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HELPDESK REQUEST

What lessons can we learn from the 1980's and 1990's debt crises for developing countries and how are today's conditions similar, how are they different?

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Overseas Development Institute

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Abbreviations

BAfA	Business Action for Africa
BCTA	Business Call to Action
BEA	Business Engagement Architecture
BITC	Business in the Community
C4C	Caring for Climate
CEO	Chief Executive Officer
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
GDP	Gross Domestic Product
GSK	GlaxoSmithKline
HLPF	High-Level Political Forum
ICT	Information and Communication Technology
MDG	Millennium Development Goal
OPM	Oxford Policy Management
PPP	Public-Private Partnership
PRI	Principles for Responsible Investment
PwC	PricewaterhouseCoopers
SDG	Sustainable Development Goal
SDSN	Sustainable Development Solutions Network
SME	Small- to Medium-sized Enterprise
TIMM	Total Impact Measurement and Management
UN	United Nations
USD	United States Dollar
WBCSD	World Business Council for Sustainable Development
WEF	World Economic Forum

1 Introduction

This report examines the key underlying factors that led to the unsustainable (external) debt burden during the 1980s and 1990s in low-income countries (LICs) that met the official criteria for designation as a Heavily Indebted Poor Country (HIPC). Among these countries, debt ratios rose from moderate levels to dangerously high levels as export and GDP growth faltered: on average, the net present value of debt as a ratio to exports was below 150 percent (the HIPC threshold) in the early 1980s, but by the mid-1990s it had risen to some 800 percent of exports (and 160 percent of gross national income).

In response, the Bretton Woods institutions launched the Heavily Indebted Poor Countries (HIPC) Initiative in 1996, the first international response to provide comprehensive debt relief to the world's poorest, most heavily indebted countries. The HIPC Initiative was further expanded in 1999 (Enhanced HIPC Initiative) and supplemented by the Multilateral Debt Relief Initiative (MDRI) in 2005. Of the 39 countries eligible or potentially eligible for HIPC Initiative assistance, 35 are receiving full debt relief from the IMF and other participating creditors after reaching their completion points (see Annex A for list of 39 countries).

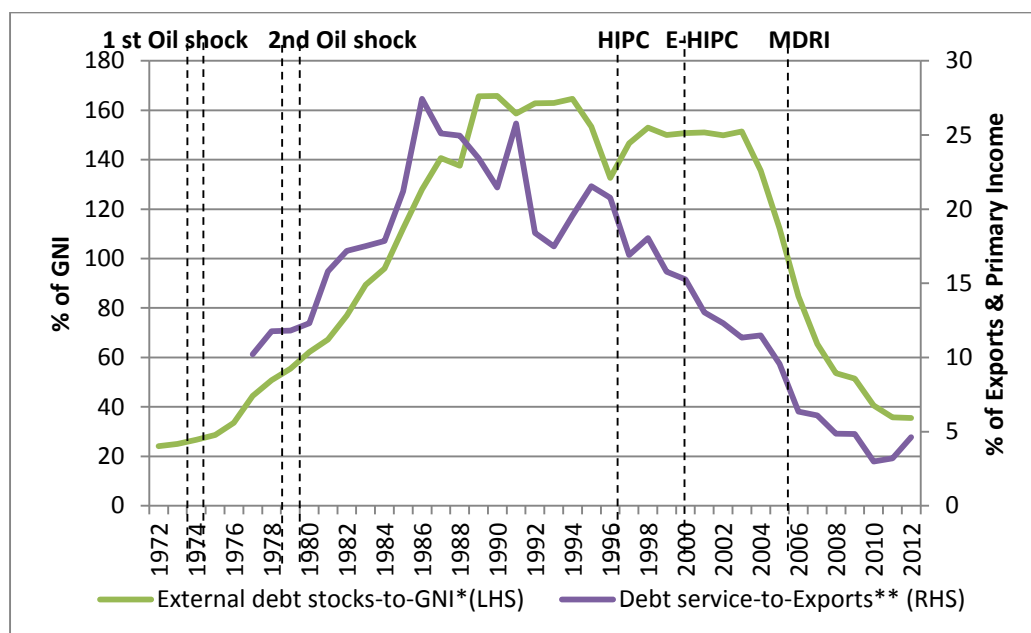
The helpdesk request is as follows "What lessons can we learn from the 1980s and 1990s debt crises (*of the HIPCs*) for developing countries? What were the drivers of the debt crises? How are today's conditions similar and how are they different?" In response, this paper combines a literature review with a quantitative comparative exercise and is structured as follows: Section 2 reviews the literature that analyses the main factors behind the build-up of external debt for HIPCs and in doing so describes the prevailing macroeconomic conditions in the 1970s which sowed the seeds of the crisis as well as the factors in the 1980s and 1990s that further aggravated the crisis; Section 3 assesses the extent to which these factors are reflected in the current macroeconomic and political conditions of HIPCs by comparing recent trends in relevant indicators with those that preceded the crisis; Section 4 draws lessons from the experience of these countries for low income countries and creditors more generally; and Section 5 concludes with the main take away messages. The key findings of the most recent Debt Sustainability Analysis (DSA) of selected HIPCs are also summarised in Annex C and integrated throughout the report to provide evidence of the current drivers of debt accumulation and threats to debt sustainability.

This report primarily focuses on public or publicly guaranteed (PPG) external debt since it was this type of debt that was the focus on the HIPC initiative and that accounts for the majority of a HIPC's total public debt even today. It should also be noted that gaps in the data for the 1970s limits the scope for comparisons with more recent years in three critical dimensions- fiscal balance, current account balance, and institutional quality- though recent trends are explored given the importance of these three factors in explaining the debt crisis.

2 Drivers of external debt accumulation in HIPCs, 1970s-1990s

The large stock of (external) public debt in the HIPCs has a long history, but it did not start out as large (as shown in Figure 1). This section presents the main findings from a review of the literature regarding the origins of the HIPC debt crisis which lies in first understanding the decisions and fundamental assumptions of lenders and borrowers in the 1970s, and secondly the factors that eventually made the debt burden unsustainable until debt relief was provided from the mid-1990s¹. In doing so, both sub-sections highlight the relationship between the underlying macroeconomic conditions and the growing debt burden.

Figure 1: HIPCs' debt-to-GDP and debt service-to-GDP and exports ratio, 1972-2012



Source: World Bank, International Debt Statistics

Note:

* Refers to total external debt stocks to gross national income.

**Refers to debt service (PPG and IMF only, % of exports of goods, services and primary income)

2.1 Positive growth and optimistic assumptions in the early 1970s

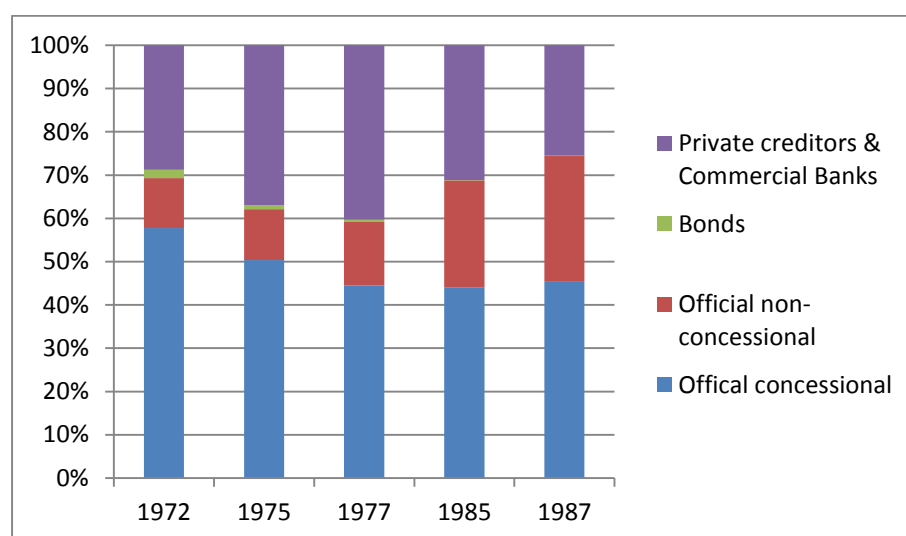
Governments of HIPCs played a significant role in the build-up of external debt. Following a decade of good growth in the 1960s (and after gaining independence), several sub-Saharan governments undertook externally financed public projects in the 1970s with the aim to strengthen their economies. Much of external borrowing went towards improving domestic industry and infrastructure (Greene, 1989) as well as the expansion of current expenditure (Krumm, 1984) rather than to boost export production directly.² The assumption was that national economies would grow over time, and that commensurate increases in export production and continuing favourable export performance would allow the debt service obligations arising from these projects to be met.

¹ The Heavily Indebted Poor Countries (HIPC) Initiative was launched in 1996, with the aim of ensuring that no poor country faces a debt burden it cannot manage. It was enhanced in 1999 through the Enhanced HIPC (E-HIPC) and supplemented with the Multilateral Debt Relief Initiative in 2005.

² In the productive sectors, many of the externally financed projects proved to be economically unviable. Ill-conceived projects include luxury hotels, oil and sugar refineries, and steel mills (Krumm, 1985).

These optimistic expectations were shaped by the prevailing macroeconomic conditions of the 1970s. After the 1972-73 oil shock, the current account surpluses in oil exporting countries resulted in a large excess of liquidity in financial markets which led to the evolution of the international banking system (Dommen, 1989). The Euromarket, in particular, became an important source of financing for a number of governments which had never borrowed in it before (such as Liberia, Senegal, Togo, and Zambia) (Krumm, 1985). Figure 2 shows this change in debt composition in the 1970s with the share of public and publicly guaranteed debt held by commercial bank and private creditors increasing in the 1970s while the concessional share declined from roughly 57% in 1973 to 44% in 1977.

Figure 2: HIPC's decreasing concessional share of external debt stocks, 1970-1980s



Source: World Bank, International Debt Statistics

Lenders also shared these optimistic expectations. The relative high growth in the world economy, stable commodity prices and the low interest rates in 1974–1979 encouraged positive risk assessment analysis for HIPC's debt (Dommen, 1989; Prizzon, 2008). For example, despite the low prices faced by mineral exporters like Liberia and Mauritania throughout the 1970s, these countries were able to borrow abroad to maintain their public expenditure programmes because of expectations of a return of prices to historical level. In addition Niger, which in 1980 obtained about 80% of its exports from uranium, borrowed heavily during the uranium boom years of 1978-81 on the strength of its uranium prospects. At that time, the second oil shock would have been extremely hard for the banking system to be foreseen (Prizzon, 2008). Creditors therefore perceived HIPC's as creditworthy, which simultaneously matched the commercial interest of developed countries' Export Credit Agencies (ECA). These agencies played a major role in the debt evolution of SSA,³ providing financing that was more or less on commercial terms while simultaneously advancing their own national interests of export promotion. The rapid debt accumulation of HIPC's was thus the result of a process jointly determined by borrowers and lenders, a process that was shaped by an optimistic set of assumptions that became unrealistic due a change in the favourable conditions at the end of the 1970s.

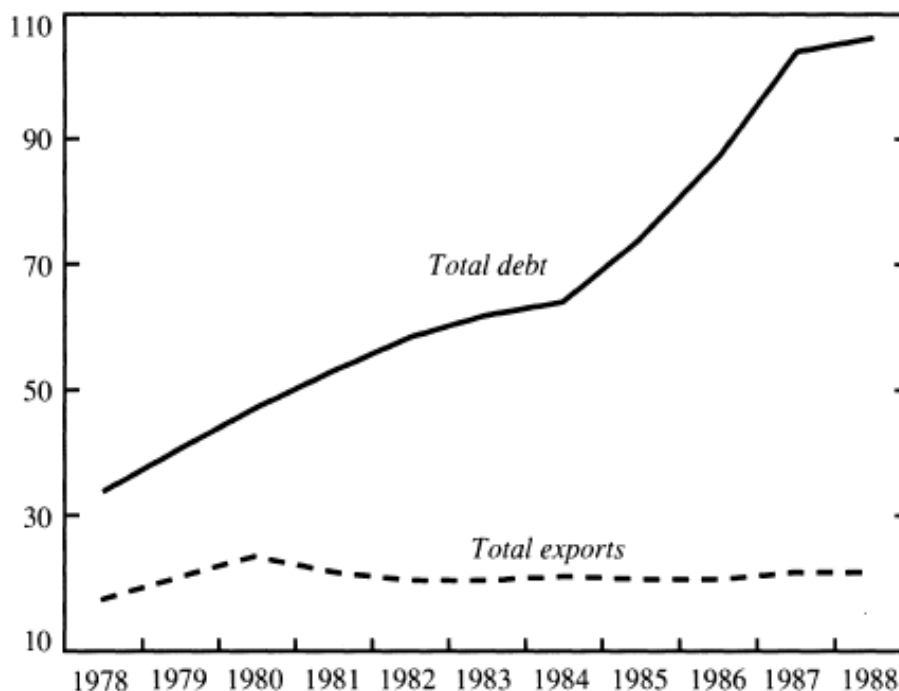
³OECD data show that export credits increased by about 32% annually from 1976 to 1979 for Sub-Saharan Africa (Krumm, 1985).

