



Dialogue on Globalization

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Towards a Renewed Debt Crisis?

Risk Profiles of the poorest countries in the light of the global economic slowdown

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Preface

Much of the debate on the global financial and economic crisis has focused on the advanced industrialized economies, although it is now increasingly recognized that developing countries are severely affected by the crisis. Quite contrary to the supposed decoupling of the growth dynamic in developing countries from the global economic cycle, developing countries are affected by the current crisis via several transmission channels, such as a decline in exports, falling commodity prices, reduction in remittances, currency depreciations, reduced or even reversed capital inflows and investment as well as reduced availability of credit.

There is no doubt that the poorest developing countries will suffer most from the crisis. They are disproportionately hard hit, and their fiscal space for short-term policy responses is very limited. At the same time, they have poorly developed systems of social protection. Growth in many low-income countries is sharply decelerating, due to collapsing world trade and commodity prices, lower foreign direct investments, and falling tourism revenues. According to a recent report of the United Nations, at least 60 developing countries are expected to suffer declining per-capita incomes. This will lead to a considerable slowdown in progress towards poverty reduction and other MDGs. It is estimated, that between 73 and 103 million more people would continue to be poor or fall into poverty as a consequence of the global economic downturn.

A particular risk for low-income countries that has so far received insufficient attention is the potential for a renewed debt crisis. There is strong evidence that the crisis is likely to have major consequences for the external debt sustainability of many poor developing countries. Falling growth rates and export earnings are affecting endogenous debt dynamics, and exchange-rate depreciations make external debt obligations much more expensive. These factors are putting debt sustainability under severe stress in many developing countries. This is even true for low-income countries that have received debt relief under the heavily-indebted poor countries (HIPC) initiative.

This Occasional Paper intends to contribute to the analysis of the potential for a new debt crisis, by assessing the risk of new debt distress in those HIPC countries for which debt relief has already been completed. The authors ask how far, despite supposed comprehensive debt cancellation, these countries are at risk of a renewed debt crisis. Identifying and indicating scores for individual vulnerabilities, Jürgen Kaiser, Irene Knoke and Hartmut Kowsky elaborate country profiles for the 24 post-completion point HIPCs. Although these profiles build on IMF assessments, they bring in additional aspects in a more sophisticated and updated form. The findings not only underline that none of the analyzed countries can expect to weather the global economic crisis without an increase in debt levels, but also that the crisis has brought to light important structural weaknesses in sovereign debt management. Consistently they make a strong call for a general overhaul of sovereign debt management.

We trust that this publication will stimulate further discussions and would like to offer our profound thanks to the authors for this important contribution.

Thomas Manz
Coordinator Dialogue on Globalization
Friedrich-Ebert-Stiftung

2.

Introduction

This paper looks at the potential for a renewed debt crisis among Heavily Indebted Poor Countries (HIPC).¹ It reviews the robustness of recent debt relief measures, such as Paris Club agreements, the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative (MDRI), as well as current official approaches to the problem of avoiding new rounds of unsustainable debt, such as the World Bank's Debt Sustainability Framework (DSF).

The paper identifies major pre- and post crisis risks in HIPC countries and makes a distinction between countries that might have fared well without the economic slowdown and those, in which debt relief had been insufficient from the outset.

In addition to commonly used debt indicators, we have considered the medium and long term effects of global climate change and other ecological challenges.

It argues that the global financial crisis has brought to light important structural weaknesses in sovereign debt management in general and in the HIPC/MDRI processes in particular. Following extensive relief under both initiatives these weaknesses would probably have taken much longer to materialize and to lead to renewed debt unsustainability, had it not been for the 2008 global financial crisis. The paper identifies major pre- and post crisis risks in HIPC countries and makes a distinction between countries that might have fared well without the economic slowdown and those, in which debt relief had been insufficient from the outset. Both cases, however, underline the strong call for reforms in sovereign debt management.

The paper draws mainly on existing debt and crisis analyses from the International Financial Institutions (IFI), as well as countries' financial authorities. In addition to commonly used debt indicators, we have considered the medium and long term effects of global climate change and other ecological challenges, which in our view have not been taken sufficiently on board in official assessments of debt sustainability. It shows that most countries are likely to face additional ecological challenges, which must be seriously considered when it comes to assessing countries' debt sustainability. Unfortunately these challenges are still too often considered as "exceptional" and "natural" disasters, while their frequency and dimensions have long required them to feature in routine analyses of countries' vulnerabilities to debt repayment difficulties. We strongly rely in our assessments on the work of the Tyndall Center for Climate Change Research, as it provides us with a highly aggregated indicator for countries' environmental vulnerabilities. Thus, we certainly do not want to discard any other (and possibly conflicting) assessments of the risks of climatic change.

The broad spectrum of vulnerabilities as documented in the overview on p.12 led us to conclude that not only a general overhaul of international strategies is needed to overcome sovereign insolvencies, but also the opportunity for countries to take recourse to an internationally agreed moratorium. Otherwise there is an extremely high risk that the present wave of crisis financing will tacitly lead to

¹ The authors are heavily indebted to Gail Hurley for extensive advice on content, format and language.

renewed debt crisis. It is to be feared that once again social development spending and necessary measures for climate change adaptation will be among the first casualties. The great number of countries with MDG financing at risk on p. 12 testifies to this.

**Mechanisms and
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such a crisis need to be
put in place now.**

Mechanisms and procedures to deal with such a crisis need to be put in place now, i.e. before the first post-completion point countries are in serious troubles. Experience shows that debt workouts are far more difficult to agree upon, when everybody has already concrete and urgent cases in mind.

It took the international community 23 years from the beginning of the modern sovereign debt crisis in 1982 until an alleged “full” cancellation was agreed upon at least for a small group of the poorest countries. This failure of a global governance cost millions of people in the indebted world their health, their opportunities to live a decent life and even life itself. This must not be allowed to ever happen again.

3. No debt crisis ever again?

The history of sovereign debt relief has passed through a series of paradigm shifts. From initial suggestions that sovereign debt could be rescheduled, but never cancelled through a range of concessions, to the HIPC Initiative and MDRI.

The history of sovereign debt relief has passed through a long series of paradigm shifts. From initial suggestions that sovereign debt could be rescheduled, but never cancelled at the beginning of the modern debt crisis in 1982, through a range of concessions, which creditors offered in the Paris Club², to the HIPC Initiative³ and MDRI⁴. The latter marked creditors' acknowledgement of two long-standing demands by civil society: that multilateral claims must be included in any meaningful debt rescheduling and ultimately cancellation, and that a "full cancellation" may in some countries be necessary.⁵

Friend and foe of the international debt movement equally tend to portray all this as a "success story". However, it shows that a gap exists between the reality of HIPC/MDRI relief and the worldview of creditors.

HIPC and MDRI were both characterized by their designers as one-off exercises, which would solve the debt problem of beneficiary countries once and for all. Thus the schemes stand in the tradition of the post-1994 debt relief schemes of the Paris Club, which adopted the term "exit solution" for the debt stock reduction under its "Naples", "Lyon" and "Cologne" terms⁶. Astonishingly some countries received several so-called "exit" solutions i.e. final and definite solutions to their external debt problems⁷, each one, of course, revealing the not quite so final character of its respective predecessor.

After MDRI, history repeated itself, when creditors started to claim that new debt problems would be prevented by a post-HIPC-instrument, which in the hands of the World Bank would serve to deter debtor countries from excessive future borrowing, in particular on non-concessional terms. From the start of MDRI implementation in 2006 onward, the World Bank's Debt Sustainability Framework" (DSF) for low-income countries was supposed to make sure that no post-HIPC country⁸ would take out new loans irresponsibly. The DSF threatens poor countries with cuts in highly concessional financing from IDA and other conces-

2 The Paris Club is the creditor governments' cartel established in 1956; its purpose is to provide co-ordinated rescheduling for countries facing payment difficulties; see: www.clubdeparis.org

3 Heavily Indebted Poor Countries Initiative; established 1996 and overhauled in 1999 („Cologne Debt Initiative“); HIPC coordinated debt relief from bilateral creditors with the new opportunities to have claims of multilateral creditors written off. For an overview on countries treated under the HIPC scheme see: www.worldbank.org/hipc

4 The Multilateral Debt Relief Initiative established in 2005 allows for the far reaching cancellation of claims by IDA, IMF and AfDF on HIPC completion point countries, regardless of the individual debt unsustainability. The IDB joined the initiative in 2007.

5 MDRI provides for „full“ cancellation of existing claims of three important creditors; however, it includes only debt incurred before an arbitrary cut-off date of 2003 for the World bank and 2004 for the IMF; thus, countries normally continue to be indebted towards IDA, IMF and AfDF (respectively the IDB's FSO), after MDRI.

6 For the technical details see: <http://www.clubdeparis.org/sections/termes-de-traitement>

7 The leader of the pack continues to be Senegal with four out of its 13 Paris Club agreements being „exit“ stock reductions.

8 and also for some countries outside the HIPC/MDRI world

sional lending windows, if they take out loans, which, in the view of the World Bank, put debt sustainability at risk. The technicalities of the DSF have been amply discussed and criticized.⁹ The focus of this critique has been in particular the one-sided character of the framework, which exerts pressure on the borrowers, without even considering questions about lender behavior. The framework also focuses exclusively on the quantity of new borrowing taken-on by low-income countries, without any consideration of the quality or relevance of those same loans to countries' development programs. The most astonishing element of the DSF, however, does not lie in its functioning, but in the stated assumption that it could prevent the recurrence of sovereign over-indebtedness in the future, and thus make any work on sovereign debt workout schemes redundant.

One can look at the DSF from a historical perspective: when and where has over-indebtedness ever been overcome for good? Or one can look at its underlying logic: can sanctions – even if they were more draconian than the comparably mild ones under the DSF – ever control the behavior of cash-strapped developing country governments? It will be very difficult to find positive examples for either of these questions, which reveal the political intentions of the DSF: to restore calm to financial markets during the implementation phase of the MDRI, and to avoid any unwelcome debate about the need for further debt relief after the latest supposed “final” solution to individual countries’ debt problems.

It would probably have been possible to maintain the DSF’s credibility for some time to come, had it not been for the financial crisis. The global economic downturn precipitated a new lending cycle, which under less abnormal circumstances would have taken far longer before it would have led to new rounds of unsustainable debt in post-completion Point HIPC.

⁹ erlassjahr.de: Schulden müssen tragbar sein. Ein Handbuch; online: www.erlassjahr.de; English version “To pay or to develop”; <http://www.eurodad.org/debt/report.aspx?id=118&item=0482>

4 From crisis remedy to new over-indebtedness

HIPCs will need some kind of fiscal stimulus, in order to weather the global financial crisis without an even bigger human toll.

There is no doubt that, just as developed countries, HIPCs will need some kind of fiscal stimulus, in order to weather the global financial crisis without an even bigger human toll than that which has recently been identified by the World Bank.¹⁰

It is equally clear that fiscal room for maneuver within the countries themselves is very limited, and is in most cases not sufficient to finance a stimulus that could really have an impact.¹¹

Next it is clear and largely uncontested that the major part of the required external financing will not be provided in the form of grants. Global grant making before the crisis was US\$ 75 bn.¹² Grants come entirely from donor countries' ODA budgets. Oxfam¹³ has preliminarily calculated that out of the US\$1.1 trn, which the G20 committed to providing for stimulating and/or safeguarding global growth, developing countries can expect to receive some US\$ 240 bn, namely:

- US\$ 90 bn through new allocation of Special Drawing Rights (SDR)
- US\$100 bn channeled through Multilateral Development Banks
- US\$ 50 bn through enhanced trade financing facilities.

Out of these, up to US\$ 50 bn will possibly find its way to low income countries in the coming 36 months. None of this money is going to come through grants, except possibly for a minor amount out of the US\$ 100 bn, which would be allocated to IDA and could then be forwarded in the form of IDA-grants to the poorest countries. SDR allocations come at a presently very low¹⁴, but still a near-market rate of interest. Trade financing is in the form of classical market-based loans. On average what the formerly over-indebted countries can expect is financing at conditions half-way between commercial lending and IDA conditions. It is highly naive to assume that, under the circumstances of a global financial system in turmoil, all these fragile post-HIPC economies this would be immune to the risk of renewed debt distress. Instead, it would be more realistic to accept the need to find new ways and means to deal with sovereign insolvency.

Will it take the international community again 23 years from the outbreak of the crisis until a meaningful exit strategy can be found – or can lessons be learned from the protracted process between 1982 and 2005?

The crucial question rather is, whether it will take the international community again 23 years from the outbreak of the crisis until a meaningful exit strategy can be found – or if lessons can possibly be learned from the protracted process between 1982 and 2005.

10 The Bank estimated that globally 53 million people will be pushed into poverty as a result of the financial crisis.

11 One of the rare exceptions may be Bolivia after the Bonanza of high gas prices in the last three years. See country profile below.

12 <http://stats.oecd.org/qwids/#?x=1&y=6&f=4:11,2:1,3:51,5:3,7:1q=4:1,11+2:1+3:51+5:3+7:1+1:2+6:2007>

13 What happened at the G20? Oxfam Briefing Note, April 3rd 2009; http://www.oxfam.org.uk/resources/policy/economic_crisis/downloads/bn_what_happened_at_g20.pdf

14 http://www.imf.org/external/np/fin/data/sdr_ir.aspx

5

“Flexibilizing the DSF”: sending the fire brigade home

The G20 decided at their London summit, “[...] to review the flexibility of the Debt Sustainability Framework and call on the IMF and World Bank to report to the International Monetary and Financial Committee (IMFC) and Development Committee at the World Bank/IMF Annual Meetings.”¹⁵ Accordingly the Spring Meetings’ Final Communiqué foresees the “[...] review of options to enhance the flexibility within the Debt Sustainability Framework.”¹⁶

Whatever will “enhanced flexibility” of the DSF will look like by the time of the Annual Meetings next fall? Essentially the logic behind “enhanced flexibility” is that the framework’s narrow limits which put debt sustainability above the need for expansionary fiscal policy have become obsolete. Rather than simply abandoning the framework as such, however, the masters and commanders of the IFIs decided to treat it the same way they treated the strict rules of the Paris Club in 2003, when it became apparent that some countries would have to receive a treatment above and beyond any existing rules and regulations for obvious political reasons: They allowed – through the Evian approach¹⁷ – for so called “individually tailored treatments,” while safeguarding the old obsolete framework in case it might still be helpful in other cases.

For the policy towards future loan-taking by HIPC countries this means that (a) the limits, which at least would have provided some form of equal treatment between countries, will be raised enough to allow for the inflow of fresh money that comes the way of an individual HIPC from official sources; (b) in cases where countries have already engaged in new borrowing to some critical level from other sources, the IFIs will have to make some crucial choices. Will they use the DSF to prevent countries’ access to multilateral resources, which will eventually be badly needed in order to safeguard national budget balance or secure social spending or a growth-inducing monetary policy?

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helpful in other cases.**

15 G20 Final Communiqué, pt. 25

16 <http://www.imf.org/external/np/cm/2009/042509.htm>

17 With the „Evian Approach“, named after the 2003 G8 summit in France, the G8 allowed for debt stock reductions beyond any of the thresholds which they had set up – and more or less coherently applied until then – for the various countries grouped according to their levels of GNI per capita and debt indicators. The approach was established with a particular view towards the need to deal with the debt of a post-war Iraq and with the very special cases of Nigeria and former Yugoslavia.

6. Mapping the risks

The country profiles in this volume serve as an indicative mapping regarding the hotspots of a future debt crisis. In their HIPC Status of Implementation report 2008 the Bank and the Fund have identified four countries to be at a high risk of debt distress.¹⁸ Since then, various efforts have been undertaken to evaluate the (likely) effects of the global slowdown more precisely¹⁹, and/or to consider additional aspects, which may be relevant for the future balance of payments performance.²⁰

None of these publications can claim to provide the full picture of the potential crisis fallout on low-income and specifically HIPC countries. However, identifying and indicating scores for individual vulnerabilities, such as the IMF has done this year has proven to be the most reasonable approach. Our country profiles, therefore, build on the IMF's assessments, and try to bring in additional aspects in a more sophisticated and updated form, than the Schuldenreport earlier this year.

Aggregating very distinct types of risks into a final assessment does not seem appropriate given interlinkages and considerable uncertainties even in short-term projections.

The profiles do not make any suggestions regarding an overall classification of countries, based on summaries of individual scores. Aggregating very distinct types of risks into a final assessment does not seem appropriate given interlinkages and considerable uncertainties even in short-term projections. Therefore we do not make any specific recommendations regarding crisis prevention or handling a situation of over-indebtedness in individual countries. We rather conclude with suggestions regarding a more general overhaul of sovereign debt management at large.²¹

18 Rwanda, The Gambia, Sao Tomé & Principe, Burkina Faso

19 Notably IMF: The Implications of the Global Financial Crisis for Low-Income Countries; March 2009

20 For instance: erlassjahr.de: Schuldenreport 2009

21 See chapter 8 below

7

Country Profiles: Methodology and overview

It would – at least theoretically – be possible to enhance HIPC/MDRI debt relief in countries, which have not yet passed through the completion point as a crisis response. We have therefore restricted our analysis to the current 24 post-completion point HIPCs, for which debt relief has already been completed. This is because we need to ask, how far, despite supposed comprehensive debt cancellation, are these countries at risk of new debt distress. We have assessed these countries under four criteria:

How far, despite supposed comprehensive debt cancellation, are the 24 post-completion point HIPCs at risk of new debt distress?

1. Risks through persisting old debt and new debt creating inflows before the crisis; including two sub-categories:
 - 1.1 Debt relief under HIPC/MDRI, remaining “old” debt levels
 - 1.2 Amounts, conditions and creditor structure of new loans
2. Risks through the fallout of the global economic slowdown and specific vulnerabilities of individual countries; again with two sub-categories:
 - 2.1 Growth performance, projections and risks
 - 2.2 Vulnerabilities through concentration of export earnings and demand trends, and through reductions in remittances, aid and FDI
3. Risks through effects of global warming and other ecological challenges
 - 3.1 Risks that countries will fail to accomplish internationally agreed development targets which again would have repercussions on their economic viability.

