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Islamic Republic of Afghanistan: Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—Preliminary Document

This paper was prepared by staff of the International Monetary Fund and the World Bank in connection with the Executive Board's consideration of the Islamic Republic of Afghanistan's preliminary assessment of eligibility for assistance under the Enhanced Heavily Indebted Poor Countries Initiative. It is based on the information available at the time it was completed on March 27, 2007. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Islamic Republic of Afghanistan or the Executive Board of the IMF.

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INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

ISLAMIC REPUBLIC OF AFGHANISTAN

Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—Preliminary Document

Prepared by the Staffs of the
International Monetary Fund and the International Development Association

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March 27, 2007

Contents Page

Boxes

Figures

Tables

Appendixes

List of Acronyms

ADB	Asian Development Bank
AFMIS	Afghanistan Financial Management Information System
ANDS	Afghanistan National Development Strategy
BPHS	Basic Package of Health Services
CAS	Country Assistance Strategy
DAMU	Debt and Asset Management Unit
DSA	Debt Sustainability Analysis
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Countries
I-ANDS	Interim Afghanistan National Development Strategy
IDA	International Development Association
ISN	Interim Strategy Note
IMF	International Monetary Fund
LIC	Low Income Countries
LICUS	Low Income Countries Under Stress
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MoPH	Ministry of Public Health
MTFF	Medium-Term Fiscal Framework
NPV	Net Present Value
NRVA	National Risk & Vulnerability Assessment
OFID	OPEC Fund for International Development
PAR	Public Administration Reform
PFEM	Public Finance and Expenditure Management
PRGF	Poverty Reduction and Growth Facility
PRR	Priority Reform and Restructuring
PRSP	Poverty Reduction Strategy Paper
SDR	Special Drawing Rights
SMP	Staff Monitored Program

I. Introduction

1. **This paper presents a preliminary assessment of the eligibility of the Islamic Republic of Afghanistan** (hereafter "Afghanistan) for assistance under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative.[1] The preliminary assessment is based principally on IDA and IMF missions to Kabul in January/February 2007. The results show that, at end-2004, Afghanistan's net present value (NPV) of debt-to-exports ratio after the full delivery of traditional debt relief is 585.4 percent, well above the HIPC threshold.[2] In addition, in 2004, Afghanistan was eligible for the Poverty Reduction and Growth Facility (PRGF) and was an IDA-only country with a GNI per capita of US$228. The staffs, therefore, propose that Afghanistan be added to the list of ring-fenced countries that meet the income and indebtedness criteria at end-2004. Once in the list, given that Afghanistan has ongoing programs with IDA and under the PRGF, it would become eligible under the HIPC Initiative.[3]

2. **This paper also presents a preliminary analysis based on the latest end of fiscal year debt data** (March 20, 2006), for which Afghanistan's NPV of debt-to-exports ratio is estimated at 305.8 percent. Together with the ongoing PRGF arrangement and interim Poverty Reduction Strategy Paper (PRSP), Afghanistan would meet the requirements to qualify for HIPC Initiative debt relief, which is estimated at US$569.7 million in NPV terms. Multilateral Debt Relief Initiative (MDRI) assistance at the projected completion point is expected to amount to US$14.9 million in NPV terms. This would support Afghanistan's reconstruction and poverty reduction objectives, helping the country to make progress toward achieving the Millennium Development Goals (MDGs).

3. **The paper is organized as follows**. Section II provides background information on Afghanistan, including recent poverty and social developments and the policy track record. Section III discusses the medium-to-long term macroeconomic framework. Section IV establishes Afghanistan's eligibility for the HIPC Initiative and summarizes the results of the preliminary debt relief analysis, as well as possible HIPC and MDRI assistance. Section V

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[1] The expression HIPC Initiative and Enhanced HIPC Initiative will be used interchangeably hereafter to refer to the latter.

[2] Afghanistan was not included in the list of ring-fenced countries that meet the income and indebtedness criteria at end-2004 because a large part of its potential external obligations was, at the time, either unverified or in dispute. See "Heavily Indebted Poor Countries (HIPC) Initiative—List of Ring-Fenced Countries that Meet the Income and Indebtedness Criteria at end-2004," (http://www.imf.org/external/pp/longres.aspx?id=542 (April 11, 2006); IDA: R2006-0041/2, (April 11, 2006)).

[3] For IDA, both the income and indebtedness criteria are bound by the end-2004 deadline. However, the IMF introduced the end-2004 HIPC eligibility criterion only with respect to the indebtedness criterion (and not the income criterion) (see "PRGF-HIPC Trust Instrument—Amendments to Eligibility Criteria," http://www.imf.org/external/np/prsp/2004/100704.htm).

suggests a timeline for preparing the decision point document, presents key reforms that could be possible completion point triggers, and outlines the key issues in the use and monitoring of HIPC resources. Finally, Section VI presents issues for discussion by Executive Directors.

II. Background

A. PRGF and IDA Status

4. **Afghanistan is an IDA-only country with a gross national income (GNI) per capita of US$271 in 2005**.[4] The Interim Strategy Note (ISN), discussed by the IDA Board of Executive Directors in May 2006, is guiding IDA's engagement in Afghanistan over the 2006–08 period. It is expected to be followed by a Country Assistance Strategy (CAS) once the government has finalized its full PRSP.[5]

5. **In June 2006, the IMF's Executive Board approved Afghanistan's first 3-year PRGF arrangement,** totaling SDR 81 million (50 percent of quota). The IMF Board completed the first review under the arrangement on March 7, 2007. Afghanistan will continue to need substantial concessional assistance from the international community, and is likely to remain an IDA-only country and PRGF-eligible for the foreseeable future.

B. Poverty and Social Issues

6. **Protracted conflict and political instability have undermined Afghanistan's socio-economic development,** resulting in widespread poverty and weak social development. Nevertheless, Afghanistan's economy achieved a major recovery since late 2001, with robust Gross Domestic Product (GDP) growth, albeit from a very low level.

7. **Afghanistan has made significant progress in some areas of human development.** Since 2001, many refugees and other displaced persons have returned. Health care coverage has increased with the Basic Package of Health Services (BPHS) now available to about 90 percent of the population. Independent nationwide third-party evaluations (e.g., the "balanced score card") show that the quality of health care has improved by 35 percent since 2004. Furthermore, the use of health care services has also increased significantly (e.g., the coverage of prenatal care rose from 5 percent in 2003 to 71 percent in 2006). In addition, there has been a marked increase in the demand for education in conjunction with accelerated teacher recruitment and school rehabilitation. As a result, more than half of the estimated

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[4] Calculated using the World Bank's Atlas methodology for GNI. Population estimates are based on the 2003 Multiple Indicator Cluster Survey (MICS) undertaken by Afghanistan's Central Statistics Office (CSO) with the support of the United Nations Children's Fund (UNICEF). However, population estimates vary greatly in Afghanistan as no census has been carried out.

[5] The interim PRSP was published in early 2006 (http://www.ands.gov.af/).

10 million Afghan children are now attending school. The situation for Afghan women has also improved: (i) the new Constitution provides a clear legal basis for their participation in political and economic affairs (a quarter of parliamentarians are women); (ii) school enrollment of girls has increased significantly; and (iii) maternal care and access to reproductive health have expanded.

8. **Despite recent positive trends, Afghanistan still ranks poorly on all human development indicators**. The Global Human Development Report of 2004 ranks it well behind its neighbors, near the bottom of the 177 countries. A range of poverty and social indicators reflect the extent to which health and educational standards have stayed at very low levels, reflecting the legacy of conflict and continuing constraints on service delivery (Table 1). There are significant risks of infant and maternal mortality, widespread malnutrition, adult literacy is extremely low, and life expectancy is among the lowest in the world. Although net primary school enrollment ratios have improved, there are serious concerns about the quality of education.

Table 1. Selected Poverty and Social Indicators

	Afghanistan 2003	**South Asia 2004**	**HIPC 2004**	**MDG Target 2020**
GNI per capita, Atlas method (current US$)	271*	589	336	…
Population (in millions)	25.7*	1,446	541	…
Population growth (annual %)	3.9	1.7	2.4	…
Underweight children under 5 years of age (%)	41**	44	…	15***
School enrollment, primary (% net)	54	87	…	100
Primary completion rate, total (% of relevant age group)	45	87	53	100
Literacy rate, youth total (% of people ages 15-24)	34	87	53	100
Ratio of female to male primary enrollment	60	90	88	100
Ratio of young literate females to males (% ages 15-24)	30	79	80	100
Mortality rate, under-5 (per 1,000)	230	92	160	76
Mortality rate, infant (per 1,000 live births)	140	66	99	46
Immunization, measles (% of children ages 12-23 months)	75	61	71	100
Life expectancy at birth (total years)	42	63	49	…
Maternal mortality (per 100,000 live births)	1,600**	…	…	800
Births attended by skilled health staff (% of total)	14**	37	…	75
Improved water source (% of population with access)	23	84	57	62
Improved sanitation facilities (% of population with access)	12**	37	33	66

Notes: *2005, ** 2002, *** 2015

Source: GoA (2005 MDG Report); Central Statistics Office; World Bank, Economic and Social Indicators.

9. **The absence of officially recognized poverty estimates has, to date, prevented a systematic diagnosis of poverty in Afghanistan**. A recent World Bank analysis was the first comprehensive attempt at estimating and studying poverty, and its determinants.[6] The

[6] Data limitations remain a key constraint for poverty estimation. The National Risk & Vulnerability Assessment (NRVA), a multi-topic household survey including consumption/income data, was fielded in 2003 and 2005. NRVA 2003, originally intended to monitor food security, had an incomplete consumption module that rendered poverty measurement difficult; it also had substantial gaps in geographic coverage (i.e., limited to rural areas). Therefore, the study relies primarily on data from the 2005 NRVA.

national poverty headcount rate was found to be around 33 percent (estimated using only one survey conducted during the summer). Aggregate income inequality in Afghanistan—represented by a national Gini coefficient of 0.26—is lower than in other countries in South Asia.[7]

10. **Poverty reduction and progress in social development will depend largely on improved security,** which is contingent upon visible changes in living conditions and maintaining a stable political process. Public institutions should be strengthened and economic governance improved to ensure that economic growth can be sustained and is inclusive.

C. Recent Political, Security, and Governance Developments

11. **Afghanistan's political situation has stabilized since 2001**. An agreement reached in Bonn in December 2001 sets out a transitional process leading to the election of a representative government. Following this, a new Constitution was adopted in January 2004. The first Presidential election was held in December 2004, while elections for the *Wolesi Jirga* (lower house of the National Assembly) and for provincial councils took place in September 2005. The inauguration of the National Assembly in December 2005 marked the formal conclusion of the Bonn political transition process.

12. **Despite these achievements, security challenges remain**. In particular, security has deteriorated during the past year, especially in the South. The government is still unable to enforce policies and laws in many regions. This has been exacerbated by the importance of opium in the economy.[8] There are complex linkages between opium activities and insecurity. Dependence on opium production distorts the economy and discourages the development of legitimate economic activities. Moreover, drug-related corruption and crime undermine the institution-building process, and appear to have seriously compromised certain parts of government (the police in particular).

13. **Weak institutions and challenges in providing good governance and reducing corruption seriously hamper economic growth and living standards**. Capacity and political institutions remain weak, and there is an urgent need for a better legal and regulatory framework. Patronage is common within the civil service, and low pay scales have made it difficult to establish a professional merit-based civil service. Afghanistan was ranked in the bottom third of Transparency International's 2005 Corruption Perception Index (117th out of 158 countries) (Table 2), which—along with a lack of basic production factors

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[7] In comparison, Gini coefficients for Bangladesh (2005), Pakistan (2001–02), Nepal (2003–04) and Sri Lanka (2002) are 0.31, 0.28, 0.41 and 0.40 respectively.

[8] Opium production accounts for around a quarter of total (drug inclusive) GDP. More than a tenth of the population is estimated to be directly involved in opium cultivation, while others also rely on it indirectly.

(e.g., electricity, land, human capital) and a devastated infrastructure—has been a serious impediment to private sector development. Afghanistan ranked near the bottom (162nd out of 175 countries) in the latest World Bank Doing Business 2007 Report. This compares with an average ranking of 105 for South Asia as a whole (Figure 1).

Table 2. Corruption Perception Index, 2005

Country Rank	Country	CPI Score*
103	*Gambia*	2.7
107	*Eritrea*	2.6
	Honduras	2.6
	Kazakhstan	2.6
	Nicaragua	2.6
	Zambia	2.6
117	**Afghanistan**	**2.5**
	Bolivia	2.5
	Nepal	2.5
	Uganda	2.5
126	Albania	2.4
	Niger	2.4
	Sierra Leone	2.4
130	*Burundi*	2.3
	Congo, Republic of	2.3
	Kyrgyz Republic	2.3
	Papua New Guinea	2.3
137	*Cameroon*	2.2
	Ethiopia	2.2
	Iraq	2.2
	Liberia	2.2
	Uzbekistan	2.2
144	*Congo, Democratic Republic*	2.1
	Pakistan	2.1
	Somalia	*2.1*
	Sudan	*2.1*
	Tajikistan	2.1
152	*Cote d'Ivoire*	1.9
	Equatorial Guinea	1.9
155	*Haiti*	1.8
	Turkmenistan	1.8
158	Bangladesh	1.7
	Chad	1.7

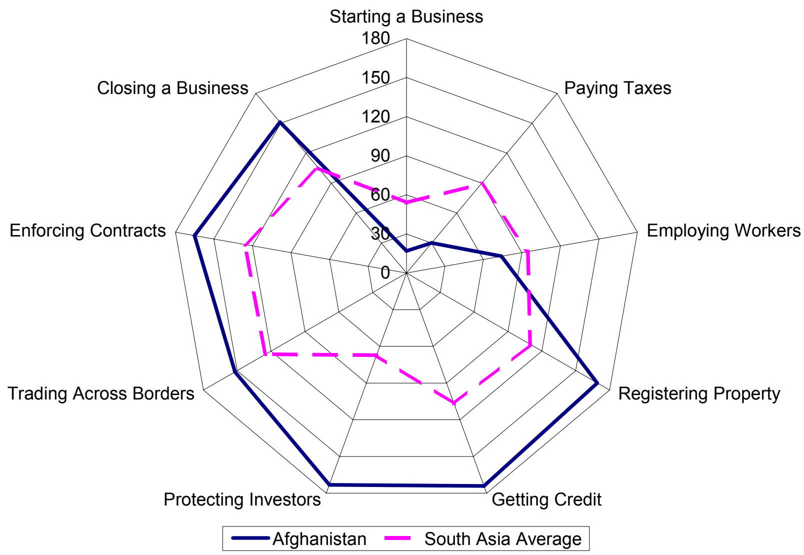
Source: Transparency International, 2005.
Notes: Countries in Italics are HIPC / HIPC eligible countries (some pre-decision point), *CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).

D. Policy Track Record and Reform Agenda

14. **Given Afghanistan's low national income and substantial poverty, sustained economic growth is a fundamental requirement for progress**. The government's economic growth and interim PRSP is set out in the *interim Afghanistan National Development Strategy* (I-ANDS). The I-ANDS is articulated around three pillars: (i) security; (ii) governance, the rule of law and human rights; and (iii) economic and social development. The I-ANDS is supported by the *Afghanistan Compact*, a five year framework (2006–2010) based on mutual commitments between the government and its international development partners, with detailed benchmarks and timelines.

15. **Over the past few years, Afghanistan has made significant progress toward laying durable foundations for macroeconomic stability and an open market economy** (Table 3). A new and stable currency was introduced in October 2002; inflation declined to 9.4 percent in 2005/06; and reforms aimed at achieving medium-term fiscal sustainability have been adopted. These improvements laid the foundations for higher economic growth: real non-opium Gross Domestic Product (GDP) has grown, on average, by 11.5 percent over the past four years, with a strong performance of services and construction driven by the reconstruction effort.

Figure 1. Islamic Republic of Afghanistan: Ease of Doing Business



Source: World Bank, *Doing Business 2007*

Note*:* Rankings for each dimension are based on 175 countries. The score on each item refers to the country's rank among all countries surveyed in difficulty of doing business. For example, Afghanistan ranks poorly for getting credit (174th out of 175 countries), while it performs well in terms of starting a business, ranking 17th out of 175 countries.

Table 3. Selected Economic and Financial Indicators
Financial Year begins on March 21

	2003/04	2004/05	2005/06	2006/07 Proj.
(Annual percentage change, unless otherwise indicated)				
GDP at constant prices	15.7	8.0	14.0	8.0
Real GDP per capita	3.4	3.9	9.7	4.1
Consumer prices (end-of-period)	10.3	14.9	9.4	7.0
Central government overall balance, incl. grants (in percent of GDP)	6.5	-1.2	0.9	-3.8
Currency in circulation	40.9	37.5	15.1	16.6
Net international reserves (in millions of U.S. dollars)	766.1	1,248.7	1,629.5	1,773.5
Gross official reserves (in millions of U.S. dollars)	819.6	1,283.3	1,661.8	1,838.0
In months of following year's imports of goods and services	1.8	3.1	4.1	4.8

Sources: Central Statistical Office, Da Afghanistan Bank, Ministry of Finance, and Fund staff estimates.

16. **A significant factor in Afghanistan's progress on the macroeconomic front has been the authorities' steadfast commitment to macroeconomic stability through engagement with the IMF**. IMF policy advice and technical assistance focused on issues crucial to the restoration of macroeconomic stability, including rebuilding the payments system, introducing a new currency, modernizing the central bank, and improving budget

preparation, expenditure management and revenue mobilization. In March 2004, the authorities embarked on a staff monitored program (SMP). Sustained good performance under the SMP paved the way for a three-year arrangement under the PRGF, which was approved by the IMF Board in June 2006. The authorities' continued efforts under the PRGF-supported program have facilitated robust economic growth and a moderation in inflation, as well as improved revenue collection and administration, establishing a transparent expenditure system with fiduciary standards, and modernizing central bank operations. The current program remains firmly on track. Most of the quantitative and structural targets for the first three quarters of the program were met, and the first review under the PRGF arrangement was completed without delay on March 7, 2007.

