*These notes refer to the Debt Relief (Developing Countries) Act 2010 (c.22) which received Royal Assent on 8th April 2010*

# DEBT RELIEF (DEVELOPING COUNTRIES) ACT 2010

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## EXPLANATORY NOTES

### SUMMARY AND BACKGROUND

3. The enhanced Heavily Indebted Poor Countries Initiative ("the Initiative") is an international initiative to provide debt relief to heavily indebted low income countries. Under the Initiative, the International Monetary Fund ("the IMF") and World Bank calculate the proportionate reduction required in the country's external debts in order to return them to 150% of the country's annual exports[1], which is considered to be a sustainable level. All creditors – multilateral, bilateral and commercial – are expected to provide the proportionate reduction that will achieve this. At present, the Government, and many governments of other countries, multilateral lenders and commercial creditors do so.

4. 40 countries have been designated as eligible or potentially eligible for the Initiative. The current position of eligible or potentially eligible countries in the Initiative is given in the table below.

| *Eligible for the HIPC Initiative* | | *Potentially eligible for the HIPC Initiative* |
|---|---|---|
| *Post-Completion Point (28)* | *Post-Decision Point (7)* | *Pre-Decision Point (5)* |
| Afghanistan<br>Benin<br>Bolivia<br>Burkina Faso<br>Burundi<br>Cameroon<br>Central African Republic<br>Republic of Congo<br>Ethiopia<br>The Gambia<br>Ghana<br>Guyana<br>Haiti<br>Honduras<br>Madagascar<br>Malawi<br>Mali<br>Mauritania | Chad<br>Côte d'Ivoire<br>Democratic Republic of Congo<br>Guinea<br>Guinea-Bissau<br>Liberia<br>Togo | Comoros<br>Eritrea<br>Kyrgyz Republic<br>Somalia<br>Sudan |

**1** Countries with high exports relative to the size of their economy may also qualify under the 'revenue window', if their ratios of exports of goods and services to GDP and fiscal revenue to GDP exceed 30% and 15% respectively. For these countries, a ratio of 250% debt to fiscal revenue is assessed as sustainable and the HIPC Initiative expects the reduction that will lower their debts to this level. Subsequent references in these notes to sustainable levels of debt assume this point.

| *Eligible for the HIPC Initiative* | | *Potentially eligible for the HIPC Initiative* |
|---|---|---|
| *Post-Completion Point (28)* | *Post-Decision Point (7)* | *Pre-Decision Point (5)* |
| Mozambique<br>Nicaragua<br>Níger<br>Rwanda<br>São Tomé Príncipe<br>Senegal<br>Sierra Leone<br>Tanzania<br>Uganda<br>Zambia | | |

5. While many creditors reduce their debts in accordance with the Initiative, some creditors have instead sought to recover the full value of the debt plus accumulated interest and any associated charges owed to them. Repayment of these creditors diverts the resources provided through debt relief, which are intended to support development and poverty reduction in the country.

6. The Act addresses this by preventing creditors from recovering an amount in excess of that consistent with the Initiative. It also promotes the negotiated settlement of these debts on terms compatible with the Initiative by excluding from the scope of the legislation debts where the HIPC government does not offer to settle on such terms.

7. The Government issued a consultation document – *Ensuring effective debt relief for poor countries: a consultation on legislation* – on this issue on 21 July 2009 and has published a response to that consultation. Both are available on the HM Treasury website[2].

**2** available from http://www.hm-treasury.gov.uk/consult_debt_relief.htm