Given the short time since the outbreak of the crisis and data problems in many countries, assessments and projections necessarily imply a high degree of speculation. We have therefore not attempted to quantify risks, but restrict ourselves to broad categories of “high” – “substantial” – “moderate” or “low” risks. This is only slightly more sophisticated than the IDA/IMF categories in their annual HIPC status of implementation reports, and clearly less detailed than the IMF’s assessment of country vulnerabilities published ahead of the G20 summit in London. Both documents, however, are important references for us from which we draw extensively.

We have added two specific aspects – the ecological vulnerability and the risks to MDG financing – because, in our view, they have been neglected during discussions about post-crisis debt sustainability. If the poor majority in HIPCs are not again to quietly suffer the impacts of the crisis, medium-term development and sustainability considerations need to be part of the broader picture. Otherwise, there is an imminent danger that countries have to choose crisis strategies which again consist of austerity measures and over-exploitation of natural resources. These were precisely the policies of many indebted countries in the 1980s and early 1990s, when under advice from the IMF and the World Bank they hoped to “grow out of their debt”.

Medium-term development and sustainability considerations need to be part of the broader picture. Otherwise, countries have to choose crisis strategies which again consist of austerity measures and over-exploitation of natural resources.

Profile Overview

Country	Old Debt	New Borrowing	Crisis Growth Performance	Crisis Vulnerabilities	Ecological Risks	MDG Financing
Benin		m	S	m	m	v
Bolivia	m	m		m	m	
Burundi	H			H	H	v
Burkina Faso	H		S	m	H	v
Cameroon	m		H	H	m	v
Ethiopia		S	m	H	H	
The Gambia	H	H			H	v
Ghana		S	S	m		v
Guyana	m	S	m	H	m	v
Honduras		S	S	H	S	v
Madagascar	m	m		m	S	v
Malawi			m	S	S	v
Mali			S	m	S	v
Mauritania	H	m	H	H	H	
Mozambique	m	m	H	S	H	v
Nicaragua	m	S	H	H	S	v
Niger			m	S	H	v
Rwanda	m		H	m	m	v
Sao Tomé & Principe	H			H	m	v
Senegal			m	H	S	
Sierra Leone	S	S	S	S	S	v
Tanzania		m	S	m	S	v
Uganda					S	v
Zambia		S	m	S	m	

H = high risk **S** = Substantial risk m = moderate risk v = vulnerable

8

General findings

Country analyses have served to assess risks in individual cases. However, some overall trends can be identified from the full sample and illustrated by individual cases:

- No country can expect to weather the financial storm without an increase in debt levels, but risks of renewed unsustainable debt differ widely throughout the group. A few countries do have a good chance not to run into a new protracted debt crisis provided the global economic slowdown does not drag on beyond two to three years. However, a few countries will most likely be driven off the positive track through the crisis. Countries which have high marks in the columns (3) and (4) without being at least substantial risk before include Cameroon, Ethiopia, Guyana, Honduras, Malawi, Mozambique, Nicaragua, Niger, Rwanda, Sao Tomé & Principe,
- Most countries continue to be vulnerable to external shocks; very few, if any, have succeeded in enhancing shock resistance by diversifying their economies during the high-growth period between 2001 and 2007; some countries, however, for example Bolivia and Uganda, have managed to accumulate international reserves during the phase of high commodity prices, which now is a major factor in determining short-term shock resistance.
- HIPC/MDRI relief has not been sufficient for all beneficiary countries. In some cases even the HIPC thresholds themselves were missed from the outset. In others they were just marginally undercut only by the additional MDRI relief, and are projected to rise again above those levels, even under baseline scenarios. Burundi, The Gambia, Mauritania (due to the ongoing problems with holdouts²²) and Sao Tomé and Principe are cases in point.
- In some countries current debt indicators are dangerously close to the crisis-prone alternative scenarios of their pre-crisis-DSAs. Cameroon and Mozambique are among the larger HIPCs affected.
- Nowhere in the HIPC world has diversification of economies been a strong trend during the debt relief process. Where new sources of income have been developed – or existing ones extended to a measurable extent – this has been confined to extractive industries, implying the well-known downsides of this particular sector²³. Bolivia, Ghana and Niger are examples.

No country can expect to weather the financial storm without an increase in debt levels, but risks of renewed unsustainable debt differ widely throughout the group.

Most countries continue to be vulnerable to external shocks.

HIPC/MDRI relief has not been sufficient for all beneficiary countries.

²² The persistence of official and private holdout creditors is in itself a demonstration of HIPCs failure to provide the alleged „all-inclusive“ debt relief.

²³ See literature quoted with the Ghana profile for a more systematic discussion of those risks.

- Some countries have adopted a bold strategy of extensive investment into infrastructure Ethiopia for example has also been involved non-concessional borrowing. This policy option is being widely used in developed countries in the framework of fiscal stimuli, and must not be ruled out for poor countries either. However, the risk to debt sustainability through such strategic investments is obvious.
- In a few countries that have emerged from internal conflict one finds a very direct relationship between an externally induced economic slowdown and the danger of renewed social instability and even armed conflict. Diamond diggers in Sierra Leone which may suffer from reduced global demand, certainly bear a high potential for such conflict.

Two further developments will require first of all a technical response in the context of international debt management. However certainly one will also require firm action regarding future debt management procedures:

- Particularly in countries with a more favorable post-HIPC debt sustainability outlook, domestic debt has become a major problem. Bolivia, Nicaragua, Tanzania and Zambia are countries with high and growing domestic debt levels. While DSAs recently started to look at public as well as external debt, there has not been much of a coherent debt strategy involving both strands.
- Huge data discrepancies between the HIPC status of implementation reports and other IFI databases, for example the World Bank's Global Development Finance (GDF) and the March 2009 crisis assessment by the IMF have revealed that the former excluded the debt of state owned enterprises (SOE) from its databases.²⁴ This has led in some countries to misleading messages regarding the current debt service burden. As SOEs are either directly or through the state guarantee mechanisms a burden on public budgets – a fact that Bank and Fund relentlessly highlighted when it came to demand privatizations – these liabilities should be regularly included.

²⁴ Extreme cases are Cameroon and Niger.

9

Reforms needed in sovereign debt management

What are the policy options for any HIPC government which runs once again into debt repayment problems? By definition the crisis prevention mechanism of the DSF will not have worked in such a situation. HIPC/MDRI were supposedly designed as one-off efforts, which can and reasonably should not be repeated or even become permanent mechanisms. And consideration must be given to the fact that the new lender landscape will often include lenders which have never been part of the Paris or London Clubs. Under these circumstances, what can be a way forward for a broad range of countries, which are more or less affected by a crisis?

The most obvious conclusion is that mechanisms need to be put in place which allow for a more efficient crisis management than has characterized the creditor-driven protracted procedures of the past (and ongoing) crisis. This means that the international community, needs to provide clarity about the means and procedures to which a country can resort, if balance of payments problems arise. It needs to perform this chore independently of concrete parameters and decisions and regardless whether or not they result from the financial crisis or insufficient debt relief in the past or a combination of both. These instruments need to include short-term as well as long-terms measures:

The international community needs to provide clarity about the means and procedures to which a country can resort, if balance of payments problems arise, regardless whether or not they result from the financial crisis or insufficient debt relief.

1. A moratorium on debt service repayments

In the short run, there should be a formally agreed option²⁵ that governments can draw on the option of an immediate moratorium vis-à-vis all their creditors. This has most recently been proposed by UNCTAD²⁶. Independently from the lasting solution to an insolvency problem (see below), a moratorium must make sure that governments will not deplete reserves to an extent which will subsequently result in disproportionate damage to the country's recovery. Here the history of Paris Club rescheduling and the subsequent HIPC initiative teach us an important lesson: Had illiquid and insolvent countries had access to a multilaterally agreed moratorium rather than to protracted defensive lending from multilateral sources, the ultimate debt write-offs would have come more speedily and at less social as well as financial costs. Of course, the situation is different now, as multilateral money is involved in the first place. But still, a non-interest bearing, multilaterally supervised and agreed moratorium, can provide the leeway for a subsequent and more orderly restructuring.

²⁵ Agreement on this option should be made at least throughout the official sector, but if possible also bind in private lenders, for example through the Private Banks' umbrella organisation Institute of International Finance (IIF); alternatively, an automatic stay could be imposed, but it should at least be tested whether agreements in the interest of an orderly work-out could be reached with the private sector.

²⁶ <http://www.unctad.org/Templates/Page.asp?intItemID=4819&lang=1>

2. A fair and transparent sovereign debt work-out procedure

A moratorium can of course never be more than a temporary relief. It gives a country the breathing space it needs until it either is able to take up its regular debt service again, or it enters a restructuring process.

The restructuring process itself needs to differ from existing procedures in three regards:

- Comprehensiveness
- Fairness
- Speed

Key element of a reformed debt management will be the organization of one single negotiation process, driven by the demand for debt relief by the debtor country and conducted by an independent body, which is neither creditor nor debtor.

It has been a unique feature of sovereign debt management – as opposed to private and corporate debt workouts – that the process has been split between several fora, which in principle act independently of each other. This has led to moral hazard, as holdouts have a strong incentive to abstain from write-downs for as long as possible.²⁷ Litigations against HIPC, the appearance of vulture funds and a lack of transparency during the process are consequences of the lack of an orderly insolvency process. Catching up with basic standards of procedural efficiency, intrinsic to insolvency laws all over the world, is one key element of a reformed debt management after the financial crisis. Its key element will be the organization of one single negotiation process, driven by the demand for debt relief by the debtor country and conducted by an independent body, which is neither creditor nor debtor.

Existing procedures are characterized by the fact that the creditors are party, judge and jury, and even the “independent expert”, when it comes to negotiating sovereign debt: The Paris Club ultimately decides if countries are to receive relief, and if so, on what terms. It does so on the basis of expert opinions produced by two other major creditor institutions whose claims on a country will also be indirectly affected by the outcome of their expertise. Decisions are also strongly influenced by political considerations, hence middle-income Iraq was able to secure an 80 percent debt cancellation while low-income Nigeria was able to negotiate just 67 percent. Such a set-up necessarily neglects the interests of the debtor, and has rightfully been abandoned in European states, when in the debtor’s prison was replaced by modern insolvency law in the course of the continent’s industrialization. Civil society organizations and legal experts have for long suggested the setting up of an international insolvency procedure along the lines of ad-hoc arbitration mechanisms²⁸, or in the form of a standing insolvency court²⁹ under the administration of a specialized UN body. Such an approach would – to the widest extent possible – do away with the power imbalance between debtor and creditors, which is characteristic of existing procedures.

27 Participation of non-Paris Club creditors is regularly called for by Club members. The responsibility for compliance, however, is put on the shoulders of the debtor country, which has very limited leverage to enforce on any other creditor restructuring conditions which they have had no say in establishing. See in more detail: „Debt Management à la Louis XVI. A short promenade through program and practice of the Paris Club“; www.erlassjahr.de. Participation in the debt relief co-ordinated under HIPC has also been quite limited, with some 50 percent of Non-Paris-Club official creditors participating, while private creditors’ participation could be enhanced from a meagre 6 percent to at least one third through two extensive buy-back programs financed from some development budgets.

28 For a recent overview see: K. Raffer “SIDS: Insolvency vs. Contested Claims” DMFAS, Geneva November 2007, and more generally: [erlassjahr.de: Entschuldung fair ändern; Düsseldorf 2004](http://erlassjahr.de).

29 For a court-based proposal see: Paulus,C. and S. Kargman: Reforming the Process of Sovereign debt restructuring: The proposal for a Sovereign Debt Tribunal; Paper presented at an FFD Workshop UNDESA; April 8th/9th 2008

This would not only be a leap forward with regard to fairness and justice. It would, moreover make debt restructuring more efficient. The long road, which indebted sovereign countries had to go through, the ever insufficient partial relief operations from the Paris Club's Toronto Terms through HIPC-I and HIPC-II to MDRI has made the restructuring process unnecessarily protracted for the debtor and costly for the creditors. A post-completion point HIPC, which runs into payment problems as a consequence of the global financial crisis, must therefore have immediate and reliable access to an impartial process as outlined above, which then – like a corporate insolvency process – can conclude a restructuring within a few months. This is clearly in the interests of all parties concerned and international negotiations on the setting up of such an instrument should begin without delay.

A post-completion point HIPC which runs into payment problems as a consequence of the global financial crisis, must therefore have access to an impartial process, which can conclude a restructuring within a few months.

Annex: Country profiles

Benin

1. The pre-crisis situation of the country

The 2008 (pre-crisis) status-of-implementation report listed Benin as having a “moderate” risk of new debt distress.

1.1 Debt relief under HIPC/MDRI, remaining “old” debt levels

From 2008 onward Benin will continuously pay higher debt service than it used to pay before its completion point in 2003.³⁰ With a projected debt service ratio around 5 percent, however, the relative burden seems manageable under the baseline scenario.

All but three Benin’s Non-Paris-Club official creditors, have provided comparable debt relief as decreed by the HIPC-Initiative. Their remaining exposure is negligible. No commercial creditors’ lawsuits have been reported against Benin.

Low Risk

1.2 Amounts, conditions and creditor structure of new loans

New lending has largely come from multilateral sources, among them a 9.3m SDR (about US\$ 14.1m) augmentation of PRGF access in 2008 to accommodate the food and fuel crisis.

New (gross) public external borrowing (for identified project and program loans and other residual debt-creating flows) is projected to remain broadly unchanged at 3.0 percent of GDP over the medium and long term. Over the projection period a shift from multilateral towards bilateral official lending is projected by the IFIs. The share of commercial debt will decline from about 8 percent in 2008 to 2 percent in 2028. Average maturity of debt on new loans is projected to be 28.8 years with a grace period of 4.2 years, and an interest rate of 2 percent. Assuming an average discount rate of 5 percent, new loans are expected to have an average grant element of about 35 percent.³¹

The IMF alerts the authorities to a substantial risk to debt sustainability through failure in the privatization process³² and increased borrowing in the domestic market.

Moderate Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

The last IMF mission to Benin corrected the “revised growth outlook” for 2009, which was 5.7 percent in the last country review of December 2008³³ down to 3.9 percent, i.e. roughly 30 percent lower.³⁴

Substantial risk

30 IMF/IDA: HIPC Status of Implementation report 2008, Annex Table 2

31 Joint IMF/IDA Debt Sustainability Analysis 2008;

<http://www.imf.org/external/pubs/ft/scr/2008/cr08374.pdf>; p.8

32 The latest DSA underlines the importance of „structural reforms“ in order to maintain fiscal and external sustainability. However a closer look, at the meaning of this wording, reveals that it stands for a simple privatization program, which continues to generate income for public budgets – as long as the country has assets to sell. See: Statement by Mr. Laurean Rutayisire, Executive Director for Benin; December 12, 2008; pt. 8

33 IMF Country Report No. 08/374, p.17

34 IMF: Statement of a staff mission to Benin; Press Release 09/123, April 9th 2009.

2.2. Vulnerabilities through concentration of export earnings and demand trends, and through reductions in remittances, aid and FDI

The updated DSA provides a very cautious outlook to risks towards debt distress: "Overall, the staff medium-term outlook, which was discussed with the authorities, is subject to significant downside risks, including reduced demand for exports and a steady fall in FDI."³⁵ The alternative scenarios, though, demonstrate that there is significant risk of debt distress from four alternative scenarios: (a) a slowing of the reform process, (b) a real exchange rate depreciation, (c) a switch to domestic borrowing financing, and (d) a scaling up of aid that is only moderately concessional.³⁶

Benin has a high concentration in its export earnings in one single commodity, i.e. cotton and is thus highly vulnerable to price and demand volatility.³⁷ Cotton has suffered a substantial production decrease end 2008 and has a relatively high volatility between 1960 and 2007.³⁸

The IMF sees Benin at low risk of new debt distress because of crisis-impacts and as slightly vulnerable towards reductions in non-export inflows (remittances, aid and FDI).³⁹

Moderate Risk

3. Risks through effects of global warming and other ecological challenges

With a vulnerability score of 34 (out of 50) Benin is not in the upper-middle range of environmental challenges that will have an immediate negative balance of payments or fiscal sustainability impact.⁴⁰

Moderate Risk

4. Risks for MDG financing

The IMF concludes that a scaling up of aid in line with the Gleneagles commitments⁴¹ will lead to a high risk of new debt distress unless it comes with a grant element of at least 60 percent. Availability of additional funds at these conditions is not likely.⁴² The country is presently on-track with none of the MDGs.⁴³ Although the IMF expects only a minor balance of payments impact of the crisis⁴⁴, the likelihood of crisis effects further jeopardizing development goals is substantial.

Vulnerable

Conclusion:

Benin has been suffering from structural weaknesses, which has always put financial viability at risk. Compared to these "new" risks of debt distress are relatively minor.

35 Joint IMF/IDA Debt Sustainability Analysis 2008; <http://www.imf.org/external/pubs/ft/scr/2008/cr08374.pdf>; fn4

36 Joint IMF/IDA Debt Sustainability Analysis 2008; <http://www.imf.org/external/pubs/ft/scr/2008/cr08374.pdf>; pt.11; descriptions of alternative scenarios in the IMF/IDA DSA are extraordinarily vague. So, a comparision of assumptions with newer projections, which take the likely crisis effects into account, are not possible.

37 erlassjahr.de: Schuldenreport 2009, p.9.; at the Completion Point cotton had 70 percent of all export earnings; Benin Completion Point Document; Washington 2003; p.16

38 8.6 percent around trend Global Economic Prospects 2009,p.54

39 IMF: The implications of the Global Financial Crisis for Low Income Countries; p44.

40 http://www.tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

41 Benin is one of the UN pilot countries for the scaling up of aid to make progress towards the MDGs.

42 Joint IMF/IDA Debt Sustainability Analysis 2008; <http://www.imf.org/external/pubs/ft/scr/2008/cr08374.pdf>; pt.14

43 http://www.mdgmonitor.org/country_progress.cfm?c=BEN&cd=204

44 Total shock according to WEO corrections over former forecast: -145m US-\$ over an unspecified time span.

Bolivia

1. The pre-crisis situation of the country

In its latest DSA for Bolivia⁴⁵ the IMF estimated that Bolivia had only a “low” risk of debt distress, which holds even under significant stress tests.