2.2 Disappointing growth, exogenous shocks and inadequate policy response in the 1980s and 1990s

The debt crisis in the developing world began to unfold in the 1980s, when the shocks of the second oil crisis (1979-1980), rising interest rates, and a fall in global prices for primary commodities began to take a toll.

Unlike the first oil shock when export commodity price booms⁴ offset some of the balance of payments difficulties of the oil importers, the second shock was not accompanied by any such offset. The boom in the oil price in 1979-80 and the recession in OECD countries had a devastating effect upon the price of non-oil commodities and HIPC's terms of trade, especially for countries characterized by a limited diversification of their export base.⁵ Indeed, as shown in Figure 3, total debt levels have risen steadily since 1978 in Sub-Saharan Africa, which includes the majority of HIPC's countries, while export earnings in 1988 were barely above their dollar level ten years earlier. With diminished export earnings, and with import prices by 1987 significantly above their 1980 levels, these countries found it increasingly difficult to meet their debt service burdens. On the other hand, the expectations of continued strong oil prices led oil exporters to continue their ambitious investment programmes, and as a result their external debt grew as well (Krumm, 1985).

Figure 3: Sub-Saharan Africa, Excluding Nigeria: Total Debt Level and Export Value, 1978-88 (In billions of U.S. dollars)



Source: Greene, 1989

⁴ There were sizeable price increases in cocoa (1973-75), coffee (1976-77), tea (1977), groundnuts (1974), sugar (1974-75), sisal (1973-75), phosphate (1974-75) and uranium (1975-79), followed by sharp price declines. Almost all oil importing countries were affected: Burundi (coffee), Central African Republic (coffee), Ethiopia (coffee), Gambia (groundnuts), Ghana (cocoa), Ivory Coast (coffee and cocoa), Madagascar (coffee), Malawi (sugar), Niger (uranium), Senegal (phosphate, groundnuts), Sierra Leone (coffee), Tanzania (coffee, sisal), and Togo (phosphate) (Krumm, 1985).

⁵ For example, Uganda, for which coffee accounted for 99% of its exports in the early 1980s, approximately lost half of its export earnings as a result of the slump in world coffee prices in 1987-93; the decrease in export earnings amounted to one third for Côte d'Ivoire.

Secondly, industrialized countries pursued restrictive monetary policies which led to an increasing interest rate as well as exchange rate appreciation of their currencies. International real interest rates rose from low and sometimes negative levels in the 1970s to over 8% in the early 1980s (Krumm, 1985).⁶ This interest rate shock exacerbated the situation for some key high-debt countries, especially those that made significant use of commercial borrowing at variable interest rate (e.g. Congo, Côte d'Ivoire, Liberia, Malawi, Niger, Senegal, and Zambia) (Prizzon, 2009). According to Krumm, higher real interest rates may have increased debt levels for the Cote d'Ivoire, Malawi, and Zambia by more than 10 percent during 1979-83. The appreciation of the U.S. dollar further contributed to the worsening in the debt burden as loans were denominated in that currency.

Moreover, when the commodity prices fell sharply and the terms of trade declined, several HIPC governments did not cut back their expenditure programmes (which had been increased in the 1970s in response to the primary commodity boom in the wake of the first oil price shock) and instead borrowed more heavily. Many countries continued living beyond their means, with high trade and budget deficits before and during the crisis. This delay in macroeconomic adjustment was in turn facilitated by the policies responses of authorities such as the IMF.

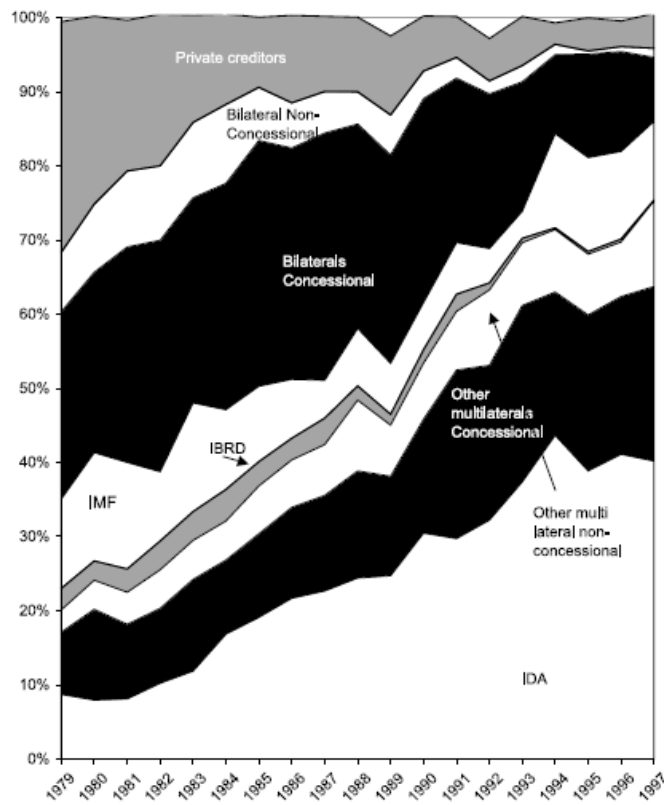
These responses were largely inadequate, and to a large extent worsened the crisis (Brooks et al., 1998). While private creditors typically reduced their exposure and cut their losses when a commodity price shock adversely affected a country's debt-servicing capacity, the IMF and the rest of the international community provided support in the form of new finance and (non-concessional flow) reschedulings.⁷ However, a large share of this support was in the form of non-concessional loans in the 1980s, particularly from IMF, IBRD, and multilateral development banks (as shown in Figure 4 below)⁸, which had once again made overly optimistic export-growth and commodity price projections. This contributed to excessive borrowing, which was inconsistent with the country's debt servicing capacity (e.g. Bolivia, Nicaragua, Uganda and Zambia). Furthermore, several HIPCs were unable to service their rescheduled obligations (e.g. Madagascar, Sudan, Sierra Leone and Togo). The regular rescheduling of debt service payments also helped to increase the debt stocks outstanding (Brooks et al., 1998 and Daseking and Powell, 1999).

⁶ For Sub-Saharan Africa, average real interest rate on all loans increased from -7% in 1979 to over 6% in 1982 and 1983 and that for non-concessional loans from -5% in 1979 to 10% in 1982. In addition, the average real rates on official export credits increased from a low of -14.3% in 1974 reached 9% in 1982 (Krumm, 1985).

⁷ From 1976 to 1988 the Paris Club agreed to 81 non-concessional flow rescheduling with 27 of the countries now identified as HIPs. These reschedulings allowed for payments equivalent to about \$23 billion to be delayed into the future (Daseking and Powell, 1999).

⁸ International Development Association (IDA) financing alone more than tripled its share in disbursements over the period 1979-1997. The share of private credit began the period 3.6 times higher than the IDA share; by the end of the period, the share of IDA was 8.6 times higher than that of private financing (Easterly, 2002).

Figure 4: Composition of gross disbursements to HIPC, 1979-1997



Source: Easterly, 2002

Furthermore, new borrowing before and during the crisis generally did not translate into productive investments that would generate returns to service this debt (Krumm 1985; Varma 2006). Large scale commercial borrowings were used to finance investments in non-productive categories such as conference centres, administrative buildings, new capitals and university centres (Krumm, 1985). In the productive sectors, many projects also proved to be economically unviable such as luxury hotels, oil and sugar refineries and steel mills. Poor debt management, and in particular, poor project selection meant the loan funds which were designed to increase productivity and generate exports failed to produce the expected yields and brought very little long-term benefit in terms of capacity to earn foreign exchange. It is thus not surprising that HIPC's poor or non-existent debt management has been identified as an important factor in the creation of the HIPC's debt problem by facilitating unrestrained, imprudent borrowing.⁹

No systematic and comprehensive assessment has been made of debt management and capacity issues in and across the HIPC's prior to 2000. The earliest assessment is a self-assessment of 33 HIPC's in 2001. It found that countries at or close to the decision point needed significant improvements in basic debt management capacity, including data management and debt renegotiation- and that they lacked a clear legal and institutional framework for debt management (World Bank, 2002). Countries at or close to the completion point appeared to have made greater progress in overall debt management capacity, but still had weaknesses in areas such as transparency and accountability. Moreover, results strongly suggested that there was room for improving policies for new borrowing in most HIPC's, particularly in terms of careful evaluation of the impact of new borrowing on the debt portfolio and the country's repayment capacity.

⁹ Kenya represents a counterexample for its sound debt management. Although debt ratios were similar to heavily indebted countries, Kenya experienced an export growth rate higher than the growth rate of new borrowing (Brooks et al., 1998).

It should also be noted that several HIPCs struggled with the sustained implementation of sound macroeconomic policies during the debt crisis. Loans from multilaterals provided balance of payments and development financing in support of adjustment programmes. In Cameroon, policy slippages led to the abandonment of the first three IMF-World Bank supported adjustment programmes over the 1988-95 period. Also in the Democratic Republic of Congo and Zambia, policy implementation failed to limit financing needs and encourage export growth.

Civil strife was another major factor exacerbating the debt burden in some HIPCs such as Nicaragua and Uganda, and to a lesser extent the Democratic Republic of the Congo and Niger (Brooks, 1998). In some cases it eroded the export base by destroying the country's infrastructure while in others it led to a rise in debt-financed military and non-military imports and may have given rise to what is known as 'odious debt'. This is generally understood as debt taken on by a country that serves the interests of the ruler or the ruling regime (typically a non-democratic one) rather than the country as a whole and its people.¹⁰

In sum, while the pervasive debt servicing problem did not emerge until the 1980s, the roots of the debt crisis stemmed from certain developments in the 1970s, compounded by the adverse developments of the early 1980s. This section highlighted a number of themes that ran through the evolution of the debt problems of HIPCs, namely optimistic expectations, persistent macroeconomic imbalances, imprudent lending and hard financing terms, external shocks, and governance and institutional constraints. This sets the stage for discussion in the following section which examines whether conditions today resemble those of the past based on trends in various indicators that are relevant to these 5 themes.

Summary: Drivers of HIPCs debt crisis

The origin and escalation of the HIPC debt crisis can be broken down into the following 5 broad themes:

- (i) **Optimistic expectations:** Positive growth rates for most of the 1970s fuelled optimistic expectations of HIPCs debt repayment capacity. However, world recession and a second oil price shock contributed to disappointing growth rates in HIPCs.
- (ii) **Macro imbalances:** Against this backdrop, the expansion and inflexibility of HIPCs public expenditure led to growing budget deficits and consequently more borrowing. Also a deteriorating terms of trade led to even larger and more persistent current account deficits as a consequence of a decline in export earnings.
- (iii) **Imprudent lending and hard financing terms:** Expanded access to new sources of financing led to a less concessional finance structure, which made it difficult for HIPCs to absorb the second oil price shock, and the resulting higher interest rates and real exchange rates depreciation. Non-concessional financing also increased in the early 1980s.
- (iv) **Vulnerability to exogenous shocks:** The interaction between volatile commodity prices and HIPCs' highly concentrated export base made them vulnerable to declining terms of trade, which adversely affected their export earnings and hindered their capacity to repay their external debt.
- (v) **Governance and institutional constraints:** Inadequate debt management and political instability undermined the average HIPC's ability to translate new borrowing into growth-enhancing projects that would have expanded the country's repayment capacity in the long-term.

¹⁰ For example, estimates show that the accumulated stock of flight capital of Zaire (now the Democratic Republic of Congo) amounted to nearly \$18 billion. Some evidence has been presented to the effect that the official and private creditors of the Mobutu regime knew, or should have known, that there was a high risk that their loans, or a substantial part of them, would not be used to benefit the Congolese people (see Ndikumana and Boyce, 1998).

