

Update on ADF Activities in Support of Debt Sustainability

Background Paper

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Executive Summary

This paper responds to a request by ADF Deputies for an update on the ADF's implementation of the Debt Sustainability Framework. The Debt Sustainability Framework (DSF) was originally developed in 2004 as a complement to the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) to help low-income countries (LICs) balance their financing needs and their debt sustainability. Since 2005, the terms of ADF financing and grant eligibility have been based on a country-by-country analysis of the risk of debt distress that relies on IMF-World Bank debt sustainability analysis (DSA). As of end-February 2009, 37 of 40 ADF-eligible countries had been assessed under the dynamic DSAs. The Bank has been participating in DSA missions increasingly since 2007.

A recent review of DSA trends found that countries remain vulnerable to debt distress even after debt relief is granted. Indeed, the number of ADF countries in actual debt distress or in high or moderate risk of debt distress during the 2005-2009 period has been relatively stable, despite the fact that 20 ADF countries have reached the HIPC completion point and another nine have reached the HIPC decision point. Analysis shows that for many post-MDRI countries, debt ratios will converge to pre-MDRI levels in the long term unless improvements to macroeconomic fundamentals are made.

In addition, recent studies have shown that even though the risk to debt sustainability posed by the current financial crisis varies depending on a country's pre-crisis conditions, higher borrowing to help offset the impact of the crisis could pose serious risks, particularly for LICs that already have a high debt burden. The studies highlight the importance of LICs contracting new borrowing preferably on concessional terms, lest the benefits of HIPC and MDRI be cancelled.

In order to discourage the re-accumulation of non-concessional debt by HIPCs in cases where this would create a risk of debt distress, the Bank Group approved in 2008 a Non-Concessional Borrowing Policy (NCBP) that provides for strengthened partnerships and coordination between donors, enhanced cooperation in debt management capacity building, and disincentives for countries that violate non-concessional borrowing restrictions.

Implementing the NCBP has proven challenging because of the difficulty of obtaining information about the non-concessional borrowings of individual countries, particularly from non-traditional donors. Implementation is also hampered by the difficulty of determining the type of disincentive to apply to various countries, particularly in a context where concessional financing is not sufficiently available to cover LICs' enormous financing needs.

The IMF Board has approved a revised concessionality policy in late August 2009. This policy, while emphasizing the continuous debt vulnerability of LICs and the need for concessional resources to remain LICs' preferred source of financing, provides for a more country specific approach to debt limits and concessionality requirements, based on each country's debt sustainability and debt management capacity. Given the importance of a collective response to debt re-accumulation issues, the ADF will review its NCBP in close cooperation with the International Development Association and the IMF, but with due consideration to issues which are specific to African low-income countries.

The Bretton Woods Institutions have also adopted in late August a number of adjustments to the DSF to increase its flexibility without compromising the debt sustainability of LICs. The main purpose of these adjustments is to better take into consideration the link between public investment and growth, as well as remittances in DSAs, to exclude debt of some State Owned Enterprises from DSAs and to reduce threshold effects due to changes in countries' institutional performance assessment. These adjustments will start being implemented in all DSAs in 2010.

Finally, it has become clear that, post-HIPC and MDRI debt relief, the main issue for both LICs and donors will be LICs' capacity to manage debt. Good capacity in this regard is vital if LICs are to realize the full benefits of debt relief and avoid falling back into debt distress. This means that it is essential that LICs develop strong and sustainable debt strategies, institutions and instruments.

To respond to this challenge, the Bank Group is growing its capacity and interventions in the debt management field. It is, for example, in the process of becoming a donor to the Debt Management Facility, a multidonor trust fund created to scale up capacity building with regards to debt management (assessment, program design, technical assistance for the development of debt management strategies, monitoring, knowledge dissemination, and training).

The Bank Group is also scaling up cooperation with its partners by providing systematic inputs into

the Debt Sustainability Framework, by participating increasingly in DSA missions with Bretton Woods Institutions, by collaborating systematically on HIPC, MDRI and NCBP issues, and by participating in regular meetings on debt issues with other international financial institutions.

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Abbreviations

ADB	African Development Bank
ADF	African Development Fund
ADF-10	Tenth General Replenishment of the African Development Fund
ADF-11	Eleventh General Replenishment of the African Development Fund
DMF	Debt Management Facility
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
IDA	International Development Association
HIPC	Heavily Indebted Poor Country Initiative
ISP	Institutional Support Project
IMF	International Monetary Fund
LIC	Low-Income country
MDRI	Multilateral Debt Relief Initiative
PBA	Performance-Based Allocation
NCBP	Non-Concessional Borrowing Policy
RMCs	Regional Member Countries

UPDATE ON ADF ACTIVITIES IN SUPPORT OF DEBT SUSTAINABILITY

1. Introduction

- 1.1 This paper responds to a request by African Development Fund (ADF) Deputies for an update on the ADF's implementation of the Debt Sustainability Framework (DSF). The DSF, which was originally developed in 2004 by the International Development Association (IDA) and the International Monetary Fund (IMF)¹ in extensive consultation with other multilateral development banks, including the African Development Bank (ADB or the Bank) Group, was designed as a complement to the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) to help low-income countries (LICs) address the balance between their financing needs and the sustainability of their debt. The DSF is guided by an emphasis on common donor approaches to addressing the challenges of debt distress and the re-accumulation of non-concessional debt by HIPCs. During replenishment discussions for the Tenth General Replenishment of the African Development Fund (ADF-10, 2005-2007) in 2004, Deputies agreed that the terms of ADF-10 financing, including grant eligibility, would be based on a country-by-country analysis of the risk of debt distress as drawn from the new IMF/World Bank DSF.²
- 1.2 The DSF is a diagnostic tool designed to analyze countries' debt sustainability. Its main objectives are (i) to guide LICs' borrowing practices so that their financing decisions are matched to their current and prospective repayment abilities; (ii) to inform creditors' lending and grant-allocation decisions to ensure that resources are provided to LICs on terms that are consistent both with progress towards those countries' development goals and with their long-term debt sustainability; and (iii) provide lenders with assessments and policy advice. The DSF also helps to detect potential crises early so that preventive action can be taken.³
- 1.3 Since the DSF was adopted in 2005, there has been an increasing focus on forward-looking debt sustainability analysis (DSA) as a means of better capturing individual country needs and vulnerabilities to various sensitivity tests. The diagnostic tool was further complemented in 2008 by the Bank's adoption of a Non-Concessional Borrowing Policy (NCBP) to discourage the accumulation by ADF-only countries of non-concessional debt in cases where this would create a risk of debt distress.⁴
- 1.4 This paper provides an update on the role of the ADF in supporting debt sustainability in ADF countries and discusses some of the challenges and issues faced by ADF countries when they attempt to strike a balance between financing for development and ensuring debt sustainability. These issues have become more acute in the context of the financial crisis. Accordingly this paper addresses the following subjects: (i) progress in implementing the DSF within the ADF's resource allocation framework; (ii) progress in implementing the NCBP; (iii) ongoing discussions on how to strike the right balance between financing needs and debt sustainability; (iv) issues regarding LICs' capacity to manage new borrowings; and (v) enhanced partnerships with other donors. This paper does not detail the rationale and the technical components of DSA framework, as these are covered in earlier papers.⁵

¹ International Monetary Fund and International Development Association. February 3, 2004. *Debt-Sustainability in Low-Income Countries—Proposal for an Operational Framework and Policy Implications*; and International Monetary Fund and International Development Association. September 10, 2004. *Debt Sustainability in Low-Income Countries: Further Considerations on an Operational Framework and Policy Implications*.

