IMF Publication

Classification of Low-Income Countries for the Purpose of Debt Limits in Fund-Supported Programs - 2011 Update

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Classification of Low-Income Countries for the Purpose of Debt Limits in Fund-Supported Programs: 2011 Update

Prepared by the Strategy Policy and Review Department

In consultation with other departments

Approved by Siddharth Tiwari

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1. **This short paper informs the Executive Board of staff's assessment of macroeconomic and public financial management capacity (henceforth "capacity") in PRGT-eligible countries (henceforth "low-income countries") with Fund-supported programs for the purpose of setting debt limits**.[1] Capacity plays an important role in the framework for debt limits. This framework includes a menu of options for concessionality requirements to reflect the diversity of situations in low-income countries (LICs). Eligibility for a particular option is related to an assessment of debt vulnerabilities and capacity.

2. **This assessment updates the classification submitted to the Executive Board in late 2010.** Updates are scheduled to occur once a year and are based on the methodology approved by the Board, which combines the use of widely available indicators (the sub-CPIA index and PEFA scores)[2] with other relevant information.[3] All current program LICs have been classified either in the context of last year's capacity assessment exercise, or at the time they requested Fund support for a new program in 2011.[4] The main issue for the 2011

[1] As discussed in Debt Limits in Fund-Supported Programs - Proposed New Guidelines - Supplementary Information and Proposed Decision, the policy on debt limits applies to all Fund members to whom concessional financing is normally available. However, as non-LICs have limited or no access to concessional financing, they are not discussed in this paper. In the unlikely event that a non-LIC were to receive substantial concessional financing, the methodology for determining appropriate debt limit options for LICs would be applied to that country.

[2] The "sub-CPIA" is based on five sub-components of the World Bank's Country Policy and Institutional Assessment (CPIA). These components cover fiscal policy, debt policy, the quality of budgetary and financial management, the quality of public administration, and transparency, accountability and corruption in the public sector. The Public Expenditure and Financial Accountability (PEFA) framework measures performance of a country's public financial management.

[3] See IMF 2009: Debt Limits in Fund-Supported Programs—Proposed New Guidelines, and Staff Guidance Note on Debt Limits in Fund-Supported Programs.

[4] In this paper "program LICs" refers to LICs with a program supported by a Fund arrangement or a Policy Support Instrument (i.e., excludes LICs receiving Fund financial assistance under RCFs, ENDA or EPCA).

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assessment exercise was therefore to determine whether recent developments, including the most recent sub-CPIA or PEFA scores, warranted a change in classification.

3. **The main changes in the updated classification concern Mozambique and Rwanda, which were moved to the "higher capacity" category.** Updated sub-CPIA scores became available in June 2011 for all program LICs, and new PEFA scores for six of them (Burkina Faso, Mali, Mozambique, Rwanda, Sierra Leone, and Tanzania.). While most indicators showed some changes, those variations were not deemed large enough to justify a change in classification for the majority of program LICs, with the exceptions detailed below. Compared to 2010, the changes in classification or country coverage are as follows:

- As a result of Mozambique's and Rwanda's recent improvements in sub-CPIA and PEFA indicators, their sub-CPIA and PEFA scores are well above their respective thresholds under the assessment methodology. Considering this result and their ongoing progress in improving debt management—including the formulation of medium-term debt strategies and the preparation of annual debt sustainability analyses, both countries were upgraded to the "higher capacity" group.

- Cape Verde, Honduras, Kenya, and the Kyrgyz Republic have been added to the list of program LICs. All these were assessed at the time they requested Fund support. Cape Verde was assessed as having higher capacity, while the rest were assessed as having lower capacity.

- Conversely, the Central African Republic, the Republic of Congo, the Gambia, Georgia, Guinea, Ethiopia, Mongolia, Nepal, Niger, Togo, and Zambia are no longer on the list, as they currently do not have a Fund-supported program.

4. **World Bank staff concurred with this classification.** The Bank carries out its own capacity assessment in the context of its policy on nonconcessional borrowing, which is broadly similar to the Fund's. The assessments were closely coordinated through regular exchanges of information. The same classification was reached on countries assessed by both institutions. With the concurrence of Fund staff, the Bank also classified Cambodia, Eritrea, Kiribati, Lao PDR, Madagascar, Marshall Islands, and Tonga as having lower capacity.