17. **On the structural side, the government of Afghanistan has initiated wide-ranging reforms and has achieved tangible results over the past five years**. However, many reforms are still under way, and weak public administration and poor governance continue to be a major constraint. The government needs to address challenges in key areas, where weaknesses are still manifest: (i) budget formulation, execution, and reporting; (ii) tax policy and administration; (iii) public administration; (iv) regulatory reform in the energy and mining sector; and (v) transparency and accountability in human development. The following describes the progress made in implementing structural and economic governance measures, important elements of which are the focus of World Bank budget support, IMF technical assistance and bilateral support.

- **Budget formulation, execution and reporting**. Since 2001, much progress has been made in addressing weak budget practices and a weak payments system. The quality of budget formulation has been improved by introducing a Medium-Term Fiscal Framework (MTFF) and integrating the operating and development budgets. Challenges ahead include further aligning the budget with the ANDS, improving the realism of the development budget, and coordinating external aid. With respect to budget execution, fiduciary controls have been enhanced through (i) enacting a Public Finance and Expenditure Management Law; (ii) implementing the computerized Afghanistan Financial Management Information System (AFMIS); (iii) introducing a Treasury Single Account; and (iv) using the Afghanistan Reconstruction Trust Fund's Monitoring Agent to post-audit transactions. Finally, the government has demonstrated its commitment to transparency by improving budget reporting. The 2005/06 budget was audited and the audit report was sent to Parliament in a timely fashion. To reach its objectives of using the budget as a core policy tool and attracting more external aid into budget channels, the government needs to: (i) be more stringent on project selection and the piloting of program budgeting; (ii) continue to improve the MTFF; (iii) strengthen the tracking of aid and budget processes; (iv) allow for a less compressed budget preparation timeline; and (v) improve budget implementation.

- **Tax policy and administration**. With significant technical assistance from various sources since 2002, the customs and tax authorities have both adopted five-year reform plans. However, much remains to be done and the government is committed to clarifying its tax policy framework and further modernizing customs and revenue administration.

- **Public administration**. In order to strengthen capacity, the government's public administration reforms are focused on raising basic skills and management, and putting in place an adequate pay scale to attract qualified personnel. A central element of the initial Public Administration Reform (PAR) program—adopted in 2002—was the Priority Reform and Restructuring (PRR) scheme, which placed more than 43,000 positions in 32 ministries and agencies on an elevated pay scale. Merit-based recruitment was also introduced. The government is now preparing a comprehensive PAR program, centered on comprehensive pay and grading reform. The government has placed a high priority on implementing its PAR strategy, a key component of the I-ANDS and the anti-corruption strategy.

- **Regulatory reform in the energy and mining sector**. Modern Minerals and Hydrocarbons Laws were adopted in 2005, although the latter has shortcomings that need to be addressed. The 2005 amendments to the Income Tax Law have created a more attractive fiscal regime for the energy and mining sector. The government has committed to good governance in the sector, including by: (i) adopting regulations and model contracts; (ii) establishing an International Advisory Council to review transactions; (iii) using the services of an international firm to build the cadastre and grant licenses; and (iv) implementing the principles of the Extractive Industry Transparency Initiative. Looking ahead, the reform strategy will consist of: (i) amending the Hydrocarbon Laws; (ii) implementing the new laws; and (iii) reforming the Ministry of Mines from a vertically-integrated extractive industry conglomerate to a regulatory ministry.

- **Transparency and accountability for human development outcomes**. The Ministry of Public Health (MoPH) continued to strengthen its stewardship role, deepen its administrative reform program, and make progress in implementing the BPHS in the provinces. The MoPH is also committed to increasing transparency and accountability, and making public third-party assessments of the BPHS. Progress in education has been significant since 2001, notwithstanding weak institutional capacity and frequent changes in political leadership. The authorities have recently drafted a five-year strategic plan for education, the teacher payroll, and initiated the decentralization of decision-making down to the school level (as part of the IDA-funded Education Quality Improvement Program). The Ministry of Education's monitoring and evaluation system (Education Management Information System) will be strengthened to become more relevant for planning and management purposes.

III. MEDIUM-TO-LONG-TERM MACROECONOMIC OUTLOOK[9]

18. **Real GDP growth is projected to converge toward a long-term level of 4.5 percent a year by 2021/22** (Table A10). However, robust GDP growth in the near term, owing to a likely recovery in agriculture (after the 2006/07 drought) and continued high levels of donor-financed public investment, will contribute to average real GDP growth over the projection period (2007/08–2026/27) of 5.9 percent. Continued robust growth over the medium-to-longer term is expected to be underpinned by: (i) a gradual improvement in security and continued macroeconomic stability; (ii) institutional and financial sector reforms, including improved bank supervision, further developing monetary policy instruments and establishing a capital market; (iii) increased investment in infrastructure; and (iv) an increasing role for the private sector over the medium-to-longer term, including in mining, energy, and agribusiness. On this basis, output growth is assumed to remain strong, but to decline gradually to a long-term level of 4.5 percent per annum by 2021/22.

19. **Inflation is projected to ease from 7 percent in 2006/07 to 5 percent in 2007/08 and to remain at this level throughout the projection period**. The nominal exchange rate is assumed to remain stable and the differential between CPI inflation in Afghanistan and its trading partners—estimated at 2 percent during the projection period—should be offset by productivity gains. Monetary policy should help secure low and stable inflation.

20. **Investment is projected to moderate from its current exceptional levels (41.3 percent of GDP in 2006/07) to a more sustainable long-term level (about 22.5 percent of GDP)**. In the short-term, investment will continue to be underpinned by high levels of donor support for reconstruction and greenfield public investment (mainly in infrastructure). Given uncertainties associated with security and governance, a conservative assumption has been made regarding the efficiency of investment. As a result, the longer-run investment-to-GDP ratio of 22.5 percent is not expected to generate real GDP growth higher than 4.5 percent a year. Currently, a large part of 'public' investment is conducted directly by donors outside the central government budget—a situation that is expected to be reversed over the projection period. Private investment is projected to increase gradually from 10 to 12.5 percent of GDP over the projection period and will offset in part the decline in public investment. Foreign direct investment is expected to play a dominant role in the short-to-medium-term, while the domestic private sector would generate increased savings in the longer-run to maintain the projected levels of private investment.

[9] The lack of historical data preclude a meaningful comparison with long-run averages, and the averages for the past five years are questionable given large distortions—due to the opium economy—in the data (e.g., the impact of reconstruction and donor activity, and the temporary surge in inflation associated with the reaction to the currency exchange).

21. **Fiscal policy will be aimed at ensuring macroeconomic stability and sustainability together with the delivery of priority development expenditures**. Continued improvements in revenue performance are expected to offset the decline in budget support grants, allowing the central government to contain its overall deficit (before HIPC assistance) to just under 2 percent of GDP over the projection period. Specifically:

- Central government revenues are expected to increase progressively from 6.4 percent of GDP in 2006/07 to 12 percent of GDP in 2026/27, while grants to the budget are expected to decline by half from the current level of around 10 percent of GDP. Over the short- to medium-term taxes on international trade would continue to play a dominant role while a broad-based consumption tax is expected to gain importance as administrative capacity improves.

- Central government expenditures would peak at 21 percent of GDP in 2011/12, driven by reconstruction and security needs, before declining gradually to about 18 percent of GDP by 2026/27. Operating expenditures are assumed to grow by 10 percent a year in order to accommodate donor-financed current expenditures gradually coming onto the budget. As the government takes on investments currently funded by donors, development expenditures are expected to increase to just above 11 percent of GDP by 2010/11 and would average 10 percent for the remainder of the projection period. Nonetheless, donors are expected to play an important role in the short- to medium-term, with donor-financed off-budget expenditures exceeding direct budget support until about 2012/13.[10]

- Over the medium term, fiscal sustainability will be measured by whether and when domestic revenues cover operating expenses—a principle set out in the Compact. The baseline scenario envisages the government meeting this objective by 2012/13.[11] Longer-term sustainability will entail the government steadily decreasing reliance on overall external financing.

22. **External grants are expected to remain the predominant form of financing for most of the projection period**. This will be essential to the government financing its poverty reduction strategy in a fiscally sustainable way. However, as the economy continues to grow and the revenue base expands, the need for total external financing is expected to ease. Transfers would decline significantly as a percentage of GDP (from nearly 40 percent in

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[10] Donors are spending outside the budget process in many sectors, including agriculture, infrastructure, education, health and counternarcotics. Security-related grants are expected to decline more rapidly as the country stabilizes.

[11] This is one year later than envisaged under the PRGF-supported program, assuming that the flexibility under the PRGF arrangement to take on additional security-related expenditure is fully utilized.

2006/07 to around 7 percent in 2026/27) and the share of debt financing would increase gradually over the projection period. The terms of new borrowing are expected to remain highly concessional (and largely from multilateral creditors) in the short- to medium-term—consistent with the PRGF arrangement—but, after the completion point, it is likely that some borrowing will be on somewhat less concessional terms.

23. **Consistent with the financing picture and the path of fiscal policy, the external current account deficit (excluding transfers) is projected to decline steadily from over 40 percent of GDP in 2006/07 to about 10 percent in 2026/27**. As total investment declines in parallel with public investment, imports are expected to trend toward a more sustainable level, from over 66 percent of GDP in 2006/07 to an average of nearly 30 percent of GDP in 2017/18–2026/27. At the same time, officially-recorded exports are expected to get a boost from an increasingly export-oriented private sector. However, given the low base of official exports, it will be some years before they can provide a solid source of foreign exchange. The evolution of total exports will be dominated by the expected decline of transit trade (both as a percent of GDP and as a share of overall exports), as border protection improves.

24. **Given exceptionally difficult challenges facing Afghanistan, the macroeconomic projections are subject to significant uncertainties and risks**. The evolution of the still fragile security situation, weak governance and the counternarcotics effort will have a significant bearing on future macroeconomic conditions. Afghanistan's heavy dependence on external grants—currently the main driver domestic absorption—also leaves macroeconomic growth and stability prone to a faster than anticipated, or a sudden and unforeseen, withdrawal of grants. Therefore, the sensitivity analysis (section IV. F) considers, among others, the impact of a lower growth and less grant financing. Nevertheless, the broader growth and development agenda remains subject to a number of other exogenous risk factors.

IV. Debt Relief Analysis and Possible Assistance Under the HIPC Initiative

A. Debt Reconciliation Status

25. **Debt reconciliations were conducted for Afghanistan's public and publicly-guaranteed debt outstanding and disbursed for two reference dates**.

- First, in order to assess eligibility for the HIPC Initiative, public and publicly-guaranteed debt outstanding at end-December 2004 was reconciled. Afghanistan had not been included in the list of ring-fenced countries that meet the income and indebtedness criteria at end-2004 because a large part of its potential external obligations was, at the time, either unverified or in dispute.[12,13] However, the document indicated that, in the event that Afghanistan's end-December 2004 debt ratio was found to be above the relevant thresholds, the staffs would propose that Afghanistan be added to the list of ring-fenced countries.

- Second, a reconciliation of debt data as of March 20, 2006 was undertaken to analyze the level of HIPC debt relief that would be required at the expected decision point.[14]

26. **The debt reconciliations were undertaken jointly by the authorities and the staffs of IDA and the IMF**. They are based on loan-by-loan data, provided by the authorities and creditors, for public and publicly-guaranteed debt outstanding and disbursed as of end-December 2004 and March 20, 2006 (the expected reference date for the decision point). The reconciliations were completed in January/February 2007, with 100 percent of multilateral and over 99 percent of bilateral debt reconciled.[15,16] However, given the protracted conflict in Afghanistan and the consequent lack of documentation, there is a greater than usual likelihood in this case of debts that have not yet been identified.

B. Preliminary Assessment of Eligibility for Assistance Under the HIPC Initiative

27. **Afghanistan meets the HIPC Initiative end-2004 income and indebtedness criteria, and other eligibility criteria. The staffs, therefore, propose that it be added to the list of ring-fenced countries. Once in the list, given that Afghanistan has ongoing programs with IDA and under the PRGF, it would become eligible for the HIPC Initiative**. In 2004, Afghanistan was a PRGF-eligible and IDA-only country, with a GNI per capita of US$228. The absence of reliable source data on Afghanistan's exports of services precluded the staffs from calculating the NPV of external debt to exports (goods and services) ratio based exclusively on official data. Using staff estimates of services receipts (Box 1), the end-December 2004 NPV of debt-to-exports (goods and services) ratio, after the

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[12] See "Heavily Indebted Poor Countries (HIPC) Initiative—List of Ring-Fenced Countries that Meet the Income and Indebtedness Criteria at end-2004," (http://www.imf.org/external/pp/longres.aspx?id=542 (April 11, 2006), IDA: R2006-0041/2 (April 11, 2006)).

[13] According to the HIPC Initiative guidelines, only debt that has been verified and confirmed by the authorities can be treated under the Initiative. At the time of the ring-fencing exercise, Afghanistan had unverified obligations to a number of creditors (including Iraq, Bulgaria, the Czech Republic, and Saudi Arabia) and had debt in dispute with the Russian Federation (then estimated at US$10.8 billion), which have since been verified/recognized.

[14] Afghanistan's fiscal year ends on March 20, 2006.

[15] Debt to Bulgaria (estimated at US$47 million) has yet to be reconciled.

[16] Disputed claims (see Box 2) have been excluded from this analysis.

Box 1. Staff Estimation of Services Receipts

The absence of reliable source data on Afghanistan's exports of services precluded the staffs from calculating the NPV of external debt-to-exports (goods and services) ratio based exclusively on official data. To assess Afghanistan's eligibility for the HIPC Initiative, the staffs have imputed the value of exports of services based on the relationship between services and merchandise exports in comparator countries. These estimates are also expected to be used at the time of the decision point.

Based on extensive statistical technical assistance in the area of balance of payments statistics, the staffs consider that further efforts to compile historical source data have no guarantee of success and would unnecessarily delay the HIPC process. Moreover, the staffs did not consider it appropriate to assess Afghanistan's HIPC eligibility on the basis of merchandise exports only as this would be akin to imputing zero value for services receipts (implying higher potential debt relief).

Accordingly, the staffs have estimated Afghanistan's exports of services, for HIPC purposes, based on the following three principles:

- identifying a group of comparator countries that: (i) are PRGF-eligible and meet the World Bank's low-income country (LIC) classification; and (ii) share Afghanistan's key characteristics of being landlocked and either post-conflict or located within the central Asia region;
- calculating a benchmark ratio of total service credits to merchandise exports in those comparator countries, averaged over the period 1980–2005; and
- applying that benchmark ratio to Afghanistan's official merchandise export data as reported by Central Statistics Office.

The Fund is providing technical assistance to support the authorities' efforts to compile a comprehensive balance of payments (including services data). If actual data are available at the completion point and are deemed by the IMF's Statistics Department (STA) to be of sufficient quality, they could be used at that time.

The methodology is set out in detail in Appendix II. For uniformity of treatment considerations, estimates of export services based on data compiled for similar countries would be available in the future for other countries in a similar situation (e.g., countries lacking reliable source data on export services).

full application of traditional debt relief mechanisms, is estimated at 585.4 percent, above the 150 percent threshold established under the HIPC Initiative (Table 4).[17]

C. Structure of External Debt as of March 20, 2006

28. **Afghanistan's public and publicly guaranteed external debt prior to the application of traditional debt relief mechanisms is estimated at US$11,939.4 million in nominal terms as of March 20, 2006** (Tables A1 and 5, and Figure 2). The Russian Federation accounts for the vast majority of total external debt (93.2 percent before the

[17] Before the application of traditional debt relief, an upfront discount of 80 percent is applied to Russian debt consistent with procedures agreed when the Russian Federation joined the Paris Club in September 1997.

application of an up-front 80 percent discount on its debt). The United States (0.9 percent) and Germany (0.4 percent) are the other Paris Club creditors. Multilateral creditors include IDA and the Asian Development Bank (ADB), representing 2.5 percent and 2.1 percent of Afghanistan's nominal debt, respectively. Non-Paris Club creditors account for 0.8 percent of total claims. At the time, there was no outstanding debt to the IMF or commercial creditors. Although debts to Paris Club creditors were regularized in the context of the July 2006 rescheduling agreement (Box 2), Afghanistan's outstanding debt still includes arrears to non-Paris Club bilateral creditors and the OPEC Fund for International Development (OFID).

Table 4. NPV of External Debt after the full application of traditional debt relief
(end-December 2004 data, in units indicated)

	In US$ million
Total NPV of External Debt	1,066.6
Bilateral	854.4
Paris Club	811.6
Russian Federation 1/	727.0
United States	70.5
Germany	14.2
Non-Paris Club	42.7
Multilateral	212.2
of which: IDA	110.2
Asian Development Bank	100.1
In percent of exports 2/	585.4

Sources: Afghan authorities and staff estimates.
1/ After up-front 80 percent discount on Russian debt.
2/ Calculated using a backward-looking three-year average of goods and services; excluding transit goods.

