

**DEBT REDUCTION FACILITY and
EXTERNAL COMMERCIAL DEBT
BUYBACK OPERATIONS**

**ALSF – PALU Conference
Kigali , February 14 – 16, 2011**



THE WORLD BANK

Plan

1. DRF support modalities
2. DRF Performance
3. Challenges ahead

1. DRF support

- **Objective:** help IDA-only, reforming, heavily indebted countries reduce their sovereign external commercial debt (ECD) as part of a broader debt resolution program, through ECD buyback operations at a deep discount.
- **Established** in July 1989, extended several times, closing date July 31, 2012.
- **Support channels** (WB Board Approved) :
 - Preparation Grants: Legal and Financial advisors: reconciliation, eligibility, debt reduction strategy, implementation, closing.

1. DRF support

- Country Eligibility criteria: IMF program, HIPC, debt reduction strategy
- Debt Eligibility criteria: non-collateralized, non-guaranteed, external obligations...
- Since April 2008:
 - HIPC Pre-decision point countries eligible for Preparation Grants, HIPC decision-point for Implementation Grants
 - Participation thresholds normally not below 90%

1. DRF support

- Under PREM VP since 2006, with a DRF Oversight Committee (DRFOC). DRFOC provides guidance, MD decide, Board approves.
- HIPC linked: repurchase of claims at deep discount, maximum commercial creditor participation, including litigating creditors.
- Financed from IBRD net income transfers + grant contributions (multilaterals and bilaterals) + investment income (returns on TF balances).

2. DRF Performance

- Since 1991:

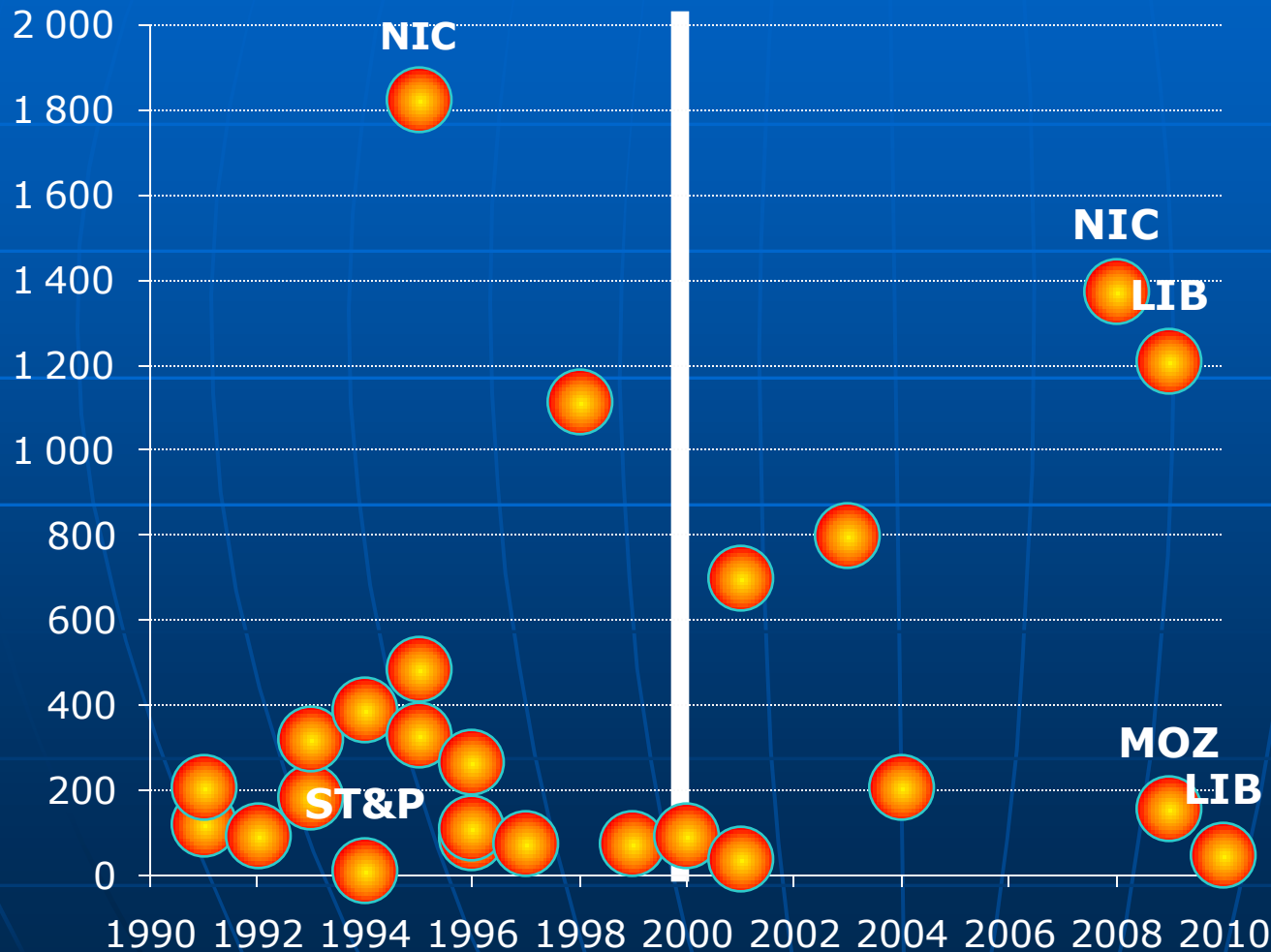
Number of operations (22 IDA countries)	25
Total ECD bought back (billion US\$)	10,3
Average cost (cents/US\$)	8.1
Range of discount:	
Lowest: Liberia, 2009 - 2010	3.1 cents/US\$
Highest: Albania, 1995	20 cents/US\$
Average Participation rate	88.7
Total resources utilized (million US\$)	754