3 Underlying economic, financial and institutional factors: Then and Now

This section assesses the extent to which the conditions today are similar to those that led to the debt crisis that engulfed the HIPC's in the 1980s and 1990s. There are several reasons to remain vigilant. Firstly, the HIPC Initiative (and MDRI) is a debt reduction programme and thus cannot guarantee long-term debt sustainability. Secondly, several HIPC's are rapidly accumulating external debt. In the eight African countries that have borrowed fastest since debt relief (Benin, Ghana, Malawi, Mozambique, Niger, São Tomé and Príncipe, Senegal, and Uganda), a third of the reduction in debt stock indicators has been eroded over about four years (World Bank, n.d.). It is estimated at this rate, these countries could be back to pre-relief debt stock ratios within a decade. Other HIPC's which have experienced a notable increase in their debt-to-GDP ratio¹¹ between 2006 and 2010 are Burkina Faso, Mali and Mauritania.¹² This section focuses on the performance of HIPC's on average as well as the performance of these 11 rapidly debt accumulating HIPC's (referred to as RA-HIPC's throughout this paper) on 5 sets of indicators:

1. Economic growth projections
2. Macro-economic stability
3. Vulnerability to exogenous shocks
4. Terms of new external finance
5. Governance and institutional Constraints

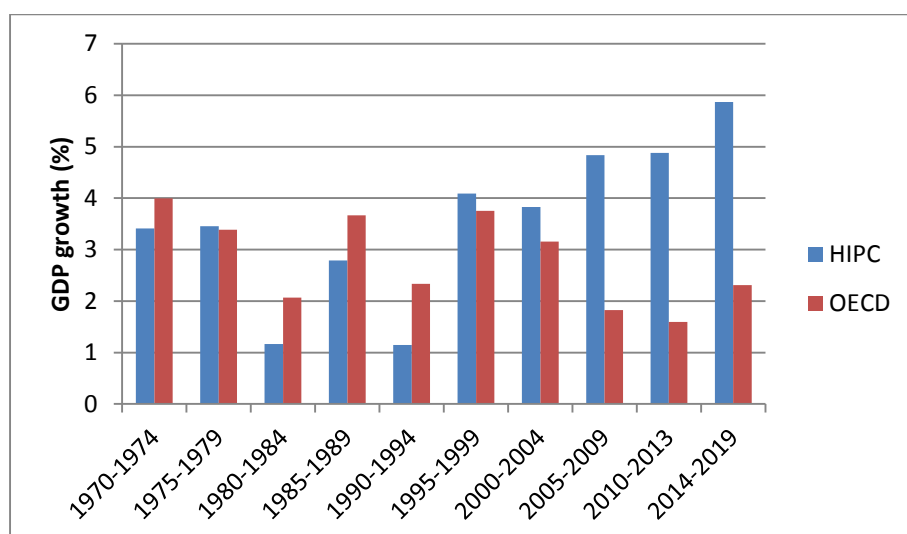
3.1 Growth projections

a. Economic growth

Optimistic expectations of HIPC's debt repayment capacity was fueled by its positive growth rates in the 1970s, averaging 3% with a high of 5% in 1970. Figure 5 below shows that this period of high growth was followed by relatively low growth rates in the 1980s and early 1990s. From the mid-1990s, HIPC's growth rates have picked up substantially, exceeding the average rates in the decades preceding the debt crisis to achieve historically outstanding GDP growth rates of roughly 5% since 2005. It is also noteworthy HIPC's have been growing much faster than the OECD economies in recent years. Most importantly, these positive growth rates are projected to continue up to 2019, roughly double the average rate for the period 1970-1974. In all, this strongly suggests that growth expectations for the HIPC group are once again highly optimistic.

¹¹ Refers to general government gross debt.

¹² See Mustapha, S. and Prizzon, A. (2014). Is debt sustainable in the post-HIPC era? A literature review. EPS PEAKs and ODI. February.

Figure 5: Comparison of GDP growth rates in HIPC and OECD, 1970-2019

Note: Growth rates for the period 2014-2019 refer to IMF projections

Source: IMF WEO and World Development Indicators

Looking specifically at the 11 RA-HIPCs, most countries have exceptionally high growth rates since 1995. In addition, all countries have projected growth rates of approximately 5% or higher for the period 2014-2019, generally exceeding their growth rates in the 1970s and 1980s (see Table 1).

Table 1: GDP growth rates for RA-HIPCs, 1995-2019

Country	1975-1979	1985-1989	1995-1999	2005-2009	2010-2013	2014-2019
Benin	1.75	1.12	5.08	3.78	4.23	4.99
Burkina Faso	4.04	5.39	7.32	5.56	7.30	6.84
Ghana	-1.55	6.00	4.72	6.21	9.10	6.05
Malawi	6.03	2.10	7.00	6.30	4.43	6.24
Mali	8.11	4.05	5.04	5.02	2.58	5.01
Mauritania	1.16		4.21	4.04	5.49	7.41
Mozambique		5.62	9.66	7.50	7.20	7.91
Niger	5.25	4.40	2.54	5.27	6.32	9.46
São Tomé and Príncipe		1.13	1.90	5.87	4.36	5.67
Senegal	3.36	3.18	4.55	3.83	3.46	4.99
Uganda		3.33	7.57	7.94	5.29	7.01
HIPC Avg	3.45	2.79	4.09	4.83	4.88	5.87

Note: Growth rates for the period 2014-2019 refer to IMF projections

Source: IMF WEO and World Development Indicators

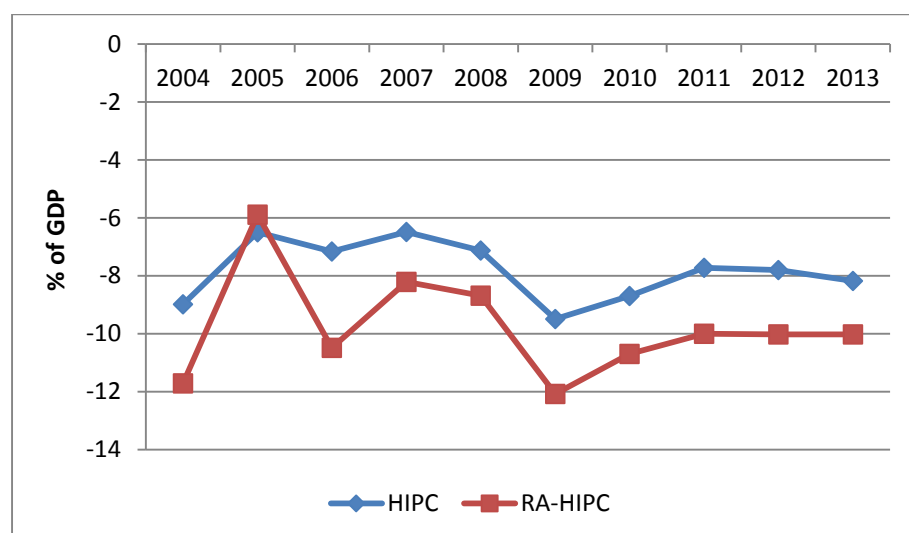
3.2 Macroeconomic stability

a. Public Finance

Data on public finance in low-income countries are available for a limited length of time. It is thus difficult to compare trends in public expenditure preceding the debt crisis to the more recent trends over the last 10 years, particularly in regards to the size of the fiscal deficit. However, based on recent trends there are several important observations worth highlighting given the strong relationship between government's financing needs and the demand for external finance.

Firstly, as shown in Figure 6 below, HIPCs in Sub-Saharan Africa have experienced fiscal deficits since 2004, fluctuating between roughly 6-10%. Secondly, the average size of the fiscal deficit of the RA-HIPCs has exceeded the HIPCs average throughout the period (except for 2005). In addition, most countries have experienced an increase in the average size of their fiscal deficit from their 2004-2008 and 2009-2013, with the exception of Burkina Faso, Malawi and Mali (see Table 2). The most recent DSAs of several of these countries (for example Benin, Ghana, São Tomé and Príncipe, Senegal and Uganda) also emphasize the necessity of fiscal consolidation in order to ensure sustainable debt burdens (See Annex C).

Figure 6: Overall Fiscal Balance¹³ for SSA HIPCs, 2004-2013



Source: IMF African Regional Economic Outlook

Table 2: Average fiscal deficit, 2004-2008 vs. 2009-2013

Country	2004-2008	2009-2013	Change 2004-2013
Benin	-3.02	-3.56	0.6
Burkina Faso	-10.5	-8.8	1.4
Ghana	-8.28	-11.04	-4.4
Malawi	-15.54	-13.24	-1.9

¹³ Excludes grants.

Mali	-6.94	-6.04	0.2
Mozambique	-11.32	-11.9	2.8
Niger	-7.62	-8.24	-2.5
Senegal	-5.82	-8.16	-3.8
São Tomé & Príncipe	-14.98	-28.6	21.4
Uganda	-5.92	-6.06	3.1

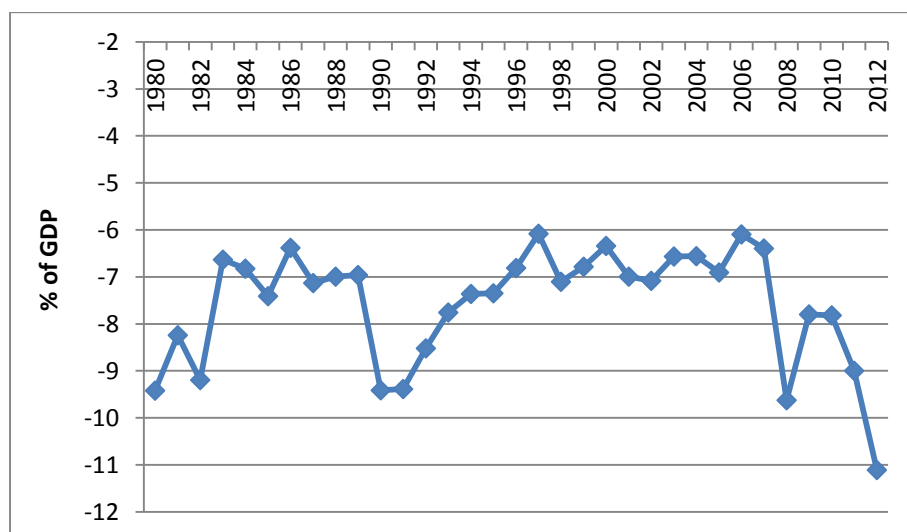
Source: IMF African Regional Economic Outlook

b. Current Account Balance

A defining characteristic of a HIPC is its persistent current account deficit. This is mainly due to a negative trade balance which leads countries to borrow more as was observed during the debt crisis. Although data availability limits comparisons with trends in the 1970s, data is available from 1980 onwards. As shown in Figure 7 the current account balance improved between 1990 and 2000, but has been on a downward path since 2006. In 2012, it was even lower than its 1980 level. In fact, all but 4 HIPCs had a deficit on their current account in 2012, the exceptions included Afghanistan, Bolivia, Eritrea and Zambia

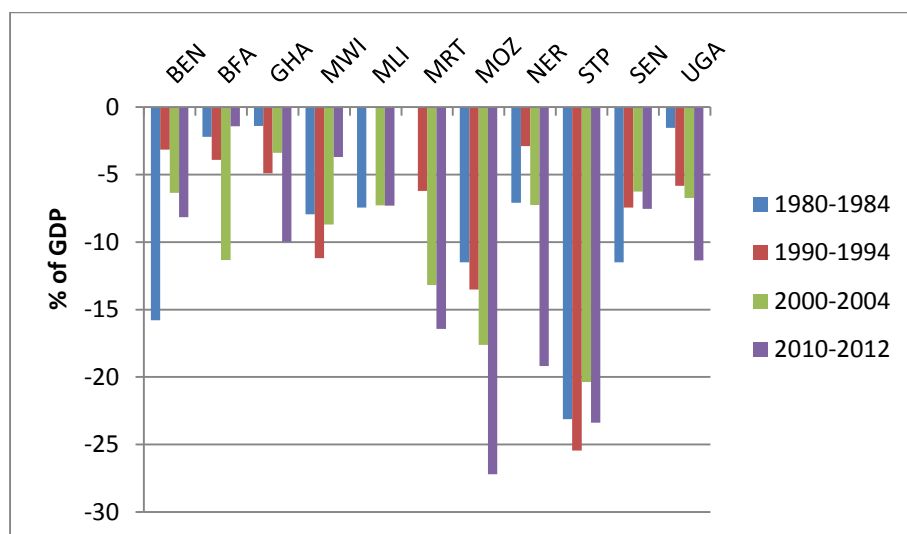
In addition, among the RA-HIPCs, an overwhelming majority of countries have consistently experienced negative current account deficits since 1980. Mauritania, Mozambique, Niger and Uganda's current account deficit have risen substantially in recent years (see Figure 8). In contrast Burkina Faso's current deficit has declined to as low as 0.8% in 2012.

Figure 7: Persistent current account deficit for HIPCs group, 1980-2011



Source: World Economic Outlook

Figure 8: Persistent Current Deficits in RA-HIPCs



Source: World Economic Outlook

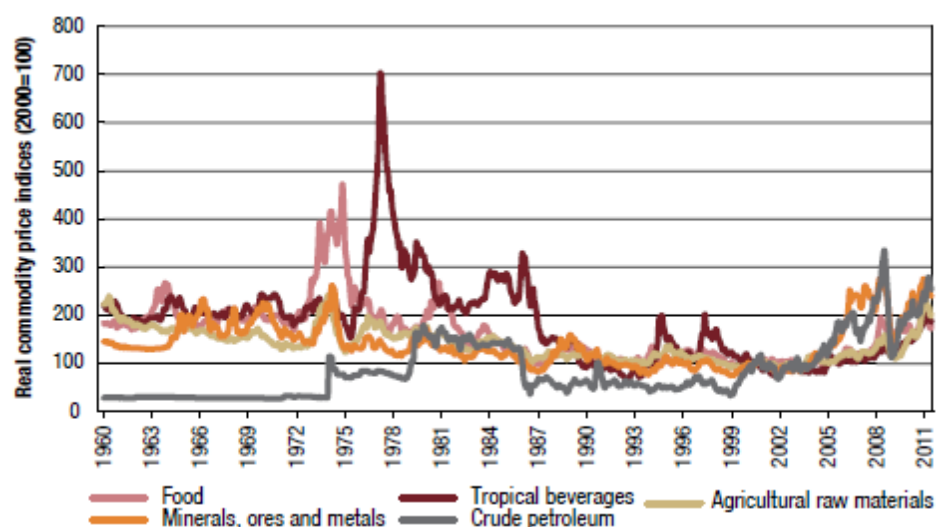
3.3 Vulnerability to exogenous shocks

a. Commodity Prices

Primary commodities¹⁴ are the most significant exports of most HIPCs (see UNCTAD, 2013, pp.21-26). **A continued and sustained decline in commodity prices jeopardizes the debt sustainability positions of these commodity dependent countries, since a drop in commodity prices reduce export earnings and therefore increase the debt service to export earnings ratio.** When there is deterioration in the terms of trade for non-oil primary commodity producers, increases in volumes must compensate for drops in prices in order for an economy to be able to afford the same level of imports.

