2010 – A Banner Year for Debt Relief to Africa

The IMF's African Department is the hub of the institution's engagement with low-income member countries. Over the past year, 13 new programs were approved under the IMF's Policy Support Instrument (PSI) and Extended Credit Facility (ECF), more flexible policies were implemented to allow for flexible financing of infrastructure investment, and policy advice focused on restoring "macroeconomic buffers" (that is, cushions, such as a low fiscal deficit or ample international reserves) that enabled effective policy responses to mitigate the worst of the impact of the 2009 global economic crisis.

Perhaps most notable, however, were efforts by the IMF and the World Bank – including African Department country teams – to assist five Heavily Indebted Poor Countries (HIPCs) to reach their "HIPC completion points" in 2010. [1] These countries' determined efforts enabled them to unlock debt relief of nearly US$27 billion under the HIPC Initiative and the MDRI (Multilateral Debt Relief Initiative). All five countries had prolonged histories of conflict and/or political unrest, and all are currently receiving financial support from the IMF's. Here, in brief, are the stories of these countries.

In January 2010, the **Republic of Congo** reached the completion point under the enhanced HIPC Initiative. This made it eligible to US$6.4 billion in debt relief, with the IMF contribution totaling US$17 million. The country reached its decision point in March 2006, and made remarkable progress in undertaking major and difficult reforms during the interim. The conditions for meeting the completion point were stringent, covering oil sector management, as well as the normal conditions of macroeconomic stability, reforms in health and education, and improved governance and public sector financial and debt management. The country met all the conditions. In the past year, economic activity has remained strong, supported by rising oil production and sustained growth in construction, telecoms, and transport, and inflation has declined to single digits. Also, the fiscal and external positions have improved, which will provide space for much needed infrastructure spending.

Debt relief to **Liberia**, in an amount of US$4.9 billion, was concluded in June 2010. Roughly one-third came from the multilateral institutions, with the IMF contributing US$0.8 billion to clear Liberia's long standing debt to the Fund. Since the financing of debt relief for Liberia was not included under the HIPC Initiative, 102 IMF member countries joined together in an extraordinary international effort to make exceptional contributions.

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[1] For more information on the enhanced HIPC Initiative and associated debt relief, see: http://www.imf.org/external/np/exr/facts/hipc.htm

After prolonged civil conflict, Liberia implemented determined policies to attain debt relief in a little over two years after reaching its HIPC decision point. Macroeconomic stability was restored through maintaining a balanced budget, while the Central Bank of Liberia built up international reserves and helped stabilize the exchange rate. Far-reaching structural reforms were implemented, including implementation of new laws on financial management, procurement and audit; while spending on health and education and other national priorities increased; and a concerted effort was made to tackle corruption.

Although not creating immediate fiscal space for Liberia, since most creditors had been deferring payment for several years, debt relief has a number of benefits. As President Johnson Sirleaf remarked "The world is saying it can trust Liberia again. Because we have regained that trust, others will want to invest in our development priorities – our roads, our power generation capacity, our ports, as well as our mineral and agricultural sectors."

In July, the **Democratic Republic of the Congo** reached its HIPC completion point, which made it eligible for US$12.3 billion in debt relief, the bulk of which was due to bilateral and commercial creditors. Debt relief from the IMF totaled US$495 million. The Democratic Republic had reached its HIPC decision point in 2003 following a decade-long conflict that destroyed much of the country's economic and social infrastructure.

Progress was achieved in maintaining macroeconomic stability, improving public expenditure and debt management, and improved governance and service delivery in key social sectors such as health, education and rural development. Progress in these areas also served to help the country during the economic crisis of 2009, in which deteriorating terms of trade took a heavy toll on growth. Despite a still fragile security situation, growth picked up significantly in 2010. Similar to Liberia, the auxiliary benefits of debt relief are expected to be substantial and grow over time.

In December, **Togo** reached its HIPC completion point, making it eligible for US$1.8 billion in debt relief, with about half from multilateral creditors. Togo has made significant progress in maintaining macroeconomic stability and in improving governance and debt management, reaching its completion point in just two years, despite facing a major restructuring of its banking system and the need to clear substantial domestic arrears. Aided by interim debt relief under the HIPC Initiative and re-engagement with donors, Togo doubled its spending on high priority social sectors from 2007 to 2010. Despite performing beyond expectations on domestic revenues and deepening financial sector intermediation, boosting growth remains a main challenge for the time being.

Finally, also in December, **Guinea-Bissau** reached its HIPC completion point, unlocking US$1.2 billion in debt relief, with US$14 million from the IMF. Guinea-Bissau reached its HIPC decision point almost ten years earlier, in 2000, but during the intervening decade it was racked by political instability and civil strife. In the past two years, Guinea-Bissau undertook strenuous efforts to restore economic, social and institutional stability. Requirements for the completion point included maintaining macroeconomic stability, strengthening public expenditure management; improving education, healthcare and HIV/AIDS prevention; and demobilizing former combatants. Although shortfalls in donor assistance necessitated belt-tightening in the past year, economic growth has been resilient, inflation has been low, and domestic fiscal revenues have exceeded expectations.

At present, six sub-Saharan African countries are yet to reach the completion point under the HIPC Initiative. Four of these have already reached the decision point (Comoros, Chad, Cote d'Ivoire, and Guinea), while two that are potentially eligible for debt relief under the HIPC Initiative (Eritrea and Somalia) have not yet reached this point.