Table 5. External Debt as of March 20, 2006
(in units indicated)

	In US$ million	Percent of total
Total	11,939.4	100.0
Bilateral	11,382.1	95.3
Paris Club	11,283.5	94.5
Russian Federation 1/	11,127.9	93.2
United States	111.7	0.9
Germany	43.9	0.4
Non-Paris Club	98.5	0.8
Multilateral	557.3	4.7
of which: IDA	300.8	2.5
Asian Development Bank	254.6	2.1
Memorandum items:		
NPV of debt after traditional debt relief 2/	1,118.3	…
(in percent of exports) 3/	305.8	…

Sources: Afghan authorities and staff estimates.
1/ Before up-front 80 percent discount on Russian debt.
2/ After up-front 80 percent discount on Russian debt prior to the application of traditional debt relief.
3/ Calculated using a backward-looking three-year average of exports of goods and services; excluding transit goods.

Box 2. Relations with External Creditors

During the protracted period of conflict, Afghanistan accumulated a significant amount of arrears, mostly to bilateral creditors. The authorities have regularized relations with Paris Club bilateral creditors and all but one multilateral creditor, and are working to open negotiations with other creditors.

- On July 19, 2006, Afghanistan's three ***Paris Club creditors***—Germany, the Russian Federation and the United States—agreed on a substantial debt reduction package, following approval of the PRGF arrangement in June 2006. The bilateral agreement with the United States was signed in September 2006 and, by mid-February 2007, the authorities had received draft agreements from the other two creditors. The authorities have requested extending the deadline for concluding the bilateral agreements to May 31, 2007.
    - The agreement covered US$11.3 billion of official development assistance (ODA) and non-ODA debts, including arrears and late interest due as of March 31, 2006, as well as maturities falling due between April 2006 and March 2009.
    - Debts were restructured on "Naples terms": (i) ODA credits are rescheduled over 40 years, with a 16 year grace period, at interest rates as least as favorable as the original rates; and (ii) 67 percent of non-ODA credits are cancelled and the remainder are rescheduled over 23 years, with a 6 year grace period, at market interest rates. On an exceptional basis, the agreement also defers 100 percent of the moratorium interest due over the consolidation period, to be repaid after October 2011.
    - After the upfront 80 percent discount applied to debts to the Russian Federation, the restructuring under "Naples terms" reduced Afghanistan's obligations to Paris Club creditors to less than US$0.9 billion.
- Afghanistan has also sought to regularize relations with ***non-Paris Club official bilateral creditors***. Some debts have already been forgiven (e.g., by the Slovak Republic in late 2005) and, in the context of the debt reconciliation exercise, the authorities have contacted all other known creditors, with a view to seeking comparable treatment in line with the Paris Club rescheduling agreement.
- Afghanistan has cleared its arrears with all its ***multilateral creditors***, except the OPEC Fund for International Development (OFID).
    - In November 2002, Afghanistan cleared US$17.1 million in arrears with the Asian Development Bank, using funds from the UK Department for International Development (DFID).
    - In February 2003, Afghanistan cleared US$28.2 million in arrears to IDA and about SDR 8.0 million in arrears to the IMF. Arrears to IDA and the IMF were cleared using funds from bilateral donors.
    - Afghanistan is still in arrears with OFID (US$1.9 million as of March 20, 2006). Afghanistan should conclude an agreement on the clearance of these arrears prior to the decision point.
- Some relatively small amounts (less than 1 percent of total external debt) to ***commercial creditors*** remain in dispute. The authorities are actively working to clarify their obligations in this respect.

D. Possible Assistance Under the HIPC Initiative

29. **After the full application of traditional debt relief mechanisms, Afghanistan's debt in NPV terms is estimated at US$1,118.3 million (as of March 20, 2006)** (Table A5).[18] This represents 305.8 percent of exports of goods and services.

30. **Assuming that Afghanistan qualifies for the HIPC Initiative, HIPC debt relief of US$569.7 million in NPV terms would be required to reduce Afghanistan's NPV of debt-to-exports ratio from 305.8 percent to 150 percent** (Table A2 and Figure 3). This implies a common reduction factor of 50.9 percent. Under the proportional burden-sharing approach, the contribution from bilateral creditors to HIPC debt relief would be approximately US$434.8 million (in NPV terms) with about US$134.9 million (in NPV terms) from multilateral creditors. In particular, the contribution from Russia would amount to US$374.7 million (in NPV terms).

31. **Assuming the time profile and modalities presented below, this translates into about US$1.2 billion of nominal debt service relief over time**. The following assumptions were made in projecting the time profile of possible HIPC Initiative assistance:

- **IDA** would provide total assistance amounting to US$75.1 million in NPV terms. Immediately following the approval of the decision point by the Boards, IDA would begin to provide assistance in the form of debt-service reduction on debt outstanding and disbursed as of March 20, 2006.

- Full participation of the **ADB** in the HIPC Initiative is assumed. The ADB is assumed to start providing its share of debt relief under the proportional burden-sharing mechanism (US$58.8 million in NPV terms) on similar terms as IDA upon the approval of the decision point document.

- **OFID** is assumed to provide debt-service reduction starting at the completion point, amounting to about US$1.0 million in NPV terms, until its contributions meet the requirement under the Enhanced HIPC Initiative.

- **Paris Club bilateral creditors** are assumed to provide a flow rescheduling on Cologne terms—i.e., a 90 percent NPV reduction—after reaching the decision point, with delivery of the remaining required assistance at the completion point through a stock-of-debt operation. This is expected to translate into debt relief of US$418.2 million in NPV terms.

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[18] This also reflects the up-front 80 percent discount on Russian Federation debt that is applied prior to the application of traditional debt relief mechanisms.

- **Non-Paris Club official bilateral creditors** are assumed to provide comparable treatment.

E. Debt Sustainability Analysis[19]

32. **The debt sustainability analysis presented in this section is predicated on the macroeconomic assumptions underlying the PRGF-supported program and staff projections through 2026/27** (summarized in Box 3). The baseline macroeconomic framework assumes that recent robust economic growth moderates to a long-term level of 4.5 percent a year. The framework is underpinned by steadfast support from the international community, a gradual improvement in the security situation, as well as sustained structural reforms and infrastructure development that would provide an environment conducive to private sector growth. Macroeconomic policies are expected to remain sound, as evidenced by stable inflation over the projection period, and continued improvements in revenue performance will support the gradual fiscal adjustment. The authorities will also continue to seek external assistance for the foreseeable future.

33. **Delivery of HIPC Initiative assistance would reduce Afghanistan's NPV of debt-to-exports ratio as of March 20, 2006 to 150 percent**.[20] The NPV of debt-to-exports is expected to fall to 110.4 percent in 2006/07, reflecting the recent strong increase in merchandise exports (Table A6 and Figure 4). Thereafter, the NPV of debt-to-exports is expected to decline steadily, reaching 49.7 percent by 2025/26, remaining consistently well below the 150 percent HIPC threshold. External debt service as a ratio of exports is also expected to decline sharply after the delivery of HIPC assistance and remains around 3 percent in the second half of the projection period. If Paris Club creditors continue to capitalize moratorium interest and cancel all debts following the completion point, the ratio of debt service-to-exports would fall further.[21]

F. Sensitivity Analysis

34. **Simulations under four scenarios were conducted to test the sustainability of Afghanistan's external debt after the full delivery of HIPC Initiative assistance** (Table A7 and Figure 5). Under all scenarios, Afghanistan's external situation would deteriorate, with debt indicators higher than under the baseline scenario. In particular, over

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[19] This debt sustainability analysis (DSA) utilizes HIPC DSA methodology, but both HIPC and LIC DSAs will be prepared at the time of the decision point.

[20] The unconditional delivery of HIPC assistance incorporates the impact of HIPC assistance to be delivered after the estimated HIPC completion point.

[21] A scenario considering debt relief beyond what is required by the HIPC Initiative will be included in the forthcoming decision point document.

Box 3. Key Macroeconomic Assumptions Underlying the DSA

Key medium-to-long term macroeconomic assumptions used in the baseline DSA scenario include:

Annual real GDP growth is expected to converge toward a long-term rate of 4.5 percent by 2021/22. Notwithstanding the reconstruction led double-digit growth rates in the near-term, average real GDP growth over the projection period (2007/08–26/27) will be less than 6 percent.

CPI inflation is projected to ease from 7 percent per annum in 2006/07 to 5 percent from 2007/08 onwards.

Investment is expected to remain at exceptionally high levels in the short-term, driven by donor-supported reconstruction and public investment. Over the medium-to-longer run, investment is projected to decrease gradually from above 40 percent of GDP in 2006/07 to about 22.5 percent of GDP by 2018/19.

Fiscal policy aims at delivering the government's spending priorities while supporting macroeconomic stability. Central government revenues are expected to increase gradually from 6.4 percent of GDP in 2006/07 to 12 percent of GDP in 2026/27. Expenditures are expected to peak at just over 21 percent of GDP in 2011/12, and then decrease gradually to about 18 percent of GDP by 2026/27. The central government overall deficit (before HIPC assistance) is projected to average just under 2 percent of GDP over the projection period.

External grants are expected to remain the predominant form of financing, but will decrease as a percentage of GDP from nearly 40 percent in 2006/07 to around 7 percent in 2026/27.

Official loan financing is assumed to continue on strictly concessional terms, with an average grant element of 56 percent. After playing a subsidiary role in the short-to-medium term, debt financing gains prominence toward the end of the projection period.

The external current account deficit (excluding external grants) is projected to diminish gradually from over 40 percent of GDP in 2006/07 to about 10 percent in 2026/07.

the medium term, the NPV of debt-to-exports ratio would remain above its 2006/07 level in all but one scenario, and would rise significantly in the long-run under the lower GDP growth scenario.

- The first scenario highlights the **sensitivity to the concessionality of new borrowing**. Under this scenario, new borrowing from 2006/07 onwards is contracted at an interest rate 200 basis points higher than under the baseline scenario. This would be equivalent to a reduction in the estimated combined grant element of new borrowing to 36 percent, compared to 56 percent in the baseline scenario. As a consequence, Afghanistan's NPV of debt-to-exports ratio would be around 25–30 percentage points higher at the end of the projection period compared to the baseline scenario. However, Afghanistan's NPV of debt-to-exports ratio would continue to decline, reflecting the assumption that, on average, 90 percent Afghanistan's financing needs would be met by grants.

- Reflecting the heavy dependence on grant financing, the second scenario considers the **sensitivity to greater reliance on debt financing**. Under this scenario, budgetary grants are 1 percentage point of GDP lower than in the baseline starting in 2009/10. The resulting financing needs are met by a corresponding increase in borrowing, with an average grant element of around 52 percent over the projection period. Moreover, additional debt service payments attributable to the extra financing needs are also covered by borrowing. Under this scenario, the NPV of debt-to-exports ratio would increase gradually over the medium term, but would start declining in 2016/17, reaching 110.9 percent by the end of the projection period. Compared to the baseline, this results in a steady deterioration of the NPV of debt-to-exports ratio from 5 percentage points higher in 2009/10 to 61.2 percentage points higher by 2025/26.

- The third scenario considers the **sensitivity to lower export prices** (15 percent lower than in the baseline). Based on these assumptions, the NPV of debt-to-exports would decline from 110.4 percent in 2006/07 to 96.2 percent in 2010/11. Thereafter, the ratio is expected to start increasing, reaching 134.5 percent by 2025/26.

- The fourth scenario considers the **sensitivity to GDP growth that is 1.5 percentage points lower** than in the baseline scenario. Correspondingly, export receipts, foreign direct investment and government revenues would be lower, increasing the need for additional financing. In the absence of a fiscal adjustment, the financing gap is assumed to be met through borrowing. After declining initially, the NPV of debt-to-exports ratio would increase from 2011/12, reaching 211.7 percent by 2025/26, 162 percentage points higher than under the baseline scenario. This highlights the need for Afghanistan to maintain a robust level of economic growth and the importance of grant financing for the authorities to maintain fiscal sustainability.

G. MDRI and Possible Bilateral Assistance Beyond HIPC

35. **Upon reaching the completion point under the HIPC Initiative, Afghanistan would become a recipient of MDRI debt relief from IDA**. MDRI debt relief would cover all outstanding debt disbursed from IDA prior to end-December 2003, and would start at the beginning of the quarter following the completion point. The amount of MDRI relief from IDA will depend on repayments made by the date of the completion point. The IMF has no MDRI-eligible debt.[22]

36. **Preliminary estimates indicate that MDRI debt relief from IDA could amount to US$38.4 million in nominal terms (US$14.9 million in NPV terms), assuming that Afghanistan reaches the completion point in July 2009** (Table A4). This would be in addition to the US$1.2 billion to be provided under the HIPC Initiative, including US$127 million from IDA.

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[22] Under the MDRI, the IMF committed to providing stock relief on debt outstanding as of December 31, 2004, and still outstanding at the time of the completion point.

37. **Afghanistan's NPV of debt-to-exports ratio would decline slightly with the delivery of MDRI assistance**. Assuming that Afghanistan reaches the completion point in July 2009, its NPV of debt-to-exports ratio would decline by 2 percentage points in 2009/10, compared to the conditional delivery of HIPC assistance.[23]

38. **Paris Club creditors are expected to provide further relief after the completion point**, having committed to cancel 100 percent of Afghanistan's debt following its successful implementation of the HIPC initiative process. This should amount to US$402.8 million in NPV terms (Table A5).

V. The Decision and Floating Completion Points

A. The PRSP Process

39. The *Interim Afghanistan National Development Strategy* (I-ANDS) was approved by the Cabinet, and presented to a Donor Conference, in January 2006. It was submitted to the IMF and World Bank in mid-March 2006, with the Joint Staff Advisory Note discussed by the Boards in May and June 2006. The I-ANDS identifies eight priority sectors grouped under three broad pillars focusing on: security; governance, rule of law, and human rights; and economic and social development (Box 5). It is complemented by the *Afghanistan Compact* between Afghanistan and its international development partners, which sets out detailed outcomes, benchmarks, and timelines under each of the I-ANDS pillars.

40. While I-ANDS preparation involved broad consultations, the authorities are conducting a public awareness campaign and establishing an institutional framework for stakeholder participation in developing the ANDS. They are also working to address the severe poverty data limitations, including through an update of the 2005 National Risk and Vulnerability Assessment. Given the breadth of coverage of the I-ANDS pillars, prioritization will be a key challenge for developing ANDS sectoral strategies and will require reconciling a "needs-based" approach with a "top-down" approach reflecting resource constraints. The authorities currently aim to complete the ANDS by March 2008, which may prove ambitious given the challenge of integrating it into the budget formulation and execution process, and ongoing efforts to institutionalize ANDS processes.

B. Possible Decision Point Timing

41. **The staffs propose that Afghanistan's decision point document be considered by the Boards in early July 2007,** in conjunction with the second review under the PRGF arrangement. Afghanistan has made good progress toward macroeconomic stability—including under the PRGF arrangement since mid-2006—and enunciating a poverty reduction strategy through the I-ANDS. Reaching the decision point would be contingent on

[23] This assumes that MDRI has no impact on Afghanistan's new borrowing over the projection period.

the authorities: (i) continuing to satisfactorily execute their PRGF-supported program; (ii) concluding an agreement on the clearance of arrears to multilateral creditors; (iii) opening negotiations with bilateral creditors on all debts to be treated under the enhanced HIPC initiative; and (iv) reaching understandings with the staffs on the details of appropriate completion point triggers. These preparations are well advanced.

C. Possible Triggers for the Floating Completion Point

42. **IMF and IDA staffs have reached preliminary understandings with the authorities on the broad coverage of possible completion point triggers** (Box 4). The standard triggers on sustained macroeconomic management and implementation of a poverty reduction strategy would be complemented by measures focused on strengthening public institutions and improving economic governance to ensure that economic growth can be sustained and is inclusive. In this regard, some triggers aim to help Afghanistan avoid accumulating an unmanageable debt burden in meeting its sizeable reconstruction and development needs by improving debt management and public financial management (including through ensuring a sustainable fiscal policy). Other triggers—particularly those on framing expenditure policy decisions and sectoral reforms—aim to support growth and promote the use of finances in a way that is both sustainable and will help lower poverty. Together these triggers will support the authorities' efforts to improve the prioritization, and effective delivery, of ANDS sectoral strategies. Based on the timetable for completing the ANDS and efforts already underway to implement these measures, the government plans to meet the triggers within two years of the HIPC decision point.

D. Monitoring the Use of Public Resources

43. **Securing the effective use of debt relief for pro-poor growth is a foremost objective of the HIPC Initiative**. Although the cash budget benefits of HIPC relief may be limited for Afghanistan,[24] in the absence of the HIPC Initiative the government would have had to generate the resources needed (or offsetting expenditure adjustments) to remain current in servicing all its debts. This underscores the importance of ensuring the effective use of limited domestic revenues and considerable donor resources, which will require the capacity to implement and monitor the composition of expenditure against pro-poor growth objectives. The possible trigger on the use of functional expenditure, and simple program, classifications should help in this regard. It will also require continued efforts to strengthen the programming, management and control of expenditure, and to improve service delivery in priority sectors.

[24] The government had not been servicing its bilateral debts prior to the Paris Club agreement. However, the government has been servicing its debt to the ADB and IDA since clearing its arrears.

Box 4. Possible Triggers for the Floating Completion Point

I. PRSP implementation

- Prepare a full PRSP—the ANDS—through a participatory process and satisfactorily implement its recommendations for at least one year, as evidenced by an ANDS Annual Progress Report submitted by the government to the satisfaction of IDA and the IMF.

II. Macroeconomic Management

- Maintain macroeconomic stability as evidenced by satisfactory performance under the IMF PRGF-supported program.

III. External Debt Management

- Establish and operationalize a database system on external public and publicly guaranteed debt; and publish at least three consecutive quarterly external debt reports in a timely manner (including data on the debt stock, and actual and projected debt service and disbursements).