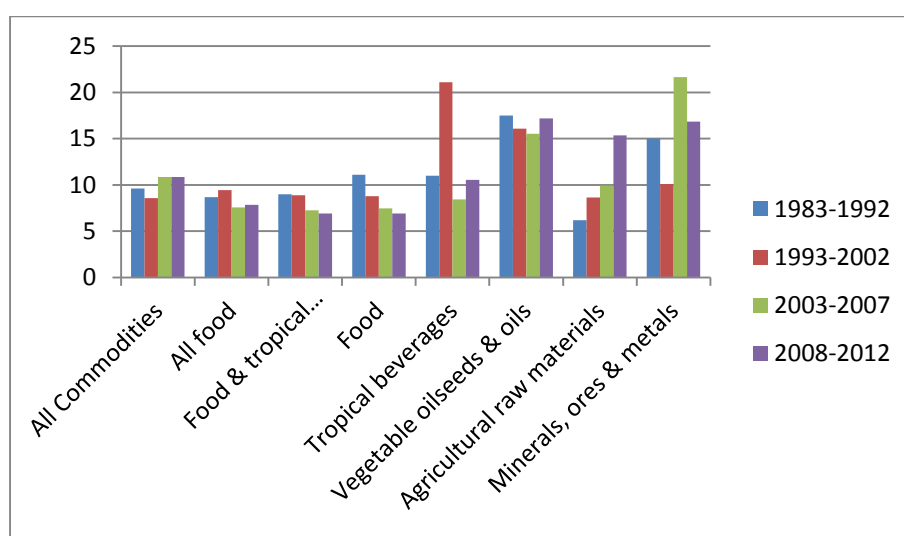
While primary commodity prices exhibit a largely declining trend over the long term, there were two periods of commodity booms since 1960, that of the 1970s and the more recent boom of 2003–2011. Figure 9 shows that since 1960, the real prices of non-oil commodities had been relatively stable, but in 1974 they peaked to their highest level in parallel with oil prices, and this was accompanied by an oil shock. During the period 1980–2000, commodity prices displayed some volatility, with temporary peaks in 1988 and 1997, but overall they declined. By mid-2008, commodities had enjoyed a five year price boom after almost 30 years of generally low but moderately fluctuating prices for each sub-period.

¹⁴ Primary commodities are defined as all foods (includes basic foods, beverages and tobacco, agricultural products and oils); all metals and minerals (ferrous and non-ferrous metals, precious stones, and pearls); and all fuel (crude petroleum, natural gas and other fuel commodities) (UNCTAD, Handbook of Statistics 2009).

Figure 9: Commodity boom and bust, 1960-2011 (2000 = 100)

Source: UNCTAD, 2013

It is often suggested that the key export problem facing developing countries has not been the prices of commodities per se, but rather their volatility. An earlier study noted that in terms of the key commodities for African producers, on average, price volatility declined significantly over the course of the 1970s for most commodities (Mold and Prizzon, 2010). Using the same categories as this earlier study, Figure 10 shows that the price volatility of for all commodities has remained fairly unchanged since the 1980s. However, there is some degree of heterogeneity across categories. In particular, while instability has declined for food, price instability appears to have consistently increased for agricultural raw materials while minerals, ores and metals have also experienced a dramatic rise in 2003-2007. Commodity price volatility is therefore still likely to be a challenge facing those HIPC countries that remain heavily dependent on these types of commodities.

Figure 10: Commodity Price Volatility, 1983-2012

Source: UNCTAD Statistics

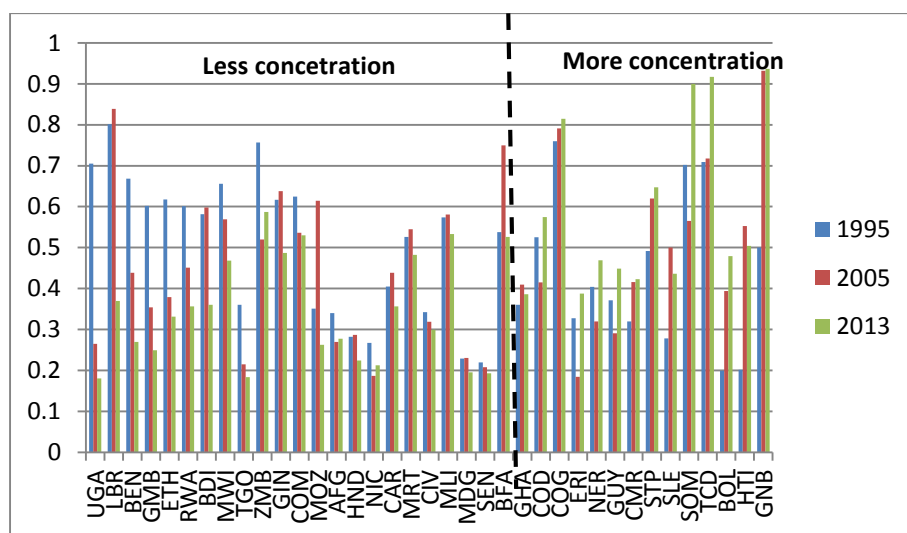
b. Export Concentration

As mentioned above, dependence on a narrow range of exports exacerbates HIPC's vulnerability to economic shocks. In 2001, the top three commodities accounted for 45% of exports while the top 1 commodity accounted for 32% (Sun, 2004)¹⁵. It is thus useful to assess the extent to which HIPC's have successfully expanded their export base since the 1970s. A useful indicator to do this is the Export Concentration index¹⁶. The more concentrated a country's export base, the closer the index value will be to 1 while the less concentrated a country's export base, the closer the index will be to 0. Measured over time, a fall in the index may be an indication of less concentration in the exporter's trade profile. Data for this indicator is only available for the period 1995-2013

Figure 11 below shows that between 1995 and 2013:

- 23 African HIPC's have become less concentrated: Uganda, Liberia, Benin, Gambia, Ethiopia, Rwanda, Burundi, Malawi, Togo, Zambia, Guinea, Comoros, Mozambique, Afghanistan, Honduras, Nicaragua, Central African Republic, Mauritania, Côte d'Ivoire, Mali, Madagascar, Senegal and Burkina Faso
- 14 HIPC's became more concentrated: Ghana, Congo, Dem. Rep., Congo, Eritrea, Niger, Guyana, Cameroon, São Tomé and Príncipe, Sierra Leone, Somalia, Chad, Bolivia, Haiti, and Guinea-Bissau

Figure 11: Export Concentration of 33 HIPC's (1998, 2004 and 2009)



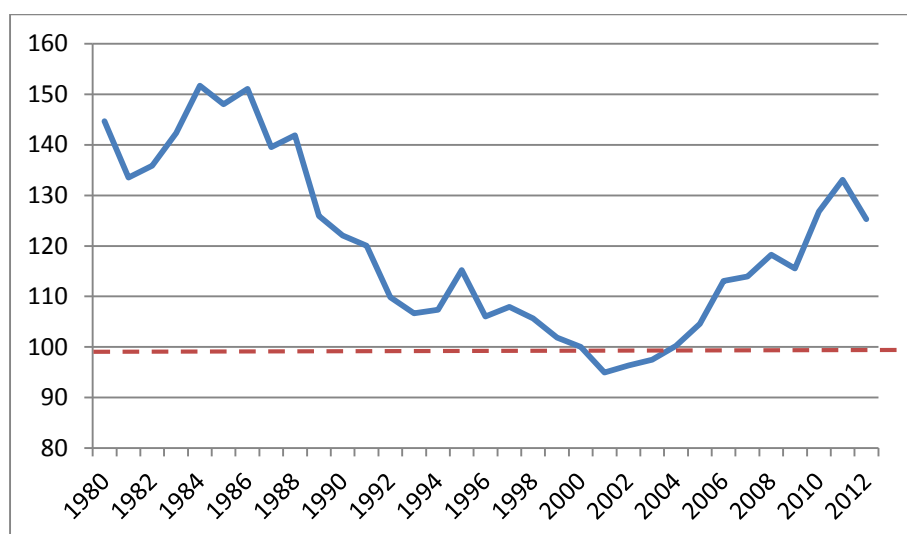
Source: UNCTAD Statistics

c. Terms of Trade (TOT)

In addition to the high concentration of exports, HIPC's deteriorating Terms of Trade was another defining characteristic of the debt crisis. Figure 12 below shows that while the average TOT deteriorated for the HIPC group throughout the 1980s and 1990s, it has steadily improved since early 2000. In fact, the terms of trade has improved for the vast majority of HIPC's between 2000 and 2012.

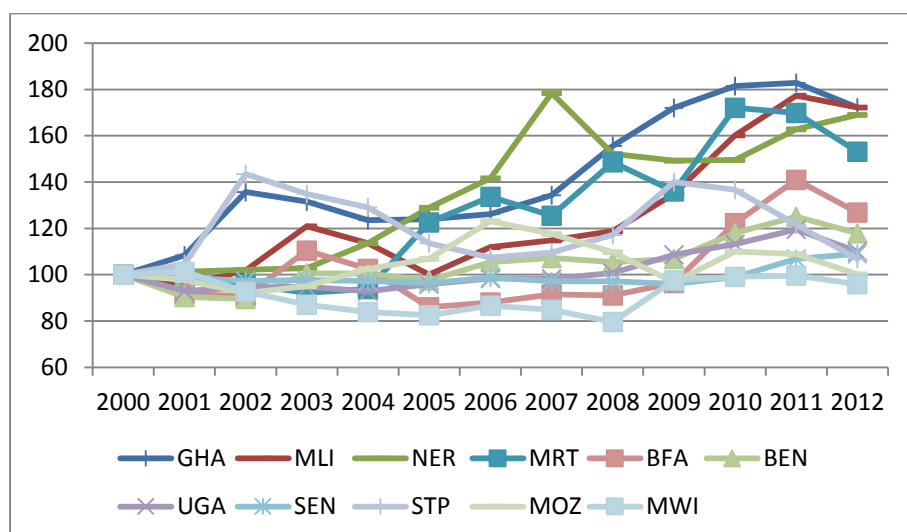
¹⁵ The share of the top three commodity exports in total exports is calculated to measure a country's degree of export diversification. The composition of the top 3 commodities varies across countries.

¹⁶ The concentration index shows how exports and imports of individual countries or group of countries are concentrated on several products or otherwise distributed in a more homogeneous manner among a series of products.

Figure 12: Average TOT (2000=100) for HIPCs, 1980-2012

Source: UNCTAD, Handbook of Statistics

Figure 13 shows that among the RA-HIPCs, the TOT improved substantially for Ghana, Mali, Niger, Mauritania, and to a lesser extent for Burkina Faso, Benin, Uganda, Senegal, São Tomé & Príncipe and Mozambique. Malawi, on the other hand, fell below the base year for most of the 2000s before improving from 2008.

Figure 13: TOTs for RA-HIPCs (2000=100), 2000-2012

Source: UNCTAD, Handbook of Statistics

d. Interest Rates

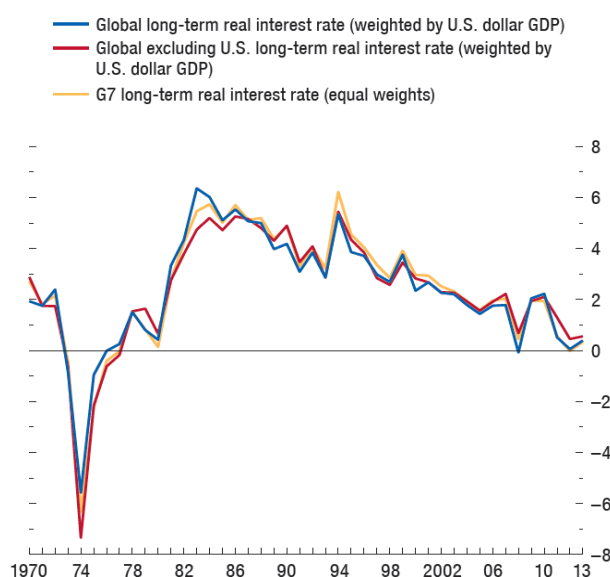
The interest rate is another important facet of the debt crisis. Low interest rates in the 1970s boosted lending to high risk economies. HIPCs also generally experienced difficulties in servicing their debt obligations because the actual rate of return on investment was less than the average interest rate after the marked interest rates from the early 1980s.