² African Development Fund. January 2005. *Report of the Consultative Meetings on the Tenth General Replenishment of the African Development Fund*. Document ADF/BD/WP/2005/06.

³ <http://www.imf.org/external/np/exr/facts/jdsf.htm>

⁴ Document ADB/BD/WP/2008/16/Rev.2/Approved ADF/BD/WP/2008/09/Rev.2/Approved

⁵ Ibid footnote 2. See also African Development Fund. September 2004. *The New IMF/World Bank Debt Sustainability Framework and its Implications for ADF Financing Terms*; and African Development Fund. December 2006. *Progress Report on Application of the DSF*.

2. Progress in Implementing the Debt Sustainability Framework Within ADF's Resource Allocation Framework

- 2.1 Since its adoption as part of ADF-10, the DSF has become a key element of the ADF's resource allocation framework and ADF's broader dialogue with LICs and development partners.

Debt Sustainability Analysis

- 2.2 The DSF was originally built on two pillars: a "static" pillar that was based on a 1-year snapshot of debt indicators relative to external debt burden thresholds that were linked to country policies and institutions; and a "dynamic" pillar wherein the risk of debt distress was assessed in light of forward-looking scenarios. In 2005 and 2006, debt distress risk ratings were primarily based on the static pillar, due to the limited use of DSAs in the early stages of the implementation of the DSF.
- 2.3 Since 2007, DSAs have been regularly conducted using the dynamic pillar.⁶ DSAs currently consist of three elements: (i) an analysis of a country's projected debt burden over the next 20 years and its vulnerability to external and policy shocks, with baseline and shock scenarios; (ii) an assessment of the risk of debt distress during that time, based on indicative debt burden thresholds that depend on the quality of the country's policies and institutions; and (iii) recommendations for a borrowing (and lending) strategy that limits the risk of debt distress.⁷
- 2.4 As of end July 2009, 38 of 40 ADF-eligible countries had been assessed under the joint IMF/World Bank DSF.⁸ All 38 countries had been assessed at least once using the forward-looking DSAs introduced in 2006. DSAs are usually reviewed at least once a year. Annex I lists the latest DSAs for ADF countries as of 14 August 2009.

Table 1: DSA Classification of ADF-Eligible Countries by Risk of Debt Distress, August 14, 2009

Risk of Debt Distress			
Low	Moderate	High	In Distress
Cameroon	Angola	Burkina Faso	Burundi
Cape Verde	Benin	Central African Republic	Comoros
Kenya	Chad	Congo, Rep. of	Democratic Republic of Congo
Madagascar	Ethiopia	Côte d'Ivoire	Guinea
Mali	Ghana	Djibouti	Guinea-Bissau
Mozambique	Lesotho	Gambia	Liberia
Nigeria	Malawi	São Tome & Príncipe	Sudan
Senegal	Mauritania		Togo
Tanzania	Niger		Zimbabwe
Uganda	Rwanda		
Zambia	Sierra Leone		

- 2.5 The Bank has been contributing to DSA ratings since 2006. In 2007, the Bank reached agreement with the World Bank and the IMF to deepen its participation in this work and to participate in selected DSA missions. To date, Bank staff have participated in five missions in the following countries: the Central African Republic, Côte d'Ivoire, Guinea, Liberia and Togo. Participation in these missions allowed the Bank Group to validate and cross-check loan data from national systems while acquiring a much deeper first-hand understanding of the debt situation of these countries. This understanding has also informed Country Teams' dialogue

⁶ For more details, see African Development Fund. December 2006. *Progress Report on Application of the DSF*; International Development Association. 2006. *Debt Dynamics and Financing Terms: A Forward-Looking Approach to IDA Grant Eligibility*; and International Development Association. September 2007. *The Role of IDA in Ensuring Debt Sustainability: A Progress Report*.

⁷ See <http://www.imf.org/external/np/exr/facts/jdsf.htm>

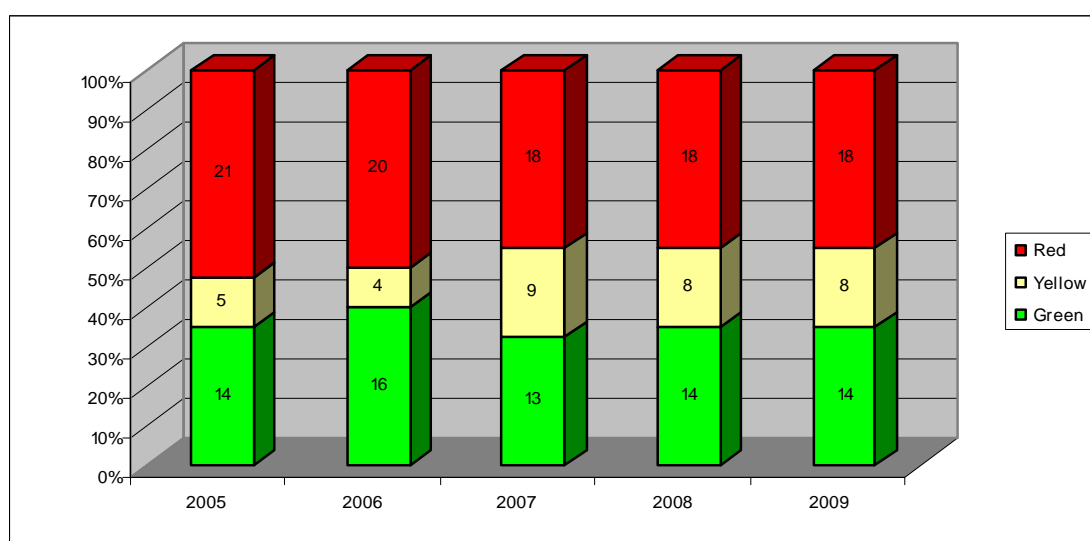
⁸ Eritrea has been assessed but its final assessment has not been approved and published by the IMF's Board of Directors.

with national authorities. Based on this first phase, the Bank plans to deepen its cooperation with the Bretton Woods Institutions with a view to participating more fully in the DSA analysis phase, i.e. the modeling of debt and debt service dynamics under various scenarios.

Resource Allocation Framework

- 2.6 Using DSAs, the ADF classifies countries into three “traffic light” categories, where red indicates a high risk of debt distress, yellow indicates a moderate risk and green indicates a low risk. Countries in the red category qualify for 100 percent grants, countries in the green category qualify for 100 percent loans, and countries in the yellow category qualify for a 50/50 loan/grant combination. Figure 1 and Annex II show the traffic light classification as applied to 2005-2009 Performance-Based Allocation (PBA) system ratings of ADF countries.⁹ As indicated in Figure 1, the number of grant-eligible countries (red and yellow-light countries) remained relatively stable over the period, varying between 24 and 27.