5. **The new capacity classification will be used, together with debt vulnerability assessments, to determine countries' eligibility for the various options regarding concessionality requirements under the debt limits policy.** Table 1 summarizes the current situation, based on debt vulnerability assessments derived from the most recent debt sustainability analyses (DSAs). The new capacity classification will be applicable until the next update, barring any major changes in any of the assessed countries. For ease of comparison, Table 2 presents the results from last year's assessment.

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Table 1. Concessionality Requirements: Eligibility of Program LICs for the Various Options (as of November 15, 2011) [1]

		Extent of debt vulnerabilities	
		Lower	**Higher**
Capacity	**Higher**	**Minimum average concessionality requirement applied to external or total public borrowing; for most advanced LICs, no concessionality requirements and overall nominal debt limit if needed**	**Overall limit on the PV of external or total public debt; for most advanced LICs, ceilings on nominal external or total public debt**
		Armenia Cape Verde Mozambique Moldova Rwanda	
	Lower	**Minimum concessionality requirement applying debt by debt, with flexibility on nonconcessional external debt (e.g., untied nonzero limits, if consistent with maintenance of low debt vulnerabilities)**	**Minimum concessionality requirement applying debt by debt, likely higher than 35 percent, with limited or no room for nonconcessional borrowing**
		Benin Ghana Guinea-Bissau Honduras Kenya Kyrgyz Rep. Lesotho Liberia Malawi Mali Mauritania Nicaragua Senegal Sierra Leone Solomon Islands Tanzania Uganda	Afghanistan Burkina Faso Burundi Comoros Congo, Dem. Rep. Cote d'Ivoire Djibouti Grenada Haiti Maldives São Tomé & Príncipe Tajikistan Yemen

[1] Includes LICs with Fund arrangements or Policy Support Instruments (excludes countries with RCF, ENDA and EPCA). While capacity is assessed once a year, the distribution of countries may change depending on the latest DSA results. The authorities could choose to opt for tighter debt limits than implied by the concessionality matrix.

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Table 2. Concessionality Requirements: Eligibility of Program LICs for the Various Options (as of August 30, 2010) [1]

<table>
<tr><td></td><td></td><td colspan="2">Extent of debt vulnerabilities</td></tr>
<tr><td></td><td></td><td>Lower</td><td>Higher</td></tr>
<tr><td rowspan="4">Capacity</td><td rowspan="2">Higher</td><td>Minimum average concessionality requirement applied to external or total public borrowing; for most advanced LICs, no concessionality requirements and overall nominal debt limit if needed</td><td>Overall limit on the PV of external or total public debt; for most advanced LICs, ceilings on nominal external or total public debt</td></tr>
<tr><td>Armenia
Georgia
Moldova</td><td></td></tr>
<tr><td rowspan="2">Lower</td><td>Minimum concessionality requirement applying debt by debt, with flexibility on nonconcessional external debt (e.g., untied nonzero limits, if consistent with maintenance of low debt vulnerabilities)</td><td>Minimum concessionality requirement applying debt by debt, likely higher than 35 percent, with limited or no room for nonconcessional borrowing</td></tr>
<tr><td>Benin
Central Afr. Rep.
Congo, Rep
Etiopia
Ghana
Lesotho
Liberia
Malawi
Mali
Mauritania
Mongolia
Mozambique
Nepal
Nicaragua
Niger
Rwanda
Senegal
Sierra Leone
Solomon Islands
Tanzania
Uganda
Zambia</td><td>Afghanistan
Burkina Faso
Burundi
Comoros
Congo, Dem. Rep.
Cote d'Ivoire
Djibouti
The Gambia
Grenada
Guinea
Guinea-Bissau
Haiti
Maldives
São Tomé & Príncipe
Tajikistan
Togo
Yemen</td></tr>
</table>

[1] Includes LICs with Fund arrangements or Policy Support Instruments (excludes countries with RCF, ENDA and EPCA). While capacity is assessed once a year, the distribution of countries may change depending on the latest DSA results. The authorities could choose to opt for tighter debt limits than implied by the concessionality matrix.

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