As shown in Figure 14, in the past few years the cost of debt close is to zero with this downward trend predating the recent global financial crisis. The London interbank offered rate (LIBOR) has declined substantially since the 1980s from an average of 11% in 1980-1987 to roughly 2% in 2006-2013 (not shown in graph). Nonetheless, the recent financial crisis did put further downward pressure on interest rates. Advanced

economies deployed highly accommodative unconventional monetary policies, which led to high global liquidity and induced a sharp increase in capital flows to emerging and frontier market economies. This allowed some of these countries to issue international sovereign bonds for the first time. Taking into account this low interest rate and HIPC's robust economic performance since 2000, most of these countries are characterized by a GDP growth rate higher than the interest rate (i.e. a negative interest-rate growth differential) and thus have generally favourable DSA projections.

Nonetheless, global financial conditions are expected to tighten as monetary policy normalises in the advanced economies. In the wake of the global financial crisis, as monetary policies are rolled back, external financing conditions facing countries in the region are likely to turn less favourable. In fact, the IMF predicts that global interest rates are likely to moderately rise in the medium term (WEO, 2014). Therefore countries with relatively high or quickly increasing debt levels are potentially exposed to interest rate risks and need to remain vigilant as global financial conditions evolve.

Figure 14: Global Long-Term Real Interest Rates (% a year)



Source: World Economic Outlook, April 2014

3.4 Terms of new external debt commitments

The financing terms that characterise new external debt commitments can have significant implications for debt sustainability of HIPC's. This is because debt relief has created new borrowing space, and the menu of financing options to low-income countries has expanded.

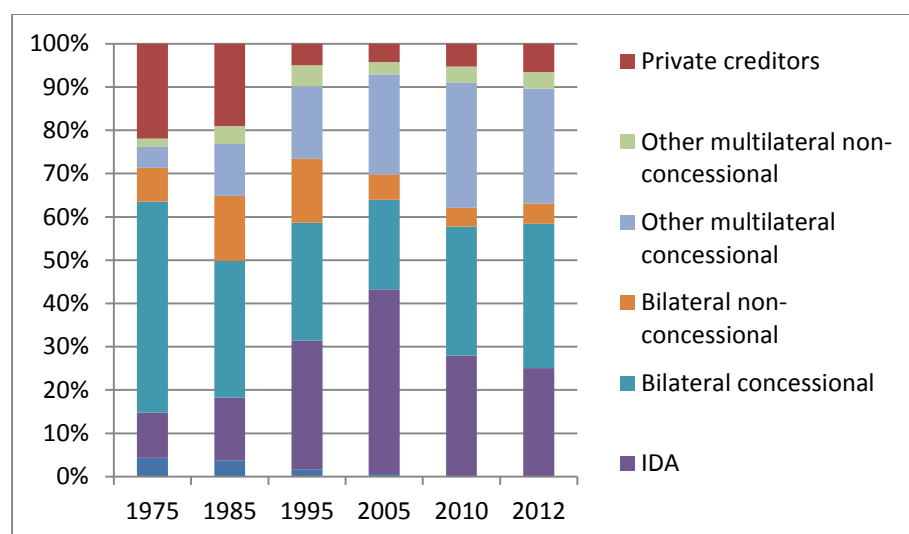
a. Type of External debt

It is important to consider the composition of public and publicly guaranteed external debt given that one of the contributing factors to the debt crisis was private debt switching to government liabilities (and becoming publicly guaranteed). Figure 15 below shows that private creditors accounted for roughly 22% of total PPG debt in 1975, falling to about 19% in 1985, and declining even further to 5-6% in recent years.

Furthermore the concessional share of HIPC public and publicly guaranteed external debt has increased from roughly 58% in 1985 to roughly over 85% since 2005. Recently, however, it appears that the concessional share is slightly declining for the HIPC group on average (from 87% in 2005 to 85% in 2012) and can be attributed to the increasing share accounted for by private creditors. Notably, the declining IDA support in recent

years has been offset to a large extent by an increasing share of bilateral concessional finance.

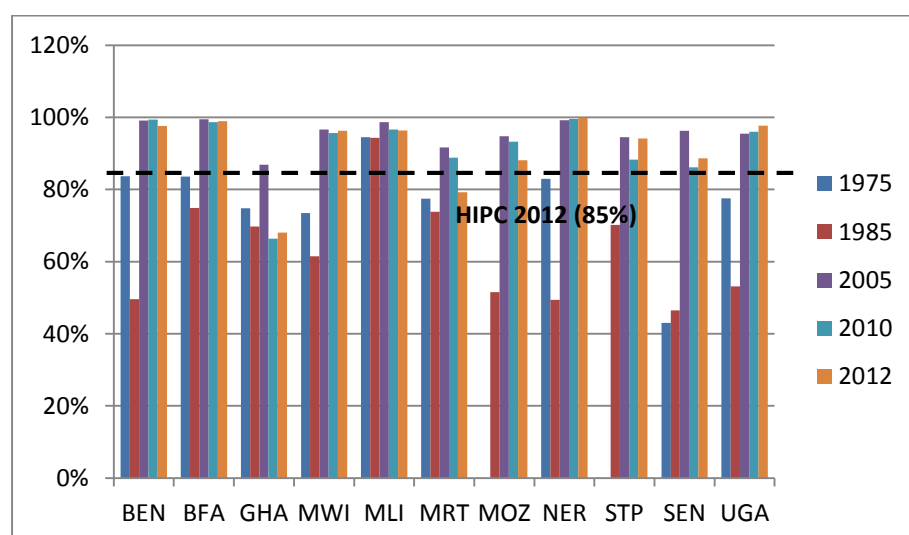
Figure 15: Type of external debt of HIPCs, PPG, 1975- 2012



Source: International debt statistic

Conversely, the concessional share of PPG external debt has mostly increased for Benin, Burkina Faso, Mozambique, Niger, São Tomé & Príncipe, Senegal, Uganda and Malawi (see Figure 16). Of these 11 countries for which data is available, only Ghana's concessional share of external debt in 2012 (68%) is below its share of 75% in 1975 while Mali and Mauritania have remained relatively unchanged. Ghana is also substantially below the HIPC average of 85% in 2012 and according to its recent DSA, borrowing is projected to become increasingly non-concessional. This is consistent with Ghana's improving income status and wealth. Box 1 provides additional examples of shifts in the type of external debt financing.

Figure 16: Concessional share of external debt, PPG, 1975-2012 in RA-HIPCs¹⁷



Source: Author's own calculations using the World Bank, International Debt Statistics

¹⁷ Concessional share refers to the PPG bilateral and PPG multilateral concessional share of external debt stocks, public and publicly guaranteed (PPG) (DOD, current US\$)

Box 1: Changing composition of debt

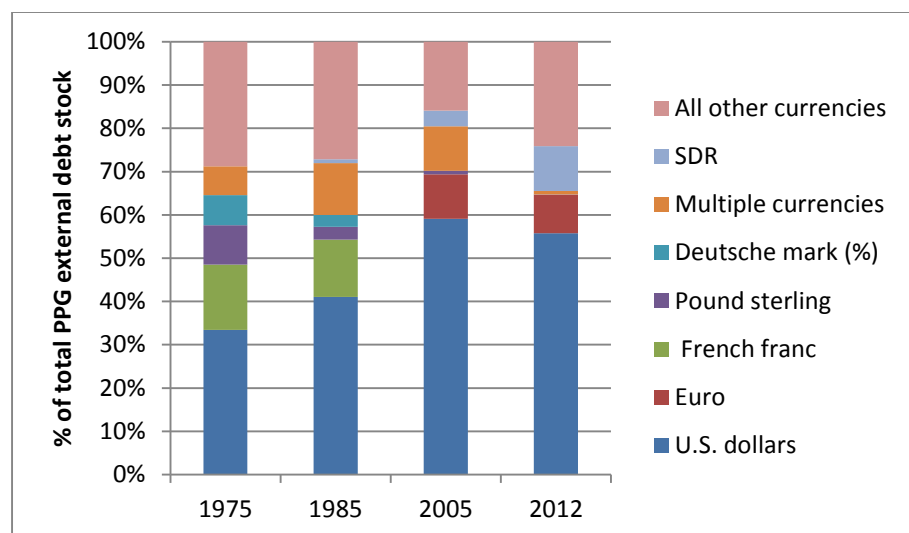
Although concessional borrowing has been the main driver of debt levels in most of HIPC countries that have been rapidly accumulating debt, several countries are taking up new bilateral loans on harder terms. "In Senegal, sovereign bonds now make up 15 percent of public external debt. In Mozambique, semi-concessional loans from the Government of China account for more than a third of the debt stock. In Ghana both these sources feature in the increase in the debt stock indicators. Still, DSA data shows that so far concessional borrowing has been most significant in raising debt stock levels in many of the early HIPC countries."

Source: World Bank. (n.d.). Africa since Debt Relief: Considerations for the Debt Management Facility. Knowledge Brief

b. Currency Composition of External debt

Exchange rate fluctuations contributed to the escalation of the HIPC countries' debt crisis in the 1980s. In the case of Zambia, although it only had a relatively small proportion of debt denominated in the U.S. dollars (31% over 1985-1989 compared to 45% over 2008-2012), it experienced a significant increase in external debt in U.S. dollar terms as a result of the stronger U.S. dollar over the period 1985-89. It is thus worth considering the evolution of currency composition of external debt of HIPC countries since the 1970s. Figure 17 below shows that since 1975, there has been a steady increase in the U.S. dollar and Euro share of external debt for HIPC countries with the U.S. dollar accounting for more than 50% of HIPC debt in 2005 and 2012 compared to roughly 33% and 40% in 1975 and 1985 respectively.

Figure 17: Currency composition of HIPC countries' external debt (1975, 1985, 2005 and 2012)



Source: World Bank, International Debt Statistics

c. Average grant element, maturity and grace period of new external debt

Figures 18 to 21 demonstrate that HIPC countries faced harder financing conditions in the years preceding the crisis as well as in more recent years. Firstly, there was a marked decline in average grant element on new external debt commitments in the 1970s, from 48% in 1972 to 37% in 1981, thereafter it increased for most of the 1990s. However, from early 2002, it is once again falling, standing at 52% in 2012 compared to 65% in 2002. A similar pattern is also observed in regards to the average grace period and maturity of new debt,

which declined in the years preceding the crisis and is declining in recent years. This is indicative of riskier debt. Despite these harder terms, interest arrears, which is an indicator of the inability to service debt obligations on time, have not increased in recent years, and have actually declined. This is not surprising given that most HIPC only reached completion point in the 2005 or later, which is the stage at which the country receives full and irrevocable reduction in debt available under the HIPC Initiative.

Annex B summarises the terms of new external debt commitment for each RA-HIPC between 1975 and 2012. It shows that the average grant element on new external debt commitments has increased for all these countries since the 1970s and 1980s. The average maturity and grace period have also increased for most countries, particularly Senegal, Uganda and Mozambique.