Figure 1: Number of Countries per DSF Traffic Light Category, 2005-2009



- 2.7 Since adopting the DSF, the ADF has applied the modified volume approach under which a 20 percent volume discount is applied on grants. This discount is sub-divided into two portions: (i) an incentive-related portion (9.88 percent under the Eleventh General Replenishment of the African Development Fund (ADF-11)) designed to prevent moral hazard and help maintain the strength of the ADF’s incentive system as reflected in its PBAs¹⁰; and (ii) a charges-related portion (10.12 percent under ADF-11) to cover foregone charges. Under ADF-11, fragile states are only subject to the charges-related volume discount.
- 2.8 As shown in Figure 2, the share of grants in ADF PBAs between 2005 and 2009 has decreased steadily, falling from 34.3% in 2005 to 25.6% in 2009. With the number of ADF grant-eligible regional member countries (RMCs) remaining virtually constant over this period, this decrease means that the ADF loan-eligible RMCs, which are on average better performers than grant-eligible RMCs, have been receiving increasingly more resources over the period. This trend highlights how under the PBA system, performance has a positive impact on allocations, which impact is reinforced by the incentive-related portion of the discount under modified volume approach and the effect of the MDRI netting out.¹¹

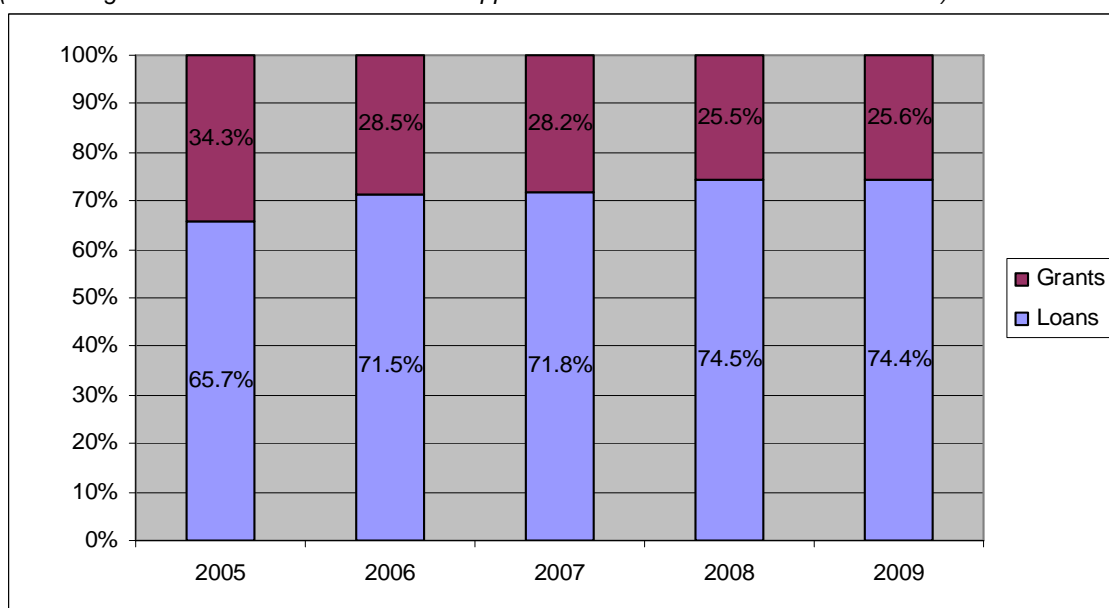
⁹ The number of countries in each category presented in Figure 1 and Annex II corresponds to the country classification used at the time of the annual PBA exercise. It varies slightly from the data reported in Table 1 and Annex I, which incorporate recent DSA results (as of 14 August 2009).

¹⁰ The incentive-related discount is applied and reallocated to all ADF-only countries using the PBA formula to limit the moral hazard associated with granting more favourable terms to countries with a moderate or high risk of debt distress.

¹¹ Under the MDRI framework, foregone debt service payments in any given year are deducted from each country’s allocation. Resources provided by donors to compensate the ADF for these foregone debt service

Figure 2: Share of Loans and Grants in ADF Performance-Based Allocations, 2005 to 2009

(Share of grants under the modified volume approach after DSF and MDRI re-allocations)



Impact of the HIPC and the MDRI on the Debt Sustainability Framework

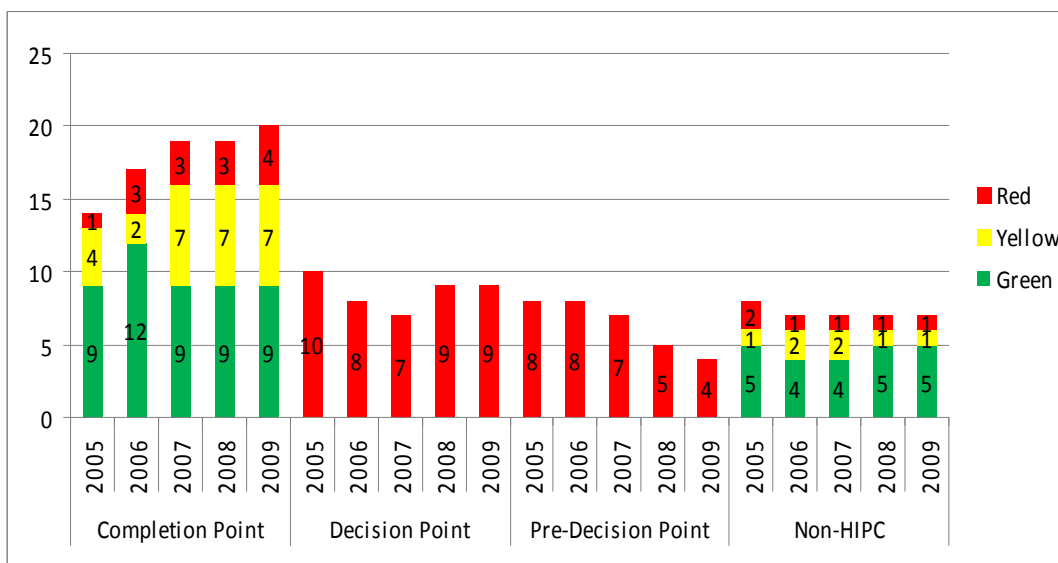
- 2.9 As of the end of 2008, 20 ADF countries had reached the completion point and received full debt relief under the HIPC Initiative and the MDRI while nine countries had reached the decision point and received interim debt relief. As a result of the debt relief received, the average debt burden of Africa's HIPCs has been effectively reduced by approximately 80 percent compared to decision-point levels and DSAs confirm that post-completion point countries are on average in a better debt situation than are other HIPCs. Indeed, all pre-completion point ADF HIPCs have been assessed as either experiencing debt distress or having a high risk of debt distress, while most post-completion point countries have low or moderate risk ratings (Figure 3). The lower debt vulnerability of post-completion point HIPCs reflects both lower debt ratios as a result of debt relief and the fact that according to Country Policy and Institutional Assessment (CPIA) ratings, post-completion point countries have on average better policies and institutions than do other HIPCs. In the DSF, better policies and institutions translate into higher indicative debt vulnerability thresholds.¹²
- 2.10 Despite debt relief, however, 11 of the 20 ADF completion point countries are still at a moderate or high risk of debt distress (Figure 3). This clearly shows that while debt relief initiatives have successfully reduced eligible countries' stock of debt, thus freeing up fiscal space for poverty-reducing expenditures, HIPCs remain vulnerable to debt distress.
- 2.11 Figure 3 illustrates this situation by looking at countries by HIPC status. It shows that despite the fact that six new countries reached the completion point between 2005 and 2009, the number of green light completion point countries has not increased. Burundi, the Gambia, Rwanda, and Sao Tome & Principe remain at high risk of debt distress despite having reached the completion point, and all new decision point countries also remain at high risk of debt distress despite having received interim debt relief. Completion point countries at a high risk of debt distress tend to share certain vulnerabilities: a low export base, concentration on a small number of commodities, susceptibility and sensitivity to shocks (e.g., droughts and price volatility) that result from over-concentration, and the poor or deteriorating quality of their policies and institutions compared to the policies and institutions of their peers, as measured

payments are re-allocated to all ADF-only countries, using the PBA system. This helps to ensure equitable allocations across eligible countries, and links resource transfers to country performance.

