 21, 2015.