Figure 18: Average grant element

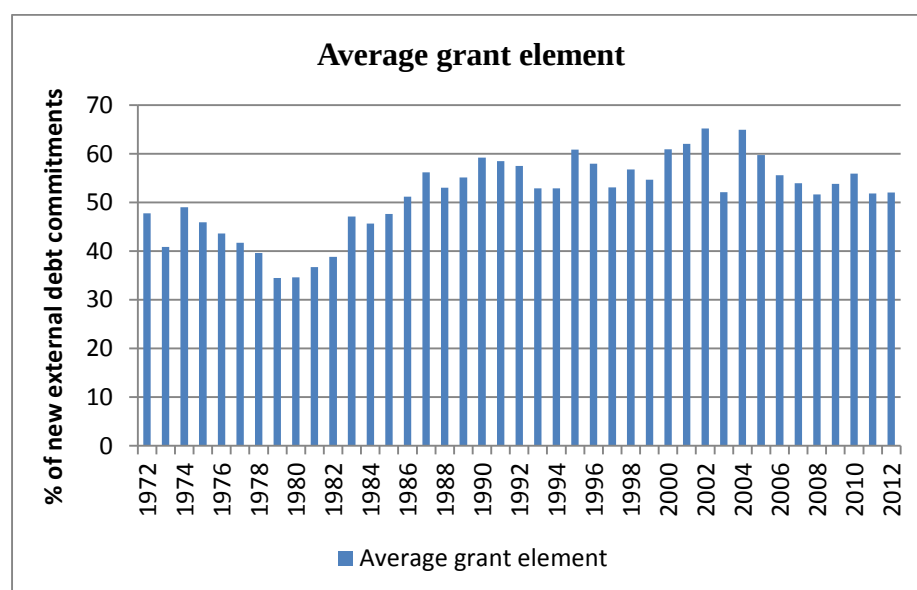


Figure 19: Average maturity

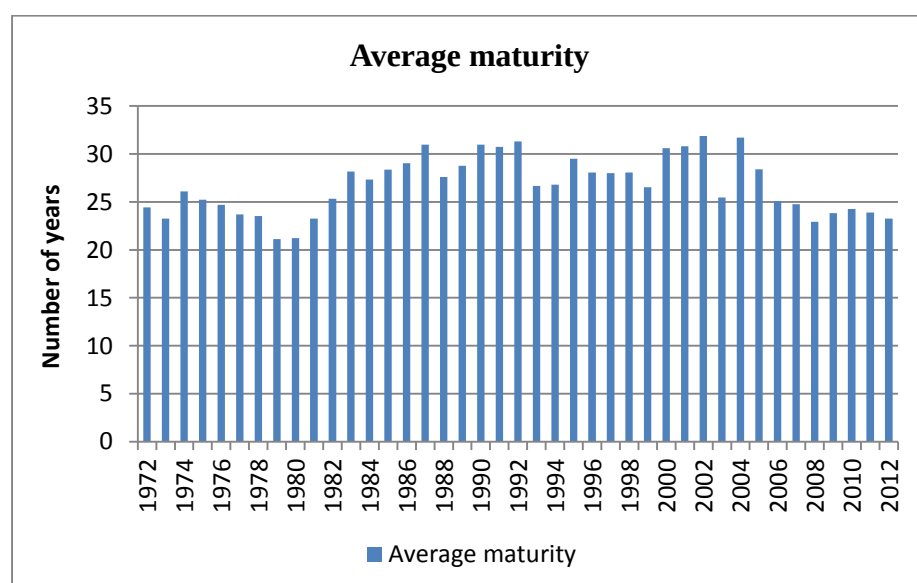


Figure 20: Average grace period

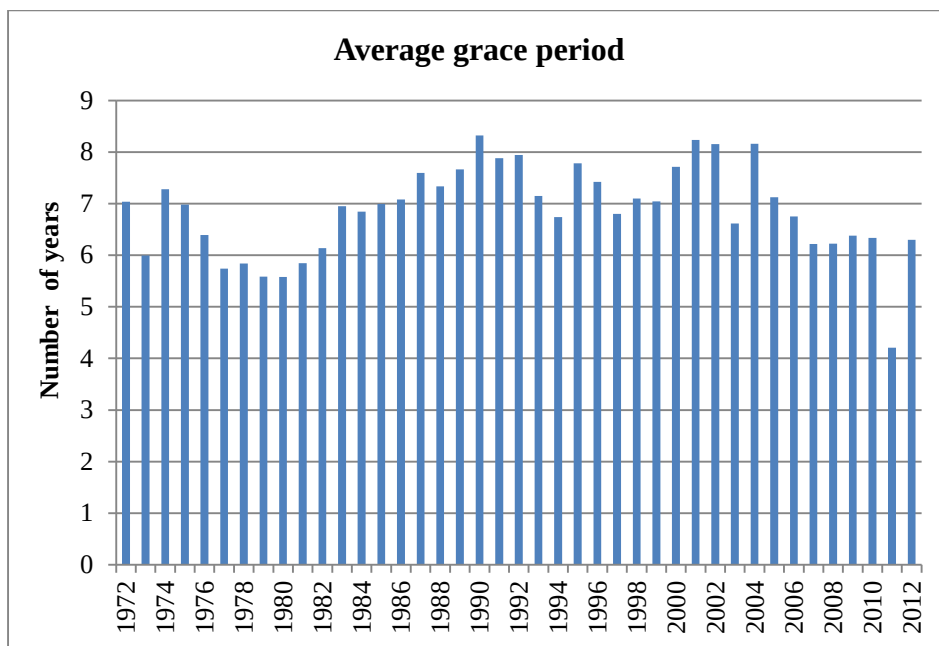
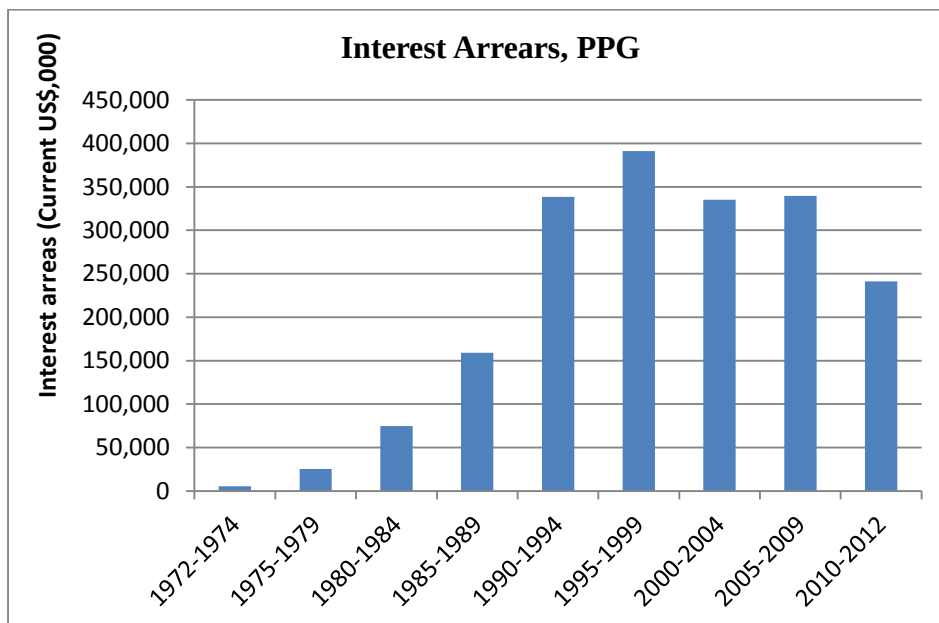


Figure 21: Average interest arrears of new external debt

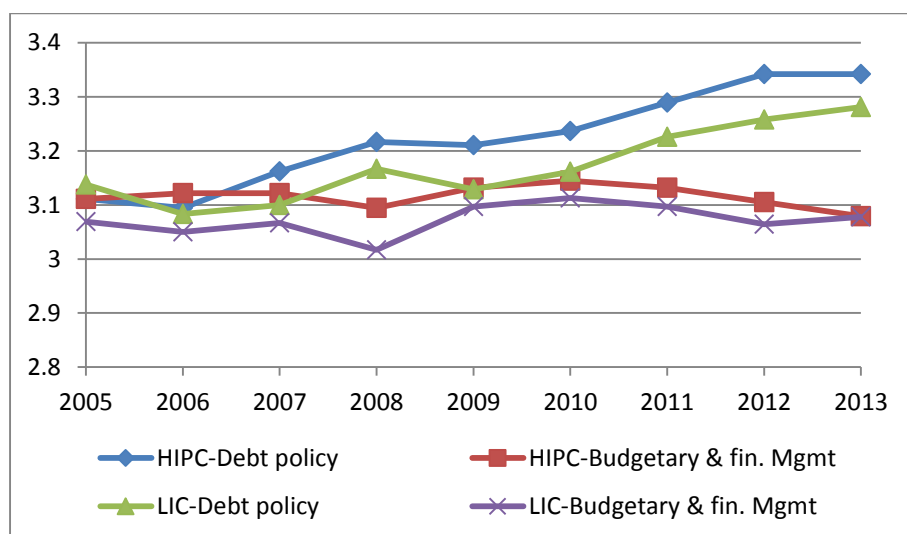


3.5 Governance and institutional quality

Weak institutions and more specifically lack of prudent debt management was a common weakness of the HIPCs. Bank assessments of debt management indicated that, in general, HIPC countries have a fair loan-by-loan record of their sovereign external debt and that agencies responsible for debt management were generally careful to ensure that new loans meet country requirements for concessionality (IEG, 2006). However, they lacked the capability to analyse the impact of new borrowing on long-term debt sustainability and on macroeconomic scenarios. Countries' debt management units therefore needed to strengthen their institutional framework, improve staffs' analytical skills and upgrade technical software.

As previously mentioned, data is not available since the 1970s to systematically assess the progress that HIPCs have made in this critical area. However, Figure 22 below shows that on average, the quality of HIPCs debt policy has consistently improved since 2006. At the same time through annual joint assessments of their debt sustainability with the IMF, borrowing countries are monitoring debt ratios against projections of future needs and future economic growth. However, the need to further improve debt management capacity has been highlighted in the most recent DSAs of several HIPCs (See Annex C). Additionally, it appears that HIPCs have made less progress in regards to improving the quality of budgetary and financial management. Notably, the HIPCs have outperformed the LICs on both set of indicators since 2006.

Figure 22: Comparison of quality of debt policy and public financial management in HIPCs vs. LICs, 2005-2012¹⁸

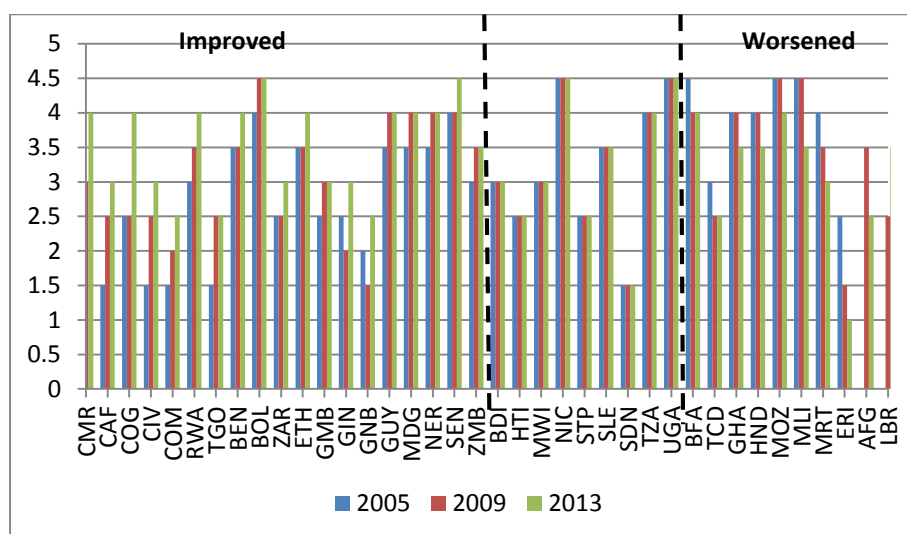


Note: 1=low to 6=high
Source: World Bank, CPIA

More specifically, 19 HIPCs have improved their debt policy score since 2005 (see Figure 23) while the indicators declined for 8 countries. Among the RA-HIPCs group, only Benin, Niger and Senegal improved while Burkina Faso, Ghana, Mozambique, Mali and Mauritania deteriorated. In regard to budgetary and financial management, 13 countries improved, including Mauritania, Burkina Faso and Mozambique. In contrast, Benin, Ghana, Malawi, Mali and Uganda were among the 14 countries that worsened.

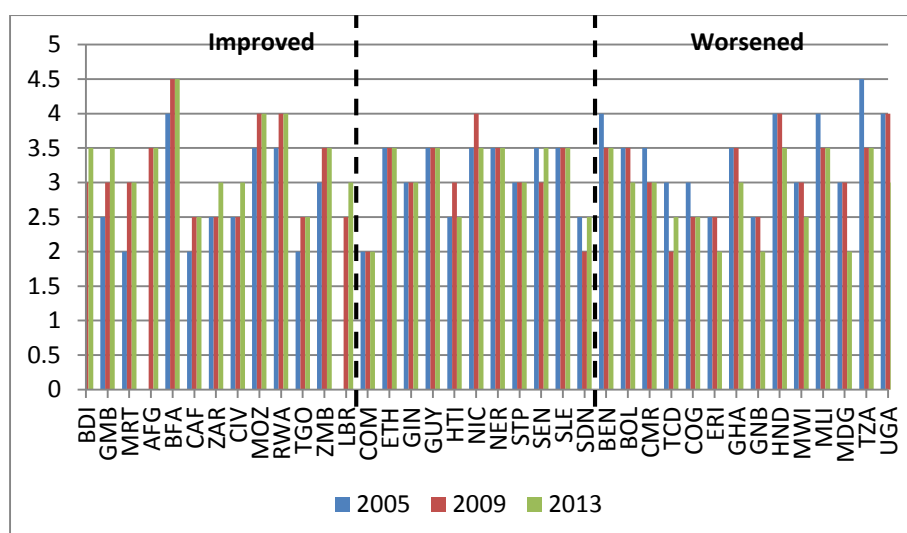
¹⁸ Debt policy assesses whether the debt management strategy is conducive to minimizing budgetary risks and ensuring long-term debt sustainability. Quality of budgetary and financial management assesses the extent to which there is a comprehensive and credible budget linked to policy priorities, effective financial management systems, and timely and accurate accounting and fiscal reporting, including timely and audited public accounts.