¹² See International Development Association and International Monetary Fund. September 2008. *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) –Status of Implementation*.

by the CPIA index.¹³

Figure 3: Number of ADF Countries by HIPC Status and Traffic Light Designation, 2005-2009



- 2.12 The deterioration of the debt distress risk of Ghana, a relatively strong post-completion point performer, from low to moderate in the second part of 2008 clearly illustrates the vulnerability of certain LICs. Ghana's reclassification resulted from its recent rapid accumulation of external and domestic public debt contracted on commercial terms, and high current account and fiscal deficits that expose the country to structural vulnerabilities in the event of a reversal of favorable terms of trade.
- 2.13 Analysis shows that for many post-MDRI countries, debt ratios will converge to pre-MDRI levels in the long term unless macroeconomic fundamentals improve.¹⁴ MDRI countries therefore still require substantial concessional resources to preserve their debt sustainability. The fact that debt relief alone is insufficient to ensure long-term debt sustainability was emphasized in the Monterrey Consensus (2002), which called for (i) comprehensive strategies for reducing the vulnerability of debtor countries; (ii) shared debtor/creditor responsibility for preventing and resolving unsustainable debt situations (Part 3 on Non-Concessional Borrowing Policies); and (iii) strengthened technical assistance for debt management and debt tracking (Part 5 on debt management capacity).

Vulnerability to External Shocks

- 2.14 The immediate effects of the global financial and economic crisis on the economic fundamentals of post-HIPCs are already being felt, with sharp declines in exports and gross domestic product and reductions in remittances, foreign direct investment and trade. The full impact of the crisis on the long-term debt sustainability prospects of individual countries remains to be seen, but it could lead to the worsening of debt ratios and the curtailment of governments' ability to maintain prudent risk levels while pursuing financing options to implement the counter-cyclical measures best suited to their economy.¹⁵

¹³ Ibid

¹⁴ See African Development Fund. December 2006. *Progress report on application of the DSF*; World Bank and International Monetary Fund. 2006. *Review of Low-Income Country Debt Sustainability Framework and Implications of the MDRI*; and International Development Association. September 2007. *The Role of IDA in Ensuring Debt Sustainability, a Progress Report*.

¹⁵ The impact of the financial crisis and economic downturn on the debt sustainability of post-HIPCs will depend on the duration of the crisis and the pre-crisis macroeconomic conditions of each country. According to the DSA model, which is forward-looking and assumes different levels of shocks over a 20-year period, a short-lived crisis will have a short-term effect on debt sustainability while a protracted crisis will have a much more lasting effect.

- 2.15 Recent studies carried out by the ADB and the IMF show that even though the risk to debt sustainability posed by the current financial crisis varies depending on initial conditions, higher borrowing to offset the impact of the crisis could pose serious risks, particularly for LICs that already have a high debt burden.¹⁶ For example, IMF debt simulations show that if a 30% reduction in aid and foreign direct investments are replaced by external borrowing to maintain investment expenditures, three ADF countries (two of which have reached the HIPC completion point) currently in low or moderate risk of debt distress, could fall back into a high risk of debt distress (Table 2).¹⁷ The studies highlight the importance of LICs contracting new borrowings on concessional terms lest the benefits of HIPC and MDRI be cancelled.

Table 2: IMF Simulation of the Impact of the Crisis on DSA Country Classifications

Risk of Debt Distress			
Low	Moderate	High	In Distress
Cameroon	Angola	Burkina	Burundi
Cape verde	Benin	Central African Republic	Comoros
Kenya	Chad	Congo, Rep. of	Democratic Republic of Congo
Madagascar	Ethiopia	Côte d'Ivoire	Guinea
Mali	Ghana	Djibouti	Guinea-Bissau
Mozambique	Lesotho	Gambia	Liberia
Nigeria	Malawi	Lesotho	Sudan
Senegal	Mauritania	Mozambique	Togo
Tanzania	Niger	São Tome & Príncipe	Zimbabwe
Uganda	Rwanda	Senegal	
Zambia	Sierra Leone		

3. The Non-Concessional Borrowing Policy

Adoption of the Non-Concessional Borrowing Policy

- 3.1 As requested by the ADF Board of Directors and the ADF Deputies during the ADF-11 replenishment discussions, the Fund adopted on May 20, 2008, its Policy on Non-Concessional Debt Accumulation (hereafter referred to as the Non-Concessional Borrowing Policy, or NCBP) for the purpose of (i) enhancing creditor coordination around the DSF and (ii) discouraging non-concessional borrowing through disincentives for recipient countries, including volume discounts and harder ADF borrowing terms.¹⁸
- 3.2 The adoption of this policy was rooted in the fact that the provision of grants and debt relief to eligible countries is intended to help bring their debt to sustainable levels and create fiscal space for priority development expenditures. The accumulation of new debt on non-concessional terms by beneficiary countries, whether from public or private sources, can undermine these objectives and introduce the risk of free-riding, a situation in which the grants and debt relief provided by one or more parties cross-subsidize new borrowing from third-party lenders on non-concessional terms. This risk is particularly high in resource-rich countries where non-concessional borrowing may be secured by future export receipts.

¹⁶ African Development Bank. May 8, 2009. *Africa and the Global Economic Crisis: Strategies for Preserving the Foundations of Long-Term Growth*; and International Monetary Fund. March 2009. *The Implications of the Global Financial Crisis for Low-Income Countries*.

¹⁷ These simulations were carried out for illustrative purposes only and should not be considered actual debt projections and debt sustainability analyses at the country level. See International Monetary Fund. March 2009. *The Implications of the Global Financial Crisis for Low-Income Countries*.

¹⁸ Throughout this paper, concessional financing refers to financing with a grant element of 35 percent or higher. For more information about the calculation of the grant element, see <http://www.imf.org/external/np/pdr/conc/index.htm>

- 3.3 To reduce the risk of free-riding, it is essential that donors adopt a collective approach to debt re-accumulation issues. The ADF's proposed approach to non-concessional debt accumulation is therefore closely coordinated in both design and implementation with the IDA's approach¹⁹ and the IMF's policy on concessionality.²⁰ It is guided by the following principles: (i) strong partnership and coordination with sister multilateral development banks and bilateral agencies; (ii) measures that are effective and can be implemented; and (iii) flexibility and a case-by-case approach.
- 3.4 Within this framework, the NCBP includes the following policy measures: (i) strengthening partnerships and coordination with sister multilateral development banks and bilateral agencies to adopt a common strategy in dealing with the problem, including advocacy; (ii) strengthening reporting and monitoring through the creation of a non-concessional borrowing monitoring committee and the insertion of a clause in all Bank Group grant/loan agreements that requires borrowers to report new non-concessional borrowing; (iii) enhancing cooperation with regards to capacity building in collaboration with other partners; and (iv) applying disincentive measures.
- 3.5 The disincentive measures framework provides flexibility in dealing with RMCs that breach the NCBP by allowing for case-by-case decisions as follows: (i) for resource-rich RMCs that consistently borrow on non-concessional terms, hardened lending terms that range from moderate to more severe will be applied; (ii) for emerging market low-income, low-risk RMCs where there is evidence of capital market interest in project finance, flexibility in accommodating non-concessional borrowing will be allowed so as to help these countries reach the Millennium Development Goals; and (iii) for HIPC in the interim period, the grant agreement will include a clause to the effect that the borrower will not receive extended interim debt relief if it contracts non-concessional debt during the interim period.