IV. Public Expenditure Policy

- Align public spending priorities with the priorities in the I-ANDS and, when completed, the ANDS.
- Design pension reform for public employees and military. Initiate the implementation of a government endorsed pension strategy with new pension regulations and reform of the Pension Department.
- Restructure four core service delivery ministries (Agriculture, Education, Public Health, and Rural Development) to strengthen common core functions, and service delivery mechanisms that have gone through position grading, including competitive selection of [new] civil servants with appointments and dismissals in full compliance with legal and due process requirements.

V. Public Financial Management

- Strengthen the medium-term fiscal framework (consistent with the PRGF and ANDS priorities), based on an articulated and sustainable fiscal deficit target underpinned by clear government policies and strategies, in the year preceding the completion point.
- Strengthen tracking of poverty-related spending through reporting on government budget execution using a functional expenditure classification, supplemented with a simple program classification in key ministries.
- Strengthen the system of external audit, including annual audit reports to parliament of the core budget's financial statements according to international standards, and an annual report to parliament on the resolution of important findings identified by the external auditor.

VI. Business Environment and/or Economic Development

- Establish a Hydrocarbon/Mining Cadastre. Develop regulations and guidelines for exploration licenses, quarry authorizations, exploitation licenses, and hydrocarbon licensing rounds. Satisfactory implementation of regulations and guidelines.

VII. Human/Social Development

- Improve transparency and accountability for service provision through the annual publication of government and third party data on the quantity and quality of services delivered in the health and education sectors.

44. **Within this framework, the ongoing technical assistance provided in Public Financial Management (PFM) by the IMF and IDA will be key to improving expenditure tracking mechanisms**. The aid effectiveness agenda, including greater use of national budget channels and systems to channel aid inflows, also is very important in this regard. The 2005 PFM Review addressed the design of specific mechanisms to enhance public financial management. It recognized that substantial progress had been made toward implementing a classification system for government expenditures. A chart of accounts—covering all central government transactions—has been in place since March 2005 and has started to align the budgeting, accounting and reporting systems. However, the review identified that further work should be done to integrate the operating and development budgets. Subsequent advice from the IMF's Fiscal Affairs Department (May 2006) recommended the gradual introduction of a program structure, commencing with pilots to develop a new classification system in selected, better performing ministries for the 2007/08 budget. These pilots were initiated in 2006, with the classification prepared in close cooperation between the Ministry of Finance (budget department and the treasury), line ministries, and the I-ANDS monitoring committee.

45. **Administrative, functional and economic classifications are already in place in Afghanistan**. These provide an adequate basis for tracking expenditure, including outlays deemed to be poverty-related. The functional classification of expenditures is currently only reported at an aggregate level; this provides an indication of the broad allocation of expenditures within a sector, but does not, for instance, allow separate identification of spending on primary and tertiary health services. It is expected that, by the time of the completion point, the authorities will be reporting all operating and development expenditures at a more disaggregated level to allow more detailed tracking of pro-poor spending against priorities identified in the ANDS.

46. **A simple program classification would also provide additional information for more detailed policy analysis**. The pilot program is currently underway in three priority Ministries—Education, Reconstruction and Rural Development, and Public Health—and presents the operating and development budget according to a simple program structure. This approach will be further refined commencing with the 2008/09 budget and extended to agriculture and other ministries.[25]

47. **The resources made available by the HIPC Initiative prior to the completion point—including from not having to resume servicing bilateral debt previously in arrears—will enable the government to ensure expenditure levels in priority sectors**. The I-ANDS identified eight priority sectors grouped under three pillars of activity (Box 5).

[25] This would require that the initial steps of program budgeting be undertaken (defining programs and possibly amending the Chart of Accounts to be reported on program spending), but does not necessarily require formulating, nor appropriating, the budget by programs.

Box 5: Possible Medium-Term Expenditure Priorities

The I-ANDS identified eight priority sectors spread across three pillars of activity.

Pillar One: Security

- **Security:** establish a legitimate monopoly on force and law enforcement that provides a secure environment through reform of the Afghan National Army and Police.

Pillar Two: Governance, Rule of Law and Human Rights

- **Governance, Rule of Law and Human Rights:** Establish and strengthen government institutions at the central and sub-national levels. Reform the justice system with the aim of ensuring equal access to formal justice and judicial supervision of informal dispute resolution mechanisms.

Pillar Three: Economic and Social Development

- **Infrastructure and Natural Resources:** Investment programs to improve national roads network; air transport; energy and water; telecommunications; natural resources and mining; and urban development and housing.
- **Education:** Expand access to primary and secondary education; increase enrollment and retention rates; and strengthen the curriculum and quality of teachers.
- **Health:** Extend basic health services and essential hospital services; initiate the communicable and noncommunicable disease control program; and strengthen health sector human resource management.
- **Agriculture and Rural Development:** Achieve pro-poor growth in rural areas by enhancing licit agricultural productivity, creating incentives for non-farm investment, developing rural infrastructure, and supporting access to financial services.
- **Social Protection:** Strengthen humanitarian and disaster response; and improve support to the vulnerable (including women, demobilized soldiers, the disabled, and refugees and displaced persons).
- **Economic Governance and Private Sector Development:** Improve the management and accountability of public expenditures by strengthening the Medium-Term Fiscal Framework, improving revenue collection, and enhancing public finance management. Improve the investment climate by facilitating trade, reforming the regulatory system, and modernizing financial services and markets.

The breadth of expenditures covered reflects the short-term imperative of ensuring a secure environment that would enable the effective delivery of longer run development objectives. Given that security expenditures are expected to be financed by external resources, HIPC Initiative relief from debt servicing could focus on aspects of economic and social development, such as health, education and rural development. These possible expenditure priorities will be discussed further and specified with the authorities in the decision point document. Beyond that, there is also a need for greater prioritization in the ANDS.

VI. Issues for Discussion

48. This paper presents a preliminary assessment of Afghanistan's eligibility for assistance under the enhanced HIPC Initiative. Executive Directors' views and guidance are sought in particular on the following issues:

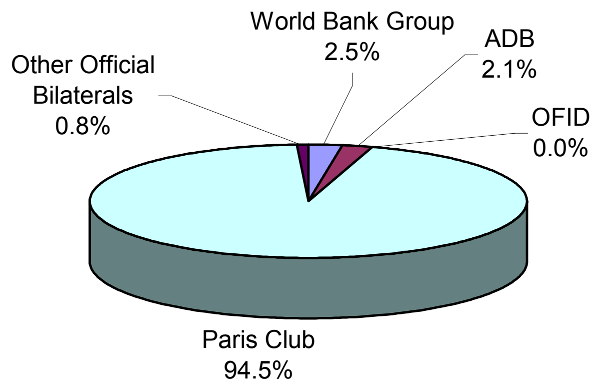
- **Eligibility:** Do Directors agree that Afghanistan be added to the list of ring-fenced countries that meet the end-2004 income and indebtedness criteria? In light of this and given that Afghanistan has ongoing programs with IDA and under the PRGF, do Directors agree that it would become eligible for assistance under the HIPC Initiative? Do Directors endorse the proposal of moving forward on the basis of staff estimates of services receipts for the purposes of assessing HIPC eligibility?

- **Timing of the decision point**: Do Directors agree that Afghanistan could reach its decision point in mid-2007, provided that: (i) performance under the PRGF-supported program remains satisfactory; (ii) the authorities have concluded an agreement on the clearance of arrears to multilateral creditors; (iii) the authorities have opened negotiations with bilateral creditors on all debts to be treated under the enhanced HIPC initiative; and (iv) understandings are reached on appropriate completion point triggers?

- **Floating completion point**: Do Directors broadly agree with the list of possible floating completion point triggers?

Figure 2. Islamic Republic of Afghanistan: Composition of Stock of External Debt

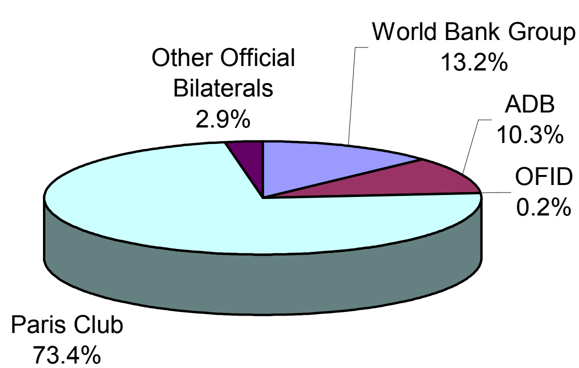
as of March 20th, 2006 by creditor group
(Nominal stock: $11.9 billion)



Sources: Afghan authorities and staff estimates.

Figure 3. Islamic Republic of Afghanistan: Potential Costs of the HIPC Initiative by creditor group

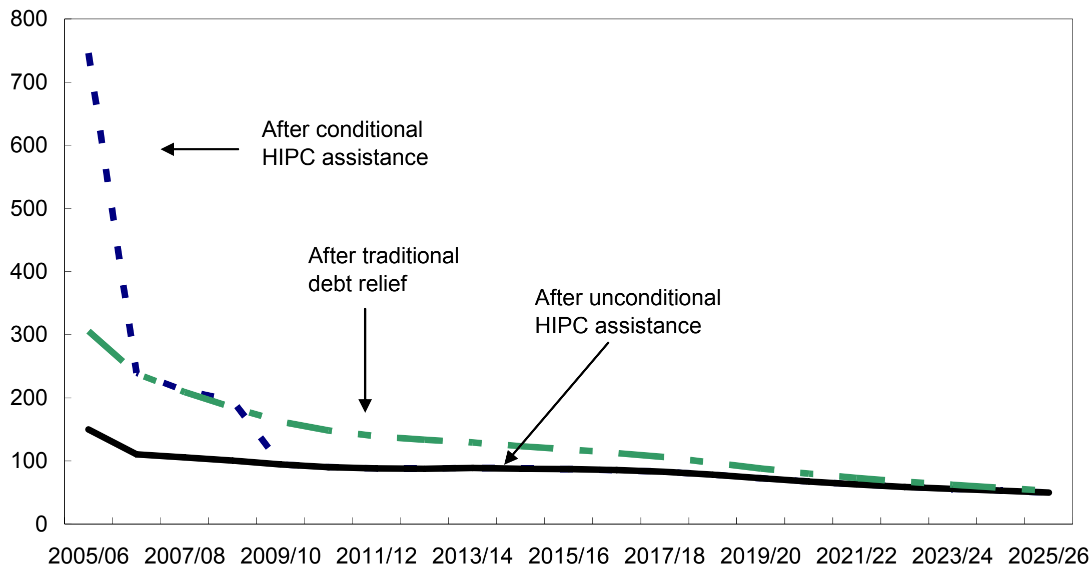
(Total Estimated HIPC Enhanced Assistance: $569.7 million,
end-March 2006 NPV terms)



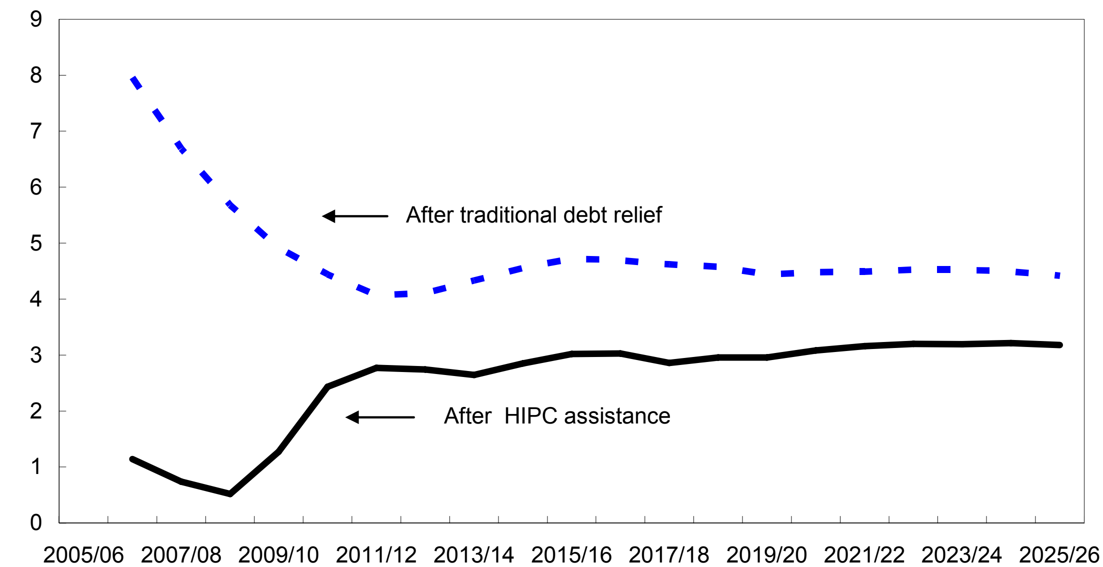
Sources: Afghan authorities and staff estimates.

Figure 4. Islamic Republic of Afghanistan: External Debt Sustainability Indicators, 2005/06–2025/26

NPV of Debt to Exports
(In percent of Exports)

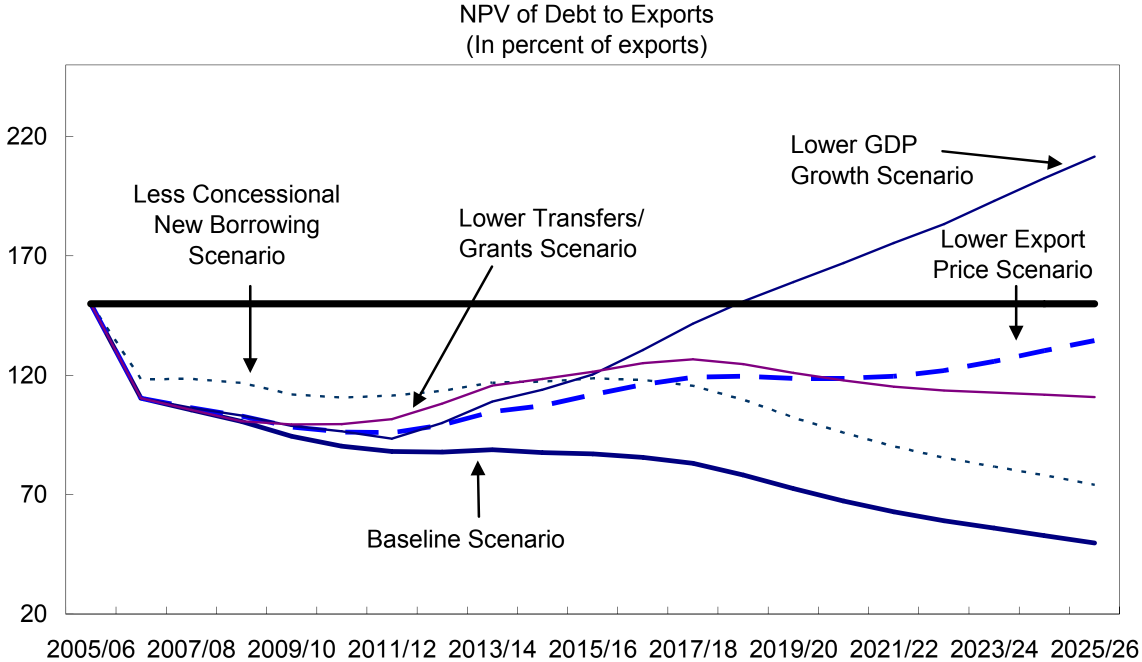


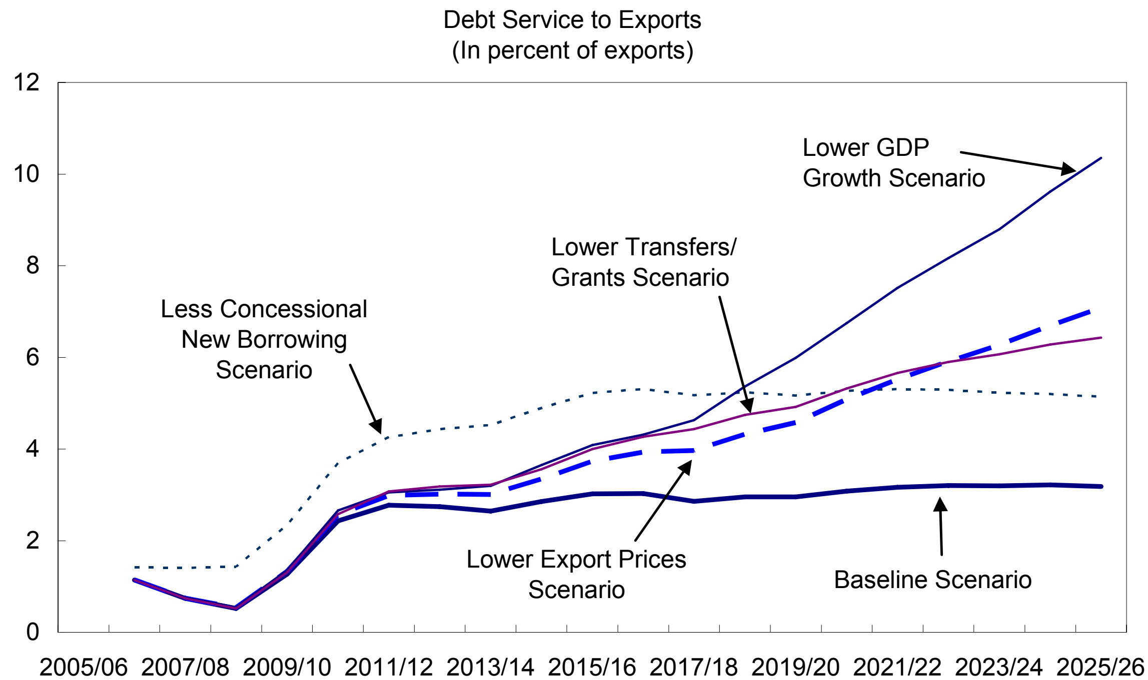
Debt Service to Exports
(In percent of Exports)



Sources: Afghan authorities and staff estimates and projections.