1.1 Debt relief under HIPC/MDRI, remaining “old” debt levels

Bolivia reached completion point in June 2001 and benefited from additional debt relief from MDRI in 2006 and 2007. Total debt relief brought public debt down to US\$ 2,209m by the end of 2007⁴⁶. Bolivia’s debt service to export ratio remained very high until MDRI was implemented in 2006/07. The ratio is currently below the 150 percent debt-to-export HIPC threshold, however, relatively high as compared to other HIPCs, and the debt service ratio is above the 5 percent threshold favored by Jubilee. Non-Paris Club members account for only 1 percent of calculated debt relief, which has partly been delivered⁴⁷. The low risk assessment was mainly due to overall fiscal surpluses, boosted by export earnings. However, high levels of domestic debt (US\$ 3,673m in 2007⁴⁸) give some reason for concern.

Moderate risk

1.2 Amounts, conditions and creditor structure of new loans

By the end of 2008, public external debt had risen by 10 percent; multilateral creditors accounted for three quarters of Bolivia’s total debt. Sources of new disbursement were mainly multilateral so far (with CAF being both, largest creditor and origin of new loans). However, the total amount of new contracted loans is alarming: In 2007, Bolivia contracted almost US\$ 1bn in new loans, the highest amount being provided by Argentina (US\$ 450m); in 2008 new contracts even sum up to US\$ 1.2bn, with Venezuela (US\$ 441m) spearheading this trend⁴⁹. Domestic debt has also increased dramatically up to US\$ 5,256m⁵⁰. However, this trend was accompanied by a considerable increase in international reserves and extraordinarily high export earnings.

Moderate risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

Recent GDP growth (of around 6 percent) was mainly induced by high commodity prices leading to booming hydrocarbons and mining exports. Thus, declines in commodity prices will affect Bolivia’s macroeconomic performance and real GDP growth is projected to decline to 4 percent in 2009⁵¹. This would be just slightly below the assumptions for the baseline scenario of long term debt sustainability⁵².

Low risk

45 IMF (2008b); External and Public Debt Sustainability Analysis; Washington; December 2008; <http://www.imf.org/external/pubs/ft/dsa/pdf/dsacr0927.pdf>.

46 Banco Central de Bolivia (2009): Estado de la deuda externa publica al 31 de diciembre de 2008; <http://www.bcb.gov.bo/webdocs/Diciembre2008/estadodeuda2008.pdf>

47 IMF/World Bank (2008): HIPC/MDRI - Status of Implementation.

48 Revista Jubileo, March-April 2009. <http://www.jubileobolivia.org.bo/documentos>

49 Banco Central de Bolivia (2009): Estado de la deuda externa publica al 31 de diciembre de 2008.

50 Revista Jubileo, March-April 2009.

51 WEO, Spring 2009.

52 As projected in IMF (2008) Debt Sustainability Analysis.

2.2 Vulnerabilities through concentration of export earnings and demand trends, and through reductions in remittances, aid and FDI

External current accounts and the fiscal position have been very comfortable in recent years due to increased export earnings. This has also led to a relatively high accumulation of reserves (covering 15 months of imports⁵³), which now serves as a financial cushion. The current global crisis affects Bolivia mainly through declines in commodity prices and remittances and the lack of foreign investment in the mining and hydrocarbon sectors. For 2009, the overall fiscal position is projected to shift from a surplus of 3.5 percent of GDP in 2008 (boosted by the exceptionally high external current account surpluses) to a deficit of 0.5 percent. In light of the relatively high stock of international reserves a temporary deficit seems manageable. However, the high dependency on only a few export products, such as natural gas and from the mining sector, makes the country highly sensitive to developments in export prices⁵⁴.

Moderate risk

3. Risks through effects of global warming and other ecological challenges

Ecological challenges in Bolivia do not reflect severe financial risks. However, with regard to poverty eradication, increased droughts and flooding and the more frequent incidents of the “El Niño phenomenon” are posing a substantial risk especially for the poor population. Moreover, freshwater supply is jeopardized by melting ice caps. If countermeasures are not taken rapidly, this could eventually also stress the financial position.

Moderate risk

4. Risks for MDG financing

Poverty spending in Bolivia hardly increased through debt relief after the completion point (2001), the increase rather started only in 2005 and was further boosted by rising government income due to the booming export sector and a change in tax policies for hydrocarbon and mining activities. According to the latest government report (June 2008⁵⁵), MDG 1 (combat extreme poverty), MDG 3 (gender equality), MDG 4 (reduce child mortality), MDG 5 (improve maternal health), and MDG 6 (combat HIV/AIDS and other diseases) are going to be met. However, this positive trend did only arise after recent increases in poverty spending. Therefore, this trend must be maintained and should not be put off by additional shocks through the financial crisis.

By and large on track

Conclusion

After MDRI debt relief Bolivia obtained a fairly sustainable debt situation, which was strengthened most of all by increased income through boosting exports. The government managed to accrue substantial international reserves, which now serve as a financial cushion to deal with the impacts of the financial crisis. **There are only moderate risks through a relatively high dependency on export products with volatile price development.** For 2009, the financial burden seems manageable⁵⁶, especially thanks to the high level of international reserves. However, if the impacts of the crisis continue over a longer period and commodity prices do not rise again, these risks could resurface

53 IMF (2009): Implications of the Global Financial Crisis for Low-Income-Countries.

54 IMF (2009): Bolivia: 2008 Article IV Consultation; Washington, January 2009;
<http://www.imf.org/external/pubs/ft/scr/2009/cr0927.pdf>

55 Government of Bolivia (2008); Objetivos de Desarrollo del Milenio en Bolivia: Quinto informe de progreso 2008; June 2008;
<http://www.undg.org/docs/9645/Quinto-Informe-ODM-Bolivia-2008.pdf>

56 The IMF calculates a total shock over former forecasts of 897 Mio. US\$. (IMF, 2009b)

Burundi

1. The pre-crisis situation of the country⁵⁷

1.1 Debt relief under HIPC/MDRI, remaining “old” debt levels

Debt relief for Burundi will bring the NPV/XGS indicator⁵⁸ only marginally below the crucial threshold of 150 percent. Under the HIPC baseline scenario the threshold will be breached again by 2010 and 2011. HIPC-relief alone would have left the indicator above the target threshold until 2016. This non-compliance with the HIPC target is largely due to wrong assumptions by the World Bank regarding disbursement rates of multilaterally financed projects, which existed already before the decision point 2005.⁵⁹ As the Bank does not consider its own mistake as an “external shock” to Burundi, the country is being excluded from exceptional topping up.⁶⁰ It is only thanks to the MDRI that the threshold is reached at all.⁶¹

High Risk

1.2 Amounts, conditions and creditor structure of new loans

New borrowing is largely from multilateral sources. No borrowings at non-concessional terms beyond DSF-requirements have been reported so far.

Low Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

Real GDP growth assumptions have been reduced from 5 percent in 2009 and 2010 to 4.5 percent in real terms, reflecting the overall impact of the financial crisis.⁶² Given the relatively limited interlinkages of the Burundian economy with the outside world,⁶³ the assumption of only a moderate shock seems reasonable.

Low Risk

2.2 Vulnerabilities through concentration of export income and demand trends, and through reductions in remittances, aid and FDI

The IMF considers Burundi as a country with a medium vulnerability score. Vulnerabilities are low regarding trade, FDI and remittances.⁶⁴ However it is high for aid dependency, as grants alone constitute 25 percent of GDP in 2008. This ratio is forecasted to decline only slowly.⁶⁵

⁵⁷ Burundi reached its completion point only after the publication of the latest HIPC Status of Implementation Report. Therefore no risk of future debt distress has been assessed there.

⁵⁸ Net Present Value of Debt Stock as compared to the Annual Export Earnings; the most commonly used debt burden indicator in the HIPC process.

⁵⁹ IMF/IDA: Burundi: Completion Point Document, March 2009,pt. 75

⁶⁰ Additionally the Bank insists that a topping-up which had been provided for some other countries with higher than calculated debt ratios, would have amounted to only 11.6m US-\$, which indeed is not a huge amount. However, this roughly equals half of Burundi's annual health budget in 2008.

⁶¹ IMF/IDA: Burundi: Completion Point Document, March 2009,pt. 88

⁶² IMF/IDA: Burundi: Completion Point Document, March 2009,pt. 84

⁶³ Exports contribute less than 10 percent to GDP, which is low by HIPC standards

⁶⁴ IMF: The implications of the Global Financial Crisis for Low-Income Countries; pp 50 and 51.

⁶⁵ IMF/IDA: Burundi: Completion Point Document, March 2009,pt. 84

All three sensitivity analyses in the completion point document conclude a massive deterioration in Burundi's external debt situation: (a) a terms of trade shock by one standard deviation in coffee (exports) and oil (imports) prices,⁶⁶ (b) substitution of 25 percent of incoming grants with concessional loans, (c) reduced GDP growth by 1 percentage-point – all lead to quick and massive deteriorations in Burundi's external debt position.⁶⁷

High Risk

3. Risks through effects of global warming and other ecological challenges

The Tyndall Centre for climate research has identified Burundi as a country with a high risk and low adaptation capacity.⁶⁸

High Risk

4. Risks for MDG financing

Strange enough, the completion point document recommends "continued prudent fiscal and debt management policies" against the incumbent vulnerabilities – although their causes are largely external and beyond control of the government.⁶⁹ Foregoing investment into poverty reduction due to the inability to mobilize non-debt-creating funds, would have particularly negative results in Burundi, as the country seems off-track with regard to all MDGs.⁷⁰

Vulnerable

Conclusion

HIPC/MDRI debt relief has cut the country's debt stock by four-fifths. However, one key-indicator has hardly been brought below the indicative threshold and is forecasted to rise above this threshold even under the baseline scenario. **On top of thus insufficient debt relief Burundi is suffering from high risks of new debt distress through the financial crisis as well as non-crisis-related challenges.**

⁶⁶ The export price shock is forecasted to be likely, as The Economist Intelligence Unit states: Coffee prices are expected to fall in both 2009 and 2010 as the market remains in surplus. In 2008/09 the impact of a poor Brazilian harvest will be more than offset by weaker demand. See: <http://www.eiuresources.com/mediadir/default.asp?PR=2009030501>

⁶⁷ Illustrated in: IMF/IDA: Burundi: Completion Point Document, March 2009,p. 39

⁶⁸ http://www.tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

⁶⁹ IMF/IDA: Burundi: Completion Point Document, March 2009,pt. 84

⁷⁰ Data access for MDG compliance is very weak in Burundi; the MDG monitor does not provide a comprehensive country profile like in other HICPs. The above assessment is based on older data taken from <http://mdgs.un.org/unsd/mdg/Data.aspx>

Burkina Faso

1. The pre-crisis situation of the country

The latest DSA, completed in June 2008, characterized Burkina Faso's risk of debt distress as "high".⁷¹

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Burkina Faso reached its completion point in April 2002 and has received HIPC and MDRI assistance of US\$ 4,910m.⁷² Burkina Faso continues to have a high debt-to-exports ratio, while other debt indicators were comfortably below their risk thresholds under the IMF's baseline scenario. The most significant risk to debt sustainability relates to delayed fiscal adjustment. Burkina Faso, previously a strong performer, has been reclassified as a medium performer following a decline of its CPIA⁷³ rating in 2006 and 2007. The reclassification has led to a lowering of indicative thresholds and contributed to the downgrading of Burkina Faso's risk rating.

High Risk

1.2 Amounts, conditions and creditor structure of new loans

Burkina Faso has a comparatively high ratio of grant financing (55 percent of all external financing). No critical new borrowing has been reported since the completion point.⁷⁴

Low Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

The export outlook has worsened since the previous joint DSA mainly on account of cotton. The harvest for the 2006/07 campaign was 15 percent lower than expected, and the projections for the 2007/08 harvest had to be reduced by another 30 percent as a result of unfavorable weather conditions.⁷⁵ Overall, export projections have been revised downwards by approximately 12 percent in the long term, and the exports-to-GDP share by about 1 percent-point. The DSA of mid-2008 identifies the debt-to-export indicator and hence the stability of export earnings as the most critical element regarding Burkina Faso's debt sustainability.

Substantial Risk

⁷¹ IDA/IMF: HEAVILY INDEBTED POOR COUNTRIES (HIPC) AND MULTILATERAL DEBT RELIEF INITIATIVE (MDRI) STATUS OF IMPLEMENTATION, August 2008

⁷² CP Report, IMF, 2002

⁷³ The Country Policy and Institutional Assessment (CPIA) rates countries against a set of 16 criteria grouped in four clusters: (a) economic management; (b) structural policies; (c) policies for social inclusion and equity; and (d) public sector management and institutions. In the context of debt management the CPIA rating serves to assess a country's capacity to incur debt without endangering its debt sustainability; see: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTDATASTA/0,,contentMDK:21115900~menuPK:2935553~pagePK:64168445~piPK:64168309~theSitePK:2875751,00.html>

⁷⁴ IMF/IDA: Joint debt Sustainability Analysis; July 2008; pt. 12

⁷⁵ IMF/Worldbank: Status of Implementation Report, 2008

2.2 Vulnerabilities through concentration of export earnings and demand trends, and through reductions in remittances, aid and FDI

Burkina Faso has a moderate vulnerability rating in the IMF's March 2009 assessment. The only "moderate" risk identified there, however, results from a possible reduction in foreign aid. all other possible shocks are considered as "low risk".

Moderate Risk

3. Risks through effects of global warming and other ecological challenges

The ecological situation of Burkina Faso will become more severe in the coming years due to effects of global warming⁷⁶

High Risk

4. Risks for MDG financing

Burkina Faso is on-track with none of the MDG's. However only MDG 4 is clearly off-track⁷⁷. For all the other goals compliance will require substantial changes.⁷⁸

vulnerable

Conclusion

Burkina Faso has been one of the four countries identified as highly vulnerable already before the crisis. The effects of the global economic downturn is likely to aggravate the situation even further.

⁷⁶ http://www.tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

⁷⁷ Nutritional status – the nutritional status of children under five years of age has not sufficiently improved over the course of the past ten years. Some 35.9 per cent of children under five years old suffered from retarded growth in 2007.

⁷⁸ www.mdgmonitor.org

Cameroon

1. The pre-crisis situation of the country

The 2008 HIPC Status of Implementation report considers Cameroon's risk of new debt distress as "low".

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Cameroon reached its completion point under the HIPC Initiative in 2006. According to the HIPC-Status-of-Implementation Report 2008 it reached debt indicators way below critical thresholds thereafter. In nominal terms Cameroon was among those countries which most benefited from debt relief under HIPC/MDRI. WB/IMF base case scenarios assumed debt service in the range of 1 percent of export earnings after 2009. This positive assessment, however, is only reached because the status of implementation report excludes private guaranteed debt.⁷⁹

Debt relief under HIPC/MDRI seems to run smoothly. Non-Paris-Club official creditors are supposed to contribute 65m of its US\$ 90m claims. Implementation until the completion point has been only 5m. However, no risk of protracted additional debt service payments seems to result from official holdouts.

In 2003 IDA had financed a successful buy-back of private claims on Cameroon at 14.5 cents/US\$. However, two commercial creditor lawsuits are under arbitration in France and may lead to payments of over US\$ 100m.

Moderate Risk

1.2 Amounts, conditions and creditor structure of new loans

New loans stay firmly within limits so far established under the DSF. The most recent spectacular bilateral financing was a US\$ 45m loan for road construction from Japan. Being under IDA conditions this loan is not expected to be an imminent cause of concern for debt sustainability in Cameroon. AfDB is the most important multilateral lender, which has recently engaged in financing infrastructure (some US\$ 140m since Oct. 2008).

Low risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

The HIPC Completion Point document has assumed an average growth rate of 6.1 percent through the projection period until 2025. This high expected growth has not been met in any single year. The World Economic Outlook 2009 projection reaches slightly more than half the expected rate (3.5 percent) for 2009. Thus the overall lag in growth is a serious threat to the country's financial viability. Since 2006 growth performance has been below those assumed in the stress test in the completion point document.

High risk

⁷⁹ Consequently, debt service/exports in the IMF's crisis paper of March 2009 (p.44) are tenfold those in the Status of Implementation Report for 2009 and 2010.

2.2 Vulnerabilities through export concentration and demand trends, and through reductions in remittances, aid and FDI

The IMF's combined trade shock simulation⁸⁰ indicates a high risk of debt distress. Although across-the-board standard assumptions are quite arbitrary under the simulation, their outcomes co-incide largely with the IMFs stress tests in Cameroon's Completion Point Document: (a) A price reduction for the three most important export products: Oil (-40 percent), cocoa and aluminum (-20 percent each). (b) a growth slowdown in the non-oil-sector of 1 percent-point beyond the baseline-scenario.⁸¹ The oil-price reduction has materialized in the meantime, and the assumed reduction for aluminum has been exceeded. Cocoa to the contrary has met with higher world market prices than projected. The state budget for 2009 assumes an oil price of US\$ 65/barrel. The present oil price would reduce oil income from CFA 521bn (US\$ 1.1bn) to around CFA 330bn. (US\$ 700m)

3. Risks through effects of global warming and other ecological challenges

With a score of 30 on the Tyndall index, Cameroon has not been identified as a country at exceptional ecological risk, which might translate into an immediate threat to its financial viability.⁸²

Moderate risk

4. Risks for MDG financing

Except for the achievement of universal primary eduction Cameroon is nowhere on track to reaching the MDGs.⁸³ Getting on track across all cost-intensive MDGs will require substantial investment, unaccounted for in existing budget forecasts.

Vulnerable

Conclusion

Debt sustainability is currently most endangered through the current price slump for Cameroon's major exports and the related slump in overall growth. However, the country's external income beyond exports has been comparatively robust. The resulting relatively benign scenario is suffering from a factual abandoning of the MDGs as an objective of financial and monetary policies. Providing the country with the resources to attain the MDGs on a broader scale would immediately threaten its debt sustainability.

The IMF indicated already in 2006 in a footnote that its "stress" scenarios would be the more likely ones as opposed to the benign "base case".⁸⁴ Today the indication of a "low" risk in the Status of Implementation report seems even less realistic.