Figure 23: Debt Policy Rating, 2005, 2009 & 2010



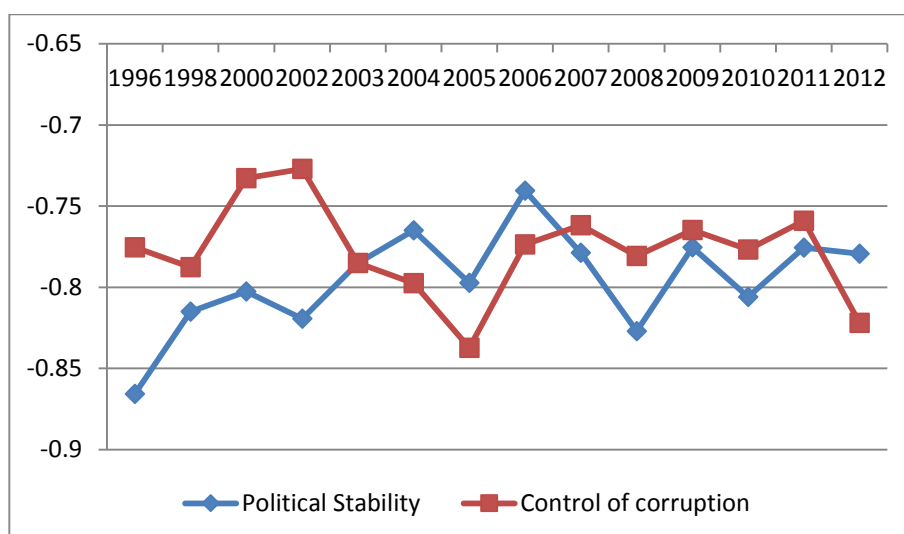
Source: World Bank, CPIA

Figure 24: Quality of Budgetary & Financial Management, 2005, 2009 & 2010



Source: World Bank, CPIA

Political stability generally improved for the HIPC group from the mid-1990s till 2006 with significant fluctuation since then. The significant drop between 2006 and 2008 can be attributed to a significant decline in political stability in Mauritania, Comoros, Madagascar, Somalia, Afghanistan, Niger and Sudan. The group as a whole, however, has become more politically stable between 1996 and 2012. In contrast, corruption appears to have worsened over this time period with a sharp decline between 2011 and 2012. This in turn is the result of a lower score in Burundi, Benin, Sudan and Madagascar.

Figure 25: Governance and institutional quality, 1996-2012

Source: WGI

Table 3 shows that the corruption scores worsened for majority of RA-HIPCs between 1996 and 2012 with the exception of Benin, Ghana and Niger. The most recent DSA for Malawi highlights the potentially negative impact of a recent fraud scandal on its debt sustainability (See Annex C). Political instability, on the other hand improved for Ghana, Mozambique, Malawi, Senegal and Uganda.

Table 3: Change in political stability and control of corruption in RA-HIPCs, 1996 vs. 2012

Country	Political Stability and Absence of Violence/Terrorism				Country	Control of Corruption			
	1996	2005	2012	Change 1996-2012		1996	2005	2012	Change 1996-2012
Mali	0.23	0.19	(1.98)	(2.21)	Burkina Faso	0.22	(0.09)	(0.52)	(0.74)
Mauritania	0.26	(0.24)	(1.13)	(1.39)	Mauritania	(0.01)	(0.36)	(0.60)	(0.59)
Niger	(0.11)	(0.48)	(1.17)	(1.06)	São Tomé and Príncipe	(0.01)	(0.86)	(0.39)	(0.38)
São Tomé and Príncipe	0.96	0.61	0.02	(0.94)	Uganda	(0.60)	(0.85)	(0.95)	(0.35)
Benin	0.96	0.45	0.31	(0.65)	Mali	(0.44)	(0.40)	(0.76)	(0.32)
Burkina Faso	(0.41)	(0.08)	(0.62)	(0.20)	Mozambique	(0.36)	(0.54)	(0.59)	(0.23)
Ghana	(0.32)	0.18	0.10	0.42	Malawi	(0.22)	(0.74)	(0.45)	(0.23)
Mozambique	(0.11)	0.12	0.35	0.46	Senegal	(0.22)	(0.03)	(0.32)	(0.09)
Malawi	(0.54)	0.08	(0.01)	0.54	Benin	(0.93)	(0.97)	(0.92)	0.02
Senegal	(0.72)	(0.22)	(0.10)	0.62	Ghana	(0.22)	(0.36)	(0.09)	0.13

Uganda	(1.61)	(1.43)	(0.89)	0.72	Niger	(1.09)	(0.73)	(0.69)	0.41
HIPC Avg	(0.87)	(0.80)	(0.78)			(0.78)	(0.84)	(0.82)	

Note: () indicates a negative value

Source: WGI

Summary of underlying economic, financial and political conditions

The following table summarises the main similarities and differences between the conditions that preceded the debt crisis to those in more recent years based on the above comparative exercise.

1970s	Current conditions	Assessment
Optimistic growth projections	HIPC economies are experiencing historically high growth rates, and more importantly have highly favourable growth projections. In addition, HIPCs are growing much faster than OECD economies on average since 2005.	Similar
Persistent macroeconomic imbalances	Data limitations prevent an exact comparison of current trends in the size of the fiscal deficit and current account with those in the 1970s. However, it is worth noting that though the size of the fiscal deficits is slightly smaller in 2013 compared to 2004 for the HIPC group on average, it has increased in most HIPCs that are rapidly accumulating debt. In addition, HIPCs continue to be characterised by persistent current account deficits which have generally worsened over time.	Insufficient information
Low interest rates	Current interest rates are close to zero though not as low as the rates that preceded the HIPC debt crisis.	Similar
High, volatile commodity prices	Commodity exporters have benefited from commodity prices that remained high by historical standards in recent years and as a result their TOT improved, but prices continue to display strong volatility, especially for agricultural raw materials and minerals, ores and metals.	Similar
Export concentration & vulnerability to exogenous shocks	In terms of expanding their narrow export base, the evidence is mixed. However, primary commodities still account for the vast majority of merchandise exports in most HIPCs.	Mixed
Shifting structure of external debt	Though concessional debt still accounts for majority of public external debt, several HIPCs are moving towards financial market and less concessional debt.	Mixed
Weak debt management capabilities	While several HIPCs have made some progress in improving their debt management capabilities, recent DSAs stress the need for further improvements, especially in regards to screening projects to maximise the growth enhancing effects of new debt.	Mixed
Political stability and Corruption	While data limitations prevent an exact comparison with the 1970s, it is noteworthy that several HIPCs are performing worse on indicators measuring corruption and political stability.	Insufficient information

4 Lessons Learnt

The key lessons emerging from the debt crisis that embroiled the HIPC is that maintaining debt sustainability of external debt depends on sound macroeconomic policies, resilience of the economy to exogenous shocks, the growth dividend of new debt, and a prudent approach to borrowing and lending to ensure that the overall terms of new finance match a country's stage of development, exposure, and growth prospects.

LESSON 1: Sound macroeconomic policies are critical to limit financing needs.

Sound macroeconomic policies, particularly in response to exogenous shocks, are crucial in limiting the needs for financing of the public sector, and in creating an environment conducive to export growth and diversification. This is important because the extent to which a country's current account is in deficit determines its external borrowing needs. Fiscal consolidation imperatives, however, have proven challenging for several HIPC in light of infrastructure needs and expenditure pressures to facilitate growth. In fact, the most recent DSAs of Ethiopia, Ghana, São Tomé and Príncipe, Tanzania and Uganda (See Annex C) emphasize the need to contain the government deficit.

LESSON 2: A diversified export base is needed to makes export receipts less vulnerable to commodity price shocks.

Most countries became severely indebted in response to terms of trade shocks and a subsequent decline in revenues, but continued maintenance of overextended public sectors. Their economies were particularly sensitive to export commodity price fluctuations, with adverse weather conditions also playing an important role in the agriculture-dominated economies. The main problem is the high concentration of export earnings in one or a few natural resource or agricultural commodities. The need for export diversification was highlighted in the latest DSAs for Benin, Malawi, as well as Mali (see Annex C).

LESSON 3: Debt Accumulation today should lead to Productive Asset Creation/Enhancement tomorrow

At the heart of the HIPC debt crisis was the failure to translate borrowed funds into productive investments. Borrowing for low return spending at real interest rates that exceed longer-term economic growth, with repayments that spike in a given time period is poor economic management, and has led several economies, not only HIPC, to insolvency and liquidity crises as market sentiment turns against them (World Bank, n.d.). Conversely, borrowing at low cost to finance high return growth-enhancing investments in physical and human capital is sound macroeconomics. Moreover, well-executed high-yielding public investment programs can be self-financing in the long run. It would therefore be short-sighted to bemoan the nascent build-up in debts in some of the early HIPC without considering how the funds have been used, an issue that is beyond the scope of this paper and which is not adequately addressed by the literature.

LESSON 4: Borrowers need to adopt a prudent debt management strategy

As countries borrow afresh, they need the capacity and analytical tools to design strategies to manage sovereign debt and contain its risks. In particular, careful choice of projects and increasing absorptive capacity and investment efficiency are critical. At the micro level, project selection is not just in terms of choosing self-financing projects in a narrow sense, but also prioritizing ones with large positive externalities and high social

returns (i.e. with high development dividends). More broadly, debt management should also be embedded in a well-run system of public finance management with transparency and accountability to all parties. This is especially important as the range of creditors and the menu of borrowing instruments expand. The DSAs of Ethiopia, Malawi, Mozambique, São Tomé and Príncipe, and Senegal all mention the need to improve their debt management capacity (see Annex C).

LESSON 5: Lenders need to engage in prudent lending.

To minimise the risk of imprudent lending, various analytical tools have been developed to inform borrowing decisions, and policy frameworks introduced to promote fiscal discipline and to prevent a build-up of debt and contingent liabilities. The Bank-Fund debt sustainability framework for LICs is one example and remains the main instrument to determine the share of grants and loans from sovereign donors and MDBs (in particular the World Bank and AfDB) and that the grant/concessional loan mix depends on the credit rating: countries at high risk of debt distress are expected to receive all their assistance in the form of grant (Prizzon et al, 2014). However, debt management should go beyond monitoring Debt Sustainability Ratios – International Finance Institutions' (IFIs) "forward-looking" DSF with the use of projection over 20 years against CPIA-determined thresholds is somewhat narrow and mechanical.

5 Conclusion

The experience of the HIPC reveals that a country's accumulation of unsustainable debt can stem from an interrelated set of factors such as deficiencies in macroeconomic management, adverse terms-of-trade shocks, and poor governance. It is also a powerful reminder of the challenges that lie ahead in translating new borrowing into growth-enhancing projects and policies.

At present, less than 40 percent of the post-completion point HIPCs have a low risk of debt distress. This is largely because the existing international debt relief initiatives were not designed to address the underlying causes of unsustainable debt in low-income countries, such as unfair global trade terms, narrow production and export bases, and vulnerability to exogenous shocks. It is therefore not surprising that these issues are common themes of even the most recent DSAs of these countries. This is cause for concern given that current macroeconomic conditions in HIPCs resemble in some ways the positive conditions prevailing before the debt crises of the 1980s.

To summarise the key similarities between conditions that preceded the debt crisis and current conditions are:

- High projected economic growth rates, and as a result optimistic expectations with regard to borrowers' repayment capacity
- High commodity prices and relatively high (and in some cases increasing) price volatility
- Low interest rates
- Shift towards non-concessional sources of finance, bonds, and commercial banks,

Other potential similarities that have been flagged but which lack comparable data for 1970s include:

- Persistent fiscal and current account deficits
- Weakening of institution capacity based on increasing corruption levels

Areas where improvements have been made, but where further improvement is needed are:

- Diversifying export mix
- Improving debt management capacity

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Annex A: List and Status of HIPC's (as of March 2014)

Post-Completion-Point HIPC's	
Afghanistan	AFG
Benin	BEN
Bolivia	BOL
Burundi	BDI
Burkina Faso	BFA
Cameroon	CMR
Central African Republic	CAF
Comoros	COM
Cote d'Ivoire	CIV
Congo, Dem. Rep.	COD
Congo, Rep.	COG
Ethiopia	ETH
Gambia, The	GMB
Ghana	GHA
Guinea	GIN
Guinea-Bissau	GNB
Guyana	GUY
Haiti	HTI
Honduras	HND
Liberia	LBR
Madagascar	MDG
Malawi	MWI
Mali	MLI
Mauritania	MRT
Mozambique	MOZ
Nicaragua	NIC
Niger	NER
Rwanda	RWA
São Tomé and Príncipe	STP
Senegal	SEN
Sierra Leone	SLE
Togo	TGO
Tanzania	TZA
Uganda	UGA
Zambia	ZMB
Interim Countries (Between Decision and Completion Point) (1)	
Chad	TCD
Pre-Decision-Point Countries (3)	
Eritrea	ERI
Somalia	SOM
Sudan	SDN

Annex B: Financing terms of new external debt in RA-HIPCs, 1975-2012

Country	Average grant element (%)					Average Maturity (Years)					Average grace period				
	1975-1979	1980-1984	2005-2009	2010-2012	Change 1975-79 & 2010-12	1975-1979	1980-1984	2005-2009	2010-2012	Change 1975-79 & 2010-12	1975-1979	1980-1984	2005-2009	2010-2012	Change 1975-79 & 2010-12
BEN	54	44	69	72	18	30	27	33	35	5	8	6	8	9	0
BFA	62	47	73	68	6	36	27	35	33	-4	8	7	9	8	0
GHA	43	56	55	65	21	25	33	26	27	2	6	8	7	6	0
MLI	61	57	73	67	6	32	30	35	28	-4	7	7	9	8	0
MRT	39	47	50	54	15	19	23	24	23	4	6	7	6	6	-1
MOZ		27	75	67			17	36	31			1	10	8	
NER	49	36	72	71	22	31	23	32	35	5	7	6	10	7	0
STP	40	29	36	47	7	17	12	15	20	3	4	4	4	6	2
SEN	22	37	62	60	38	15	23	29	29	14	4	6	7	9	5
UGA	34	47	80	75	41	13	30	42	36	24	5	7	10	9	5
MWI	39	47	73	71	33	26	32	36	34	8	6	7	10	7	1
HIPC Avg	41	40	55	55	14	24	25	25	24	1	6	6	7	6	0

Source: International Debt Statistics

Annex C: Summary of the latest IMF Debt Sustainability Analysis of Selected HIPC

Benin, DSA January 2013¹⁹

Risk of debt distress: Moderate

Themes: Fiscal consolidation, vulnerability to exogenous shocks and financing terms

The most recent DSA confirms a low risk of debt distress. This assessment, however, critically depends on the assumption that the authorities will continue to pursue prudent fiscal and debt policies and will implement structural reforms to enhance competitiveness and growth. Notably, the Beninese economy has made some progress in diversifying its economy, becoming less dependent on the cotton sector. For instance, the weight of cotton in exports has steadily declined over the last two decades, from 83 percent of exports in 1999 to just 17 percent in 2011. This evolution confirms that the risk related to cotton price volatility and financing of cotton activities is relatively moderate. Nonetheless, debt sustainability will depend crucially on improvements in economic diversification, sustained growth, fiscal consolidation, and a continuation of a prudent borrowing strategy relying mainly on grants and external concessional financing.