Figure 5. Islamic Republic of Afghanistan: Sensitivity Analysis, 2005/06–2025/26





Sources: Afghan authorities and staff estimates and projections.

Table A1. Islamic Republic of Afghanistan: Nominal Stock and Net Present Value of Debt as of March 20th 2006 by Creditor Groups

(In million of US$ unless otherwise specified)

	Before Discount of Russian Debt 1/						After Discount on Russian Debt 2/						NPV of Debt After Traditional Debt Relief 2/ 3/	
	Nominal Debt Stock		Arrears		NPV of Debt		Nominal Debt Stock		Arrears		NPV of Debt			
		Percent of total		Percent of total		Percent of total		Percent of total		Percent of total		Percent of total		Percent of total
Total	11,939.4	100.0	10,898.9	100.0	11,612.0	100.0	3,037.0	100.0	2,364.9	100.0	2,735.7	100.0	1,118.3	100.0
Multilateral	557.3	4.7	1.9	0.0	264.7	2.3	557.3	18.3	1.9	0.1	264.7	9.7	264.7	23.7
World Bank	300.8	2.5	0.0	0.0	147.5	1.3	300.8	9.9	0.0	0.0	147.5	5.4	147.5	13.2
ADB	254.6	2.1	0.0	0.0	115.4	1.0	254.6	8.4	0.0	0.0	115.4	4.2	115.4	10.3
OFID	1.9	0.0	1.9	0.0	1.9	0.0	1.9	0.1	1.9	0.1	1.9	0.1	1.9	0.2
Bilateral and commercial	11,382.1	95.3	10,897.0	100.0	11,347.3	97.7	2,479.7	81.7	2,363.0	99.9	2,471.0	90.3	853.6	76.3
Paris Club	11,283.5	94.5	10,798.5	99.1	11,248.8	96.9	2,381.2	78.4	2,264.4	95.8	2,372.4	86.7	821.0	73.4
Post-cutoff date	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ODA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-ODA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-cutoff date	11,283.5	94.5	10,798.5	99.1	11,248.8	96.9	2,381.2	78.4	2,264.4	95.8	2,372.4	86.7	821.0	73.4
ODA	111.7	0.9	87.1	0.8	109.5	0.9	111.7	3.7	87.1	3.7	109.5	4.0	71.8	6.4
Non-ODA	11,171.8	93.6	10,711.5	98.3	11,139.3	95.9	2,269.4	74.7	2,177.4	92.1	2,262.9	82.7	749.2	67.0
Russia	11,127.9	93.2	10,667.6	97.9	11,095.4	95.6	2,225.6	73.3	2,133.5	90.2	2,219.1	81.1	735.6	65.8
Germany	43.9	0.4	43.9	0.4	43.9	0.4	43.9	1.4	43.9	1.9	43.9	1.6	13.6	1.2
United States	111.7	0.9	87.1	0.8	109.5	0.9	111.7	3.7	87.1	3.7	109.5	4.0	71.8	6.4
Other Official Bilateral	98.5	0.8	98.5	0.9	98.5	0.8	98.5	3.2	98.5	4.2	98.5	3.6	32.6	2.9
Post-cutoff date	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ODA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-ODA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-cutoff date	98.5	0.8	98.5	0.9	98.5	0.8	98.5	3.2	98.5	4.2	98.5	3.6	32.6	2.9
ODA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-ODA	98.5	0.8	98.5	0.9	98.5	0.8	98.5	3.2	98.5	4.2	98.5	3.6	32.6	2.9
Bulgaria	47.5	0.4	47.5	0.4	47.5	0.4	47.5	1.6	47.5	2.0	47.5	1.7	15.7	1.4
Iraq	9.1	0.1	9.1	0.1	9.1	0.1	9.1	0.3	9.1	0.4	9.1	0.3	3.0	0.3
Kuwait	19.3	0.2	19.3	0.2	19.3	0.2	19.3	0.6	19.3	0.8	19.3	0.7	6.4	0.6
Saudi Arabia	22.2	0.2	22.2	0.2	22.2	0.2	22.2	0.7	22.2	0.9	22.2	0.8	7.3	0.7
Croatia	0.4	0.0	0.4	0.0	0.4	0.0	0.4	0.0	0.4	0.0	0.4	0.0	0.1	0.0

Sources: Afghan authorities and staff estimates.

1/ Before up-front 80 percent discount on Russian debt.
2/ After up-front 80 percent discount on Russian debt.
3/ Includes a stock-of-debt operation on Naples terms at March 20, 2006; and at least comparable treatment by other official bilateral and commercial creditors on eligible debt (pre-cutoff and non-ODA).

Table A2. Islamic Republic of Afghanistan: HIPC Initiative:
Assistance Under a Proportional Burden-Sharing Approach 1/ 2/

(In millions of U.S. dollars, unless otherwise indicated)

	Total	Bilateral 3/	Multilateral	Common Reduction Factor 4/
	(In NPV terms at March 20, 2006)			(Percent)
NPV of debt-to-exports target (in percent)	150			
Debt relief under baseline scenario	569.7	434.8	134.9	50.9
Memorandum items:				
NPV of debt 2/	1,118.3	853.6	264.7	
Paris Club creditors	821.0			
Of which: pre-cutoff date non-ODA debt	749.2			
Non-Paris Club creditors	32.6			
Of which: pre-cutoff date non-ODA debt	32.6			
Three-year average of exports	365.7			
Current-year exports 5/	507.2			
NPV of debt-to-exports ratio 6/	305.8			

Sources: Afghan authorities and staff estimates and projections.

1/ The proportional burden sharing approach is described in "HIPC Initiative--Estimated Costs and Burden Sharing Approaches" (7/7/97 and IDA/SEC M 97-306, 7/7/97).
2/ After up-front 80 percent discount on Russian debt, a hypothetical stock-of-debt operation on Naples terms (March 20, 2006) and comparable treatment by other official bilateral creditors.
3/ Includes all official bilateral creditors.
4/ Each creditor's NPV reduction in percent of its exposure at the decision point.
5/ Fiscal year ending March 20, 2006.
6/ Based on the three-year average of exports of goods and services (backward-looking average, i.e., 2003/04-2005/06); excluding transit goods.

Table A3. Islamic Republic of Afghanistan: Discount and Exchange Rate Assumptions at end-December 2004 and at end-March 2006

Currency Name	Discount Rate 1/ end-December 2004	Discount Rate 1/ end-March 2006	Exchange Rate 2/ end-December 2004	Exchange Rate 2/ end-March 2006
	(In percent per annum)		(Currency per U.S. dollar)	
Special Drawing Rights	4.64	4.54	1.55	1.44
Domestic Currency: Afghani	4.64	4.54	0.02	0.02
Kuwait Dinar	5.03	5.32	3.39	3.42
Soviet Union Ruble	4.64	4.54	1.67	1.67
UAE Dinar	4.64	4.54	0.27	0.27
Great Britain Sterling	6.01	5.20	1.93	1.73
United States Dollar	5.03	5.32	1.00	1.00
Euro	4.82	4.10	1.36	1.21
Japanese Yen	2.15	2.11	0.01	0.01
Korean Won	5.21	6.09	0.00	0.00
Norwegian Krone	4.70	4.42	0.17	0.15
Swedish Krona	5.38	4.08	0.15	0.13
Swiss Franc	3.48	2.90	0.88	0.77
Memorandum item:				
Paris Club cutoff date	June 20, 1999			

Sources: OECD; and IMF, *International Financial Statistics* .

1/ The discount rates used are the average commercial interest reference rates over the six-month period prior to the reference date, i.e., the end of the period for which actual debt and export data are available.
2/ The exchange rates are expressed as national currency per U.S. dollar at the end of the reference date.

Table A4. Islamic Republic of Afghanistan: External Debt Service, 2006/07–2025/26 1/

(in millions of U.S. dollars, unless otherwise indicated)

	2006/07	2007/08	2008/09	2009/10	2010/11	2015/16	2020/21	2025/26	Averages 2006/07-2015/16	Averages 2016/17-2025/26
Before traditional debt relief										
Total	262.0	138.1	22.0	22.5	23.5	58.4	125.5	211.3	66.6	136.1
Existing debt 2/	261.4	136.3	19.2	18.6	18.1	25.5	22.5	23.6	56.4	22.9
Multilateral	6.2	6.1	6.1	6.3	6.4	17.9	15.9	23.6	9.6	18.4
World Bank Group	4.8	4.7	4.7	4.7	4.7	9.7	9.0	12.3	5.9	9.9
Asian Development Bank	1.4	1.4	1.4	1.4	1.4	7.9	6.9	11.4	3.5	8.4
OFID	0.0	0.0	0.0	0.2	0.4	0.3	0.0	0.0	0.2	0.1
Official bilateral 3/	255.2	130.2	13.1	12.3	11.7	7.6	6.5	0.0	46.8	4.5
Paris Club	255.2	130.2	13.1	12.3	11.7	7.6	6.5	0.0	46.8	4.5
Non Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt	0.6	1.8	2.9	3.9	5.4	32.9	103.1	187.7	10.1	113.2
Debt service to exports ratio	44.2	19.1	2.5	2.2	2.0	2.7	3.0	3.0	8.1	2.9
Debt service to revenue ratio	48.4	19.3	2.5	2.1	1.8	2.0	2.4	2.5	8.3	2.4
After traditional debt relief 4/ 5/										
Total	47.2	48.3	49.4	50.6	52.2	102.2	190.3	315.0	62.8	207.8
Existing debt 2/	46.6	46.5	46.5	46.7	46.8	69.3	87.2	127.3	52.7	94.6
Multilateral	6.2	6.1	6.1	6.3	6.4	17.9	15.9	23.6	9.6	18.4
World Bank Group	4.8	4.7	4.7	4.7	4.7	9.7	9.0	12.3	5.9	9.9
Asian Development Bank	1.4	1.4	1.4	1.4	1.4	7.9	6.9	11.4	3.5	8.4
OFID	0.0	0.0	0.0	0.2	0.4	0.3	0.0	0.0	0.2	0.1
Official bilateral	40.4	40.4	40.4	40.4	40.4	51.4	71.3	103.6	43.0	76.2
Paris Club	38.7	38.7	38.7	38.7	38.7	49.2	68.3	99.4	41.2	73.0
Non Paris Club	1.7	1.7	1.7	1.7	1.7	2.2	3.0	4.2	1.8	3.1
New debt	0.6	1.8	2.9	3.9	5.4	32.9	103.1	187.7	10.1	113.2
Debt service to exports ratio	8.0	6.7	5.7	4.9	4.4	4.7	4.5	4.4	5.1	4.5
Debt service to revenue ratio	8.7	6.7	5.6	4.7	4.0	3.5	3.6	3.8	4.7	3.7
After HIPC assistance 6/										
Total	6.8	5.3	4.5	13.1	28.6	65.4	130.8	226.9	30.2	143.6
Existing debt 2/	6.2	3.6	1.6	9.2	23.2	32.5	27.7	39.2	20.1	30.4
Multilateral	6.2	3.6	1.6	1.7	1.8	4.6	4.0	5.9	3.2	4.7
World Bank Group	4.8	2.7	1.4	1.3	1.3	2.8	2.6	3.5	2.2	2.8
Asian Development Bank	1.4	0.8	0.3	0.3	0.3	1.7	1.5	2.4	0.9	1.8
OFID	0.0	0.0	0.0	0.1	0.2	0.1	0.0	0.0	0.1	0.0
Official bilateral	0.0	0.0	0.0	7.5	21.4	27.9	23.7	33.3	16.9	25.8
Paris Club	0.0	0.0	0.0	6.8	20.5	26.4	22.4	31.5	16.0	24.4
Non Paris Club	0.0	0.0	0.0	0.7	1.0	1.5	1.3	1.8	0.9	1.4
New debt	0.6	1.8	2.9	3.9	5.4	32.9	103.1	187.7	10.1	113.2
Debt service to exports ratio after HIPC assistance	1.1	0.7	0.5	1.3	2.4	3.0	3.1	3.2	2.0	3.1
Debt service to revenue ratio after HIPC assistance	1.3	0.7	0.5	1.2	2.2	2.3	2.5	2.7	1.7	2.5
Reduction in debt service as a result of										
HIPC Initiative assistance 5/ 7/	40.4	43.0	44.9	37.5	23.6	36.8	59.4	88.1	32.6	64.2
After HIPC and MDRI assistance 8/										
Total	6.8	5.3	4.5	12.7	27.7	64.3	129.9	226.2	29.6	142.7
Existing debt 2/	6.2	3.6	1.6	8.7	22.4	31.4	26.8	38.6	19.5	29.5
Multilateral	6.2	3.6	1.6	1.3	0.9	3.5	3.1	5.3	2.6	3.8
World Bank Group	4.8	2.7	1.4	0.9	0.5	1.7	1.7	2.9	1.5	2.0
Asian Development Bank	1.4	0.8	0.3	0.3	0.3	1.7	1.5	2.4	0.9	1.8
OFID	0.0	0.0	0.0	0.1	0.2	0.1	0.0	0.0	0.1	0.0
Official bilateral	0.0	0.0	0.0	7.5	21.4	27.9	23.7	33.3	16.9	25.8
New debt	0.6	1.8	2.9	3.9	5.4	32.9	103.1	187.7	10.1	113.2
Debt service to exports ratio after HIPC and MDRI assistance	1.1	0.7	0.5	1.2	2.4	3.0	3.1	3.2	2.0	3.1
Debt service to revenue ratio after HIPC and MDRI assistance	1.3	0.7	0.5	1.2	2.1	2.2	2.5	2.7	1.7	2.5
Reduction in debt service as a result of										
MDRI assistance	0.0	0.0	0.0	0.4	0.9	1.0	0.9	0.6	0.6	0.9
Memorandum items:										
Exports of goods and nonfactor services 9/	593.0	722.1	869.3	1,030.2	1,174.4	2,164.3	4,246.8	7,131.7	1,303.2	4,610.3
Government revenues 10/	540.9	716.3	879.9	1,077.9	1,311.2	2,901.8	5,223.8	8,363.4	1,562.1	5,616.3

Sources: Afghan authorities and staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after rescheduling, unless otherwise indicated. Fiscal year ends March 20th.
2/ Includes only scheduled debt service on current maturities and does not include projected penalty interest on arrears. For OFID, a rescheduling of arrears is assumed in order to obtain a debt service projection.
3/ Does not include repayment of, or debt services on, amounts in arrears.
4/ Assumes an up-front 80 percent discount on Russian debt and a hypothetical stock of debt operation on Naples terms and comparable treatment from other bilateral creditors.
5/ This does not take into account the Paris Club rescheduling of July 2006.
6/ Paris Club creditors are assumed to provide full delivery of HIPC assistance through a Cologne flow rescheduling on eligible debt during interim period and a stock of debt operation on Cologne terms on the remaining balance at the completion point (mid-2009). Non-Paris Club creditors are assumed to provide assistance on comparable terms. Multilateral creditors are also assumed to provide HIPC debt relief as of the completion point, except for the World Bank and the ADB, for which the delivery would start after the decision point.
7/ The reduction is measured as the difference between the projected debt service after full use of traditional debt relief and debt service after the application of HIPC relief.
8/ MDRI assistance applies only to the World Bank and starts at the beginning of the quarter following the completion point (October 2009). Assumes that MDRI has no impact on Afghanistan's new borrowing over the projection period.
9/ Based on official merchandise exports reported by Afghanistan's Central Statistics Office and staff estimates for exports of services; excluding transit goods.
10/ Revenues are defined as central government revenues, excluding grants.