80 IMF: The Implications of the Global Financial Crisis on Low Income Countries; March 2009; App.V,Table 3

81 IMF: Cameroon – HIPC Completion Point Document; May 2006; p. 41 und 45.

82 http://www.tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

83 http://www.mdgmonitor.org/factsheets_00.cfm?c=CMR# It is quite disturbing that the IMF considered the implementation of the PRS in all parts – including those where attainments of the MDGs has been ruled out as "satisfactory". See: IMF: Cameroon – HIPC Completion Point Document; May 2006; pp 6-8.

84 IMF: Cameroon – HIPC Completion Point Document; May 2006; fn. 58

Ethiopia

1. The pre-crisis situation of the country

The latest HIPC status of implementation report of September 2008 considers Ethiopia's risk of debt distress as "moderate"⁸⁵.

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Ethiopia reached the completion point in April 2004. Together with debt relief from MDRI Ethiopia's debt stock was reduced from US\$ 7.0bn in 2004 to US\$ 2.3bn in 2006⁸⁶. This was equivalent to 96.0 percent of exports and 17.5 percent of GNI. Debt service accounted for 6.8 percent of exports. Due to higher than expected growth rates in recent years and sustained export growth, all debt indicators have remained below critical thresholds. Debt service to exports is projected to fall well below 5 percent. 4 percent of total debt relief or US\$ 155m should have been provided by non-Paris Club bilateral creditors, of which only US\$ 34 to 83m have been provided. Two commercial creditor lawsuits are currently in arbitration with a total amount claimed of 186.7m⁸⁷.

Low Risk

1.2 Amounts, conditions and creditor structure of new loans

Ethiopia's budget still depends heavily on grants (4.4 percent of GDP)⁸⁸. Highly concessional financing is essential for Ethiopia's medium and long term debt sustainability. So far, new government debt has mainly been concessional. However, the strong development focus on infrastructure is highly debt-inducing and has also brought new creditors on the scene. According to Ethiopia's Prime Minister Meles Zenawi, the Chinese government and banks have committed US\$ 1.5bn in telecommunications and nearly one billion in other infrastructure projects⁸⁹. Much of it is accrued by public enterprises. Debt service has increased again dramatically in 2007/2008, fiscal deficits are still high (3.9 percent including grants) and have to be covered by domestic and external financing.

Substantial Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

After the devastating drought in 2002, Ethiopia has recovered well and between fiscal year 2003/04 and 2007/08 the economy grew between 11.5 and 12.6 percent annually. For 2009 until 2011 growth has now been revised down by little more than half a percentage point to reach between 6.5 percent and 7 percent⁹⁰. The economy depends very much on agriculture, the output of which has continuously seen dramatic setbacks due to adverse weather conditions. Although exports have been growing constantly and remarkably, imports have been growing even faster, due to the government's focus on infrastructure improvement.

Moderate Risk

⁸⁵ IMF/IDA: HIPC Status of Implementation report 2008, p.62

⁸⁶ IMF/World Bank: Global Development Finance, 2008.

⁸⁷ IMF/IDA: HIPC Status of Implementation report 2008, p.90

⁸⁸ IMF, 2009: Request for Disbursement under the Rapid-Access Component of the Exogenous Shocks Facility; <http://www.imf.org/external/pubs/ft/scr/2009/cr0934.pdf>

⁸⁹ Window of China, 2009: Interview with Meles Zenawi.

http://news.xinhuanet.com/english/2009-01/29/content_10731854.htm

⁹⁰ WEO, April 2009 as compared to WEO, spring 2008.

2.2 Vulnerabilities through concentration of export earnings, and demand trends, and through reductions in remittances, aid and FDI

The IMF's vulnerability assessments see Ethiopia at a high risk of distress⁹¹. It seems to be particularly vulnerable towards a shock scenario of reduced aid. High dependency on very few agricultural products (coffee and oilseeds account for more than 50 percent of total exports) as well as on remittances, aid, and FDI make the country also vulnerable to the consequences of the financial crisis. Moreover, oil and fertilizer price shocks before the crisis have pushed the balance of payments into a position of serious vulnerability and international reserves have come down to critical levels of just one month of import coverage at November 2008⁹².

High Risk

3. Risks through effects of global warming and other ecological challenges

The Tyndall Centre for climate research has identified Ethiopia as being extraordinarily challenged by global warming and having low capacity for adaptation⁹³. The high dependence on rain fed agriculture makes the country very sensitive to climatic changes. Climate related hazards such as drought, floods and heavy rains have a long history in Ethiopia. Especially droughts have resulted recurrently in huge loss of life and have caused economic decline. Mean annual temperature in Ethiopia has risen above world average (0.37°C every 10 years between 1951 and 2001)⁹⁴ and will aggravate these problems. Moreover, malaria will conquer new territories due to higher temperatures. According to the National Adaptation Programme for Action, total costs for priority projects to adapt to climate change sum up to US\$ 770m⁹⁵.

High Risk

4. Risks for MDG financing

Due to strong economic growth in recent years, Ethiopia has made good progresses in achieving the MDGs. Poverty spending has increased in nominal terms, however, remained fairly stable at a relatively high level with regard to GDP (around 12 percent). Achievement of MDG is possible⁹⁶, however depends on continuous growth and the absence of serious hazards.

By and large on track

Conclusion

Due to exorbitantly high growth since the completion point, debt indicators could be brought down to sustainable levels. However, accumulated needs for further development are tremendous and high investment in infrastructure debt-inducing. Moreover, growth in Ethiopia is very fragile due to high dependency on rain-fed agriculture and recurrent adverse weather conditions. High dependency on aid and recently on FDI reflects specific vulnerabilities that could result in negative implications following the financial crisis.

91 IMF: The implications of the Global Financial Crisis for Low Income Countries.

92 IMF, 2009: Request for Disbursement under the Rapid-Access Component of the Exogenous Shocks Facility.

93 http://tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

94 Government of Ethiopia (2007): National Adaptation Programme of Action (NAPA); <http://unfccc.int/resource/docs/napa/eth01.pdf>

95 Ibid.

96 www.mdgmonitor.org

The Gambia

1. The pre-crisis situation of the country

The Gambia is one out of four Post-completion point HIPCs, for which a “high” risk of debt distress has been acknowledged in the 2008 Status of Implementation Report.

1.1 Debt relief under HIPC/MDRI, remaining “old” debt levels

The Gambia reached its completion point under the HIPC initiative in December 2007. HIPC debt relief served mainly to eliminate unserviced debt, as indicated by the largely constant debt service foreseen after the completion point.⁹⁷ Only through MDRI, debt service will be cut-by half. However, debt service is projected to represent between 5.6 percent and 7.1 percent of annual export earnings. The Gambia’s relative debt service burden is among the highest of all post-completion point HIPCs. Additionally, the HIPC Status of Implementation Report 2008 identified outstanding and unresolved debt to multilateral and non-Paris-Club creditors as reasons to consider the risk of debt distress as “high”.⁹⁸ Finally, HIPC/MDRI relief left the crucial debt stock to export earnings (NPV/XGS) indicator above the country-specific threshold of 100 percent under the Debt Sustainability Framework.⁹⁹

High Risk

1.2 Amounts, conditions and creditor structure of new loans

The February 2009 DSA indicates that debt levels remain “beyond the country-specific PV of Debt to exports ratio(100 percent) because of the reliance on external borrowing to finance the country’s critical infrastructure projects.”¹⁰⁰ The most negative impact on debt sustainability would result from new borrowing on less favorable terms. At end-November 2008, however, an IMF mission concluded that government borrowing was broadly in line with the current government program.¹⁰¹

High Risk

97 IDA/IMF: HIPC and MDRI Status of Implementation Report Sept. 12th 2008, annex table 2.

98 IDA/IMF: HIPC and MDRI Status of Implementation report Sept. 12th 2008, p.54; the risk assessment was confirmed in the latest DSA, conducted Feb. 3rd 2009: IMF/IDA: The Gambia, Joint IMF/IDA Debt Sustainability Analysis; pt. 3; creditors with pending claims include the ECOWAS, Saudi Arabia, Taiwan, Libya, China and India

99 This was already concluded laconically in the C.P. Document of March 2008. As the DSF has never been meant to induce additional debt relief, where thresholds were ostensibly breached, the country is being left alone with an acknowledged unsustainable debt burden and the IFIs just call to keep new borrowing in check.

100 IMF/IDA: The Gambia, Joint IMF/IDA Debt Sustainability Analysis; pt. 3

101 Statement by an IMF Mission to The Gambia, Nov. 11th 2008

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

Reductions in overall as well as export growth are expected to remain below HIPC average. Moreover, IFIs expect crisis effects to be only short term.

Low Risk

2.2 Vulnerabilities through concentration of export earnings and demand trends, and through reductions in remittances, aid and FDI

The IMF considers risks of debt distress through the mentioned transmission effects of the crisis as low.¹⁰²

Low Risk

3. Risks through effects of global warming and other ecological challenges

Gambia has a very high score of 40 for its vulnerability to climate change effects under the Tyndall Center's methodology.¹⁰³

High Risk

4. Risks for MDG financing

Gambia is on track regarding MDGs 5 (Maternal Health) and 7 (Environmental Sustainability); it will also achieve universal primary education on time, if some changes are made. All other MDGs seem out of reach.¹⁰⁴ Gambia's Global Hunger Index is 17.3, only modestly up from 18.4 in 1990¹⁰⁵, indicating a "serious" food problem. Given the insufficient debt reduction under HIPC/MDRI and the high vulnerability, there is no substantial room for improvement in sight.

Vulnerable

Conclusion

It did not take a global financial crisis to put The Gambia's debt sustainability at risk. Insufficient debt relief due to inconsistencies in the HIPC set-up already gave rise to the current existing major risks.

¹⁰² IMF: The Implications of the Global Financial Crisis for Low-Income Countries; Appendices V and VI.

¹⁰³ http://www.tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

¹⁰⁴ http://www.mdgmonitor.org/country_progress.cfm?c=GMB&cd=1

¹⁰⁵ <http://www.ifpri.org/PUBS/cp/ghi08.asp>

Ghana

1. The pre-crisis situation of the country

Ghana's risk of debt distress was considered to be "moderate" in the 2008 debt sustainability analysis before the financial crisis.

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Ghana reached its HIPC completion point in 2004. Its external debt has roughly been halved by the HIPC/MDRI initiatives between 2003 and 2007. After HIPC relief nominal debt service did not subside, but actually increased,¹⁰⁶ showing that HIPC mostly served to eliminate un-serviced debt. Only MDRI implementation brought nominal as well as relative debt service indicators down to levels well below thresholds.

Low Risk

1.2 Amounts, conditions and creditor structure of new loans

After its completion point in 2005 Ghana's public sector borrowed heavily internally as well as externally in order to finance major infrastructure investments. 59 percent of new borrowing has been on commercial terms.¹⁰⁷ Spectacularly Ghana managed to issue a US\$ 750m Eurobond in 2007 as only the second Sub-Saharan African country to ever float this type of paper. However the conditions¹⁰⁸ clearly worsened the overall concessionality of Ghana's debt stock. Domestic public debt has continued to rise since 2003. End 2007 it already exceeded external public debt.¹⁰⁹

Ghana's fiscal situation is set to change dramatically from 2011 onward, when the "Jubilee" oilfield is expected to go on stream and bring more than an annual US\$ 1bn into the state coffers. This is more than the present major hard currency earners cocoa and gold combined. However, the history of oil exploration in Africa has shown that more often than not oil exporting countries have fallen into the "paradox of the plenty", i.e. seeing the resource exploitation leading to dramatic deteriorations of governance quality, widening social gaps and economic imbalances. Ghana's political class seems aware of those risks; however close monitoring of revenues and defence of the country's democratic institutions will be essential, in order to make sure that the country can avoid the "resource curse".¹¹⁰

Substantial Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

Different from the substantial recourse to the capital market in 2007, Ghana's finance ministry plans to take only at between 10 and 20 percent of new external financing at commercial terms between 2008 and 2012.¹¹¹ This prudent plan requires grants, which are to account for 3.4 to 3.9 percent of GDP annually to be continuously available. As Ghana has been downgraded by Standard & Poor's below investment grade with a negative outlook in March, any non-concessional financing would necessarily come at high costs.

106 IDA/IMF: HIPC and MDRI Status of Implementation Report; Sept. 12th 2008;annex table 2.

107 IMF/IDA: Ghana Joint debt Sustainability Analysis, June 16th 2008, p.3

108 8.5 percent Coupon, 10 year maturity, 387 basis-points over equivalent US treasuries

109 IMF/IDA: Ghana Joint debt Sustainability Analysis, June 16th 2008, p.2

110 Oxfam America / ISODEC: Ghana's Big Test: Oil's Challenge to Democratic Development; February 2009.

111 As quoted in: IMF/IDA: Ghana Joint debt Sustainability Analysis, June 16th 2008, p.5

The latest DSA of 2008 explores an alternative “low-GDP-growth” scenario, based on an eventual selection of less-profitable investments – unfortunately without detailing quantitative assumptions.¹¹² It shows, however, that debt sustainability is highly sensitive to continued growth performance in the range of the annual 6 percent, assumed in the baseline scenario. While the IMF’s forecast for 2008 has even been slightly exceeded,¹¹³ and the government assumes a continued 6 percent growth in its 2009 budget¹¹⁴, the Bank of Ghana predicts an only moderate growth reduction to 5.1 percent.¹¹⁵ This would indicate that the country remains largely untouched by the nearly 50 percent reduction in growth rates forecasted by the IMF for Sub-Saharan Africa at its Dar Es Salaam conference in March 2009.¹¹⁶

Substantial Risk

2.2 Vulnerabilities through export concentration and demand trends, and through reductions in remittances, aid and FDI

Ghana scores “moderately” regarding trade¹¹⁷, FDI, aid and remittances shocks. However, the expected total shock has driven the 2009 forecast from a US\$ 1.1bn reserve accumulation to a loss of US\$ 1.4bn. This has been largely reflected in the assessment in the previous paragraph.

Moderate Risk

3. Risks through effects of global warming and other ecological challenges

With a low score of 26 at the Tyndall vulnerability indicator Ghana has not been identified as a country particularly affected by climate change.¹¹⁸

Low Risk

4. Risks for MDG financing

According to the MDG monitor, Ghana is nowhere on-track to reach any of the MDGs.¹¹⁹

Vulnerable

Conclusion

Ghana is an atypical HIPC country, with relatively strong political institutions, one out of only two African states, which managed to tap financial markets recently, but with enormous challenges regarding development financing. Its major focus needs to be on terms and conditions of new financings rather than on (further) dealing with existing debt.

¹¹² IMF/IDA: Ghana Joint Debt Sustainability Analysis, June 16th 2008, p.7
<http://ghanabusinessnews.com/2009/01/27/ghanas-growth-rate-for-2008-was-62/> <?>
<http://www.ghanabusinessnews.com/2009/01/27/ghanas-growth-rate-for-2008-was-62/> <?>

¹¹⁴ http://www.fdi.net/bmi/bmidisplay.cfm?filename=OEMO_20081105_216082_xml.html <?>
<http://www.africaresearchinstitute.org/ebulletin/16march09/template2.htm>

¹¹⁵ The cocoa price, which is particularly important for Ghana is projected to fall in 2009/10, while gold's outlook is stable to positive. See the Economist Intelligence Unit at: <http://www.eiuresources.com/mediadir/default.asp?PR=2009030501>

¹¹⁶ http://www.tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf, p. 119

¹¹⁷ http://www.mdgmonitor.org/country_progress.cfm?c=GHA&cd=288

¹¹⁸ http://www.tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf, p. 119

¹¹⁹ http://www.mdgmonitor.org/country_progress.cfm?c=GHA&cd=288

Guyana

1. The pre-crisis situation of the country

The latest debt sustainability analysis (January 2008) judged Guyana's risk of debt distress as "moderate"¹²⁰.

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Guyana reached its completion point in December 2003. However, after enhanced HIPC relief debt levels remained very high with regard to government revenue (above 200 percent). Only with MDRI and the IDB joining the initiative debt could be brought down to sustainable levels. Non-Paris Club members and commercial creditors accounted for 11 percent of total debt¹²¹, and so far only participated partially in debt relief initiatives. Claims of litigating commercial creditor sum up to US\$ 46m, corresponding to 4.5 percent of GDP.

Moderate risk

1.2 Amounts, conditions and creditor structure of new loans

Higher growth in recent years has been supported by external financing, grants, FDI, remittances, and domestic credit. By the end of 2007, domestic debt servicing was almost as high as external debt servicing¹²². Debt sustainability is still threatened by high fiscal deficits of 9 and 12 percent (including grants) in 2006 and 2007, respectively¹²³. In 2008, domestic debt increased by 8 percent, external debt by 16 percent. There was one larger increase of bilateral debt in 2005 and some smaller loans from multilateral sources pose a substantial risk to debt sustainability. All together, high fiscal deficits, the relatively high burden of internal debt and especially the increasing debt levels in 2008 give some reason for concern.

Substantial risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

After many years of very low or even negative real GDP growth, Guyana started to have higher growth rates of around 5 percent in 2006. In the course of the crisis, Guyana's growth was revised down from 4.6 percent to 3.2 percent in 2008, and even further down to 2.6 percent in 2009. After another GDP growth reduction of one percentage point in 2010, Guyana is expected to catch up again in the following years with growth rates higher than projected in spring 2008¹²⁴.

Moderate risk

2.2 Vulnerabilities through export concentration and demand trends, and through reductions in remittances, aid and FDI

Due to a relatively high dependence on remittances (24 percent of GDP¹²⁵), Guyana is particularly vulnerable towards a shock scenario of reduced remittances¹²⁶. Also a reduction in FDI and international aid, on which the country equally depends, would take their

120 IMF 2008: HIPC/MDRI - Status of Implementation.

121 Guyana: Completion Point document, 2003; <http://www.imf.org/external/NP/hipc/pdf/guyanac.pdf>

122 Bank of Guyana: Annual report 2007

123 WEO spring 2009, as compared to WEO spring 2008.

124 IMF (2008): 2007 Article IV consultation; <http://www.imf.org/external/np/sec/pn/2008/pn0845.htm>

125 World Bank, 2009: Swimming against the tide

126 IMF (2009): The implications of the Global Financial Crisis on Low-Income-Countries.

toll. Although, according to the IMF¹²⁷, Guyana is not very sensitive to a trade shock, the economy depends only upon a small range of commodities mainly from the agricultural sector (sugar, shrimp, timber, and rice) and extractive industries (gold, bauxite), which are susceptible to adverse weather conditions and fluctuations in commodity prices. High fiscal deficits even before the crisis and low international reserves covering less than three months of imports, combined with a substantial decrease in remittances make the country highly vulnerable. According to the IMF, Guyana's debt has a high risk to become unsustainable again due to the crisis, if measured against GDP¹²⁸.