- Which distribution?

2. DRF Performance

Distribution of ECD extinguished through DRF

In '000 US\$

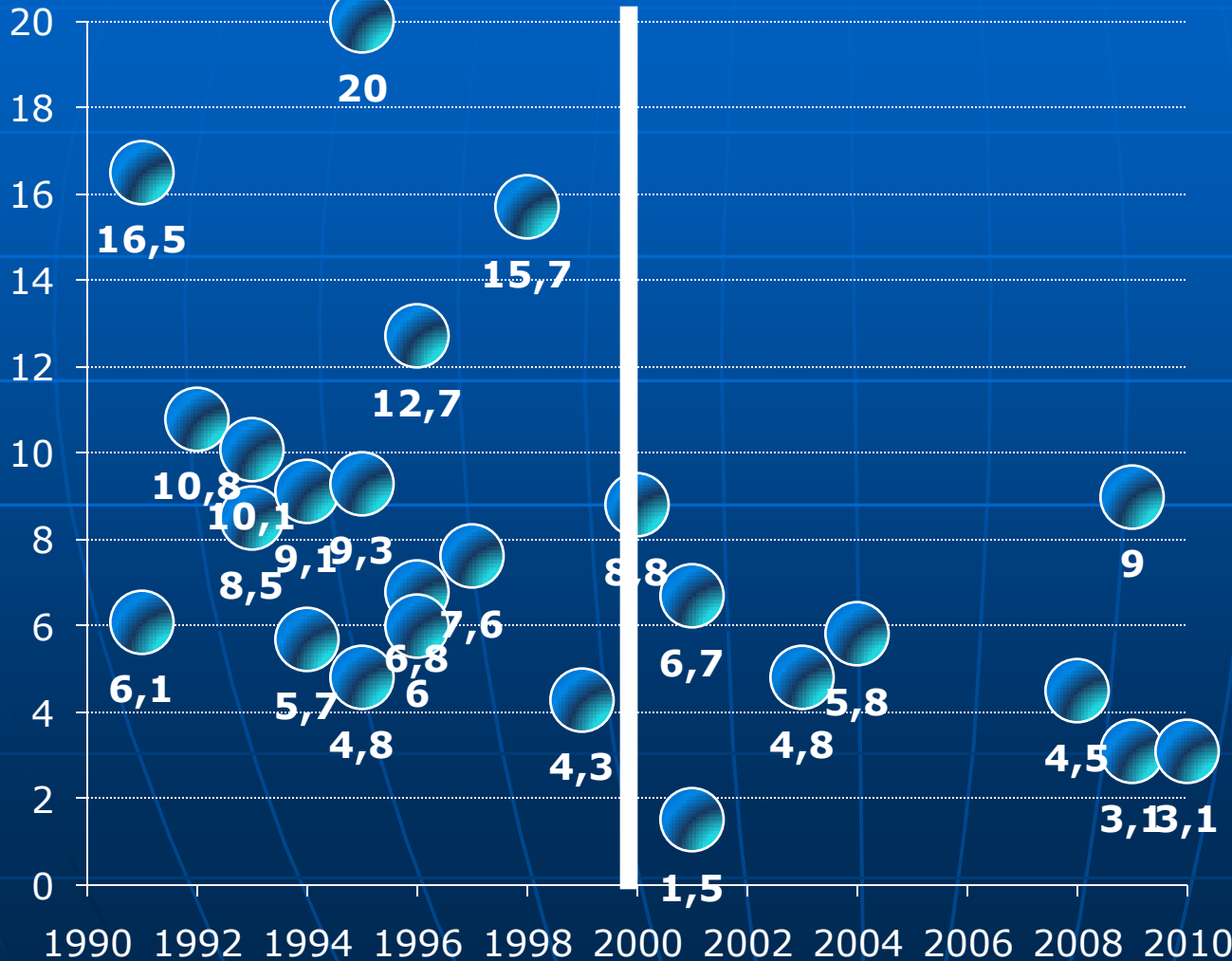


1991	NGR	2000	GUI
	MOZ	2001	YEM
1992	GUY		HON
1993	UGA	2003	CAM
	BOL	2004	TAN
1994	ST&P	2008	NIC
	ZAM	2009	MOZ
1995	ALB		LIB
	SLE	2010	LIB
	NIC		
1996	ETH		
	MAU		
	SEN		
1997	TOG		
1998	Cdi		
1999	GUY		