Implementation

- 3.6 As provided in the policy, an internal cross-departmental committee on the NCBP was created to review issues arising under the policy. Side letters requiring reporting on planned and new non-concessional borrowing are being introduced as standard practice in all new ADF grant/loan agreements. For HIPC in the interim period, a clause stating that the country will not receive extended interim debt relief if it contracts non-concessional debt during the interim period is being introduced in all HIPC grant agreements.
- 3.7 The ADF has only applied disincentive measures once since the NCBP was adopted. This took place in Ghana²¹ (Box 1).²² Three other ADF-only RMCs, namely Kenya, Tanzania and Zambia, were reportedly considering raising capital through the Eurobond market in 2008, but for economic reasons, these projects could not be completed. The case of a large non-concessional loan extended to the Democratic Republic of Congo by Chinese entities is also being closely monitored, but the final decision is pending the conclusion of discussions between the ADF, the IMF and the IDA on one hand and the Democratic Republic of Congo authorities on the other. These discussions regard a possible renegotiation of the said contract to reduce the amount of debt contracted and increase its concessionality level.

¹⁹ International Development Association. June 19, 2006. *IDA Countries and Non-Concessional Debt: Dealing With the 'Free Rider' Problem in IDA 14 Grant-Recipient and Post-MDRI Countries*.

²⁰ International Monetary Fund, August 2009, *Debt Limits in Fund-Supported Programs – Proposed New Guidelines*.

²¹ African Development Bank. September 3, 2008. *Information Note on Application of Non Concessional Debt Accumulation Policy to Ghana*, ADB/BD/IF/2008/186 ADF/BD/IF/2008/169.

²² The first case of non-concessional borrowing assessed by the IDA was Angola. The IDA's implementation of its policy led to a hardening of the terms of IDA's assistance to Angola.

Box 1: Application of Disincentive Measures to Ghana

Ghana's non-concessional borrowing in 2007 consisted of the following elements: (i) a US\$ 750 million Eurobond issued on capital markets at a fixed coupon of 8.5 percent and a 10-year repayment of the principal; (ii) a US\$ 292 million loan agreement with the Export-Import Bank of China for the Bui hydroelectric power plant subject to 6.1 percent interest, a 17-year repayment period, and a 5-year grace period; and (iii) a US\$ 23.5 million loan from the Netherlands BMH Bank for the Barekese Water Supply Project.

Ghana's non-concessional borrowing was assessed in light of sector and country-specific circumstances. Approved in 2005, Ghana's Growth and Poverty Reduction Strategy had noted the insufficiency of domestic and concessional sources to finance the country's development plan, particularly as regarded energy and transport. To facilitate these investments, Ghana undertook policy and institutional reforms such as electricity tariff readjustments, public enterprise modernization and the creation of a Project Finance Analysis Unit to monitor and evaluate new investment projects. Part of the Eurobond proceeds and financing arrangements with the Export-Import Bank of China would be used for energy investments to keep up with the growth in demand and mitigate the country's vulnerability to drought-induced power supply disruptions.

A joint IMF-World Bank DSA conducted in April 2007 had incorporated some non-concessional borrowing into the baseline scenario, but not to the magnitude and extent eventually contracted by the country. A more recent IMF/World Bank DSA undertaken in June 2008 classified Ghana at a moderate risk of debt distress, which status represented a slight deterioration compared to the previous rating. This deterioration was due to the rapid accumulation of external public debt contracted on commercial terms, and high current account and fiscal deficits.

In view of Ghana's increased access to capital market financing, and given Ghana's CPIA rating and green light status, Management decided to apply moderate ADF terms to Ghana. These translated into a reduction of the maturity period of ADF loans from 50 to 40 years.²³ All other ADF standard terms remain unchanged.

3.8 ADF's experience in implementing the NCBP has highlighted a number of challenges:

- The lack of data on debts contracted with commercial²⁴ and non-traditional donors that do not participate in donor reporting systems, as is the case of China in the Democratic Republic of Congo, prevents or slows ADF's analysis of LICs' non-concessional borrowing and inhibits the implementation of the policy.
- The IDA's experience in Angola has shown that for resource-rich countries that have the capacity to borrow several times the amount of concessional resources available to them, the NCBP has a limited effect as a deterrent to non-concessional borrowing behavior. In such cases, traditional donors must play a key role in helping these countries strengthen their debt management capacity.
- It is difficult to determine the right type and amount of disincentive, particularly for low-risk, well-performing countries with access to non-concessional financing (including capital markets) to finance their development needs in the absence of sufficient concessional financing.

3.9 As a consequence of these challenges, both donors and ADF countries have called for a revision of the NCBP to allow for a more country-specific approach and greater flexibility in raising non-concessional debt, in order to implement measures to offset the impact of external shocks or to finance certain public investments whose strong growth impacts can be demonstrated. While these issues are currently being discussed in a coordinated manner with the IDA and the IMF (Section 4), the vulnerability of most LICs to external shocks and high debt burdens, as evidenced by the findings of the most recent forward-looking DSAs, highlights the importance of these countries continuing to have access to concessional financing as their primary source of external debt while also building their debt management capacity.

²³ IDA decided to apply blend terms to Ghana, i.e. a maturity of 35 years instead of 40.

²⁴ Commercial creditors represent approximately 6 percent of the debt stock of ADF countries. Their participation in collective actions to control non-concessional borrowing has remained a challenge, despite efforts to engage with them in bilateral meetings or through multilateral fora such as the Paris Club.

4. Striking the Right Balance Between Financing Needs and Debt Sustainability

Revision of the Debt Sustainability Framework

- 4.1 Following a request by the G20 to review the flexibility of the DSF,²⁵ the IMF and the World Bank, in close collaboration with the ADB, conducted a review of the DSF and proposed adjustments that were discussed by the World Bank and IMF Boards of Directors on August 27th and 31st 2009 respectively.²⁶
- 4.2 The review emphasized that the DSF is a diagnostic tool designed to analyze countries' debt sustainability, not to prescribe policy recommendations. The fact that countries' debt sustainability is deteriorating as a result of the financial crisis does not challenge but rather reinforces the necessity and usefulness of the tool, which, due to its 20 year horizon, is not pro-cyclical. The review proposed a number of adjustments to the DSF, to increase its accuracy without compromising debt sustainability:
- DSAs should rely more on tools available to analyze the link between public investment and growth and DSA reports should cover this issue in more detail;
 - DSAs should be more flexible in recognizing the role of remittances in cases where workers' remittances are relatively large in comparison to exports or GDP; where breaches of thresholds under the DSA tests are neither large in relation to the size of remittances, nor very protracted, the existence and level of remittances could be the basis for a more favorable risk rating than might otherwise be the case.
 - Greater inertia should be introduced in the CPIA rating used to determine debt distress thresholds, with a view to avoiding cases where a small deterioration of a country's CPIA score to just below the CPIA boundary for only one year leads to the immediate application of a lower debt distress threshold.²⁷
 - Flexibility should be introduced as regards the treatment in DSAs of the debt of public enterprises that pose a limited fiscal risk for governments, particularly the debt of State owned enterprises that can borrow without a public guarantee.
 - Finally, DSAs should better reflect the authorities' views.
- 4.3 These adjustments were approved by the World Bank and the IMF Boards of Directors with very broad support. The staff of the World Bank and the IMF are currently revising, in consultation with ADB staff, the Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries with a view to operationalize the guidance received from their Boards. These adjustments are expected to start being implemented in new DSAs in 2010.
- 4.4 Once the revision of the IMF / World Bank Staff Guidance Note is completed, Bank Management will provide an information note to the ADF Board of Directors presenting the operational details of the proposed changes.