High risk

3. Risks through effects of global warming and other ecological challenges

Guyana is a low-lying Caribbean state with a delicate coastal strip, where 90 percent of the population live and most commercial activity is concentrated. Rising sea levels will require additional resources to prevent the country from substantial losses (for example through salt-water intrusion). Moreover, weather conditions depend on the El Niño phenomenon, and the economy depends very much on the agricultural sector. Therefore, changing weather conditions – as have already happened as a consequence of El Niño – could result in substantial yield losses¹²⁹.

Moderate risk

4. Risks for MDG financing

Poverty spending increased only from 2005 onwards, however, it was not enough to assure the achievement of the MDGs. Guyana seems to be only on track for MDG 2 (universal primary education) and MDG 3 (gender equality). Progress towards MDG 1 (eradicate extreme poverty and hunger), MDG 4 (reduce child mortality), MDG 5 (improve maternal health) and MDG 6 (Combat HIV/Aids and other diseases) are much less likely to be achieved¹³⁰. Before the outbreak of the crisis, Guyana had already planned to expand its programme to strengthen safety nets. Additional financing needs are now calculated to be between US\$ 34 and 170m. The lower end of this range corresponds to the additional spending towards poverty reduction made in 2007, the latest year for which data are available.

vulnerable

Conclusion

Guyana only started to benefit from the debt relief initiatives, when MDRI was completed in 2007 by the full participation of the IDB. **Relatively high remaining debt levels left the country vulnerable even before the outbreak of the crisis. High fiscal deficits and domestic debt levels added to this and deteriorated further in 2008. The high dependence on remittances and a narrow range of mainly agricultural export products makes the country highly vulnerable to the effects of the crisis. If the fiscal deficit further increases, substantial levels of new debt need to be accrued, or poverty spending has to be reduced.**

127 Ibid.

128 Ibid.

129 Khan, Marlon (2001): National climate change adaptation policy and implementation plan for Guyana.

130 Government of Guyana (2007): Guyana Development Goals 2007

Honduras

1. The pre-crisis situation of the country

The latest debt sustainability analysis characterized Honduras' risk of new debt distress as being "low"¹³¹.

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Honduras reached the completion point in April 2005 and received further debt relief through MDRI in 2006/07. Both initiatives eventually brought public external debt from US\$ 5,912m (2004) down to US\$ 3,028m¹³². The debt service to export ratio fell well below 5 percent. However, it was only through MDRI and the IDB joining the initiative as well as through substantial debt relief beyond HIPC by Paris Club creditors that sustainable debt indicators could be reached. Non-Paris Club members account for 8 percent of calculated debt relief and until 2007 did not offer debt relief on comparable terms.

Low risk

1.2 Amounts and conditions of new loans

Debt sustainability is threatened if higher fiscal deficits and lower economic growth than projected are experienced. The current account deficit has already increased dramatically in 2007 to 9.9 percent of GDP, and has been further increasing to 11.7 percent in the three first quarters of 2008¹³³. Multilateral debt has increased in 2008 by 11 percent (from US\$ 1,311.6 to 1,455.9m) and bilateral even by 24 percent (from US\$ 622.6 to 771.9m). Equally, commercial debt has increased since 2005 from US\$ 395.0 to 668.8m¹³⁴. The biggest amount from multilateral creditors is concessional lending from the World Bank. New lending so far seems to be manageable in the light of high growth rates of over 6 percent. However, continuously high fiscal deficits could jeopardize this situation in the future.

Substantial risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

High growth rates were essential to keep debt sustainability under control. In the course of the financial crisis growth was revised down in 2008 from 4.8 to 4 percent and will fall further in the following years. For the years 2009 to 2012 growth was revised down by 3.1, 2.6, 2.2 and 1.6 percentage points, respectively¹³⁵. This marks a tremendous reduction in growth rates over a longer period, which could threaten debt sustainability severely.

Substantial risk

2.2 Vulnerabilities through export concentration and demand trends, and through reductions in remittances, aid and FDI

Honduras depends heavily on remittances (20 percent of GDP and 46 percent of exports in 2007¹³⁶). Not surprisingly, then, it shows to be particularly vulnerable to a shock sce-

131 IMF/World Bank (2008): HIPC/MDRI – Status of implementation.

132 Banco Central de Honduras; http://www.bch.hn/esteco/sector_externo/deuda_externa/depp_acreedor.xls

133 Banco Central de Honduras; http://www.bch.hn/download/balanza_depagos/balanza_de_pagos0908.pdf

134 Banco Central de Honduras; http://www.bch.hn/esteco/sector_externo/deuda_externa/depp_acreedor.xls

135 WEO, Spring 2009, as compared to spring 2008.

136 Banco Central de Honduras; http://www.bch.hn/download/balanza_depagos/balanza_de_pagos0908.pdf

nario of reduced remittances¹³⁷. Overall, Honduras is not seen to be very sensitive to a trade shock. However, the economy relies mainly on only a few export products, such as bananas and coffee, which makes it vulnerable to natural disasters. Honduras had only reserves of 2.7 Months of import coverage in 2008, which is below the benchmark of 3 Months and makes it vulnerable to any even low drop of income. High fiscal deficits even before the crisis combined with a substantial decrease in remittances and growth rates makes the country highly vulnerable.

High risk

3. Risks through effects of global warming and other ecological challenges

Honduras has one of the highest CO2 emission rates stemming from deforestation, which is way above the regional and country group average. Deforestation is also a result of perpetual poverty in the country. Further land degradation and soil erosion makes the country highly vulnerable to disastrous impacts of tropical storms, which are a rising danger in the region due to global warming¹³⁸. Nevertheless, the Tyndall Centre for climate research has not identified Honduras as being extraordinarily challenged by climate change¹³⁹.

Substantial risk

4. Risks for MDG financing

In 2007, poverty spending to finance the Poverty Reduction Strategy and MDG attainment was US\$ 337m above pre-Completion Point levels (2004)¹⁴⁰. This extra spending was not sufficient to bring Honduras on track for full MDG attainment. MDG 2 (universal primary education), MDG 3 (gender equality), and MDG 7 (environmental sustainability) can possibly be met, if some changes are made. Only MDG 4 (reduce child mortality) has good chances to be met. The rates for both, poverty and extreme poverty could be reduced substantially since 2005, however, MDG 1 (eradicate extreme poverty and hunger) could only be achieved if these trends persisted¹⁴¹.

vulnerable

Conclusion

Honduras seems to have benefited from HIPC/MDRI debt relief in a way that resulted in a quite sustainable debt situation, which was followed by a period of sustained growth. However, the outbreak of the crisis shows how vulnerable this macroeconomic performance was. The food and oil price shocks, climaxing in 2008, had already added to a dramatic increase of the fiscal deficit. The high dependence on remittances and a narrow range of mainly agricultural export products make the country highly vulnerable to the effects of the crisis. If the fiscal deficit further increases, substantial levels of new debt need to be accrued, or poverty spending will be reduced.

137 IMF (2009)

138 Hurricane Mitch in 1998, for example, caused damages that accounted for 82 percent of GDP and 174 percent of exports (CEPAL, 1999)

139 http://tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

140 IMF/Worldbank (2008): HIPC: Status of Implementation Report, 2008.

141 www.mdgmonitor.org

Madagascar

1. The pre-crisis situation of the country

The DSA of July 2008 characterized Madagascar's risk of debt distress as "low".¹⁴²

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Madagascar has reached completion point in October 2004, and received under HIPC and MDRI Assistance US\$ 4,297m. As of end-2007, Madagascar had an estimated US\$ 595m in arrears towards non-Paris Club and private creditors that are not delivering HIPC debt relief (Algeria, Libya, and Iraq are the largest accounting for 92 percent of the total).¹⁴³ In addition an agreement was finalized with Japan and an agreement is under discussion with the Federation of Russia. Madagascar's external public debt declined significantly from US\$ 3.5bn at end 2005 to US\$ 1.7bn end 2007. All indicators have remained below indicative thresholds since then.

Moderate Risk

1.2 Amounts, conditions and creditor structure of new loans

From 2008 onward a big US\$ 2.1bn private commercial loan towards Madagascar's mining sector more than doubled the country's nominal debt stock. Nominal external debt was pushed from 23 percent in 2007 to 41 percent in 2009 and 2010.¹⁴⁴ However – absent of major demand shocks, the mining investments are expected to substantially enhance export earnings in the short timeframe.

Moderate Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

A DSA carried out in 2007 based on the low-income debt sustainability reveals that the key debt indicators will fall further owing to the impact of the mining sector FDI on GDP and exports. Even under the most extreme stress cases, the ratio would remain far below the 150 percent threshold from 2010 onward.¹⁴⁵

Low Risk

¹⁴² IDA/IMF: HEAVILY INDEBTED POOR COUNTRIES (HIPC) AND MULTILATERAL DEBT RELIEF INITIATIVE (MDRI) STATUS OF IMPLEMENTATION, August 2008

¹⁴³ Republic of Madagascar: 2007 Article IV Consultation—Staff Report, July 2007

¹⁴⁴ IDA/IMF: Joint Debt Sustainability Analysis, June 17th 2008, pt.4

¹⁴⁵ Republic of Madagascar: 2007 Article IV Consultation—Staff Report, July 2007

2.2 Vulnerabilities through export concentration and demand trends, and through reductions in remittances, aid and FDI

Stress tests in the latest DSA reveal that export concentration is the biggest threat to fiscal and balance of payment sustainability in Madagascar. The exports of the two largest mining projects and textiles exports together account for two thirds of exports between 2011 and 2017.¹⁴⁶ The DSA's authors however, point to the fact that even under the unlikely assumption of a major slump in demand for mining exports, indicators will remain under the indicative thresholds. Equally the "historical scenario" which assumes major economic indicators at their historical averages is not seen as likely, because the first half of the decade has been characterized by political turmoil and natural disasters. Political stability has not improved, however; so possible "combined shock scenarios should not be categorically ruled out.

Moderate Risk

3. Risks through effects of global warming and other ecological challenges

With a score of 31 on the Tyndall scale Madagascar is in the medium range with regard to risks stemming from climate change.¹⁴⁷

Substantial Risk

4. Outlook for Development and MDG Finance¹⁴⁸

During the period 2002-2006 Madagascar recorded some progress in human development. Poverty has gone down from even higher levels before to 67.5 percent in 2006 mainly as a result of improvements in education and health. However, with regard to individual MDGs, presently only MDGs 2 and 4 are likely to be achieved, while two others (3, gender equality and 5, maternal health) are clearly off-track; for others no sufficient information is available.

Vulnerable

Conclusion

Madagascar has received substantial leeway through debt reductions under HIPC/MDRI. Additionally major investments are expected to improve the foreign exchange income balance. This has however, not yet been translated into major poverty reduction. The Island has been highly dependent on a small range of commodity and textile exports.

146 IDA/IMF: Joint Debt Sustainability Analysis, June 17th 2008, pt.8

147 http://www.tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

148 www.mdgmonitor.org

Malawi

1. The pre-crisis situation of the country

The latest debt sustainability analysis for Malawi from December 2008 considers Malawi's risk of debt distress as "moderate"¹⁴⁹.

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Through debt relief beyond HIPC and MDRI (completion point in August 2006), Malawi's Debt stock was reduced from US\$ 3,183m (2005) to US\$ 850m (2006)¹⁵⁰. The stock of external debt fell from 104 percent of GDP at the end of 2005 to 14.3 percent a year later¹⁵¹. Debt service to exports declined from 18.1 percent (2006) to 1.6 percent (2007)¹⁵². Although only about a third of debt with non-Paris Club creditors has been cancelled so far, the remainder only plays a minor role with regard to total debt. Since fiscal year 2003/04 high domestic debt levels could also be replaced by concessional financing and currently account for less than 10 percent of GDP¹⁵³.

Low Risk

1.2 Amounts, conditions and creditor structure of new loans

Malawi's central government income includes grants of the amount of around 10 percent of GDP, with a rising trend for the years to come¹⁵⁴. Highly concessional financing is essential for Malawi's medium and long term debt sustainability. Foreign financing increased since the completion point and is projected to substitute for less concessional domestic financing.

Low Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

Growth in Malawi was revised down as an effect of the financial crisis by about one percentage point for the four years to come to reach between 6.9 percent and 5.1 percent until 2012¹⁵⁵. This is better than the average for all Sub-Saharan countries. And there is some hope of sustained growth, as the Kayelekera uranium mine will start to operate in 2009. The latest DSA identified among the strongest vulnerabilities reduced growth than projected and new debt on less concessional terms. With growth and other macroeconomic indicators at their historical average (1997-2007), debt indicators would pass critical thresholds as early as 2012¹⁵⁶. Although, growth is still above its historical average, rates were revised down for a period of at least four years, which marks a considerable setback.

Moderate Risk

149 IMF (2007): Malawi: Debt sustainability analysis 2007 Update.
<http://www.imf.org/external/pubs/ft/dsa/pdf/dsacr0803.pdf>

150 World Bank (2008): Global Development Finance 149

151 IMF, 2009: Staff report: Request for a One-Year Exogenous Shock Facility Arrangement.
<http://www.imf.org/external/pubs/ft/scr/2009/cr0916.pdf>

152 IMF/IDA (2008) HIPC Status of Implementation report, p. 66.

153 IMF/IDA: HIPC Status of Implementation report 2008.

154 IMF (2009a): Staff report: Request for a One-Year Exogenous Shock Facility Arrangement

155 IMF World Economic Outlook, Autumn 2008 as compared to Spring 2009.

156 IMF (2007) Malawi: Debt sustainability analysis 2007 Update (l.c.)

2.2 Vulnerabilities through export concentration and demand trends, and through reductions in remittances, aid and FDI

Malawi is one of the countries in sub-Saharan Africa hit hardest by worsening terms of trade caused by increased fuel and fertilizer prices in 2008. Thus, the fiscal position was very delicate even before the outbreak of the crisis. In December 2008, Malawi received a one-year US\$ 77m arrangement under the Exogenous Shocks Facility of the IMF after it had come into severe problems and gross reserves had come down to cover only 1.1 months of imports. With high tobacco prices and good harvests, this single one export product accounted for more than 50 percent of exports. This makes the country highly vulnerable to price development as well as to the reduction of global demand and natural disasters. Furthermore, given the high dependency on concessional financing, the IMF's vulnerability assessments calculate for Malawi a high risk of distress, particularly with regard to future aid. The simulations of a trade shock, reduced FDI and remittances are calculated to be moderate¹⁵⁷.

Substantial Risk

3. Risks through effects of global warming and other ecological challenges

Among the climatic hazards that have afflicted Malawi over the last decades, are dry spells, seasonal droughts, intense rainfall and floods. Especially droughts and floods, have increased in frequency, intensity and magnitude over the last two decades, leading to serious food shortages, hunger and malnutrition¹⁵⁸. Poor crop yields can also reduce export earnings and are a threat to growth. Other problems will arise in the health sector, as due to global warming Malaria will conquer new territories. Although the Tyndall Centre for climate research has not identified Malawi as being extraordinarily challenged by climate change, it still ranks very high in its vulnerability scores¹⁵⁹.

Substantial Risk

4. Risks for MDG financing

Progresses in achieving the MDG have been slow and improvements have been mainly due to recent high growth periods and higher poverty spending with specially targeted programs for the poor. Although some results have come closer to 2015 targets, full achievement is still vulnerable to economic or climatic shocks. Malawi still lags behind to meet MDG 1 (reduce extreme poverty), maternal mortality (MDG 5) has even increased. Equally MDG 3 (gender equality) is currently off track¹⁶⁰. The other MDG seem to be at potential reach, however, it would need continuous growth and increased poverty spending.

vulnerable

Conclusion

Debt levels have been quite comfortable after debt relief and high growth rates have helped to increase poverty spending further. However, due to the food and fuel crisis (2008) fiscal position has deteriorated. Moreover, further improvements depend very much on sustained growth and concessional external financing. Both factors are under threat with the outbreak of the financial crisis. Adverse weather conditions can also lead to an additional shock.

157 IMF: The implications of the Global Financial Crisis for Low Income Countries.

158 Government of Malawi (2006): NAPA; <http://unfccc.int/resource/docs/napa/mwi01.pdf>

159 http://tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

160 OneWorld.net (2008/09) MDG Progress Review <http://uk.oneworld.net/guides/mdgs/progress#Malawi>

Mali

1. The pre-crisis situation of the country

According to the latest available debt sustainability analysis for Mali from October 2007 Mali's risk of debt distress was rated down from "moderate" to "low"¹⁶¹.

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Mali reached its completion point in March 2003. After post-HIPC debt service payments had been projected to rise again to alarming levels in 2007, MDRI brought Mali's debt indicators down below critical thresholds. All together, debt stock was reduced from US\$ 3,114m to US\$ 1,436m (2006). In 2006, total debt stock accounted for 26 percent of GNI¹⁶². Non Paris Club members have only participated partially in debt relief initiatives; however, they only play a minor role in Mali. No commercial creditor lawsuits have been reported¹⁶³.

Low Risk

1.2 Amounts, conditions and creditor structure of new loans

Concessional financing is essential for Mali's debt sustainability and has even been higher than projected in recent years, helping to improve debt indicators. Mali's central government income includes grants to the amount of around 5 percent of GDP. Fiscal deficit (after grants) is envisaged to amount to 4.8 percent of GDP in 2009, of which 3.8 percent will be covered by external financing. However, as it is highly concessional financing, it will not significantly affect Mali's public debt sustainability indicators¹⁶⁴.