2. DRF Performance

Discount: Cents/US\$

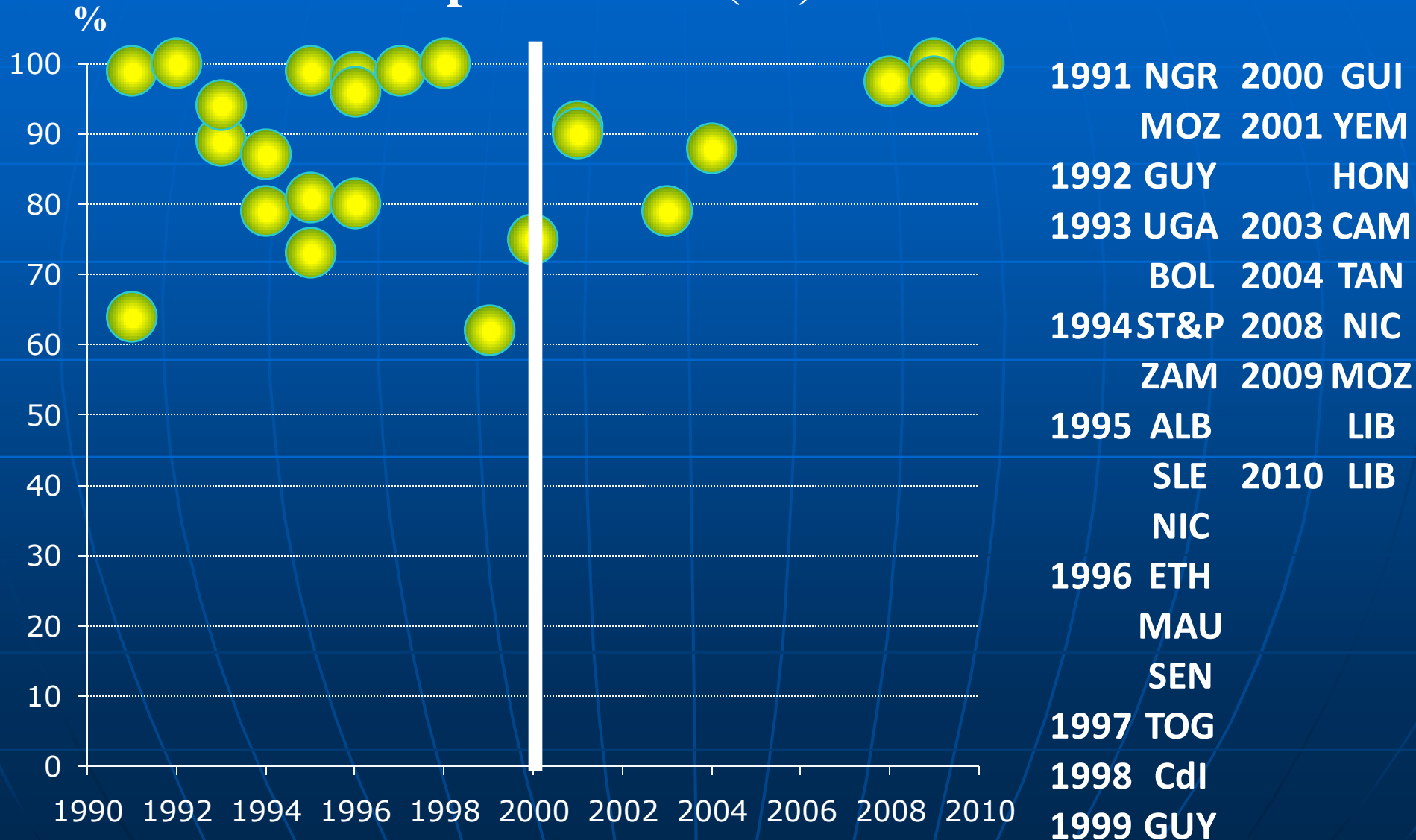
Cents/US\$



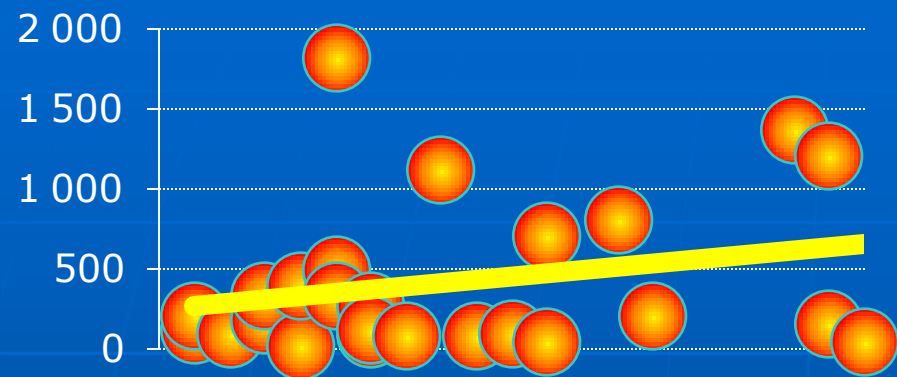
1991 NGR 2000 GUI
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 BOL 2004 TAN
 1994 ST&P 2008 NIC
 ZAM 2009 MOZ
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 NIC
 1996 ETH
 MAU
 SEN
 1997 TOG
 1998 Cdi
 1999 GUY

2. DRF Performance

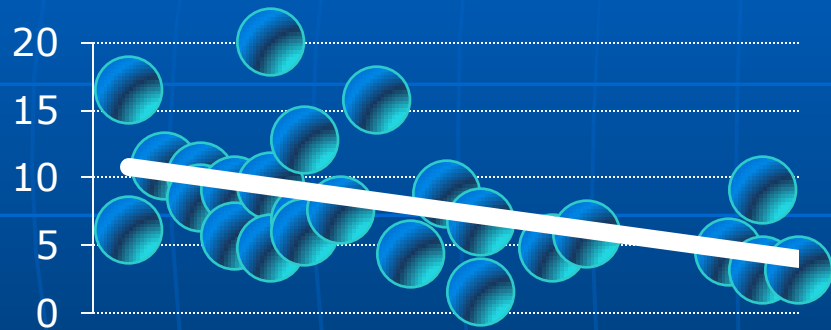
Participation rate (%)