Revision of the Non-Concessional Borrowing Policy

- 4.5 The financial crisis is driving most borrowers and donors to revisit their approach to debt management and debt sustainability. Borrowers are facing difficult trade-offs between short-term financial needs and long-term debt management issues. The credit crunch is changing the nature and the terms of the debt available on the market and the options available to LICs.

²⁵ G20. April 2, 2009. *Leader's Statement*, London, Paragraph 25

²⁶ International Monetary Fund and World Bank, August 2009, *A review of Some Aspects of the Low-Income Country Debt Sustainability Framework*.

²⁷ For instance, Burkina's reclassification in 2009 from moderate to high risk of debt distress resulted mainly from a deterioration in the 3 year average of its CPIA rating which led to the lowering of indicative thresholds for DSF debt ratios. As a result, Burkina Faso exceeded the new indicative NPV of debt-to-exports ratio threshold by a small amount. The proposed adjustment would have resulted in the lower threshold only applying to Burkina if the deterioration of the CPIA had been confirmed the following year.

- 4.6 To respond to demand from some of its constituents, the IMF prepared a paper entitled “Changing Patterns in Low-Income Country Financing and Implications for Fund Policies on External Financing and Debt” which was discussed by the IMF’s Board of Directors in March 2009. Its key messages and proposals were broadly endorsed and IMF Management was asked to develop detailed implementation modalities which were considered and endorsed by the IMF Board on August 31, 2009.²⁸
- 4.7 The first key message and finding of the IMF review is that in general, LICs’ debt vulnerability remains high, and concessional resources should remain LICs’ preferred source of financing. As shown in Section 2, 45 percent of African LICs remain at high risk of debt distress. Furthermore, 22 percent of African LICs at low or moderate risk of debt distress²⁹ have experienced or may experience a downgrading of their DSF traffic light classification in 2009 or 2010.
- 4.8 The second key message is that, instead of the previous IMF one-size-fits-all approach, non-concessional debt accumulation rules should vary depending on a country’s debt vulnerability and macroeconomic and debt management capacity. Accordingly, a new framework was adopted for classifying countries into four categories along two axes: low/high debt distress vulnerability and low/high macroeconomic and debt management capacity (Table 3). Different concessionality principles are to be applied to each category.

Table 3: Concessionality Options Matrix approved by the IMF’s Board of Directors in August 2009

		Extent of Debt Vulnerabilities	
		Lower	Higher
Capacity	Lower	Minimum concessional requirement based on the current system, but with added flexibility on non-concessional external debt (e.g., higher and untied non-zero limits if consistent with the maintenance of low debt vulnerabilities)	Maintain minimum concessional requirement based on current system, likely higher than 35 percent, with limited or no room for non-concessional borrowing
	Higher	Minimum average concessional requirement applied to external or total public borrowing; for most advanced LICs, no concessional requirement and overall nominal debt limit if needed	Overall limit on the present value of external or total public debt or average concessional at a higher level; for most advanced LICs, ceilings on nominal external or total public debt

Source: IMF

- 4.9 The macroeconomic and debt management capacity of countries will be assessed through a 2 step process. The first step will use a sub-category of the CPIA indicators as well as the Public Expenditure and Financial Accountability (PEFA) ratings³⁰ to classify countries into two categories, “higher capacity” and “lower capacity”. The benchmark for each rating will be defined as the average score of the countries classified as blend by IDA. In order to be rated as “higher capacity”, countries would have to score above the benchmark for each indicator. Countries rated as higher capacity on only one of the indicators would be temporarily placed

²⁸ International Monetary Fund, August 2009, *Debt Limits in Fund-Supported Programs – Proposed New Guidelines*.

²⁹ These consist of the two countries downgraded in 2009 (Burkina Faso and Ghana) and the three countries that are at risk of falling back into high debt distress as a result of the crisis (Lesotho, Mozambique, and Senegal), out of the 23 countries that were in the low or moderate debt distress risk category in 2008.

³⁰ The PEFA framework measures the performance of a country’s public financial management through an analysis of 28 indicators grouped in three areas: credibility of the budget, comprehensiveness and transparency, and budget processes.

in a grey area.³¹ In a second step, all other relevant information, including more qualitative staff assessments, would be mobilized to arrive at a more precise assessment of capacity, thus allowing to complete the ratings, particularly for countries which have been placed in the grey area. The IMF expects to complete its first set of ratings by the end of 2009.

- 4.10 Once a country is classified under the above matrix, the appropriate debt limits would be defined by IMF staff: minimum concessionality requirements with non zero limits on non concessional borrowings if appropriate; present value targets or average concessionality requirements for countries with higher capacity, and, for the most advanced LICs meeting certain criteria, complete elimination of concessionality requirements.
- 4.11 The ADB has been actively participating in various consultations with African LICs at the ministerial level to obtain their views and feedback on these proposals.³² The key messages that have emerged are as follows: (i) long-term debt sustainability remains a challenge beyond the HIPC completion point and calls for increased concessional financing and aid to preserve debt sustainability; (ii) strengthened debt management capacity will be key to maintaining debt sustainability; and (iii) it is essential that appropriate and objective criteria are used to classify countries in the various categories to ensure that the revised framework treats countries in an equitable and objective manner.
- 4.12 Given the importance of a collective response to debt re-accumulation issues, the ADF will review its non-concessional borrowing policy in close cooperation with IDA and the IMF. However, considering the continental mandate of the Bank, special attention will also be paid to issues which are specific to African low-income countries. A detailed proposal will be submitted to the ADF Board of Directors in early 2010, following which a paper would be submitted to Deputies in the course of the ADF-12 consultations.

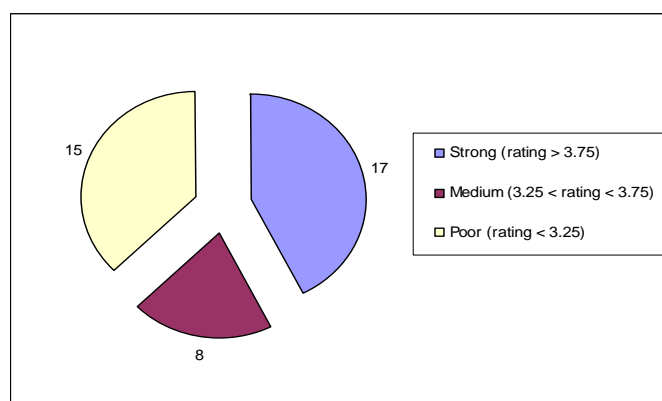
5. Low-Income Countries' Capacity to Manage New Borrowings

- 5.1 Following HIPC and MDRI debt relief and the mainstreaming of forward-looking DSAs in most African LICs, many ADF countries are now in a much better fiscal situation than they were pre-debt relief, although conditions in many countries are worsening as a result of the crisis. These countries face very difficult choices in financing their developmental needs, all the more so in the context of the financial crisis: non-traditional donors are offering them large volumes of debt on non-concessional terms and some countries at low risk of debt distress and with a relatively good credit standing are tempted to go the market to complement the scarce concessional resources provided by donors.
- 5.2 It is clear from the results of DSAs, from existing indicators and from discussions with LICs, that there is a need for debt management capacity building to help these countries reap the benefits of debt relief and avoid falling back into debt distress. Figure 4 shows that of the 40 ADF countries, 23 (58 percent) have a poor or medium rating on the debt policy component of the CPIA. This is only a partial illustration of debt capacity as it does not capture other key dimensions of debt management capacity, such as institutional capacity. As indicated above, a composite and more inclusive two step rating system, based on CPIA sub-indicators and PEFA ratings, has been developed by the IMF in the context of its concessionality policies, and the first results are expected by end 2009.