Low Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

Mali had relatively low growth rates in recent years as compared to other countries in the region. Growth was also lower than projected in the national PRSP. Only in 2008 this trend could be reversed, however, for 2009 growth was revised down again by 1.2 percentage points to reach 3.9 percent. Growth is projected to gradually come up again to 5 percent by 2012; however, this means lower growth of 1.5 percentage points for three years in a row as compared to projections in 2008¹⁶⁵.

Substantial Risk

2.2 Vulnerabilities through export concentration and demand trends, and through reductions in remittances, aid and FDI

Food and oil price shocks before the outbreak of the crisis had hit Mali seriously, and in the short run, the positive effects of easing import prices could outweigh the negative impact of the financial crisis. However, it could well be affected by a lasting global slow-

161 IMF/Worldbank (2007): Mali: Debt sustainability analysis 2007.
<http://www.imf.org/external/pubs/ft/esa/pdf/dsacr0803.pdf>

162 World Bank (2008): Global Development Finance

163 IMF/Worldbank (2008): HIPC: Status of Implementation Report, 2008.

164 IMF (2008): First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, December

165 IMF World Economic Outlook, Spring 2009 as compared to Spring 2009.

down through reduction in aid, remittances and foreign direct investment with implications on medium-term growth prospects. Gross aid flows amount to 10 percent of GDP and aid reductions would primarily affect investment spending¹⁶⁶. However, according to the IMF's vulnerability assessments, only a potential trade shock would put Mali at moderate risks, while a reduction in remittances, aid and FDI would only result in a low risk of distress¹⁶⁷. Mali had accumulated international reserves of up to six months of import coverage by 2007 which – although decreasing in the course of the crisis – now serve as a cushion.

Moderate Risk

3. Risks through effects of global warming and other ecological challenges

As a country of the Sahel zone, the economy is very dependent on weather conditions. Seasonal droughts or unpredictable rain patterns have become more frequent in recent years. Total costs for priority projects to adapt to climate change sum up to around US\$ 50m over a period three years¹⁶⁸. Even if implemented fully, there still remains a risk of impacts due to adverse climatic hazards. A slump of growth in recent years has frequently to do with low yields in agricultural products. Although the Tyndall Centre for climate research has not identified Mali as being extraordinarily challenged by climate change, it still ranks very high in its vulnerability scores¹⁶⁹.

Substantial Risk

4. Risks for MDG financing

Recent trends in growth have been lower than in PRSP projections, which leads to a growing divergence between goals in poverty alleviation and actual results. Although income levels and school enrolment rates could be increased, this was from very low bases and progress towards the MDG remains slow in many areas. Only MDG 6 (combating diseases) and MDG 7 (environmental sustainability) seem within reach, while MDG 1 (reducing extreme poverty) and MDG 2 (universal primary education) can only be met if substantial changes are made and the other MDG targets are unlikely to be met¹⁷⁰.

vulnerable

Conclusion

Although debt levels could be brought down to sustainable levels, there still exist enormous challenges with regard to poverty alleviation and the achievement of the MDG. Therefore, the slump of growth over a period of three years is a dramatic setback in combating poverty. Moreover, Mali is highly dependent on concessional financing. A reduction in aid flows could further decelerate the achievement of the MDG.

166 IMF (2008) PRGF-Review; <http://www.imf.org/external/pubs/ft/scr/2008/cr08378.pdf>

167 IMF; The implications of the Global Financial Crisis for Low Income Countries; p 53.

168 Government of Mali (2007): NAPA; <http://unfccc.int/resource/docs/napa/mli01f.pdf>

169 http://tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

170 IMF (2008): Article IV Consultation

Mauritania

1. The pre-crisis situation of the country

The latest DSA characterized Mauritania's risk of debt distress as "moderate".¹⁷¹

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Only through MDRI assistance Mauritania's total external debt was brought down from almost 170 percent of GDP at end-2005 to below 100 percent at end-2006. There remains a large proportion of debt in arrears that has not yet been treated under the HIPC initiative: About US\$ 1.2bn in arrears to Kuwait and Libya. The DSA assumes that these claims in arrears will be treated in 2008 and 2009 and leaves them out of its further considerations for being "passive". A successful elimination of these old claims would bring the EDT/GNI ratio down to 53.8 percent in 2009 – still beyond a rule-of-thumb sustainability threshold of 40 percent.¹⁷² However, no arrangement with the two holdouts has been reported so far.

High Risk

1.2 Amounts, conditions and creditor structure of new loans

Mauritania has contracted substantial external debt at terms exceeding the concessional element established under the IDA Non-Concessional Borrowing Policy. Mauritania signed two loan contracts originally on non-concessional terms amounting to US\$129m¹⁷³.

According to Article IV of IMF (2008) donors pledged US\$ 2.1bn, several financing agreements have already been signed. Foreign investors, particularly from Gulf countries, have expressed their intention to start investing in banks, tourism, construction, mining, transport, fisheries, and agriculture.

Moderate risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

Stress tests indicate that Mauritania is somewhat vulnerable to adverse shocks, notably the risk of lower-than-projected growth of GDP and exports.¹⁷⁴ The IMF's March 2009 risk assessment sees the country at high risk of debt distress measures by the debt/GDP ratio.¹⁷⁵

High risk

¹⁷¹ Status of Implementation Report; IMF/World Bank, 2008

¹⁷² IMF/IDA: Mauritania debt Sustainability Analysis; May 2nd 2008; Table 2.

¹⁷³ Status of Implementation Report; IMF/World Bank, 2008,pt.52

¹⁷⁴ Article IV, IMF, Islamic Republic of Mauritania: 2008

¹⁷⁵ IMF: The Implications of the Global Financial Crisis for Low-Income Countries; March 2009; App. Table IV.

2.2 Vulnerabilities through export concentration and demand trends, and through reductions in remittances, aid and FDI

The assessment of a “moderate” debt distress was based on the assumption of growing oil income. In the DSA oil prices around 90/barrel are assumed, which is about 40 percent above current levels.¹⁷⁶ The IMF’s March 2009 risk assessment sees the country at high risk of debt distress, notably trade and FDI shocks, while assumed shocks from reductions in aid and remittances will affect the country “moderately”.¹⁷⁷

High Risk

3. Risks through effects of global warming and other ecological challenges

With a score of 40/50 on the Tyndall index, Mauritania is just beyond the critical threshold for suffering from climate change.¹⁷⁸

High risk

4. Risks for MDG financing¹⁷⁹

Mauritania is on track for six targets of the Millennium Development Goals (MDGs). In terms of the environment, the main challenges are the following: (a) the management of the endless scourge of drought within the integrated framework of a management system for crises and natural disasters; (b) the preservation of fishery resources and the marine environment; (c) the preservation of the urban environment; and (d) the degree of efficiency in the implementation of a National Strategy for Sustainable Development and its action plan, while ensuring that civil society is actively involved in the process every step of the way.

by and large on track

Conclusions

Mauritania has been left with a critical legacy of old debt after the HIPC/MDRI relief, which under negative circumstances could translate into disruptions of the economic recovery. Additionally the benign outlook into a high growth scenario from 2008 onwards had to be corrected downward under the influence of the crisis.

¹⁷⁶ IMF/IDA: Mauritania debt Sustainability Analysis; May 2nd 2008; Table 2.

¹⁷⁷ IMF: The Implications of the Global Financial Crisis for Low-Income Countries; March 2009; App. V Table 2

¹⁷⁸ http://tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

¹⁷⁹ www.mdgmonitor.org

Mozambique

1. The pre-crisis situation of the country

The latest Debt Sustainability Analysis (December 2008) considers Mozambique's risk of debt distress as "low"¹⁸⁰.

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

After Mozambique reached the completion point as early as 2001, debt service payments were even higher than before and could only be brought down to pre-completion point levels after substantial debt relief from MDRI. All debt relief initiatives brought total debt stock eventually down from US\$ 7,257m (2000) to US\$ 3,265m (2006). This reduced debt service down to 1.9 percent of export earnings, while total debt stock still accounts for 110.9 percent of exports and 53.2 percent of GNI (2006)¹⁸¹. As of end-2007, there was still a considerable amount of interest arrears with bilateral creditors (US\$ 959m), which had not been settled¹⁸². Sustained growth of between 6.5 percent and 8.6 percent since the completion point has helped to improve debt indicators. However, debt with non Paris Club members accounts for 9 percent of total debt relief, of which so far only 25 percent have been cancelled¹⁸³.

Moderate Risk

1.2 Amounts, conditions and creditor structure of new loans

By far the biggest increase in new debt was an investment by China's Export-Import Bank of US\$ 2.3bn for the construction of a power plant in 2006¹⁸⁴. China is engaged quite strongly in Mozambique, generally granting highly concessional terms though¹⁸⁵. At the end of 2007, 47 percent of total debt was owed to multilateral creditors and 53 percent to bilateral creditors at highly concessional terms. Commercial creditors account for less than 1 percent¹⁸⁶. However, fiscal deficit has deteriorated during the food and fuel crises, as commodity prices boosted import expenditure. While external debt is projected to be sustainable, perpetual large primary deficits or a longer period of reduced growth could rapidly increase domestic debt, turning total public debt unsustainable¹⁸⁷.

Moderate Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

Real GDP growth has been solid in recent years between 7 percent and 8.3 percent. International reserves had risen to cover 5 months of imports in 2007, however, due to the food and fuel crises and now the financial crisis, they are projected to fall down to 3.2 months¹⁸⁸. Moreover, growth has been revised down well above average: by 0.9 percent in 2008, 2.7

¹⁸⁰ IDA/IMF 2009, PSI review, Appendix: DSA <http://www.imf.org/external/pubs/ft/scr/2009/cr0949.pdf>

¹⁸¹ World Bank 2008: Global Development Finance.

¹⁸² This amount is to be reduced by bilateral agreements with Portugal, Japan and Russia. (IMF, 2009, DSA)

¹⁸³ IMF/IDA: HIPC Status of Implementation report 2008

¹⁸⁴ China Daily, 10.05.2006, http://www.chinadaily.com.cn/china/2006-05/10/content_794030.htm

¹⁸⁵ China, Mozambique: old friends, new business, August 2007: <http://www.isn.ethz.ch/isn/Current-Affairs/Security-Watch/Detail/?ots591=4888CAA0-B3DB-1461-98B9-E20E7B9C13D4&lng=en&id=53470>

¹⁸⁶ IDA/IMF 2008, PSI review, Annex: DSA

¹⁸⁷ IMF, 2008: PSI progress report.

¹⁸⁸ IMF: The implications of the Global Financial Crisis for Low Income Countries.

percent for 2009, 3.1 percent for 2010, and still by 2 percent in 2011¹⁸⁹. Although growth rates are still projected to be above 4 percent, a slump in growth rates had been identified as potential factors for debt distress in earlier debt sustainability analysis.

High Risk

2.2 Vulnerabilities through export concentration and demand trends, and through reductions in remittances, aid and FDI

Mozambique depends heavily on aid (grants represented 12 percent of GDP in 2008). Not surprisingly then, according to the IMF's vulnerability assessments, Mozambique is particularly vulnerable towards a shock scenario of reduced aid, while shock scenarios of reduced trade, remittances and FDI are only judged to be of low risk¹⁹⁰. However, reduced capital inflows have to be replaced by external and internal financing and with regard to debt sustainability, the implications of the financial crisis for Mozambique are judged to be serious. Mozambique has a high risk to come into debt distress again, both measured by Debt to GDP and Debt service to Exports.

Substantial Risk

3. Risks through effects of global warming and other ecological challenges

The Tyndall Centre for climate research has identified Mozambique as being extraordinarily challenged by climate change and with a low capacity for adaptation¹⁹¹. Frequent extreme climate hazards such as tropical storms, inundations and droughts have caused human and material damages and hindered a swift sustainable economic development in the past and constitute a perpetual risk to growth. Rising global temperatures will aggravate this situation. Although various actions have been taken to reduce the impacts of such disasters, they still are a constant hazard to sustained growth and a single event can cause serious setbacks.

High Risk

4. Risks for MDG financing

Poverty reducing expenditure has increased both, in nominal terms and with regard to GDP. In 2007 it accounted for 18 percent of GDP and is projected to rise even to more than 20 percent. This relatively high level of poverty spending is absolutely necessary, as Mozambique has severe problems in achieving the MDG. MDG 1 (combat extreme poverty) is at potential reach, if some changes are made. MDG 4 (child mortality) and MDG 5 (maternal health) are currently on track, however, all other MDG are off track and it is unlikely that their objectives will be met by the target year of 2015¹⁹².

vulnerable

Conclusion

Debt relief and sustained high growth in recent years has brought Mozambique down to sustainable debt levels. However, high growth rates also were a precondition for long term debt sustainability and as it is now revised down above average, debt sustainability is seriously threatened by the various shock scenarios. Moreover, poverty spending so far has not been enough to ensure the achievement of the development goals and accumulated needs for further development are still tremendous.

¹⁸⁹ WEO Spring 2009 as compared to WEO Spring 2008.

¹⁹⁰ IMF: The implications of the Global Financial Crisis for Low Income Countries.

¹⁹¹ http://tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

¹⁹² www.MDGmonitor.org

Nicaragua

1. The pre-crisis situation of the country

The latest debt sustainability analysis (September 2007) characterizes Nicaragua's risk of debt distress as "moderate"¹⁹³.

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Nicaragua received HIPC debt relief at the Completion Point (January 2004) and from the MDRI in 2006/07. Both initiatives brought Nicaragua's public foreign debt down from US\$ 6,596m (2004) to US\$ 3,385m (2007), which by then constituted 69 percent of GDP. In 2008 debt service to export ratio was at 4.5 percent¹⁹⁴. Non-Paris Club creditors account for almost half of total debt relief (47 percent). Until 2007, only 41 percent of the expected debt relief from these creditors had been delivered. The largest portions are with countries that so far have not participated in HIPC debt relief (Costa Rica, Honduras, and Taiwan)¹⁹⁵. Sustainability problems also arise from high domestic debt levels, which have decreased to 17 percent of GDP, however, debt service on domestic debt is three times the amount of external debt service¹⁹⁶. Commercial creditors' litigation against Nicaragua could by large be settled through buyback operations with favorable conditions. Remaining commercial creditor lawsuits only account for 0.2 percent of GDP¹⁹⁷.

Moderate risk

1.2 Amounts, conditions and creditor structure of new loans

Between 2004 and 2008 Nicaragua accrued new debt of the amount of US\$ 1,385.8m, which is the equivalent of 39 percent of total external debt. The vast majority of new debt (89.2 percent) was with multilateral creditors with a high degree of concessional lending of around 50 percent. Only minor sums were raised with non-Paris Club members (Taiwan, South Corea). Around 18 percent of Nicaragua's total debt is short term debt. However, extremely high current account deficits in the last two years which were well above the baseline assumptions of the DSA give reason for concern. For 2008 it was projected to be at almost 25 percent of GDP¹⁹⁸.

Substantial risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

Growth performance since the completion point has been lower than the 5 percent assumed in the baseline scenario of the DSA. In 2008, real GDP growth was revised down from 4 percent to 3 percent¹⁹⁹. Until 2012, Nicaragua will see growth rates between 0.5 percent (2009) and 3 percent (2012). This is among the lowest growth rates, both with regard to LIC in general and LIC in Latin America. Growth performance, that even before the crisis has not reached projected levels, will remain clearly below targets set for debt sustainability.

High risk

193 IMF/World Bank (2008): HIPC/MDRI – Status of implementation.

194 Banco Central de Nicaragua (2009): http://www.bcn.gob.ni/publicaciones/deuda/trimestral/deuda_IV_trim_08.pdf

195 IMF/World Bank (2008): HIPC/MDRI – Status of Implementation

196 Banco Central de Nicaragua (2009): http://www.bcn.gob.ni/publicaciones/deuda/trimestral/deuda_IV_trim_08.pdf

197 IMF (2008); HIPC/MDRI Status of Implementation; Washington; August 2008

198 Government of Nicaragua (2008); Letter of Intent. <http://www.imf.org/external/np/loi/2008/nic/082808.pdf>

199 IMF (2009) WEO Database, spring 2009, as compared to spring 2008.

2.2 Vulnerabilities through export concentration and demand trends, and through reductions in remittances, aid and FDI

Nicaragua will mostly be hit by the decrease of remittances, which accounted for 15 percent of GDP and financed about 50 percent of recent years' trade balance deficits. The country is particularly vulnerable to a shock scenario of reduced remittances²⁰⁰. Nicaragua's exports mainly consist of agricultural products. If the price decline for these products can be stopped at current levels, the trade shock seems to be manageable. However, high dependency on agricultural products also makes Nicaragua vulnerable to natural disasters. High vulnerability also arises with regard to the international reserves, which only cover 2.5 months of imports in 2008. High fiscal deficits even before the crisis combined with a high dependency on aid and remittances make the country highly vulnerable.

High risk

3. Risks through effects of global warming and other ecological challenges

Nicaragua is already suffering impacts of climate change, such as droughts, unseasonal flooding and increasingly unstable weather patterns. Tropical storms, which are on the increase in the region due to global warming, can have disastrous impacts through land slides and other effects, which could result in dramatic growth decrease and exorbitantly high financial needs²⁰¹. But even without a concrete incident, measures for disaster preparedness and ex-ante risk management, which are like a life insurance in the region, should not be put off due to financial shortage during the crisis.

Substantial risk

4. Risks for MDG financing

Poverty spending has increased steadily even before the Completion point. However, according to available information, only MDG 1 (combat extreme poverty) and MDG 4 (reduce child mortality) could be within reach in Nicaragua. Primary school enrolment (MDG 2) even dropped between 2000 and 2005 and MDG 5 (improve maternal health) so far seems to be out of reach. Total shock of the crisis is calculated to amount to almost 1,800 Mio US\$²⁰², which corresponds to the double of projected social spending on health and education in 2008.

vulnerable

Conclusion

Due to high domestic debt levels, a very high portion of non-Paris Club creditors, who did not grant comparable debt relief and due to an insufficient macroeconomic performance, the debt situation was already delicate before the beginning of the crisis. Nicaragua is also vulnerable towards the effects of the crisis both, with regard to growth performance and especially towards a likely reduction in remittances. As the financial cushion is very small and poverty spending so far has by far not been sufficient to achieve the MDG, any trade-off against social spending should by all means be prevented.