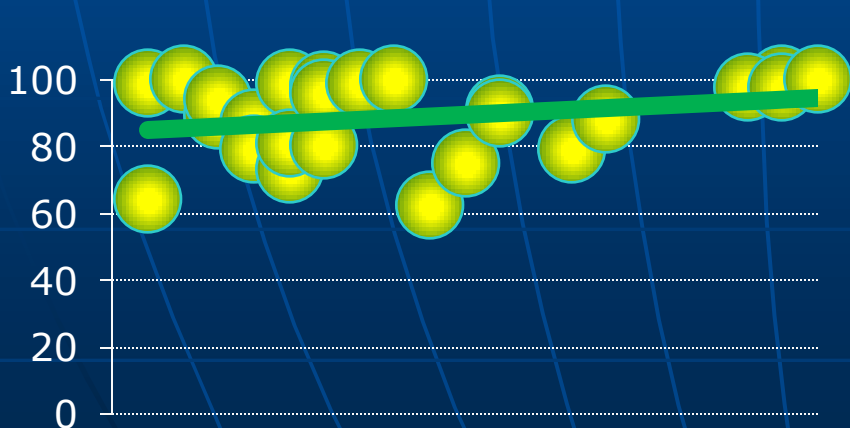
2. DRF Performance



Higher amounts of ECD are being bought back, through less operations...



... at progressively deeper discounts...



... and effectively attracting more commercial creditors to the buyback deals.

BUT STILL FAR FROM ENOUGH.

2. DRF Performance

- Nicaragua (2008)

	Date	Accepted Tenders				Debt Tendered (US\$ million)	Payment (US\$ million)
		Hold-outs	SOEs	Suppliers	Total		
First Closing	Dec-07	12	0	8	20	1,325.7	59.7
Second Closing	Feb-08	0	2	16	18	9.4	0.6
Third Closing	Sep-08	0	1	0	1	14.7	0.7
Fourth Closing	Dec-08	0	2	0	2	21.1	1.1
Total		12	5	24	41	1,370.9	62.0

- Liberia (2009)

	Accepted tenders	Debt tendered (US\$ million)	Payment (US\$ million)
Financial institutions	17	1,119.3	35.1
Suppliers	8	85.8	2.7
Total	25	1,205.2	37.8

- Extinguished more than 97% of eligible debt
- Retired claims by litigating creditors: strong signaling.

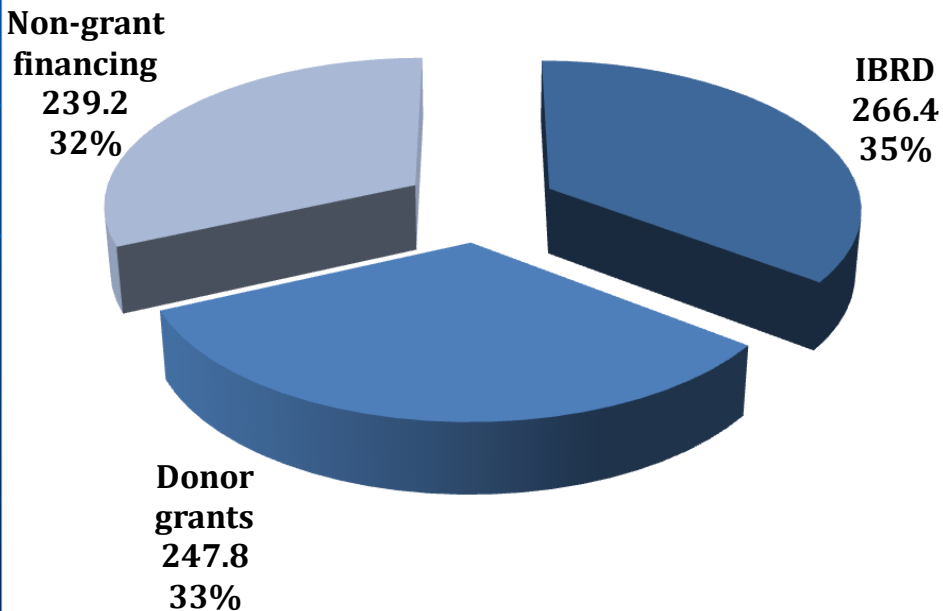
2. DRF Performance

- Liberia: Second Closing concluded, buyback hold-outs (2 litigating vulture funds)
- Sierra Leone: implementing Preparation Grant
- Republic of Congo: Processing request for Preparation Grant
- Others:
 - DRC: Preparation Grant closed
 - Côte d'Ivoire: restructured London Club debt without DRF support

