



DEVELOPING COUNTRIES

Challenges in Financing Poor Countries' Economic Growth and Debt Relief Targets

Highlights of [GAO-04-688T](#), a testimony before the Subcommittee on Domestic and International Monetary Policy, Trade, and Technology, Committee on Financial Services, House of Representatives

Why GAO Did This Study

The Heavily Indebted Poor Countries (HIPC) Initiative, established in 1996, is a bilateral and multilateral effort to provide debt relief to poor countries to help them achieve economic growth and debt sustainability. Multilateral creditors are having difficulty financing their share of the initiative, even with assistance from donors. Under the existing initiative, many countries are unlikely to achieve their debt relief targets, primarily because their export earnings are likely to be significantly less than projected by the World Bank and International Monetary Fund (IMF).

In a recently issued report, GAO assessed (1) the projected multilateral development banks' funding shortfall for the existing initiative and (2) the amount of funding, including development assistance, needed to help countries achieve economic growth and debt relief targets.

The Treasury, World Bank, and African Development Bank commented that historical export growth rates are not good predictors of the future because significant structural changes are under way in many countries that could lead to greater growth. We consider these historical rates to be a more realistic gauge of future growth because of these countries' reliance on highly volatile primary commodities and other vulnerabilities such as HIV/AIDS.

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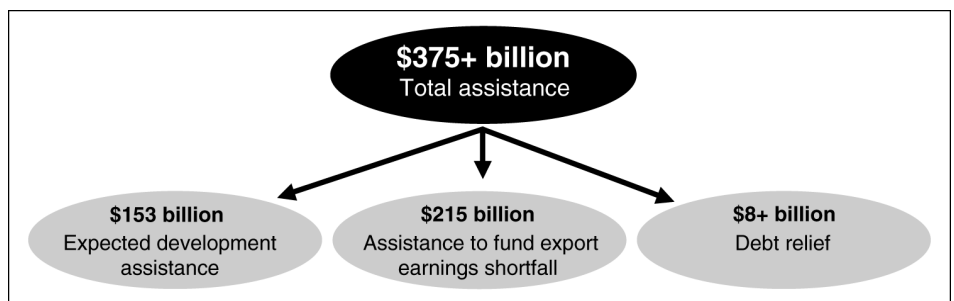
To view the full product, including the scope and methodology, click on the link above. For more information, contact Thomas Melito at (202) 512-9601, or e-mail Melitot@gao.gov.

What GAO Found

The three key multilateral development banks we analyzed face a funding shortfall of \$7.8 billion in 2003 present value terms, or 54 percent of their total commitment, under the existing HIPC Initiative. The World Bank has the most significant shortfall—\$6 billion. The African Development Bank has a gap of about \$1.2 billion. Neither has determined how it would close this gap. The Inter-American Development Bank is fully funding its HIPC obligation by reducing its future lending resources to poor countries by \$600 million beginning in 2009. We estimate that the cost to the United States, based on its rate of contribution to these banks, could be an additional \$1.8 billion. However, the total estimated funding gap is understated because (1) the World Bank does not include costs for four countries for which data are unreliable and (2) all three banks do not include estimates for additional relief that may be required because countries' economies deteriorated after they qualified for debt relief.

Even if the \$7.8 billion gap is fully financed, we estimate that the 27 countries that have qualified for debt relief may need an additional \$375 billion to help them achieve their economic growth and debt relief targets by 2020. This \$375 billion consists of \$153 billion in expected development assistance, \$215 billion to cover lower export earnings, and at least \$8 billion in debt relief. Most countries are likely to experience higher debt burdens and lower export earnings than the World Bank and IMF project, leading to an estimated \$215 billion shortfall over 18 years. To reach debt targets, we estimate that countries will need between \$8 billion and \$20 billion, depending on the strategy chosen. Under these strategies, multilateral creditors switch a portion of their loans to grants and/or donors pay countries' debt service that exceeds 5 percent of government revenue. Based on its historical share of donor assistance, the United States may be called upon to contribute about 14 percent of this \$375 billion, or approximately \$52 billion over 18 years.

Estimated Cost to Achieve Economic Growth and Debt Relief Targets for 27 Countries through 2020 in 2003 Present Value Terms



Source: GAO analysis of World Bank and IMF data.