²⁰⁰ IMF (2009): The implications of the Global Financial Crisis for Low Income Countries.

²⁰¹ The damage caused by Hurricane Mitch in 1998 accounted for almost half of 1997 GDP and 114 percent of exports (CEPAL, 1999).

²⁰² IMF (2009) Appendix VI

Niger

1. The pre-crisis situation of the country

The latest DSA, completed in December 2007, characterized Niger's risk of debt distress as "moderate".²⁰³ According to the DSA's baseline scenario, all external debt ratios will remain below their policy dependent indicative thresholds throughout the projection period (2008–28).²⁰⁴

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Niger reached the HIPC Initiative completion point in April 2004, and in 2006 it benefited from MDRI assistance from the IMF, IDA, and the African Development Fund. Nominal external debt has thus fallen from over 90 percent of GDP at end-2000 to about 15 percent of GDP at end-2007. Debt service to exports was 1.8 percent in 2007.²⁰⁵

Low Risk

1.2 Amounts, conditions and creditor structure of new loans

Niger plans to increase its oil and uranium exports, which will require considerable external financing. This is supposed to be come in the form of FDI. Thus, Niger's debt outlook has improved from the previous DSA.

Low Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

According to the baseline scenario of the IMF, all external debt ratios remain below their policy dependent indicative thresholds throughout the projection period (2008–28). The present value (NPV) of debt-to-GDP ratio rises gradually and stabilizes below 25 percent by 2028, and the NPV of debt-to-exports ratio levels off at about 95 percent. The gradual rise in these indicators results from Niger's high financing requirements, critical for promoting growth: it is assumed that one third of total (non-FDI) project financing is in the form of concessional loans and the rest in grants. Niger's GDP growth is expected to accelerate in 2008 due to a good harvest and to stay close to 5 percent over the next few years due to large investments in mining, petroleum, and irrigation.

Moderate Risk

2.2 Vulnerabilities through export concentration and demand trends, and through reductions in remittances, aid and FDI

In its vulnerability assessment due to the global financial crisis the IMF considers Niger to be at moderate risk of debt distress. While the debt-to-GDP indicator is expected to rise indeed moderately, namely from 14 percent in the 2008 projection to 19 percent in the 2009 simulation, the debt service indicator is assumed to be considerably higher than in the status of Implementation Report, namely 12 percent for 2008 and 13 percent in the most unfavourable projection for 2009. This huge discrepancy, which can also be observed

203 IMF/IDA: HIPC Status Implementation Report 2008.

204 Article IV; IMF, 2009.

205 IMF/IDA: HIPC Status Implementation Report 2008; annex table 2

in some other countries²⁰⁶ is due to the exclusion of the debt service by state-owned enterprises in the HIPC Status of implementation report. As SOE's liabilities are clearly backed by the state, it is hard to figure out why they have been excluded in the HIPC report – if it is not for wanting to present a debt relief success story.²⁰⁷ The IMF considers Niger to be moderately vulnerable to trade and aid shocks, but not to those regarding FDI and remittances.

Substantial Risk

3. Risks through effects of global warming and other ecological challenges

Niger shows the eighth highest score among all countries for vulnerability to climate change effects.²⁰⁸

High Risk

4. Risks for MDG financing

In 2002 the Government adopted a Strategy for the Reduction of Poverty (SRP). Niger's ambition is to achieve by 2012 the following targets: a poverty rate of 42 percent; a malnutrition level of 24 percent; a gross rate of primary school enrolment of 94 percent; a literacy rate of 45 percent; an under-five mortality rate of 108 in 1,000; a maternal mortality ratio of 200 per 100,000 live births; an HIV/AIDS prevalence rate maintained at below 0.7 per cent; a rate of access to drinking water of 80 percent; and a level of surface area of protected lands amounting to at least 8 percent of national territory.²⁰⁹ But up to now, Niger seems to be on track to meet the MDG only for the reduction of child mortality by 2015. However, on current trends, it appears unlikely that the remaining MDGs can be met by the target date.²¹⁰

vulnerable

Conclusion

After extensive debt reduction, new investments bear the potential to provide the country with substantial economic growth. However, growth continues to be confined to extractive industries, implying huge dependencies from external demand as well as risks to good governance. Additional risks result from instability through failure to meet the MDG until 2015 and in long terms the ecological challenges which will impair the agricultural production of Niger.

²⁰⁶ for instance in Cameroon!

²⁰⁷ This is the more worrisome, as the debt service ratio is the only indicator out of the three commonly used, which is being comprehensively reported in the report. See: Annex table 2. To make things even more confusing, none of the two series is reliably identical with data provided in the World Bank's standard reference „Global Development Finance“.

²⁰⁸ http://tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

²⁰⁹ www.mdgmonitor.org

²¹⁰ Status Implementation Report, IMF, 2008.

Rwanda

1. The pre-crisis situation of the country

The latest HIPC status of implementation report of February 2009 reclassified Rwanda's risk of debt distress. While it was one of four "high" risk countries in the latest Status of Implementation Report, it was upgraded now to "moderate". This is a surprising development in the middle of a global financial crisis. The positive assumptions is based on slightly higher export earnings in 2007 and 2008 and the expectation that positive trends will continue.²¹¹

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Rwanda reached its Completion Point in April 2005²¹². By end-2006, Rwanda's public debt had declined to 29 percent of GDP from 84 percent in the previous year. In 2007, the rate of debt accumulation slightly exceed the nominal GDP growth, and the ratio of public sector debt to GDP marginally increased. External debt outstanding amounted nearly to 17 percent of GDP at end 2007, nearly unchanged from end 2006.

In addition to IMF, IDA and AfDB, completion point and topping up assistance have been provided by BADEA and the OPEC Fund. IFAD, the Kuwait Fund, the Saudi Fund and the EU have already provided completion point assistance. Bilateral agreements have been signed with all Paris Club creditors except France. China cancelled all outstanding loans, totalling about US\$ 32m, in 2007. Debts owed to the Abu Dhabi Fund, France, Libya, Saudi Arabia and Kuwait are under negotiation.

Moderate Risk

1.2 Amounts, conditions and creditor structure of new loans

Rwanda has committed to pursue an extremely prudent new borrowing policy. No new loans beyond the limits set under the DSF have so far been reported.²¹³

Low Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

Given Rwanda's small export base and vulnerability to shocks, the last DSA concluded that a continued high level of grants was needed to maintain the PV of external debt-to-exports ratio at sustainable levels. In the current update of the DSA, Rwanda's PV of debt to GDP ratio in 2007 is higher than that projected in the previous DSA. Rwanda's PV of debt-to-exports ratio continues to be the most vulnerable of all indicators included into the DSA. Even under the baseline scenario it will approach again the threshold, and will breach it in the short run under the export shock scenario.²¹⁴

High Risk

211 IDA/MF Joint Debt Sustainability Analysis; Dec. 19th 2008; <http://www.imf.org/external/pubs/ft/scr/2009/cr0958.pdf>

212 CP-Report IMF, 2005

213 Article IV, Rwanda, IMF 2008

214 Article 4, Rwanda, IMF 2008

2.2 Vulnerabilities through concentration of exports and demand trends, and through reductions in remittances, aid and FDI

Rwanda has very low export bases (less than 10 percent of GDP in 2007), which means that its capacity to carry debt (based on the NPV of debt to export ratio) is very limited. The IMF's simulation, however, consider an aid shock as the only one, which is not "low", but "moderate".²¹⁵

Moderate Risk

3. Risks through effects of global warming and other ecological challenges

Rwanda has not been identified as being extraordinarily challenged by global warming risks. The main challenge is the lack of erosion control, which will cause lower agricultural production in future.²¹⁶

Moderate Risk

4. Risks for MDG financing

Rwanda presents a unique case in development and in the progress towards achieving the MDGs. Whereas many countries were on course to implement the MDGs in the 1990s and beyond, Rwanda has been recovering from the tragic and devastating genocide and civil war of 1994, making compliance with targets based on 1990-indicators more difficult than elsewhere.²¹⁷ All the MDG indicators in Rwanda were actually dramatically reversed during and as a consequence of the 1994 genocide and fell far below 1990 levels. Therefore, Rwanda's "starting line" for working towards the MDGs begins much later, and much lower, than in many other countries. For instance, the proportion of people living in extreme poverty in Rwanda was 47.5 percent in 1990, and 77.8 percent in 1995. By 2000, this figure had fallen to 60 percent, and is continuing to decrease to this day.

vulnerable

Conclusion

Rwanda's economy is extremely dependent on external support, with very little maneuvering space for the authorities to cushion any shortfalls out of domestic capacities.

²¹⁵ IMF: The Implications of the Global Financial Crisis for LICs; March 2009; app. V

²¹⁶ http://www.tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

²¹⁷ www.mdgmonitor.org

São Tomé and Príncipe

1. The pre-crisis situation of the country

According to the latest DSA from June 2008, São Tomé and Príncipe's risk of debt distress was characterized as "high"²¹⁸.

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

São Tomé and Príncipe is the smallest debtor country that so far reached the completion point (March 2007). HIPC and MDRI debt relief together was only US\$ 328m. However, debt indicators are still among the highest of all Post-completion point countries. Debt stock has reached 109 percent of GDP, and debt service was still at 24.3 percent of exports in 2007, as not yet all debt relief agreements had been concluded²¹⁹. It is projected to fall further to 7.7 percent in 2008²²⁰. Medium term debt sustainability stands or falls with the successful exploitation of oil, which is projected to start in 2014 at the earliest and still has a high degree of uncertainty²²¹.

High Risk

1.2 Amounts, conditions and creditor structure of new loans

Until September 2008, São Tomé and Príncipe has not accrued new debt.

Low Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

In recent years, growth has been fairly robust between 5.4 percent and 6.7 percent, driven by foreign investment. Although São Tomé and Príncipe is characterized as an open economy, impacts of the financial crisis on growth are only calculated to be minor and short-term: Growth is projected to be one percentage point lower in 2009 (5 percent) and half a percentage point in 2010 (6 percent)²²².

Low Risk

2.2 Vulnerabilities through concentration of exports and demand trends, and through reductions in remittances, aid and FDI

The IMF only sees a moderate risk for São Tomé and Príncipe if aid is reduced substantially in the course of the financial crisis. For risk scenarios of reduced trade, remittances and FDI, the IMF only sees a low vulnerability for São Tomé and Príncipe²²³. However, the country's exports and growth outlook depends heavily on the prospects for oil revenue. In light of the already existing uncertainty about these prospects, the necessary investment to boost the exploitation might not come in as easily as before the crisis. This could well postpone the start of revenues coming in, even if extractable oil reserves are found. Moreover, the country depends quite heavily on a single export commodity (cocoa), which

218 IMF/Worldbank (2008): HIPC: Status of Implementation Report, 2008.

219 IMF (2009): Request for PRGF; <http://www.imf.org/external/pubs/ft/scr/2009/cr09106.pdf>

220 IMF/Worldbank (2008): HIPC: Status of Implementation Report, 2008, Annex Table 2.

221 "Exploratory drilling so far has not confirmed the existence of commercially extractable oil reserves, and new drilling, scheduled for late 2009, may be further delayed as a result of weak oil prices" (IMF, 2009)

222 WEO spring 2009 as compared to WEO spring 2008.

223 IMF: The implications of the Global Financial Crisis for Low Income Countries.

– although declining in its importance – still accounted for 37 to 51 percent of total exports in recent years²²⁴. Therefore, export revenues are highly vulnerable, both by loss in crop yield due to adverse weather conditions and international commodity prices. Moreover, the IMF judges the country's debt to be at high risk to become unsustainable again due to the crisis, if measured against GDP²²⁵.

High Risk

3. Risks through effects of global warming and other ecological challenges

According to the study of the Tyndall Centre, São Tomé and Príncipe has not been identified as being extraordinarily challenged by global warming and other specific ecological risks²²⁶. Among the greatest concerns of the country are rising temperatures and the decrease of rainfall. Economically, negative impacts will be most noticeable in energy production, agriculture and livestock. Moreover, due to the climate change new diseases will appear while others will become more frequent. Floods, sea-level rise and coastal erosion also put major infrastructure at risk.²²⁷

Moderate Risk

4. Risks for MDG financing

Average GDP growth of around 6 percent over the last years has helped to advance in reaching the MDG. However, inflation peaked at 27.6 percent last year. While poverty eradication (MDG 1), gender equality (MDG 3) and a sustainable environment (MDG 7) are currently off track, all other MDG are likely or at least possible to achieve, if some changes are made²²⁸.

vulnerable

Conclusion

São Tomé and Príncipe's debt sustainability was already on risk before the financial crisis. This is mainly because growth projections depend very much on the prospects from oil revenue, which so far are uncertain. The country remains at high risk of new debt distress, especially, if terms of trade deteriorate and if oil prospects do not materialize as hoped for. Therefore, the IMF recommended, that – until new oil revenues are envisaged – the authorities should rely first and foremost on external financing that is not debt creating: i.e. donor grants and foreign direct investment²²⁹. This certainly would be very desirable; however, there is no assurance at all, that high fiscal deficits and necessary investments can really be financed entirely by non-debt creating external financing. Grants are rather projected to decrease from 16 percent of GDP (before the completion point) to 9 percent-10 percent in the years to come²³⁰.

224 IMF (2008): Article IV consultation; <http://www.imf.org/external/pubs/ft/scr/2008/cr08307.pdf>

225 Ibid.

226 http://tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

227 National adaptation plan for action - NAPA (2006) - São Tome and Príncipe; read more: <http://www.preventionweb.net/english/policies/v.php?id=8567&tid=104>

228 www.mdgmonitor.org

229 Ibid.

230 Ibid, Annex, Table 1.

Senegal

1. The pre-crisis situation of the country

The latest DSA, completed in June 2008, characterized Senegal's risk of debt distress as "low"²³¹.

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Senegal reached its HIPC completion point in April 2004, when it received debt relief of about US\$ 850m in nominal terms. In 2005, Senegal qualified for further debt relief under the MDRI when the IMF, the International Development Association (IDA) and the Africa Development Fund (AfDF) cancelled their claims on Senegal amounting to about US\$ 1.4bn in nominal terms. As a result of these two initiatives, the NPV of external public and publicly guaranteed (PPG) debt outstanding has been substantially reduced from 33.1 percent of GDP at end-2005 to an estimated 18.3 percent of GDP at end-2007.

Nominal external debt amounted to US\$ 4.5bn (18.1 percent of GDP) at end-2007, of which the World Bank and AfDB held 44 percent and Paris Club creditors held 6 percent. Since the last DSA (completed in January 2007), the Islamic Development Bank and China have granted debt relief.²³²

Low Risk

1.2 Amounts, conditions and creditor structure of new loans

The NPV of public domestic debt is estimated at 5.6 percent of GDP at end-2007, or one-fourth of total debt. The majority of this debt is non-concessional, denominated in local currency held by WAEMU banks. The recent reforms of the regional financial market and ample bank liquidity have allowed Senegal to increasingly place debt instruments, including of longer maturity. In 2007, Senegal issued CFAF 113bn (2 percent of GDP) in two tranches, at 5.5 percent interest, over five and ten years.²³³

Low risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

In addition, while Senegal's debt as a share of GDP remains relatively low at 17 percent of GDP (at end-2007), the DSA concludes that exogenous shocks to exports or imprudent borrowing on non-concessional terms could cause a rapid deterioration of debt dynamics over the medium-term. This seems to materialize now, as the IMF gives the country a "high" mark regarding the debt consequences of the crisis.²³⁴

High Risk

²³¹ IDA/IMF: HEAVILY INDEBTED POOR COUNTRIES (HIPC) AND MULTILATERAL DEBT RELIEF INITIATIVE (MDRI) STATUS OF IMPLEMENTATION, August 2008

²³² Senegal: Staff Report for the 2008 Article IV Consultation, June 2008

²³³ Senegal: Staff Report for the 2008 Article IV Consultation, June 2009

²³⁴ IMF: The consequences of crisis for Low Income Countries; March 2009, p. 44

2.2 Vulnerabilities through export concentration and demand trends, and through reductions in remittances, aid and FDI

In the IMF's mid-2008 DSA²³⁵, the standard stress tests did not reveal any serious vulnerabilities, as all ratios are below the thresholds. This also changed dramatically, when the IMF in its March 2009 assessment rated Senegal as being moderately vulnerable to FDI and aid shocks, but highly vulnerable to a drop in remittances.²³⁶

Substantial Risk

3. Risks through effects of global warming and other ecological challenges

Senegal has not been identified as a country of exceptional ecological risk, which might translate into an immediate threat to its financial viability.²³⁷

Low Risk

4. Risks for MDG financing

Except for the achievement of improving maternal health Senegal is on a good track to reach most of the MDGs.²³⁸

by and large on track

Conclusion

Debt dynamics have improved substantially owing to HIPC Initiative and MDRI debt relief. The countries debt sustainability outlook was stable until the onset of the crisis. Senegal is among the countries, for which the crisis changed the outlook most dramatically.

235 Senegal: Staff Report for the 2008 Article IV Consultation, June 2008

236 IMF: The consequences of crisis for Low Income Countries; March 2009, p.51

237 http://tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

238 <http://www.mdgmonitor.org>

Sierra Leone

1. The pre-crisis situation of the country

According to the latest DSA from June 2008, Sierra Leone's risk of debt distress was characterized as "moderate"²³⁹.

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Sierra Leone reached the completion point in December 2006. After debt relief from HIPC/MDRI debt indicators are still among the highest of all Post-completion point countries. Debt service to export was projected to reach 9.2 percent in 2008 and will remain above 5 percent until 2012²⁴⁰. Domestic debt was at 23 percent of GDP by the end of 2008²⁴¹. Five payment orders towards commercial creditors have been awarded by the court or settled out of court, with a total amount of US\$ 28.6m (1.6 percent of GDP). Sierra Leone still is in arrears with debt repayments and has made some goodwill payments to some of them to avoid litigation²⁴².

Substantial Risk

1.2 Amounts, conditions and creditor structure of new loans

Given the very little fiscal space, the IMF recommended, that Sierra Leone should rely on grants and highly concessional loans to finance its development needs²⁴³. So far this recommendation has been met. However, the complete coverage of the high fiscal deficit on these terms certainly remains a big challenge.