³¹ A preliminary assessment of ADF countries capacity carried out by the IMF results in only three countries rated as higher capacity under both indicators (Burkina Faso, Cape Verde and Tanzania) and eight countries temporarily placed in the grey zone (Ethiopia, Ghana, Mali, Mozambique, Nigeria, Rwanda, Uganda, Zambia). Ibid footnote 25.

³² Commonwealth Ministerial Debt Sustainability Forum, Washington DC, April 22, 2009 and the Commonwealth Secretariat–Organisation Internationale de la Francophonie Joint Ministerial Forum on Debt Sustainability, Washington DC, April 23, 2009.

Figure 4: CPIA Debt Policy Rankings of ADF Countries, end-2008
(Number of countries per category)



- 5.3 These countries' need for strong debt management capacity is reinforced by the fact that, with the great majority of countries expected to reach the completion point in coming years, the HIPC Initiative and the MDRI will simply be winding down, and the international community's main focus will turn to debt management: developing strong and sustainable debt strategies and debt management instruments, especially in the wake of the diversification and increasing complexity of financing products available to LICs from traditional and non-traditional donors. In addition, capacity will play a key and growing role in the definition of acceptable non-concessional borrowing levels for LICs following the adoption by the IMF of its revised policy on debt limits.
- 5.4 The IMF and the World Bank have adopted a leadership role in championing the debt sustainability framework and are proposing several upstream capacity-building tools to LICs to assess their debt management capacity and help them develop medium-term debt management strategies:³³
- The Debt Management Facility (DMF) was set up after the HIPC conference of October 2008 to scale up capacity building as regards debt management (assessment, program design, technical assistance for the development of debt management strategies, monitoring, knowledge dissemination, and training) in a more coordinated manner, with Africa's main technical assistance providers acting as implementing partners.³⁴ Initial financing was received from several donors and Austria, Belgium, Canada, the Netherlands, Norway and Switzerland are current contributors. The DMF is administered by the World Bank.
 - The IMF is also in the process of creating a thematic trust fund to finance capacity building in the formulation of debt management strategies in coordination with the DMF. This trust fund is scheduled to be launched in mid-2010.
- 5.5 Box 2 provides an overview of the main debt management capacity-building programs approved by the ADF during the ADF-10 and ADF-11 periods. As a result of the DMF's central coordination and harmonization role in the debt management capacity-building area, the Bank Group has decided to become a donor to and key partner of the DMF. Participation in the DMF will allow the Bank both to contribute to DMF capacity-building activities in Africa and to strengthen its own capacity to support debt management reform and build capacity (in terms of downstream activities) among ADF countries in a more systematic and strategic manner, particularly in fragile states, which tend to have the lowest debt management capacity and the highest debt vulnerability.

³³ See International Monetary Fund and World Bank. March 2009. *Managing Public Debt: Formulating Strategies and Strengthening Institutional Capacity*; International Monetary Fund and World Bank. March 27, 2009. *Strengthening Debt Management Practices: Lessons from Country Experiences and Issues Going Forward*.

³⁴ The DMF relies on these implementing partners: United Nations Conference on Trade and Development (UNCTAD), the Commonwealth Secretariat, the Macroeconomic and Financial Management Institution of Eastern and Southern Africa (MEMFI), Pole Dette, West African Institute for Financial and Economic Management (Waifem), and Debt Relief International.

Box 2: Capacity Building for Debt Management – ADB in Action

The Bank uses ADF resources to support capacity building in economic and financial governance in RMCs through institutional support projects (ISPs) and, more recently, policy-based loans. When RMCs identify a significant concern regarding their capacity to manage debt, ADB works with them to design appropriate policy reforms and capacity-strengthening initiatives. ISPs to build capacity for debt management are currently taking place in the **Central African Republic, Burundi, Comoros, the Gambia, Guinea, Sierra Leone, and Togo**. Typically, Bank support entails technical assistance, strengthening of the legal/institutional framework for debt management, computerization and training. The Bank is also working with RMCs to strengthen capacity for debt management as part of broader programs of economic and financial governance reforms supported through policy-based loans (typically debt management would be included in the government's overall performance assessment framework). More recently, specific policy-based loan programs were being designed to directly address debt management issues such as the enablement of debt restructuring.

As an example, the Bank's ISP with **Sierra Leone** has demonstrated measurable results in achieving debt management capacity building. The Bank is assisting Sierra Leone's Public Debt Management Unit in a two-phase project that has supplied professional staff and provided training to support HIPC trigger monitoring until the completion point and DSA. The project also provided technical input for Paris Club bilateral negotiations. The project is now in its second phase and critical activities to meet best practices are being financed. These activities include the formulation of comprehensive national legislation for debt management, the production of a procedural manual and the integration of debt management software. These reforms have helped the CPIA debt management rating improve from 2.9 out of 6 in 2001 to 3.5 out of 6 in 2007.

- 5.6 Finally, debt management capacity must be considered in the broader context of the sound management of public resources in general and revenue policies in particular (tax, debt, aid). Measures to enlarge fiscal space include tools other than debt: for example, enhancing domestic revenues (both tax and non-tax revenues, especially in resource-rich countries), which are often deficient in LICs; rationalizing public expenditures and making them more effective and efficient; and developing donor engagement strategies to secure the predictable delivery of aid commitments. Debt management capacity building should therefore form part of a broader agenda in support of good financial governance, including the development of effective and efficient tax policy and administration frameworks, anti-corruption frameworks and domestic revenue mobilization. Under the Governance Strategic Directions and Action Plan for 2008-2012, the Bank Group has during ADF-11 scaled up its support to ADF countries in these areas, with most governance projects including components of public financial management reform. In this regard, the ADF has been working either directly or through regional intermediaries such as Africa Regional Technical Assistance Centers (AFRITACs), the West African Institute for Financial and Economic Management (WAIFEM), the Macroeconomic and Financial Management Institution of Eastern and Southern Africa (MEMFI) and regional economic commissions such as the Common Market for Eastern and Southern Africa (COMESA) and the West African Economic and Monetary Union (WAEMU).

6. Collaboration Between the Bank and its Partners

- 6.1 Most ADF LICs have many financing partners, including in some cases the providers of non-concessional financing. The DSF can only have a significant impact on long-term debt sustainability if a critical mass of donors maintains a coordinated approach. The DSF is currently used by the Bretton Woods Institutions, the Bank Group, the Asian Development Bank and the International Fund for Agricultural Development. Outreach is taking place to increase the use of the DSF by bilateral donors, commercial creditors and other donors.
- 6.2 Since 2007, Bank Country Teams have provided systematic inputs into the DSF and have participated in selected DSA missions with Bretton Woods Institutions teams. Teams also collaborate systematically on HIPC, MDRI and NCBP issues, both at the country implementation level and during regular updates on the overall framework. A key forum for discussing and coordinating debt management issues is the international financial institutions' annual meetings on debt issues of which the Bank is a regular participant (Box 3).

Box 3: The International Financial Institutions' Meeting on Debt Issues

The international financial institutions' annual meetings on debt issues gather representatives from international financial institutions and observers from bilateral creditors (nine international financial institutions and two bilateral creditors in 2009) to exchange experiences and discuss issues pertaining to debt sustainability and debt management.

The meeting is a key forum for increasing coordination on several key issues:

- Increasing challenges in structuring arrears clearance for pre-decision point countries;
- Countries' HIPC and MDRI implementation status and some countries' difficulty in reaching the completion point;
- Grandfathering of new countries into the HIPC Initiative framework;
- Non-concessional borrowing by HIPCs;
- Commercial debt;
- DSF implementation and proposed changes;
- Debt management capacity building and technical assistance in LICs; and
- The impact of the global crisis on debt sustainability trends.