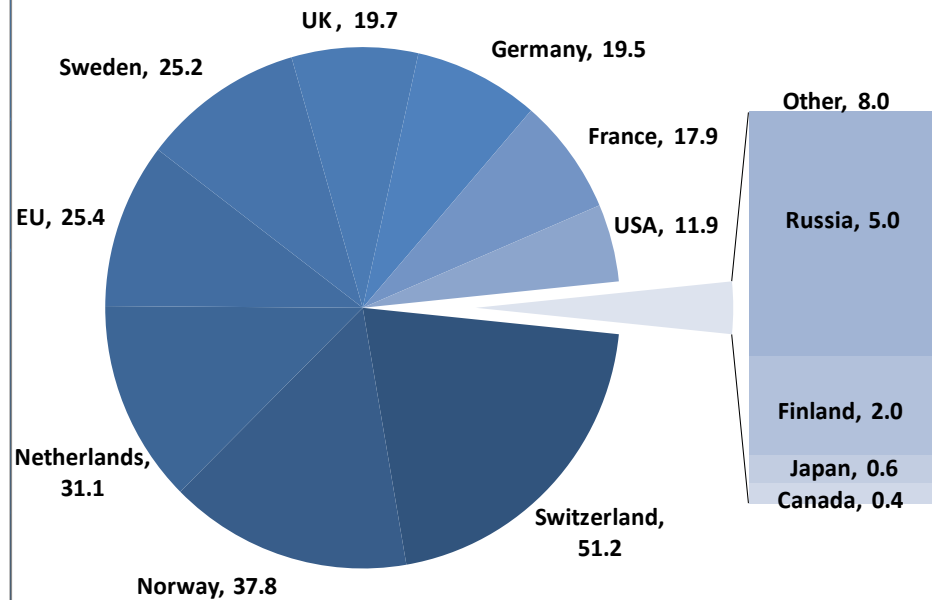
2. DRF Performance

Resources utilized in DRF-supported operations to date (US\$ million)

Total Resources



Donor Grant Financing



3. Challenges Ahead

- How much ECD still to retire?

Expectations ...

TOTAL potential ECD to retire (billion US\$)
(potential demands)

around 12

AVERAGE COST cents/US\$

Lower than before

AVERAGE PARTICIPATION RATE

Higher than before

- Which modalities for support?
- What to do with “vulture funds”?

3. Challenges Ahead

Potential future demands

Estimated Commercial External Debt of HIPCs

(end-2008, US\$ million)

(40 countries)

	Minimum	Maximum
Post-completion point countries	1,874	2,811
Ghana 1/	928	1,230
Tanzania	211	307
Other countries	735	1,274
Interim period countries	4,649	4,783
Cote d'Ivoire	3,122	3,227
Congo, Republic of	1,207	1,207
Other countries	319	349
Pre-decision point countries	4,589	5,203
Sudan	4,487	5,101
Somalia	59	59
Eritrea	44	44
Total	11,112	12,797

Sources: World Bank staff estimates

1/Includes US\$750 million in bonds.

2/Reflects the outcome of the DRF-supported buyback that took place in April 2009.

- DRF getting ready to respond
- Market uncertainties...
- Clients outlooks...

3. Challenges Ahead

Modalities of DRF engagements

- Countries with large stocks of ECD
- Countries with small stocks of ECD

- Need to preserve consistency with HIPC initiative and DRF policies and practices.

“Vulture funds” monitoring developments

Internet search...

- The “vulture funds” are investment groups that scour the financial centers of the world in order to buy distressed or defaulted debt at absurdly low prices.
- They then litigate in courts and use other strong-arm tactics to pressure the issuing countries to pay the bonds’ full face value, although the “vulture funds,” themselves, had paid much less for the bonds.
- The “vulture funds” typically win these court cases and then seek to freeze and / or seize the state’s assets in order to force the government in question into settling the dispute to the gross advantage of the funds.

3. Challenges Ahead

Litigation in international courts

- Favorable rulings facilitate litigators' attempts to attach assets and/or financial flows
- Indebted countries mount weak defenses, if any.
- DRF has helped resolve many litigation cases, but not all.
- Litigation threat remains, even after DRF (on-going cases)
- Limited WB role in litigation: “invite parties to dialogue”
- Some legislation in process: US, UK, Belgium
- AfDB's African Legal Support Facility