Table A5. Islamic Republic of Afghanistan: Net Present Value of External Debt, 2005/06–2025/26 1/

(in millions of U.S. dollars, unless otherwise indicated)

										Averages	
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2015/16	2020/21	2025/26	2005/06-2015/16	2016/17-2025/26
I. Before traditional debt-relief											
NPV of total debt	11,612.0	11,453.2	11,407.0	11,473.2	11,538.0	11,634.2	12,390.6	13,230.9	13,902.4	11,766.0	13,282.8
NPV of outstanding debt	11,612.0	11,383.5	11,269.6	11,267.7	11,266.2	11,265.2	11,238.5	11,195.9	11,150.5	11,303.2	11,192.3
Official bilateral	11,347.3	11,112.8	10,992.6	10,984.0	10,975.7	10,967.7	10,935.0	10,906.3	10,897.0	11,010.5	10,908.4
Paris Club	11,248.8	11,014.3	10,894.1	10,885.5	10,877.2	10,869.1	10,836.5	10,807.7	10,798.5	10,912.0	10,809.8
Other official bilateral	98.5	98.5	98.5	98.5	98.5	98.5	98.5	98.5	98.5	98.5	98.5
Multilateral	264.7	270.7	277.0	283.6	290.5	297.5	303.4	289.6	253.5	292.6	283.9
World Bank	147.5	149.6	151.9	154.3	156.8	159.4	162.2	151.5	132.4	158.1	149.1
Asian Development Bank	115.4	119.1	123.0	127.1	131.5	136.2	140.5	138.1	121.1	132.9	134.7
OFID	1.9	2.0	2.1	2.2	2.2	1.9	0.7	0.0	0.0	1.7	0.1
NPV of new borrowing	…	69.6	137.4	205.5	271.8	369.0	1,152.1	2,035.0	2,751.9	509.1	2,090.5
I. After traditional debt-relief 2/											
NPV of total debt	1,118.3	1,194.1	1,268.4	1,343.4	1,416.8	1,521.2	2,284.4	3,028.6	3,404.4	1,605.4	3,026.4
NPV of outstanding debt	1,118.3	1,124.5	1,131.0	1,137.9	1,144.9	1,152.2	1,132.3	993.5	652.5	1,142.6	935.9
Official bilateral	853.6	853.8	854.0	854.2	854.5	854.7	828.8	703.9	399.0	850.0	652.0
Paris Club	821.0	821.2	821.5	821.7	822.0	822.3	797.6	678.1	385.9	817.7	628.3
Other official bilateral	32.6	32.5	32.5	32.5	32.5	32.5	31.2	25.8	13.1	32.3	23.7
Multilateral	264.7	270.7	277.0	283.6	290.5	297.5	303.4	289.6	253.5	292.6	283.9
World Bank	147.5	149.6	151.9	154.3	156.8	159.4	162.2	151.5	132.4	158.1	149.1
Asian Development Bank	115.4	119.1	123.0	127.1	131.5	136.2	140.5	138.1	121.1	132.9	134.7
OFID	1.9	2.0	2.1	2.2	2.2	1.9	0.7	0.0	0.0	1.7	0.1
NPV of new borrowing	…	69.6	137.4	205.5	271.8	369.0	1,152.1	2,035.0	2,751.9	509.1	2,090.5
Memorandum items:											
NPV of debt-to-exports ratio (percent) 3/											
Total debt	305.8	238.6	208.8	184.5	162.1	148.5	118.2	80.1	52.7	172.0	79.7
Outstanding debt	305.8	224.7	186.2	156.3	131.0	112.5	58.6	26.3	10.1	136.7	26.8
NPV of debt-to-revenue ratio (percent)											
Total debt	268.9	220.7	177.1	152.7	131.4	116.0	78.7	58.0	40.7	138.0	57.0
Outstanding debt	268.9	207.9	157.9	129.3	106.2	87.9	39.0	19.0	7.8	111.8	18.9
II. After conditional delivery of enhanced HIPC assistance 4/											
NPV of total debt	2,728.3	1,197.6	1,284.7	1,418.0	825.2	925.6	1,682.3	2,547.8	3,214.0	1,375.5	2,593.1
NPV of outstanding debt	2,728.3	1,128.0	1,147.2	1,212.4	553.3	556.6	530.2	512.7	462.2	912.7	502.6
Official bilateral	2,471.0	865.0	875.8	930.1	400.2	398.3	349.8	310.0	235.4	708.2	297.1
Paris Club 5/	2,372.4	832.4	841.6	893.6	381.6	379.6	333.5	296.1	226.0	678.6	284.0
Other official bilateral	98.5	32.6	34.1	36.5	18.7	18.7	16.3	13.9	9.4	29.6	13.1
Multilateral	257.3	263.0	271.5	282.3	153.1	158.3	180.4	202.8	226.8	204.4	205.5
World Bank	141.6	143.5	147.5	153.0	82.6	85.1	95.7	104.9	114.7	110.3	106.1
Asian Development Bank	113.8	117.5	121.9	127.1	69.4	72.3	84.3	97.9	112.1	92.9	99.4
OFID	1.9	2.0	2.1	2.2	1.1	0.9	0.4	0.0	0.0	1.2	0.0
NPV of new borrowing	…	69.6	137.4	205.5	271.8	369.0	1,152.1	2,035.0	2,751.9	509.1	2,090.5
III. After unconditional delivery of enhanced HIPC assistance 6/											
NPV of total debt	548.6	552.5	641.4	733.6	825.2	925.6	1,682.3	2,547.8	3,214.0	998.0	2,593.1
NPV of outstanding debt	548.6	482.8	503.9	528.0	553.3	556.6	530.2	512.7	462.2	535.2	502.6
Official bilateral	418.7	342.6	360.8	380.0	400.2	398.3	349.8	310.0	235.4	377.4	297.1
Paris Club	402.8	326.6	344.0	362.3	381.6	379.6	333.5	296.1	226.0	360.0	284.0
Other official bilateral	16.0	16.0	16.8	17.7	18.7	18.7	16.3	13.9	9.4	17.3	13.1
Multilateral	129.9	140.2	143.1	148.0	153.1	158.3	180.4	202.8	226.8	157.8	205.5
World Bank	78.3	77.2	78.0	80.3	82.6	85.1	95.7	104.9	114.7	85.6	106.1
Asian Development Bank	60.7	62.1	64.0	66.6	69.4	72.3	84.3	97.9	112.1	72.3	99.4
OFID	0.9	1.0	1.0	1.1	1.1	0.9	0.4	0.0	0.0	0.8	0.0
NPV of new borrowing	…	69.6	137.4	205.5	271.8	369.0	1,152.1	2,035.0	2,751.9	509.1	2,090.5
Memorandum items:											
NPV of debt-to-exports ratio (percent) 3/											
Total debt	746.0	239.3	211.5	194.7	94.4	90.3	87.1	67.4	49.7	183.3	66.8
Total debt, assuming full delivery	150.0	110.4	105.6	100.7	94.4	90.3	87.1	67.4	49.7	99.2	66.8
Outstanding debt	746.0	225.4	188.9	166.5	63.3	54.3	27.4	13.6	7.2	147.9	13.8
NPV of debt-to-revenue ratio (percent)											
Total debt	656.0	221.4	179.3	161.1	76.6	70.6	58.0	48.8	38.4	152.0	47.9
Total debt, assuming full delivery	131.9	102.1	89.5	83.4	76.6	70.6	58.0	48.8	38.4	78.3	47.9
Outstanding debt	656.0	208.5	160.2	137.8	51.3	42.5	18.3	9.8	5.5	125.9	9.8
IV. After conditional delivery of enhanced HIPC and MDRI assistance 4/ 7/											
NPV of total debt	2,728.3	1,197.6	1,284.7	1,418.0	807.6	908.0	1,665.4	2,531.9	3,198.5	1,364.4	2,577.2
NPV of outstanding debt	2,728.3	1,128.0	1,147.2	1,212.4	535.7	539.0	513.3	496.8	446.6	901.6	486.6
Official bilateral 5/	2,471.0	865.0	875.8	930.1	400.2	398.3	349.8	310.0	235.4	708.2	297.1
Multilateral	257.3	263.0	271.5	282.3	135.5	140.8	163.4	186.9	211.2	193.4	189.5
World Bank	141.6	143.5	147.5	153.0	65.0	67.5	78.7	89.0	99.2	99.3	90.1
Asian Development Bank	113.8	117.5	121.9	127.1	69.4	72.3	84.3	97.9	112.1	92.9	99.4
OFID	1.9	2.0	2.1	2.2	1.1	0.9	0.4	0.0	0.0	1.2	0.0
NPV of new borrowing	…	69.6	137.4	205.5	271.8	369.0	1,152.1	2,035.0	2,751.9	509.1	2,090.5
Memorandum items:											
NPV of debt-to-exports ratio (percent) 3/											
Total debt	746.0	239.3	211.5	194.7	92.4	88.6	86.2	66.9	49.5	182.4	66.3
Total debt, assuming full delivery	150.0	110.4	105.6	100.7	92.4	88.6	86.2	66.9	49.5	98.3	66.3
NPV of debt-to-revenue ratio (percent)											
Total debt	656.0	221.4	179.3	161.1	74.9	69.3	57.4	48.5	38.2	151.4	47.6
Total debt, assuming full delivery	131.9	102.1	89.5	161.1	74.9	69.3	57.4	48.5	38.2	84.7	47.6

Sources: Afghan authorities and staff estimates and projections.

1/ Fiscal year ends March 20th.
2/ Shows the external debt situation after the up-front 80 percent discount of Russian debt and the full use of traditional debt-relief mechanisms, and assuming at least comparable treatment from official bilateral creditors. This does not take into account the Paris Club rescheduling of July 2006.
3/ In terms of simple historical three-year average of exports of goods and services; excluding transit goods.
4/ Assumes interim relief under the enhanced HIPC Initiative from June 2007 to June 2009 and full delivery of assistance in June 2009.
5/ For 2005/06, after up-front 80 percent discount on Russian debt and prior to the conditional delivery of enhanced HIPC assistance from June 2007 to June 2009.
6/ Assumes full delivery of estimated enhanced HIPC Initiative debt relief as of March 20, 2006.
7/ MDRI assistance applies only to the World Bank and starts at the beginning of the quarter following the completion point (October 2009). Assumes that MDRI has no impact on Afghanistan's new borrowing over the projection period. Does not include commitments by Paris Club creditors to cancel 100 percent of Afghanistan's debt.

Table A6. Islamic Republic of Afghanistan: External Debt Indicators, 2005/06–2025/26 1/

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2015/16	2020/21	2025/26	Averages 2005/06-2015/16	Averages 2016/17-2025/26
	(In percent, unless otherwise indicated)										
Before traditional debt relief											
NPV of debt-to-GDP ratio	158.9	136.4	115.3	99.7	87.5	78.8	49.8	33.0	21.8	88.7	32.5
NPV of debt-to-exports ratio 2/ 3/	3174.9	2288.6	1878.0	1575.7	1320.3	1135.4	641.2	349.8	215.1	1,400.4	358.3
NPV of debt-to-revenue ratio 4/	2792.2	2117.2	1592.5	1303.9	1070.4	887.3	427.0	253.3	166.2	1,145.1	255.4
Debt service-to-exports ratio 3/	...	44.2	19.1	2.5	2.2	2.0	2.7	3.0	3.0	8.1	2.9
Debt service-to-revenue ratio 4/	...	48.4	19.3	2.5	2.1	1.8	2.0	2.4	2.5	8.3	2.4
After traditional debt relief											
NPV of debt-to-GDP ratio	15.3	14.2	12.8	11.7	10.7	10.3	9.2	7.5	5.3	11.2	7.3
NPV of debt-to-exports ratio 2/ 3/	305.8	238.6	208.8	184.5	162.1	148.5	118.2	80.1	52.7	172.0	79.7
NPV of debt-to-revenue ratio 4/	268.9	220.7	177.1	152.7	131.4	116.0	78.7	58.0	40.7	138.0	57.0
Debt service-to-exports ratio 3/	...	8.0	6.7	5.7	4.9	4.4	4.7	4.5	4.4	5.1	4.5
Debt service-to-revenue ratio 4/	...	8.7	6.7	5.6	4.7	4.0	3.5	3.6	3.8	4.7	3.7
After conditional delivery of enhanced HIPC assistance											
NPV of debt-to-GDP ratio	37.3	14.3	13.0	12.3	6.3	6.3	6.8	6.3	5.0	11.1	6.1
NPV of debt-to-exports ratio 2/ 3/	746.0	239.3	211.5	194.7	94.4	90.3	87.1	67.4	49.7	183.3	66.8
NPV of debt-to-exports ratio (existing debt only) 2/ 3/	746.0	225.4	188.9	166.5	63.3	54.3	27.4	13.6	7.2	147.9	13.8
NPV of debt-to-revenue ratio 4/	656.0	221.4	179.3	161.1	76.6	70.6	58.0	48.8	38.4	152.0	47.9
Debt service-to-exports ratio 3/	...	1.1	0.7	0.5	1.3	2.4	3.0	3.1	3.2	2.0	3.1
Debt service-to-revenue ratio 4/	...	1.3	0.7	0.5	1.2	2.2	2.3	2.5	2.7	1.7	2.5
After unconditional delivery of enhanced HIPC assistance											
NPV of debt-to-GDP ratio	7.5	6.6	6.5	6.4	6.3	6.3	6.8	6.3	5.0	6.6	6.1
NPV of debt-to-exports ratio 2/ 3/	150.0	110.4	105.6	100.7	94.4	90.3	87.1	67.4	49.7	99.2	66.8
NPV of debt-to-exports ratio (existing debt only) 2/ 3/	150.0	96.5	83.0	72.5	63.3	54.3	27.4	13.6	7.2	63.8	13.8
NPV of debt-to-revenue ratio 4/	131.9	102.1	89.5	83.4	76.6	70.6	58.0	48.8	38.4	78.3	47.9
Debt service-to-exports ratio 3/	...	1.1	0.7	0.5	1.3	2.4	3.0	3.1	3.2	2.0	3.1
Debt service-to-revenue ratio 4/	...	1.3	0.7	0.5	1.2	2.2	2.3	2.5	2.7	1.7	2.5
After conditional delivery of enhanced HIPC and MDRI assistance 5/											
NPV of debt-to-GDP ratio	37.3	14.3	13.0	12.3	6.1	6.1	6.7	6.3	5.0	11.0	6.1
NPV of debt-to-exports ratio 2/ 3/	746.0	239.3	211.5	194.7	92.4	88.6	86.2	66.9	49.5	182.4	66.3
NPV of debt-to-exports ratio (existing debt only) 2/ 3/	746.0	225.4	188.9	166.5	61.3	52.6	26.6	13.1	6.9	147.0	13.4
NPV of debt-to-revenue ratio 3/	656.0	221.4	179.3	161.1	74.9	69.3	57.4	48.5	38.2	151.4	47.6
Debt service-to-exports ratio 2/ 4/	...	1.1	0.7	0.5	1.2	2.4	3.0	3.1	3.2	2.0	3.1
Debt service-to-revenue ratio 4/	...	1.3	0.7	0.5	1.2	2.1	2.2	2.5	2.7	1.7	2.5

Sources: Afghan authorities and staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt as of March 20, 2006. Fiscal year ends on March 20th.
2/ Based on a three-year average of exports of goods and services on the previous years; excluding transit goods (e.g., export average over 2004-2006 for NPV of debt-to-exports ratio in 2006).
3/ Based on official merchandise exports reported by Afghanistan's Central Statistics Office and staff estimates for exports of services; excluding transit goods.
4/ Revenue is defined as central government revenue, excluding grants.
5/ MDRI assistance applies only to the World Bank and starts at the beginning of the quarter following the completion point (October 2009). Assumes that MDRI has no impact on Afghanistan's new borrowing over the projection period.

Table A7. Islamic Republic of Afghanistan: External Debt Indicators and Sensitivity Analysis, 2005/06–2025/26 1/

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2015/16	2020/21	2025/26	Averages 2005/06-2015/16	Averages 2016/17-2025/26
	(In percent, unless otherwise indicated)										
Baseline scenario											
NPV of debt-to-GDP ratio	7.5	6.6	6.5	6.4	6.3	6.3	6.8	6.3	5.0	6.6	6.1
NPV of debt-to-exports ratio 2/ 3/	150.0	110.4	105.6	100.7	94.4	90.3	87.1	67.4	49.7	99.2	66.8
NPV of debt-to-revenue ratio 4/	131.9	102.1	89.5	83.4	76.6	70.6	58.0	48.8	38.4	78.3	47.9
Debt service-to-exports ratio 3/	...	1.1	0.7	0.5	1.3	2.4	3.0	3.1	3.2	2.0	3.1
Debt service-to-revenue ratio 4/	...	1.3	0.7	0.5	1.2	2.2	2.3	2.5	2.7	1.7	2.5
Sensitivity analysis											
Less concessional new borrowing scenario 5/											
NPV of debt-to-GDP ratio	7.5	7.1	7.3	7.4	7.4	7.7	9.2	9.0	7.5	8.0	8.8
NPV of debt-to-exports ratio 2/ 3/	150.0	118.4	118.5	116.8	112.1	110.6	118.7	95.9	74.2	118.6	95.2
NPV of debt-to-revenue ratio 4/	132.7	109.5	100.5	96.7	90.9	86.4	79.1	69.5	57.3	92.7	68.4
Debt service-to-exports ratio3/	...	1.4	1.4	1.4	2.3	3.7	5.2	5.3	5.1	3.4	5.2
Debt service-to-revenue ratio 4/	...	1.6	1.4	1.4	2.2	3.3	3.9	4.3	4.4	2.8	4.3
Lower Transfers/Grants 6/											
NPV of debt-to-GDP ratio	7.5	6.6	6.5	6.4	6.6	6.9	9.4	11.1	11.2	7.5	10.9
NPV of debt-to-exports ratio 2/ 3/	150.0	110.4	105.6	100.8	99.4	99.6	121.5	117.9	110.9	111.9	118.0
NPV of debt-to-revenue ratio 4/	132.7	102.1	89.5	83.4	80.6	77.8	80.9	85.3	85.7	87.3	85.3
Debt service-to-exports ratio 3/	...	1.1	0.7	0.5	1.3	2.6	4.0	5.3	6.4	2.3	5.4
Debt service-to-revenue ratio 4/	...	1.3	0.7	0.5	1.3	2.3	3.0	4.3	5.5	1.9	4.4
Lower export prices 7/											
NPV of debt-to-GDP ratio	7.5	6.6	6.5	6.5	6.4	6.5	8.2	10.3	12.1	7.0	10.5
NPV of debt-to-exports ratio 2/ 3/	150.0	110.4	106.4	102.9	98.4	96.2	111.9	118.7	134.5	107.6	122.5
NPV of debt-to-revenue ratio 4/	132.7	102.1	89.9	84.5	78.6	73.5	70.3	78.3	91.3	82.5	80.6
Debt service-to-exports ratio 3/	...	1.1	0.7	0.5	1.3	2.6	3.7	5.1	7.1	2.2	5.3
Debt service-to-revenue ratio 4/	...	1.3	0.7	0.5	1.2	2.2	2.6	3.7	5.3	1.8	3.9
Lower GDP growth 8/											
NPV of debt-to-GDP ratio	7.5	6.6	6.6	6.5	6.5	6.6	8.8	12.9	17.2	7.2	13.4
NPV of debt-to-exports ratio 2/ 3/	150.0	110.4	106.5	103.2	98.8	96.6	120.3	167.1	211.7	109.3	171.6
NPV of debt-to-revenue ratio 4/	132.7	102.1	92.2	85.1	78.6	74.0	75.9	100.1	132.7	84.0	104.9
Debt service-to-exports ratio 3/	...	1.1	0.8	0.5	1.4	2.7	4.1	6.7	10.4	2.4	7.1
Debt service-to-revenue ratio 4/	...	1.3	0.8	0.5	1.2	2.3	2.8	4.4	7.1	1.9	4.8

Sources: Afghan authorities and staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after HIPC assistance assumed delivered unconditionally at end-July 2007. Fiscal year ends on March 20th.
2/ Based on a three-year average of exports on the previous year (e.g., export average over 2004-06 for NPV of debt-to-exports ratio in 2006).
3/ Based on official merchandise exports reported by Afghanistan's Central Statistics Office and staff estimates for exports of services; excluding transit goods.
4/ Revenue is defined as central government revenue, excluding grants.
5/ Assumes that the interest rate on all debt is 2 percentage point higher than in the baseline from 2006/07 onwards, implying a 20 percentage point reduction in grant element.
6/ Budgetary grants (i.e., operating and development budget grants, but not 'external budget' grants) are 1 percentage point of GDP lower each year, starting in 2009/10 (or after the estimated time for the completion point). Additional financing needs are met with higher debt financing.
7/ Assumes export prices are 15 percent lower than in the baseline from 2007/08 onwards.
8/ Assumes 1.5 percentage points lower GDP growth, starting in 2007/08.