Substantial Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

Since the end of the Civil War (2001), average growth has increased, however, with large variations. In recent years, it has been around 7 percent. Although, this is above average in SSA, growth rates are not enough to compensate for the tremendous losses resulting from a decade of Civil War and to meet development targets. In the course of the financial crisis, growth was revised down by 1 percentage point in 2008 (5.5 percent), for 2009 it is projected to be even 2 percentage points lower (4.5 percent), and for 2010 still 1 percentage point (5.3 percent)²⁴⁴. The increase of food and fuel prices has also threatened the country's fiscal position in 2008.

Substantial Risk

2.2 Vulnerabilities through concentration of exports and demand trends, and through reductions in remittances, aid and FDI

Sierra Leone has a very high fiscal deficit with regard to GDP, and domestic revenue is the lowest in SSA (11.8 percent in 2008)²⁴⁵. The IMF's risk assessments only judge the risk scenario of reduced aid as a consequence of financial crisis to be a high risk for Sierra

239 IMF/Worldbank (2008): HIPC: Status of Implementation Report, 2008.

240 IMF/Worldbank (2008): HIPC: Status of Implementation Report, 2008, Annex Table 2.

241 IMF, 2009: Sierra Leone: Article IV consultation; <http://www.imf.org/external/pubs/ft/scr/2009/cr0902.pdf>

242 Ibid.

243 IMF, 2009: Sierra Leone: Article IV consultation.

244 WEO spring 2009 as compared to WEO spring 2008.

245 IMF, 2009: Sierra Leone, Article IV consultation.

Leone. The risk scenarios of reduced trade, remittances and FDI are judged to have a low impact on the country²⁴⁶. However, the latest IMF Article IV consultations with the country (January 2009) recognizes that there are also significant downside risks for the balance of payments from these possible impacts, which are not yet quantifiable. Diamonds account for more than 50 percent of total exports. It is projected that sales volume for raw diamonds could decrease by 60 percent in 2009; however, government revenue from this product traditionally has been very low.

Substantial Risk

3. Risks through effects of global warming and other ecological challenges

The Tyndall Centre for climate research has identified Sierra Leone as being extraordinarily challenged by climate change and with a low capacity for adaptation²⁴⁷. Sierra Leone is particularly vulnerable to extreme weather events, such as seasonal drought, strong winds, landslides, floods, and changing rainfall and temperature patterns in general. Changes that are already underway, affect the ability of the poor especially in rural areas to maintain their existing livelihoods. Moreover, they affect Sierra Leone's export earnings or import necessities²⁴⁸.

Substantial Risk

4. Risks for MDG financing

Sierra Leone is one of the poorest countries in the world with the lowest human development indicators. Economic performance allows very little fiscal space to fight poverty. Moreover, with the developments in the diamond sector, many very poor diamond diggers come under pressure, and social unrest with violent outbursts are not unlikely in the region. MDG 2 (universal primary education), MDG 3 (gender equality) and MDG 6 (combat HIV/Aids and other diseases) could be reached, while MDG 7 (environmental sustainability) is off track. The others would still need substantial changes to be made, however, data basis is very weak to draw clear conclusions²⁴⁹.

Vulnerable

Conclusion

Sierra Leone is one of the poorest countries in the world and has still huge challenges ahead in the fight against poverty. **In the light of the small fiscal space, debt relief was not sufficient to meet these challenges. With the food and fuel crisis last year and the impacts of the financial crisis new risks arise, which could even limit fiscal space further.**

246 IMF 2009: The implications of the Global Financial Crisis for Low-Income Countries.

247 http://tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

248 Sierra Leone: NAPA; http://www.preventionweb.net/files/8571_sierraleone.pdf

249 MDG Monitor; read more: http://www.mdgmonitor.org/factsheets_00.cfm?c=SLE&cd=694

Tanzania

1. The pre-crisis situation of the country

According to the latest DSA from April 2007, Tanzania's risk of debt distress was characterized as "low"²⁵⁰.

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Tanzania reached the completion point already in November 2001 and received debt relief from MDRI in 2006. All together total debt stock was brought down to US\$ 4,240m (in 2006), which left Tanzania with a debt to GNI ratio of 33.6 percent and 128.7 percent of exports (2006). Debt service was brought down to account for 3.4 percent of exports²⁵¹. IMF and World Bank even project the debt service to fall below 1 percent of exports in the years to come²⁵². Full participation of non-Paris Club creditors in the HIPC initiative would account for 7 percent of total debt relief. Until 2008 only 25-45 percent of this portion has been cancelled²⁵³. Tanzania had a relatively high share of short term debt (30 percent in 2006), most of it resulting from interest arrears on long-term debt²⁵⁴, which has not been settled since.

Low Risk

1.2 Amounts, conditions and creditor structure of new loans

External debt has been increasing steadily and by February 2009 has reached the amount of US\$ 6,319.8m, 22 percent of it consists of interest arrears. 62.4 percent was owed by multilateral creditors, 18.8 percent by bilateral creditors, 10.8 percent was commercial debt and 8.0 percent export credits. Domestic debt accounts to the equivalent of around US\$ 1.5bn²⁵⁵. The government's deficit is still high and the budget depends heavily on grants. The deficit after grants amounted up to 5 percent of GDP and was financed by external and domestic debt²⁵⁶. While external financing is mostly concessional and debt indicators are kept low, the high level of domestic debt and rising interest arrears give some reason for concern.

Moderate Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

Growth has been very solid in recent years with rates close to or above 7 percent. However, for 2009 and 2010, growth was revised down quite strongly from 8 percent to 5.0 percent and 5.7 percent, respectively²⁵⁷. By 2012 Tanzania is projected to be back to earlier projected growth rates.

Substantial Risk

250 IMF/Worldbank (2008): HIPC: Status of Implementation Report, 2008

251 Global Development Finance, 2008.

252 IMF/Worldbank (2008): HIPC: Status of Implementation Report, 2008

253 Ibid.

254 Global Development Finance, 2008.

255 Bank of Tanzania, Monthly Economic Review, March 2009;

http://www.bot-tz.org/Publications/MonthlyEconomicReviews/MER_Mar_2009.pdf

256 IMF (2009): Tanzania: Fourth Review under PSI; <http://www.imf.org/external/pubs/ft/scr/2009/cr0913.pdf>

257 WEO spring 2009 as compared to WEO spring 2008.

2.2 Vulnerabilities through exports concentration and demand trends, and through reductions in remittances, aid and FDI

Due to the fuel and food crisis, imports have risen much faster than exports in 2008, widening the current account deficit to US\$ 2,302m in February 2009²⁵⁸. While terms of trade are becoming more favourable for Tanzania now, tourism as the most important income source will suffer a noticeable setback. However, with regard to goods exports, gold is the most important export product (31 percent of total exports in 2008), the price of which has even been on the rise in the course of the crisis. The IMF risks assessment judges Tanzania's vulnerability as being low towards a shock scenario of reduced trade, remittances and FDI. A shock scenario of reduced aid is considered as moderate²⁵⁹.

Moderate Risk

3. Risks through effects of global warming and other ecological challenges

Although the Tyndall Centre for climate research has not identified Tanzania as being extraordinarily challenged by climate change, it still ranks relatively high in its vulnerability scores²⁶⁰. Frequent and severe droughts, such as the recent poor harvest in 2005, which caused hunger in most parts of the country, water scarcity, the melting of the Kilimanjaro ice cap, among others.

Substantial Risk

4. Risks for MDG financing

With a period of sustained growth and increased aid, poverty indicators have improved, although progress is slower than hoped and achieving the MDG would require some specially targeted programs²⁶¹. Needs are enormous especially in the field of infrastructure investment and public services in health and education. While it is difficult to judge whether MDG 1 (eradicate extreme poverty) can be reached, only MDG 6 (combat diseases) seems to be at possible reach. MDG 5 (improve maternal health) is currently off track. All other MDG can only be achieved, if special changes are made²⁶².

Vulnerable

Conclusion

Total debt relief has brought Tanzania's debt down to sustainable levels. However, with a high fiscal deficit, the country remains highly dependent on aid and domestic debt is increasing. Growth rates are projected to drop above average for the next two years and reduced aid could well detach Tanzania further from the achievement of the MDG.

258 Bank of Tanzania (2009), Monthly Economic Review, March 2009

259 IMF (2009): LIC

260 http://tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

261 IMF (2009): <http://www.imf.org/external/pubs/ft/scr/2009/cr0913.pdf>

262 MDG Monitor; read more: http://www.mdgmonitor.org/factsheets_00.cfm?c=TZA&cd=1

Uganda

1. The pre-crisis situation of the country

According to the latest DSA from December 2008, Uganda's risk of debt distress was characterized as "low".

1.1 Debt relief under HIPC/MDRI, remaining "old" debt levels

Uganda was the first countries to reach the completion point (May 2000). HIPC/MDRI debt relief brought the total debt stock down to 1.264m, which corresponded to 53.1 percent of exports and 13.6 percent of GNI (2006). Debt service payments were 4.8 percent of exports²⁶³ and were projected to fall down to 1.3 percent in 2012²⁶⁴. Debt outstanding with commercial and non-Paris Club creditors only plays a minor role. Domestic debt is at around 10 percent of GDP, but is projected to decline²⁶⁵.

Low Risk

1.2 Amounts, conditions and creditor structure of new loans

Until end of June 2008 total debt had increased again up to 1.99bn²⁶⁶. Although, this implies a higher ratio with regard to GDP, in light of the impressive and sustained growth, this new debt seems to be manageable. The authorities are heading for a lower overall deficit and try to avoid domestic borrowing.

Low Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

With growth rates averaging close to 9 percent over the last five years – which highlights the good performance of two decades – Uganda's economy belongs to the fastest-growing in Subsaharan Africa. For 2008, growth was revised down to 7-7.5 percent²⁶⁷ and for the coming years to 6.2 percent (2009), 5.5 percent (2010) and 6.7 percent (2011)²⁶⁸. Although this certainly marks a setback in the impressive development, Uganda seems well positioned to defy the impacts of the financial crisis.

Low Risk

2.2 Vulnerabilities through exports concentration and demand trends, and through reductions in remittances, aid and FDI

Albeit the good economic development, Uganda still depends very much on external capital inflows. Central government operations still include 4-5 percent of grants. Equally, remittances and foreign direct investment have made their contributions to growth. It is calculated that these inflows are likely to revert back to pre-2006 levels in the next few

263 Global Development Finance, 2008.

264 IMF/Worldbank (2008): HIPC: Status of Implementation Report, 2008.

265 IMF 2009: Uganda: Article IV consultation; <http://www.imf.org/external/pubs/ft/scr/2009/cr0979.pdf>

266 Bank of Uganda (2008); Annual Report 2007/08; <http://www.bou.or.ug>

267 IMF (2009: Uganda: Article IV consultation. <http://www.imf.org/external/pubs/ft/scr/2009/cr0979.pdf>

268 WEO spring 2009.

years, which would lead to lower investment and consumption²⁶⁹. Due to the food and fuel crisis, the balance of payment deteriorated in fiscal year 2007/08 and showed a deficit of 6.1 percent of GDP, instead of the projected 3.6 percent. Nevertheless, the country seems relatively well prepared, it has accumulated high international reserves, covering more than 8 months of imports. Also the IMF risks assessment judges Uganda's vulnerability for all risk scenarios as being low.

Low Risk

3. Risks through effects of global warming and other ecological challenges

Although the Tyndall Centre for climate research has not identified Uganda as being extraordinarily challenged by climate change, it still ranks relatively high in its vulnerability scores²⁷⁰. Nevertheless, the economy still depends very much on subsistence agriculture. Climate change will increase the frequency and intensity of extreme weather events such as droughts, floods, landslides and heat waves. Seven droughts were experienced between 1991 and 2000.²⁷¹

Substantial Risk

4. Risks for MDG financing

A long period of sustained and high growth has helped to advance in the achievement of the MDG. However, poverty related spending has not increased with regard to GDP and has even decreased over the years as a proportion of government revenue. Thus, the impressive economic development has not reached the poor to the extent that would have been desirable. MDG 1 (eradicate extreme poverty), MDG 2 (universal primary education) and MDG 3 (gender equality) seem to be within reach. However, MDG 4 (reduce child mortality) and MDG 5 (improve maternal health) are currently off track and for the achievement of the other goals, some changes would still have to be made²⁷².

Vulnerable

Conclusion

Uganda has had an impressive period of 20 years of sustained high growth rates, which has equipped the country to defy the odds of the financial crisis. **High international reserves serve as a financial cushion. Nevertheless, the impacts still imply a setback in recent developments. As poverty eradication has not made the same progress as economic performance, any trade off with poverty reducing expenditure must be avoided.**

269 IMF 2009: Uganda: Article IV consultation; <http://www.imf.org/external/pubs/ft/scr/2009/cr0979.pdf>

270 http://tyndall.ac.uk/research/theme3/final_reports/it1_11.pdf

271 National adaptation plan for action – NAPA; read more: <http://unfccc.int/resource/docs/napa/uga01.pdf>

272 MDG Monitor; read more: http://www.mdgmonitor.org/factsheets_00.cfm?c=UGA&cd=1

Zambia

1. The pre-crisis situation of the country

The latest HIPC status of implementation report of September 2008 considers Zambia's risk of debt distress as "low".²⁷³

1.2 Debt relief under HIPC/MDRI, remaining "old" debt levels

Zambia reached its completion point in 2005. All debt indicators are presently well below their respective indicative thresholds. However, favourable indicators are also due to high growth rates between 2000 and 2006, which in turn depended on the copper price boom. The 2006 debt stock would still represent more than 50 percent of the GNI of only two years ago. Zambia has been victim to a spectacular case of litigation through a "vulture fund" based on an old Non-Paris-Club official loan, which has substantially burdened the country. However, no new cases of holdout creditor litigation have been reported.

Low Risk

1.2 Amounts, conditions and creditor structure of new loans

In its latest DSA Zambia is being categorized as a medium performer under the CPIA. Its DSA foresees new borrowing to the tune of US\$ 50-60m p.a. at IDA and AfDF conditions. Since 2007, however, new lending from China is being talked about, without any firm information being given. The latest IMF arrangement allows for non-concessional borrowing for major infrastructure projects, if concessional resources can not be found.²⁷⁴ Although total lending under three major electricity projects amounts to US\$ 1.5bn until 2015, the DSA alternative scenario expects no major risk to debt sustainability from these non-concessional financings, as electricity exports will quickly offset lending costs.

An additional risk results from the substantial domestic public debt, which in 2008 amounted to US\$ 8.8bn Kwacha (US\$ 1.5bn or roughly ¾ of the central government budget).

Substantial Risk

2. Vulnerabilities as a result of the global financial crisis

2.1 Growth performance, projections and risks

Various stress tests and alternative scenarios in the latest DSA suggest an unproblematic development of all external-debt related indicators over the full projection period. However, the IMF changed its tone from mollifying to alarming in the latest mission report of March 2009, when a 40 percent devaluation of the Kwacha as a consequence of the drop in copper prices had to be accounted for.²⁷⁵ Early 2009 the IMF calculated the total shock due to the financial crisis to be between US\$ 1058m and US\$ 1217m.²⁷⁶ Assuming this gap to either inflict upon growth or to be largely financed through loans, it would increase Zambia's debt stock by up to 50 percent.

Moderate Risk

273 IMF/IDA: HIPC Status of Implementation report 2008, p.62

274 IMF: Zambia Request for a three year PRGF Arrangement; IMF country report 08/187; may 2008; Appendix 1: Memorandum of Economic and Financial Policies, pt.7, pt. 24

275 <http://www.imf.org/external/np/sec/pr/2009/pr0955.htm>)

276 IMF: The implications of the Global Financial Crisis for Low Income Countries; p 58

2.2 Vulnerabilities through concentration of export concentration and demand trends, and through reductions in remittances, aid and FDI

The IMF's²⁷⁷ vulnerability assessments of March 2009 see Zambia as high risk country. Shocks through reduction in FDI, aid and remittances pose a "moderate" risk, while a trade shock is a severe "high" risk scenario for Zambia. Between 66 percent and 80 percent of Zambia's export earnings result from copper exports.²⁷⁸ The price reduction from more than US\$/t 9000 in July 2008 to less than US\$ 3000 in December has hit the country particularly hard. Presently the price has recovered to around US\$ 4400.²⁷⁹ A further increase to US\$/t 5500 because of continuous high demand from China has most recently been forecasted.²⁸⁰

3. Risks through effects of global warming and other ecological challenges

With a Tyndall index of 30 Zambia has not been identified as being extraordinarily challenged by global warming and other specific ecological risks. While the National Adaptation program NAPA is more nuanced in assessing regional risks²⁸¹ the country remains below average risk among peers.

Moderate Risk

4. Risks for MDG financing

Zambia is either on-track, or could return in-track with feasible changes regarding all MDG's excluding goal 7 "Secure environmental sustainability".²⁸² The shock identified by the IMF through the financial crisis exceeds the increases reached for poverty reducing expenditure at the completion points. Substantial cuts in those line items of the state budget are likely.

by and large on track

Conclusion

Zambia has so far made good use of its debt relief. However, the major dependence on copper exports as a major income source leaves the country as vulnerable as before the crisis. The opportunity to react swiftly to an export income shock without creating a new debt burden, e.g. through an agreed-upon moratorium on current debt service, seems to be an appropriate instrument for Zambia.

277 IMF: The implications of the Global Financial Crisis for Low Income Countries; p 51.

278 The higher figure was revealed by the World Bank chief economist for Zambia Julio Revilla during an assessment of the possible implications of the financial crisis; see:

<http://africacan.worldbank.org/impact-of-the-global-financial-crisis-on-zambia>

279 http://www.lme.co.uk/copper_graphs.asp as of April 23rd 2009

280 <http://www.finanznachrichten.de/nachrichten-2009-04/13714626-rbs-raises-copper-2009-2010-forecasts-cuts-aluminum-020.htm>

281 National Adaptation Programme of Action; Sept, 2007

282 http://www.mdgmonitor.org/country_progress.cfm?c=ZMB&cd=894

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