Participants share their experience and discuss new proposals and initiatives. The meeting is also an occasion to discuss new research on debt management issues and to adopt common strategies where possible.

- 6.3 Finally, through its participation in the DMF, the Bank Group expects to significantly scale up its collaboration and coordination on debt issues with African LICs, the Bretton Woods Institutions, bilateral donors to the DMF and the main sub-regional debt management capacity-building organizations that act as DMF implementing partners.

7. Conclusion and Recommendations

- 7.1 Deputies are invited to take note of this report and provide guidance to Management on the emerging issues identified therein. In particular:
- Do Deputies agree in principle on the introduction of a differentiated approach in the Bank's Non-concessional borrowing policy as discussed by the IMF?
 - Do Deputies support the Bank's increased focus on debt management activities?
 - Do Deputies have recommendations as to how to concretely increase the coordination between bilateral donors, especially non-traditional donors, and multilateral development banks regarding non-concessional borrowing flows by LICs?

Annex I: List of Debt Sustainability Analyses as of August 14, 2009

Country	Latest DSA Publication Date	Risk of Debt Distress	ADF Participation in Mission	Latest DSA Discussion by IMF Board (DSA Not Yet Published)
Angola	25-Oct-07	Moderate		27-Mar-09
Benin	12-Aug-09	Moderate		...
Burkina	28-Jul-09	High		...
Burundi	10-Mar-09	High	Yes	...
Cameroon	12-Aug-08	Low		2-Jul-09
Cape Verde	16-Jan-09	Low		...
CAR	4-Feb-09	High	Yes	29-Jun-09
Chad	23-Feb-09	Moderate		...
Comoros	4-Feb-09	In distress		
Congo, Rep. of	21-Jul-09	High		
Côte d'Ivoire	18-Jun-09	High	Yes	...
Djibouti	21-Jul-09	High		
DRC	24-Sep-07	In distress		...
Eritrea	...	High		21-Apr-08
Ethiopia	31-Jul-08	Moderate		...
Gambia	10-Mar-09	High		
Ghana	14-Aug-09	Moderate		...
Guinea	25-Jan-08	In distress		...
Guinea-Bissau	31-Jul-09	In distress		...
Kenya	18-Jun-09	Low		...
Lesotho	21-Apr-08	Moderate		9-Feb-09
Liberia	8-Jun-09	In distress	Yes	...
Madagascar	16-Jul-08	Low		...
Malawi	4-Jan-08	Moderate		...
Mali	14-Aug-08	Low		...
Mauritania	16-Jul-08	Moderate		...
Mozambique	30-Jul-09	Low		...
Niger	18-Feb-09	Moderate		...
Nigeria	14-Feb-08	Low		...
Rwanda	18-Feb-09	Moderate		31-Jul-09
São Tome & Príncipe	1-Apr-09	High		
Senegal	9-Jul-09	Low		...
Sierra Leone	25-Jul-08	Moderate		...
Somalia	...	High		...
Sudan	11-Oct-07	In distress		26-Nov-08
Tanzania	5-Jun-09	Low		...
Togo	11-Dec-08	In distress	Yes	...
Uganda	5-Mar-09	Low		
Zambia	30-Jan-08	Low		...
Zimbabwe	11-May-09	In distress		

Key: CAR = Central African Republic; DRC = Democratic Republic of Congo

Annex II: Classification of ADF Countries by ADF Traffic Light and HIPC Status, 2005-2009

Country	DSF/DSA Traffic Light System					HIPC Status				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Angola	Red	Yellow	Yellow	Green	Green	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC
Benin	Yellow	Green	Yellow	Yellow	Yellow	CP	CP	CP	CP	CP
Burkina Faso	Green	Green	Yellow	Yellow	Yellow	CP	CP	CP	CP	CP
Burundi	Red	Red	Red	Red	Red	DP	DP	DP	DP	CP
Cameroon	Red	Green	Green	Green	Green	DP	CP	CP	CP	CP
Cape Verde	Green	Green	Green	Green	Green	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC
Central African Republic	Red	Red	Red	Red	Red	Pre-DP	Pre-DP	DP	DP	DP
Chad	Red	Red	Red	Red	Red	DP	DP	DP	DP	DP
Comoros	Red	Red	Red	Red	Red	Pre-DP	Pre-DP	Pre-DP	Pre-DP	Pre-DP
Congo DRC	Red	Red	Red	Red	Red	DP	DP	DP	DP	DP
Congo, Rep. Of	Red	Red	Red	Red	Red	Pre-DP	DP	DP	DP	DP
Côte d'Ivoire	Red	Red	Red	Red	Red	Pre-DP	Pre-DP	Pre-DP	Pre-DP	DP
Djibouti	Green	Red	Red	Red	Red	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC
Eritrea	Red	Red	Red	Red	Red	Non-HIPC	Pre-DP	Pre-DP	Pre-DP	Pre-DP
Ethiopia	Yellow	Yellow	Yellow	Yellow	Yellow	CP	CP	CP	CP	CP
Gambia	Red	Red	Red	Red	Red	DP	DP	CP	CP	CP
Ghana	Green	Green	Green	Green	Green	CP	CP	CP	CP	CP
Guinea	Red	Red	Red	Red	Red	DP	DP	DP	DP	DP
Guinea-Bissau	Red	Red	Red	Red	Red	DP	DP	DP	DP	DP
Kenya	Green	Green	Green	Green	Green	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC
Lesotho	Yellow	Yellow	Yellow	Yellow	Yellow	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC
Liberia	Red	Red	Red	Red	Red	Pre-DP	Pre-DP	Pre-DP	DP	DP
Madagascar	Green	Green	Green	Green	Green	CP	CP	CP	CP	CP
Malawi	Red	Yellow	Yellow	Yellow	Yellow	DP	CP	CP	CP	CP
Mali	Green	Green	Green	Green	Green	CP	CP	CP	CP	CP
Mauritania	Green	Green	Yellow	Yellow	Yellow	CP	CP	CP	CP	CP
Mozambique	Green	Green	Green	Green	Green	CP	CP	CP	CP	CP
Niger	Green	Red	Yellow	Yellow	Yellow	CP	CP	CP	CP	CP
Nigeria	Green	Green	Green	Green	Green	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC
Rwanda	Red	Red	Red	Red	Red	CP	CP	CP	CP	CP
Sao Tome & Principe	Red	Red	Red	Red	Red	DP	DP	CP	CP	CP
Senegal	Green	Green	Green	Green	Green	CP	CP	CP	CP	CP
Sierra Leone	Red	Red	Yellow	Yellow	Yellow	DP	CP	CP	CP	CP
Somalia	Red	Red	Red	Red	Red	Pre-DP	Pre-DP	Pre-DP	Pre-DP	Pre-DP
Sudan	Red	Red	Red	Red	Red	Pre-DP	Pre-DP	Pre-DP	Pre-DP	Pre-DP
Tanzania	Green	Green	Green	Green	Green	CP	CP	CP	CP	CP
Togo	Red	Red	Red	Red	Red	Pre-DP	Pre-DP	Pre-DP	DP	DP
Uganda	Yellow	Green	Green	Green	Green	CP	CP	CP	CP	CP
Zambia	Yellow	Green	Green	Green	Green	CP	CP	CP	CP	CP
Zimbabwe	Green	Green	Green	Green	Green	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC	Non-HIPC

Key: CP = Completion Point; DP = Decision Point; HIPC = Heavily Indebted Poor Country