Table A8. Islamic Republic of Afghanistan: HIPC Initiative: Status of Country Cases Considered Under the Initiative, March 19, 2007

Country	Decision Point	Completion Point	Target NPV of Debt-to- Exports (in percent)	Target NPV of Debt-to- Gov. revenue (in percent)	Assistance Levels 1/ (In millions of U.S. dollars, present value) Total	Bilateral and commercial	Multi-lateral	IMF	World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)
Completion point reached under enhanced framework (22)											
Benin	Jul. 00	Mar. 03	150		265	77	189	24	84	31	460
Bolivia					1,302	425	876	84	194		2,060
original framework	*Sep. 97*	*Sep. 98*	*225*		*448*	*157*	*291*	*29*	*54*	*14*	*760*
enhanced framework	*Feb. 00*	*Jun. 01*	*150*		*854*	*268*	*585*	*55*	*140*	*30*	*1,300*
Burkina Faso					553	83	469	57	231		930
original framework	*Sep. 97*	*Jul. 00*	*205*		*229*	*32*	*196*	*22*	*91*	*27*	*400*
enhanced framework	*Jul. 00*	*Apr. 02*	*150*		*195*	*35*	*161*	*22*	*79*	*30*	*300*
topping-up	*…*	*Apr. 02*	*150*		*129*	*16*	*112*	*14*	*61*	*24*	*230*
Cameroon	Oct. 00	Apr. 06	*150*		1,267	879	322	37	176	27	4,917
Ethiopia					1,982	637	1,315	60	832		3,275
enhanced framework	*Nov. 01*	*Apr. 04*	*150*		*1,275*	*482*	*763*	*34*	*463*	*47*	*1,941*
topping-up		*Apr. 04*	*150*		*707*	*155*	*552*	*26*	*369*	*31*	*1,334*
Ghana	Feb. 02	Jul. 04	144	250	2,186	1,084	1,102	112	781	56	3,500
Guyana					591	223	367	75	68		1,354
original framework	*Dec. 97*	*May 99*	*107*	*280*	*256*	*91*	*165*	*35*	*27*	*24*	*634*
enhanced framework	*Nov. 00*	*Dec-03*	*150*	*250*	*335*	*132*	*202*	*40*	*41*	*40*	*719*
Honduras	Jul. 00	Mar-05	110	250	556	215	340	30	98	18	1,000
Madagascar	Dec. 00	*Oct-04*	150		836	474	362	19	252	40	1,900
Malawi					1,057	171	886	45	622		1,628
enhanced framework	Dec. 00	*Aug-06*	150		646	164	482	30	333	44	1,025
topping-up	…	*Aug-06*	150		411	7	404	15	289	35	603
Mali					539	169	370	59	185		895
original framework	*Sep. 98*	*Sep. 00*	*200*		*121*	*37*	*84*	*14*	*43*	*9*	*220*
enhanced framework	*Sep. 00*	*Mar. 03*	*150*		*417*	*132*	*285*	*45*	*143*	*29*	*675*
Mauritania	Feb. 00	Jun. 02	137	250	622	261	361	47	100	50	1,100
Mozambique					2,023	1,270	753	143	443		4,300
original framework	*Apr. 98*	*Jun. 99*	*200*		*1,717*	*1,076*	*641*	*125*	*381*	*63*	*3,700*
enhanced framework	*Apr. 00*	*Sep. 01*	*150*		*306*	*194*	*112*	*18*	*62*	*27*	*600*
Nicaragua	Dec. 00	Jan. 04	150		3,308	2,175	1,134	82	191	73	4,500
Niger					663	235	428	42	240		1,190
enhanced framework	*Dec. 00*	*Apr. 04*	*150*		521	211	309	28	170	53	944
topping-up	*…*	*Apr. 04*	*150*		143	23	119	14	70	25	246
Rwanda					696	65	631	63	383		1,316
enhanced framework	*Dec. 00*	*Apr-05*	*150*		452	56	397	44	228	71	839
topping-up	*…*	*Apr-05*	*150*		243	9	235	20	154	53	477
São Tomé and Príncipe					124	31	93	-	47	128	263
enhanced framework	Dec. 00	*Mar-07*	150		99	29	70	-	24	83	215
topping-up	…	*Mar-07*	150		25	2	23	-	23	45	49
Senegal	Jun. 00	Apr. 04	133	250	488	212	276	45	124	19	850
Sierra Leone	Mar. 02	Dec. 06	150		675	335	340	125	123	81	994
Tanzania	Apr. 00	Nov. 01	150		2,026	1,006	1,020	120	695	54	3,000
Uganda					1,003	183	820	160	517		1,950
original framework	*Apr. 97*	*Apr. 98*	*202*		*347*	*73*	*274*	*69*	*160*	*20*	*650*
enhanced framework	*Feb. 00*	*May 00*	*150*		*656*	*110*	*546*	*91*	*357*	*37*	*1,300*
Zambia	Dec. 00	Apr-05	150		2,499	1,168	1,331	602	493	63	3,900
Decision point reached under enhanced framework (8)											
Burundi	Aug. 05	Floating	150		826	124	701	28	425	92	1,465
Chad	May. 01	Floating	150		170	35	134	18	68	30	260
Congo, Democratic Rep. of	Jul. 03	Floating	150		6,311	3,837	2,474	472	831	80	10,389
Congo Rep. of	Mar. 06	Floating		250	1,679	1,561	118	8	49	32	2,881
Gambia, The	Dec. 00	Floating	150		67	17	49	2	22	27	90
Guinea	Dec. 00	Floating	150		545	215	328	31	152	32	800
Guinea-Bissau	Dec. 00	Floating	150		416	212	204	12	93	85	790
Haiti	Nov. 06	Floating	150		140	20	120	3	53	15	213
Total assistance provided/committed					**35,413**	**17,401**	**17,914**	**2,608** 3/	**8,571**		**62,169**

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.
2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.
3/ Equivalent to SDR 1,728 million at an SDR/USD exchange rate of 0.6625, as of March 19, 2007.

Table A9. Islamic Republic of Afghanistan: Possible Delivery of IDA Assistance under the Enhanced HIPC Initiative, 2006/07–2028/29 1/

(In millions of U.S. dollars, unless otherwise indicated)

									Cumulative	
	2006/07	2007/08	2008/09	2009/10	2014/15	2019/20	2024/25	2028/29	2006/07-2019/20	2020/21-2028/29
I. Debt service to IDA before HIPC Initiative assistance 2/										
Principal	2.5	2.5	2.5	2.5	6.8	7.5	10.6	10.3	67.5	83.0
Interest	2.3	2.2	2.2	2.2	2.1	1.8	1.5	1.2	29.1	13.3
II. Debt service to IDA after HIPC Initiative assistance										
Principal	2.5	1.6	0.7	0.7	1.9	2.1	3.0	8.2	22.0	29.0
Interest	2.3	1.1	0.6	0.6	0.6	0.5	0.4	0.9	10.4	4.4
III. Total IDA assistance under the HIPC Initiative	0.0	2.0	3.4	3.4	6.3	6.6	8.7	2.3	64.2	62.9
IV. Percentage of debt service to IDA covered by HIPC Initiative assistance	…	42.4	71.4	71.4	71.4	71.4	71.4	20.3	66.5	65.4
Memorandum Item:										
Total nominal assistance	127.2									

Source: World Bank staff estimates and projections.
1/ Fiscal year ends on March 20th.
2/ Principal and interest payments due to IDA correspond to prorated projections based on the disbursed and outstanding debt as of March 20th 2006, converted into U.S. dollars using the exchange rate as of end-March 2006.

Table A10. Islamic Republic of Afghanistan: Long-Term Macroeconomic Assumptions, 2006/07–26/27

Financial Year begins on March 21

	2006/07	2007/08	2008/09	2009/10	2010/11	2014/15	2018/19	2022/23	2026/27	Averages 2006/07–2016/17	Averages 2017/18–2026/27
	(Annual percentage change; unless otherwise indicated)										
National income and prices											
GDP at constant prices	8.0	12.2	10.8	9.0	6.6	5.4	4.8	4.5	4.5	7.3	4.6
GDP deflator	7.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.2	5.0
Real GDP per capita (percentage change, local currency)	4.0	9.3	8.0	6.2	3.9	2.7	2.1	1.8	1.8	4.4	1.9
Consumer prices (end of period)	7.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.2	5.0
GDP per capita (US$)	314.6	360.9	409.1	456.3	497.8	683.6	908.0	1,187.9	1,549.7	546.3	1,169.3
External sector											
Exports of goods and services (percentage change, US$) 1/	6.6	8.5	6.0	4.2	9.1	8.7	10.2	8.1	7.6	8.0	8.8
Of which : official 2/	16.9	21.8	20.4	18.5	14.0	12.7	15.0	10.7	9.7	15.6	12.1
Imports of goods and services (percentage change, US$)	16.2	10.4	11.4	10.4	6.7	5.4	6.2	6.5	6.7	8.0	6.5
Central government											
Revenue and grants (percentage change, local currency)	12.4	32.4	20.3	14.3	13.5	12.2	10.1	8.7	9.3	14.8	9.7
Revenue (percentage change, local currency)	30.8	32.4	22.8	22.5	21.6	15.6	11.8	9.7	9.8	20.9	10.8
Expenditure (percentage change, local currency)	48.7	22.9	18.1	16.6	15.1	9.3	9.5	9.9	9.3	16.5	9.6
	(In percent of GDP, unless otherwise indicated)										
National income											
Consumption	101.2	101.5	101.9	101.7	101.1	98.4	94.4	90.7	87.6	99.9	91.2
Private	87.6	88.1	89.1	89.7	89.4	87.7	84.2	80.5	77.5	88.3	81.1
Public	13.6	13.5	12.8	12.1	11.7	10.7	10.2	10.1	10.1	11.6	10.1
Investment	41.3	37.4	34.8	33.2	31.6	25.8	23.3	22.5	22.5	30.8	22.8
Private	9.9	10.2	10.4	10.7	10.9	11.3	11.7	12.1	12.5	10.9	12.1
Public	31.4	27.3	24.4	22.5	20.7	14.5	11.6	10.4	10.0	19.9	10.7
Of which : central government	7.9	8.3	8.9	9.7	10.4	10.1	9.7	9.5	9.4	9.7	9.5
External sector											
Exports of goods and services 1/	24.3	22.4	20.4	18.6	18.1	16.6	16.2	15.7	14.8	18.6	15.7
Of which : official 2/	7.1	7.3	7.6	7.8	8.0	8.5	9.9	10.9	11.2	8.1	10.6
Imports of goods and services	66.8	61.6	57.4	53.7	51.0	40.9	34.0	29.0	25.0	49.5	29.8
External current account balance, excluding transfers 3/	-42.4	-39.0	-36.7	-34.9	-32.7	-24.2	-17.7	-13.1	-10.1	-30.7	-14.0
External current account balance, including transfers 3/	-2.4	-3.0	-4.6	-6.4	-7.5	-8.3	-6.3	-4.3	-2.8	-6.7	-4.6
Gross reserves 4/	4.8	4.9	4.8	4.6	4.3	3.1	3.0	3.4	3.7	3.9	3.3
Central government											
Overall balance, excluding grants	-12.5	-12.5	-12.4	-12.3	-12.1	-9.0	-6.8	-6.1	-5.9	-10.8	-6.3
Overall balance, including grants	-3.8	-2.7	-2.4	-2.8	-3.2	-2.1	-0.9	-1.0	-1.2	-2.7	-1.0
Revenue and grants	15.2	17.1	17.6	17.6	17.9	18.2	17.9	17.4	16.7	17.5	17.4
Revenue, excluding grants	6.4	7.2	7.6	8.2	8.9	11.3	12.0	12.3	12.0	9.4	12.1
Expenditure	18.9	19.8	20.1	20.4	21.0	20.3	18.8	18.3	18.0	20.2	18.4
Operating	10.5	10.8	10.5	10.0	9.8	9.4	8.9	8.8	8.7	9.8	8.8
Development	8.4	8.9	9.6	10.5	11.2	10.9	9.9	9.5	9.3	10.4	9.6

1/ Including staff estimates for transit trade.
2/ Based on recorded merchandise exports by CSO and staff estimates for exports of services.
3/ Before HIPC debt relief.
4/ In months of following year's imports of goods and services.

APPENDIX I—DEBT MANAGEMENT CAPACITY

1. The Debt and Asset Management Unit (DAMU) of the Ministry of Finance (MoF) has been responsible for debt management in Afghanistan.[26] However, the Public Finance and Expenditure Management (PFEM) Law—which provides the legal basis for the DAMU's responsibilities—lacks comprehensiveness and clarity in this regard. They are working to address the significant technical and human resource constraints. Although a U.S. Treasury advisor is providing significant support, the DAMU has an inadequate number of staff with sufficient training to undertake effective debt management.

2. Currently, there is no comprehensive and accurate debt database system. Many old debt records were destroyed during the war, but records of post-2002 multilateral loans are also incomplete. Most debt monitoring is done using *ad hoc* Excel spreadsheets, compounded by the lack of a reliable computer network. However, the authorities are exploring options for acquiring a modern debt database and reporting system. Also, the reconciliation processes for the recent Paris Club scheduling agreement and the Enhanced HIPC Initiative have facilitated the authorities' efforts to rebuild their records for all creditors.

3. Under these conditions, the DAMU focuses on providing only essential debt management functions, such as monitoring the external debt stock outstanding, disbursements, and debt service paid, and managing debt service payments. Analysis and reporting remain limited, and weaknesses exist in payments procedures.

- The DAMU has never undertaken a debt sustainability analysis. Also, coordination between debt management and macroeconomic policy takes place largely through dialogue with the IMF and World Bank. Internal discussions on the budgetary and balance of payments impact of the debt service obligations are typically *ad hoc*.

- At this time, the DAMU does not prepare or publish a specific report on the authorities' debt strategy. However, consistent with the PFEM Law, the annual Budget submission includes information on the existing debt stock, disbursements expected during the coming year, as well as limits on total guarantees and debt.

- Although the DAMU updates its records every payment cycle—for consistency with creditors—it relies heavily on creditor information instead of its own records. Also, procedures for authorizing debt service payments in local currency pose an exchange rate risk at the time payments are executed.

[26] Prior to 2003, the central bank, Da Afghanistan Bank, had responsibility for debt management and records.

4. While the coverage of public and publicly guaranteed external debt is appropriate, continued efforts are needed to build capacity to ensure debt is managed in a way consistent with long-term debt sustainability. The DAMU should focus on: (i) building and maintaining loan-by-loan data, to rely less on creditors' data; (ii) better tracking disbursements and repayments, and monitoring payments falling due; (iii) training staff; (iv) acquiring a modern debt database and reporting system; (v) building capacity to undertake debt-related macroeconomic, and debt sustainability, analysis.

APPENDIX II—PROPOSED METHODOLOGY FOR IMPUTING VALUE OF SERVICES RECEIPTS[27]

1. The absence of official or any other reliable source data on services receipts precluded the usual calculation of the net present value of external debt-to-exports (goods and services) to assess Afghanistan's eligibility for the Heavily Indebted Poor Countries (HIPC) Initiative. It was, therefore, necessary to impute the value of services receipts for this purpose.

2. Staff has used historic comparator country data to derive a benchmark ratio of services receipts[28] to merchandise exports. This ratio was then applied to existing Afghan data for merchandise exports to impute the value of services receipts for the periods required.[29] There were three main considerations in deciding how to undertake these estimates: (a) choice of comparator country group; (b) data from which to derive the ratio; and (c) time period over which to sample data.

3. The **comparator country group** includes countries that are: (a) both PRGF-eligible *and* included in the World Bank's group of low income countries (WB LIC); and (b) also share Afghanistan's key characteristics of being landlocked *and* either post-conflict *or* located within central Asia (regional). It was determined on the basis of having reviewed several groups of countries with shared characteristics (Box II.A and Table II.3).

- Using the PRGF-eligibility criterion alone was deemed not sufficiently robust given the large variation in the results (Table II.1). Several of these countries—in particular, the Pacific and Caribbean island economies—are heavily dependent on tourism, distorting the comparability of their services ratios. Applying a stricter income criterion (i.e., limiting the sample to the countries below the World Bank's "low income" classification 2005 cutoff of $875 per capita) was considered an objective basis on which to refine the group given Afghanistan's likely extremely low per capita income.