Burkina Faso²⁰

Risk of debt distress: Moderate

Themes: Vulnerability to exogenous shocks

The DSA results indicate that Burkina Faso should remain at moderate risk of debt distress. Burkina Faso's three year average CPIA score increased the institutional capacity classification from medium to strong. In the baseline scenario, all debt ratios remain comfortably below the risk thresholds, mainly due to the higher thresholds, but also due to higher gold production and higher domestic revenues. However, under the stress test scenarios, ratios breach the thresholds in the outer years (including a country specific stress test to better reflect the effect of the falling gold prices).

Ethiopia, DSA August 2013²¹

Risk of debt distress: Low

Themes: Fiscal consolidation, debt management and financing terms

Ethiopia's risk of external debt distress remains low. Nonetheless, external debt ratios have risen rapidly in recent years, and this trend is projected to continue in the medium-term. The results suggest the importance for Ethiopia of monitoring debt closely and remaining vigilant regarding new debt accumulation, particularly with commercial loans. An alternative scenario with a government primary deficit fixed at the 2012 level would have a detrimental impact on debt-to-GDP and debt-to-revenue ratios, suggesting that the government must develop a strategy to contain the primary deficit as it's already assumed in the baseline. Maintaining the growth of exports through diversification of the export sector, developing a medium-term debt strategy for the public sector, and limiting non-concessional borrowing remain crucial to maintaining a low risk of external debt distress.

Ghana, DSA May 2014²²

Risk of debt distress: Moderate

Themes: Fiscal consolidation, vulnerability to exogenous shocks and financing terms

¹⁹ <http://www.imf.org/external/pubs/ft/dsa/pdf/2013/dsacr1309.pdf>

²⁰ <http://www.imf.org/external/pubs/ft/dsa/pdf/2013/dsacr13235.pdf>

²¹ <http://www.imf.org/external/pubs/ft/dsa/pdf/2013/dsacr13308.pdf>

²² <http://www.imf.org/external/pubs/ft/scr/2014/cr14129.pdf>

Based on an assessment of external public debt indicators, Ghana still faces a moderate risk of debt distress, but overall debt vulnerabilities have increased, and Ghana's debt service-to-revenue ratio is approaching high-risk levels. Driven by loose fiscal policy, deteriorating financing terms and external pressures, several of Ghana's public domestic and external debt indicators have deteriorated. In particular, on the back of a higher fiscal deficit, declining gold and cocoa prices and large oil imports, the 2013 current account deficit rose above 13 percent of GDP. Owing to weak terms of trade, the deficit is expected to remain above 10 percent of GDP in 2014 and elevated until 2015. Also consistent with Ghana's improving income status and wealth, inflows from grants are projected to decline to less than ½ percent of GDP in the medium to long term. Borrowing is projected to become increasingly non-concessional, with rates for external commercial borrowing revised upwards compared to the last DSA. Ultimately, robust growth and fiscal consolidation are essential to maintaining Ghana's moderate debt distress rating.

Malawi, DSA December 2013²³

Risk of debt distress: Moderate

Themes: Vulnerability to exogenous shocks and debt management

Malawi remains at a moderate risk of debt distress, but new risks have emerged since the last DSA. In particular, the recent scandal involving the theft of public funds revealed weaknesses in national fiscal systems and resulted in donors suspending budget support disbursements. It points to the need for taking steps to arrest declines in the quality of institutions (as reflected in the CPIA score), to ensure capacity to manage the debt load of the country. Additional risks include the loosening of policies as a response to the suspension of donor support, which could further erode donor confidence and jeopardize the resumption of aid, which remains a fundamental component of Malawi's budget. Finally, risk of export related shocks remains, given Malawi's limited sources of foreign exchange and reliance on rain-fed agriculture.

Mali, DSA December 2013²⁴

Risk of debt distress: Moderate

Themes: Vulnerability to exogenous shocks and financing terms

Mali has a moderate risk of debt distress (unchanged from the previous DSA) with its external debt sustainability mostly sensitive to a hardening of financial terms, a reduction in transfers and FDI, and an export shock, thereby limiting the scope for non-concessional borrowing. Furthermore, given the expected decline in gold exports in the medium term, and the uncertain prospects for export diversification, Mali's debt sustainability needs to remain under close scrutiny. In light of these factors, the DSA recommends that the government continue to meet its external financing needs mostly with grants and concessional loans. Increasing other exports to compensate the expected decline in gold exports will be also critical to maintain external debt sustainability.

Mauritania, DSA June 2012²⁵

Risk of debt distress: Moderate

Themes: Vulnerability to exogenous shocks

Mauritania faces a moderate risk of debt distress while risks to the external debt outlook are broadly balanced. On the upside, continued fiscal discipline and stronger economic growth would further improve the external debt profile. On the downside, negative trade shocks, recurrence of natural disasters, and loose fiscal policy would push external debt higher than projected.

Mozambique, DSA April 2014²⁶

²³ <http://www.imf.org/external/pubs/ft/dsa/pdf/2014/dsacr1437.pdf>

²⁴ <http://www.imf.org/external/pubs/ft/scr/2013/cr13380.pdf#page=87>

²⁵ <http://www.imf.org/external/pubs/ft/dsa/pdf/2012/scr12246.pdf>

²⁶ <http://www.imf.org/external/pubs/ft/scr/2014/cr14148.pdf#page=53>

<i>Risk of debt distress: Moderate</i> <i>Themes: <u>Debt management and financing terms</u></i> Although Mozambique remains at moderate risk of external public debt distress, since the last DSA there has been significant new non-concessional borrowing. While the DSA noted the importance of public investment for development given Mozambique's infrastructure investment needs and that it will need to be financed by at least some non-concessional borrowing, it recommended that the potential increased risks to debt sustainability should be contained by moderating public external borrowing from its recent pace and through further improvements in debt management and investment planning capacity. Furthermore, ensuring that LNG production materialises is crucial for Mozambique's debt sustainability in order to lock in the beneficial effects on GDP and fiscal revenue.²⁷ If, however, there are delays in project take-off or LNG production or revenue is much lower than expected, the debt ratios would be higher over the medium to long term.
Senegal, DSA June 2013²⁸ <i>Risk of debt distress: Moderate</i> <i>Themes: <u>Fiscal consolidation and debt management</u></i> Senegal continues to face a low risk of debt distress, although the external outlook has worsened somewhat since the previous assessment. A slightly larger fiscal deficit in 2013, expected to be financed in part by a new \$500 million Eurobond, should lead to a marginal deterioration in external public debt ratios. However, the Eurobond should help reduce vulnerabilities associated with short-term domestic debt, reducing financing risks and lengthening the average maturity of overall debt, consistent with the authorities' medium-term debt strategy. While Senegal is expected to gradually shift to non-concessional external borrowing as it moves toward emerging market status, it should approach such borrowing with caution given current debt levels and the sensitivity of debt indicators to less favourable borrowing terms. Ultimately, to maintain the low risk rating, Senegal will need to sustain its fiscal consolidation efforts in the medium term, approach non-concessional borrowing with caution, and continue to improve debt management capacity.
Niger, DSA March 2013²⁹ <i>Risk of debt distress: Moderate</i> <i>Themes: <u>Vulnerability to exogenous shocks</u></i> Niger is subject to moderate risk of debt distress. The country's level of debt and the government's involvement in the financing of natural resources projects keep Niger very much vulnerable to adverse shocks while the macroeconomic outlook continues to be subject to various risks. The country remains vulnerable to exogenous shocks, including climatic shocks that frequently result in food crises, commodity price fluctuations including through their impact on the return on public sector investment projects, and the security situation in the region, as demonstrated by the recent flooding and continued arrivals of migrants from neighbouring countries. As a consequent, the DSA recommends that non-concessional borrowing should only be considered for well-assessed, high-yield commercial and infrastructure projects that will generate sufficient government revenue to cover debt service related to the projects. It also advised that government involvement in financing natural resources projects be limited.
São Tomé and Príncipe, DSA December 2013³⁰ <i>Risk of debt distress: High</i> <i>Themes: <u>Fiscal consolidation, Vulnerability to exogenous shocks and debt management</u></i>

²⁷ The DSA assumes that about 10 years after the start of LNG exports the public sector will dedicate an increasing share of resources to pay back debt.

²⁸ <http://www.imf.org/external/pubs/ft/dsa/pdf/2013/dsacr13170.pdf>

²⁹ <http://www.imf.org/external/pubs/ft/dsa/pdf/2013/dsacr13104.pdf>

³⁰ <http://www.imf.org/external/pubs/ft/dsa/pdf/2014/dsacr1402.pdf>

São Tomé and Príncipe remains at a high risk of external debt distress. The biggest risks to external debt sustainability come from exchange rate shocks and less favourable terms on new public sector loans. Debt sustainability could deteriorate if significantly higher global food and fuel prices materialize, raising the import bill and putting pressure on the current account. The risks appear manageable over the medium-term if the authorities are able to move forward with the planned fiscal adjustment in the coming years and safeguard international reserves. These vulnerabilities also underscore the importance of sound macroeconomic policies to fulfil the country's growth potential on a sustained basis. The development of sound public debt management, anchored in a medium-term debt management strategy and medium-term fiscal framework, will be essential to guide future development financing.

Tanzania, DSA April 2014³¹

Risk of debt distress: Low

Themes: Fiscal consolidation and financing terms

Tanzania continues to face a low risk of external debt distress, but continued fiscal consolidation is needed to preserve debt sustainability.³² Fiscal consolidation in the medium term may present challenges for the authorities in light of infrastructure needs and expenditure pressures to facilitate growth in key sectors (e.g., energy, transportation, and agriculture), as well as growing pension obligations and the upcoming general election in 2015. Notably, the majority of Tanzania's PPG external debt is still concessional, but borrowing on non-concessional terms has increased in recent years. In February 2013, Tanzania raised US\$600 million from international capital markets in a private placement transaction. Tanzania is currently in the process of obtaining its sovereign risk rating, which would facilitate future Eurobond issuance. Overall, these results highlight the need for Tanzania to sustain fiscal consolidation efforts, and to adopt a prudent approach to non-concessional borrowing.

Uganda, DSA December 2013³³

Risk of debt distress: Low

Themes: Fiscal Consolidation

Despite the envisaged scaling-up of external borrowing, Uganda continues to face a low risk of debt distress. The government's cautious approach in accumulating new external debt during the post-MDRI period has provided the economy with significant borrowing space to scale up public investment. However, the authorities are encouraged to adhere to the planned pace of implementation of these projects and ensure appropriate cost recovery to avoid delays and inefficiencies that could add costs and affect economic stability. The DSA recommends that once the construction of the projects is completed, the temporary increase in fiscal deficits should be halted to bring public debt back to a sustainable path.

³¹ <http://www.imf.org/external/pubs/ft/scr/2014/cr14120.pdf#page=63>

³² If natural gas prospects were to materialize, the overall long-term impact would likely be highly beneficial, with potentially large fiscal receipts from gas revenues, thereby reducing public sector borrowing needs and enhancing debt sustainability. However these potentially large revenues from natural gas finds would materialize only a decade from now and as a result it is not yet factored into the DSA's baseline.

³³ <http://www.imf.org/external/pubs/ft/scr/2013/cr13375.pdf#page=27>