- Furthermore, it appeared appropriate to further refine the comparator group based on LICs with shared characteristics that constitute obvious impediments to trade in services, such as land-lockedness and a history of conflict. However, as the non-discriminatory application of these two criteria created a bias toward including principally African

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[27] This appendix summarizes the conclusions of a joint Bank-IMF working group. IMF staff included representatives of the Middle East and Central Asia Department, the Policy Development and Review Department, and the Statistics Department. Bank staff included representatives of the Poverty Reduction and Economic Management South Asia Sector Unit and the Economic Policy and Debt Department.

[28] In the IMF's *Balance of Payments Manual* (fifth edition) services cover travel, transportation, as well as communication services, construction services, financial and insurance services, various business related services (e.g., computer services), and government services (e.g., goods and services purchases by embassies).

[29] Exports of goods and services data were required for 2002–04 for eligibility, and for 2003/04–05/06 for a preliminary debt relief analysis based on the latest end of fiscal year data (March 20, 2006).

Box II.A. Overview of Comparator Country Group and Criteria

The proposed comparator country group and each of the sub-groups are summarized here.

The proposed comparator country group of low-income landlocked countries that are either post-conflict or within the region covers ten countries: Burundi, Central African Republic, Chad, Ethiopia, Kyrgyz Republic, Mongolia, Niger, Rwanda, Tajikistan, and Uzbekistan.

In addition to PRGF-eligible countries and the World Bank's LICs, the following sub-groups were considered:

- Post-conflict LICs are those that had experienced a conflict commencing or ongoing after 1970 (e.g., Cambodia, Ethiopia, Haiti, Liberia, Sierra Leone).
  - They were identified on the basis of a country's access to the IMF's Emergency Post-Conflict Assistance and various IMF research papers (e.g., Occasional Paper No. 247, *Rebuilding Fiscal Institutions in Postconflict Countries*), supplemented by information from the "mag" index from the Armed Conflict and Intervention Project of the Center for Systemic Peace at the University of Maryland (http://members.aol.com/cspmgm/warlist.htm).
  - Complementary assessments of post-conflict fragility considered those countries eligible for IDA post-conflict allocations (IDA-PC), and classified as low-income countries under stress (LICUS). The latter includes countries of varying degrees of fragility, reflecting deteriorating governance, prolonged political crisis, post-conflict transition, and gradual but still fragile reform processes.
- Landlocked countries were taken as those countries with no coastline (i.e., no direct access to the ocean).
  - Landlocked countries within Central Asia—in addition to Afghanistan—included Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan (neither PRGF-eligible nor WB LIC), and Uzbekistan.
  - The wider group of landlocked LICs covered other regions (mainly Africa), such as Burkina Faso, Burundi, Chad, Lao PDR, Malawi, Mali, Niger, Rwanda, and Uganda, but excluded Turkmenistan (on PRGF-eligibility and WB LIC grounds).

economies, the comparator group was expanded to include landlocked LICs that are *either* post-conflict *or* within central Asia.

4. The choice of **benchmark ratio of all services exports to merchandise exports** was based on a review of several possible ratios, including total service receipts, as well as the selected subcomponents of service receipts, relative to merchandise exports and GDP.

- Although there was somewhat less variation in the results using a GDP denominator, the Afghan authorities do not produce official national accounts.[30] Therefore, this ratio would have been calculated on the basis of IMF staff estimates of GDP.

- The idea of using selected subcomponents of service receipts, instead of total services, was problematic. In the absence of actual data, the choice of "relevant" services receipts

[30] Afghanistan's national accounts compilation is precluded by the general lack of source data. Estimates for GDP are those prepared by Fund staff.

Table II.1. Service Credits (total) in Selected Country Groups

	1980-2005		1990-2005		1995-2005	
	Average	Std Dev	Average	Std Dev	Average	Std Dev
As a percentage of Merchandise Exports						
Comparator Group: Landlocked (post-conflict or regional)	31.4	25.8	35.4	33.4	38.5	37.5
Post-conflict	36.2	26.8	41.9	36.2	43.4	44.9
Landlocked (all LIC)	26.7	20.7	29.5	26.3	31.3	29.2
Landlocked (regional)	15.4	3.7	16.1	3.8	17.6	4.6
WB LIC	39.6	38.4	47.9	55.9	52.9	70.4
WB IDA-only	67.4	91.1	80.5	116.3	84.6	126.0
PRGF-eligible	69.4	90.4	84.5	116.7	92.0	129.4
As a percentage of GDP						
Comparator Group: Landlocked (post-conflict or regional)	3.9	1.7	4.2	2.1	5.1	3.1
Post-conflict	3.5	2.2	3.6	2.4	3.8	2.9
Landlocked (all LIC)	3.3	1.7	3.7	2.1	4.1	2.9
Landlocked (regional)	5.9	0.7	6.5	1.2	7.2	2.2
WB LIC	4.9	3.6	5.7	4.7	6.2	5.2
WB IDA-only	8.1	9.7	9.1	10.5	9.2	10.3
PRGF-eligible	8.9	10.4	10.0	11.4	10.4	11.7

Source: IMF's Balance of Payments Yearbook (database) and World Economic Outlook (database).

would be highly subjective. Moreover, the choice of comparator countries that share common characteristics would already reflect the relative importance of the various services subcomponents. Also, comparator country data for total services receipts were more consistently available than the subcomponent data and, with fewer data available, using only selected services receipts may exacerbate the risk of a small sample bias.

5. The **time period for calculating the benchmark ratio** was chosen to cover the longest available data time frame (1980–2005). Despite the apparent trend of increasing services to exports over time, the use of long time series helps smooth 'noise' in the data due to temporary aberrations in merchandise export performance (e.g., drought or commodity price related). The results support this conjecture (Table II.1). Consideration was also given to possible relationship between the performance of service receipts in other post-conflict countries in the periods preceding and following the conflict. Conceptually, a conflict could potentially have different impacts on merchandise exports compared to services. This could reflect severe damage to infrastructure or the presence of foreigners. However, the lack of consistent data over time for these countries precluded identification of such patterns.

6. **Results for Estimates of Afghan Service Receipts.** While the use of estimates may draw criticism about the subjectivity and uncertainty of results, they represent a practical solution to a seemingly intractable problem. The results are presented in Table II.2.

- The criteria for defining the comparator country group are both relatively objective and well-justified.
- The benchmark ratio of total services receipts to merchandise exports in comparator countries is a sound choice given the limited range of data available in Afghanistan and comparator countries.

Table II.2. Islamic Republic of Afghanistan: Estimates of Services Receipts

	Services Ratio 1/	2001/02 1380	2002/03 1381	2003/04 1382	2004/05 1383	2005/06 1384
	(percent)	*(in millions of US dollars)*				
Merchandise Exports 2/		68	100	144	305	386
Services Receipts						
Comparator Group: Landlocked (post-conflict or regional)	31	21	31	45	96	121
Other Country Groups						
Landlocked (all)	27	18	27	38	81	103
Landlocked (regional)	15	11	15	22	47	60
Post-Conflict (all)	36	25	36	52	111	140
WB LIC	40	27	40	57	121	153
WB IDA-only	67	46	68	97	206	260
PRGF-eligible	69	47	69	100	212	268

1/ Comparator ratio derived from the IMF's *Balance of Payments Yearbook* (database) based on data covering 1980-2005.
2/ Data provided by Afghanistan's Central Statistics Office.

- Although the proposed benchmark ratio (31.4 percent) may err on the side of being too high to avoid criticism of under-estimation (and over-estimating of HIPC debt relief),[31] it represents a pragmatic middle ground.

    - The proposed benchmark ratio produces estimates that appear broadly plausible, assuming that freight services are about ten percent of merchandise exports and that troop-related services receipts is another large contributor.

    - Also, the results do not seem out of line with other groups. Their robustness (average 31.4 percent; standard deviation 25.8 percent) compares favorably to a narrower group of only landlocked post-conflict countries (average 36.0 percent; standard deviation 27.9 percent). Moreover, the results are comparable with the results for all HIPCs, with the benchmark ratio for the comparator group (31.4 percent) falling between the median (26.54 percent) and average (42.8 percent) for HIPCs (Figure II.1).

[31] If, before a country reaches the completion point, there are revisions in the data (debt or economic) used in the decision point DSA calculation, a revised DSA will be prepared. Adjustments to the amount of HIPC debt relief will depend on the nature of data revisions. First, for revisions to the export data provided by, or at the behest of, the member (e.g., official merchandise export data for the period covered by the decision point NPV ratio (i.e., 2003/04–2005/06)), the amount of debt relief can be adjusted upward or downward (if it exceeds or falls short of the de minimis one percent threshold specified in the HIPC Trust Instrument). Second, adjustments in HIPC debt relief attributable to incorrect information on export data that was not provided by, or at the behest of, the member (e.g., staff estimates of the ratio between total services receipts to merchandise exports) would only be made if they lead to higher assistance. The staffs consider the latter scenario to be highly unlikely. Given that the vast majority of Afghanistan's bilateral debt is held by Paris Club creditors that have indicated their intention to provide 100 percent relief in the context of the HIPC Initiative, any revised debt relief calculations would ultimately only affect the time profile with which this debt is forgiven. Also, there is no outstanding debt to the Fund that would be covered by the HIPC Initiative or MDRI. However, the amount of HIPC debt relief to be provided by other creditors could potentially be affected.

Figure II.1. Service Receipts as a percentage of Merchandise Exports in HIPCs

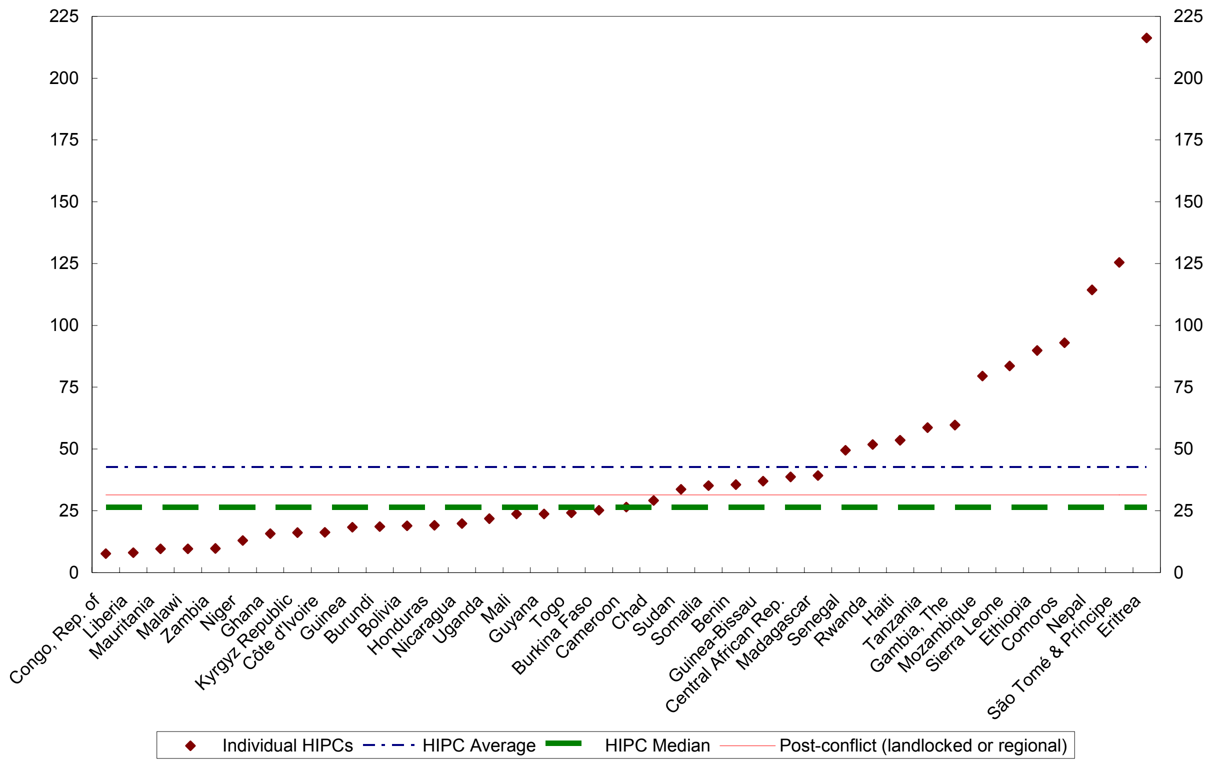

Table II.3. Proposed Comparator Country Group for Estimating Services Receipts

Country	Landlock & PC or R 1/	Post-conflict	Landlock (all LIC)	Landlock (region)	WB LIC 2/	IDA only 3/	PRGF-eligible	HIPC	WB LICUS 3/
Albania	0	0	0	0	0	0	1	0	0
Angola	0	0	0	0	0	1	1	0	1
Armenia	0	0	0	0	0	1	1	0	0
Azerbaijan, Rep. of	0	0	0	0	0	0	1	0	0
Bangladesh	0	0	0	0	1	1	1	0	0
Benin	0	0	0	0	1	1	1	1	0
Bhutan	0	0	1	0	1	1	1	0	0
Bolivia	0	0	0	0	0	0	1	1	0
Burkina Faso	0	0	1	0	1	1	1	1	0
Burundi	**1**	1	1	0	1	1	1	1	1
Cambodia	0	1	0	0	1	1	1	0	1
Cameroon	0	0	0	0	0	1	1	1	0
Cape Verde	0	0	0	0	0	1	1	0	0
Central African Rep.	**1**	1	1	0	1	1	1	1	1
Chad	**1**	1	1	0	1	1	1	1	1
Comoros	0	0	0	0	1	1	1	1	1
Congo, Dem. Rep. of	0	1	0	0	1	1	1	1	1
Congo, Republic of	0	0	0	0	0	1	1	1	1
Côte d'Ivoire	0	1	0	0	1	1	1	1	1
Djibouti	0	0	0	0	0	1	1	0	1
Dominica	0	0	0	0	0	0	1	0	0
Eritrea	0	0	0	0	1	1	1	1	1
Ethiopia	**1**	1	1	0	1	1	1	1	0
Gambia, The	0	0	0	0	1	1	1	1	1
Georgia	0	0	0	0	0	1	1	0	0
Ghana	0	0	0	0	1	1	1	1	0
Grenada	0	0	0	0	0	0	1	0	0
Guinea	0	1	0	0	1	1	1	1	1
Guinea-Bissau	0	1	0	0	1	1	1	1	1
Guyana	0	0	0	0	0	1	1	1	0
Haiti	0	1	0	0	1	1	1	1	1
Honduras	0	0	0	0	0	1	1	1	0
India	0	0	0	0	1	0	1	0	0
Kenya	0	0	0	0	1	1	1	0	0
Kiribati	0	0	0	0	0	1	1	0	0
Kyrgyz Republic	**1**	0	1	1	1	1	1	1	0
Lao People's Dem.Rep	0	0	1	0	1	1	1	0	1
Lesotho	0	0	0	0	0	1	1	0	0
Liberia	0	1	0	0	1	1	1	1	1
Madagascar	0	0	0	0	1	1	1	1	0
Malawi	0	0	1	0	1	1	1	1	0
Maldives	0	0	0	0	0	1	1	0	0
Mali	0	0	1	0	1	1	1	1	0
Mauritania	0	0	0	0	1	1	1	1	1
Moldova	0	0	0	0	0	1	1	0	0
Mongolia	**1**	0	1	1	1	1	1	0	0
Mozambique	0	1	0	0	1	1	1	1	0
Myanmar	0	0	0	0	1	1	1	0	1
Nepal	0	0	0	0	1	1	1	1	0
Nicaragua	0	0	0	0	0	1	1	1	0
Niger	**1**	1	1	0	1	1	1	1	0
Nigeria	0	0	0	0	1	1	1	0	1
Pakistan	0	0	0	0	1	0	1	0	0
Papua New Guinea	0	0	0	0	1	0	1	0	1
Rwanda	**1**	1	1	0	1	1	1	1	0
Samoa	0	0	0	0	0	1	1	0	0
São Tomé and Príncipe	0	0	0	0	1	1	1	1	1
Senegal	0	0	0	0	1	1	1	1	0
Sierra Leone	0	1	0	0	1	1	1	1	1
Solomon Islands	0	0	0	0	1	1	1	0	1
Somalia	0	0	0	0	1	1	1	1	1
Sri Lanka	0	0	0	0	0	1	1	0	0
St. Lucia	0	0	0	0	0	0	1	0	0
St. Vincent & Grens.	0	0	0	0	0	0	1	0	0
Sudan	0	1	0	0	1	1	1	1	1
Tajikistan	**1**	1	1	1	1	1	1	0	0
Tanzania	0	0	0	0	1	1	1	1	0
Timor-Leste	0	1	0	0	1	1	1	0	1
Togo	0	0	0	0	1	1	1	1	1
Tonga	0	0	0	0	0	1	1	0	1
Turkmenistan	0	0	0	1	0	0	0	0	0
Uganda	0	0	1	0	1	1	1	1	0
Uzbekistan	**1**	0	1	1	1	1	1	0	1
Vanuatu	0	0	0	0	0	1	1	0	1
Vietnam	0	0	0	0	1	0	1	0	0
Yemen, Republic of	0	1	0	0	1	1	1	0	0
Zambia	0	0	1	0	1	1	1	1	0
Zimbabwe	0	0	1	0	1	0	1	0	1
Total countries	**10**	**19**	**18**	**5**	**52**	**65**	**77**	**40**	**32**

NB: In each country groups, a "1" indicates that a country is included and "0" indicates that it is excluded.

1/ This includes PRGF-eligible, LICs that are landlocked and are either post-conflict or in the region.

2/ Excluding Afghanistan and North Korea.

3/ Excluding Afghanistan.