

# STRATEGIES FOR FINANCING DEVELOPMENT

The Newsletter of the HIPC CBP and the FPC CBP



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# HIPC CBP MERGES MEETING WITH COMSEC

**The 11<sup>th</sup> meeting of HIPC Finance Ministers was held in Maputo on 16th March, under the joint chairmanship of Manuel Chang, Minister of Finance of Mozambique, and Adelino Castelo David, Minister of Finance of São Tomé & Príncipe. The HIPC CBP collaborated with the Commonwealth Secretariat and the Agence intergouvernementale de la francophonie (AIF), to fund HIPC participation and to reduce demands on HIPC Ministers' time from multiple meetings. Representatives of 20 HIPCs made key recommendations to improve debt relief, assure long-term debt sustainability, and finance attainment of the millennium development goals (MDGs).**

## 1) Improving Debt Relief Mechanisms

Ministers strongly supported the UK government's initiative to cancel debt service due to multilateral institutions through until 2015. In particular, they encouraged:

- Other donor countries to finance their share of service to IDA, the AfDB Group and the IADB, where possible drawing on financial contributions from these institutions.
- Using IMF gold reserves to fund relief on service to the IMF and other multilateral organisations.
- A guarantee of equitable treatment for all HIPCs. Ministers recommended that all HIPCs – in particular those between decision and completion points, and post-conflict countries – should benefit from 100% reduction of multilateral debt service to accelerate pro-MDGs spending. Debt service savings for countries which are not yet eligible for HIPC could be invested in a 'trust fund' which they could access once they reach decision point.
- Equitable treatment of severely indebted low-income countries which are not eligible for the HIPC Initiative, through debt reduction or budget support.

Ministers strongly repeated their demand to the international community for help to ward off lawsuits from a growing number of external and domestic creditors. Eighteen countries are currently facing lawsuits, and are having to pay large settlements. As a result, ministers:

- Requested the immediate establishment inside the Commonwealth Secretariat of a 'rapid response' assistance mechanism against lawsuits. They would also like this to be extended to HIPCs which are not ComSec members

(possibly in cooperation with the AIF and the HIPC CBP).

- Called on the international community to put in place immediately a fund destined to clear the debts owed among severely indebted and low-income countries.

## 2) Long-Term Debt Sustainability

Ministers noted the Bretton Woods institutions' (BWIs) new long-term debt sustainability analysis framework for low-income countries, and welcomed the improvements made in its design in recent months. Nevertheless, they recommended:

- Greater ownership of the framework by debtor countries, by conducting analysis for themselves and defining their own sustainability indicators. This should be done in a participatory process between governments and civil societies, as with PRSPs.
- Recognition that the ratio of debt service to budget revenue is the most important for HIPCs in analysing debt sustainability. Ministers underlined that their countries have reliable data on budget revenue, and that they will continue (with IMF help) to maximise efforts to increase these revenues, to avoid any moral hazard in using revenue ratios.
- Acceleration and additional funding of efforts of independent (non-BWI) organisations which reinforce debtor capacities to undertake debt sustainability analyses.
- Taking the problem of domestic debt fully into account in the new framework. Ministers underlined that reliable data and methods for analysing domestic debt sustainability are already available and being used by HIPCs under the HIPC CBP.
- Increased flexibility in IMF programmes, in conditionalities on budget deficits and on the present value of new loans, to ensure that they are coherent with MDG financing needs.

## 3) Financing the MDGs

Ministers deplored once again the slow progress being made in reinforcing their capacity to analyse sources of pro-poor growth; the costs of meeting the MDGs; and best practices in increasing absorption of additional external aid flows. They urged donors to accelerate independent (non-BWI) efforts to support them in such analysis.

Ministers congratulated donors who have fixed specific dates to raise aid to 0.7% of GNP. They supported the recommendations by the Millennium Project and the Commission for Africa to double aid flows to

HIPCs. More particularly, they:

- Welcomed the progress in establishing a pilot phase of the International Financing Facility (IFF) by the British government and several other countries, and urged other donors to support the IFF.
- Supported proposals by Brazil, Chile, France, Germany and Spain in February 2005, to mobilise innovative financing sources for development, including by taxing airline tickets.
- Supported the proposals of the Commission for Africa regarding the establishment of a new grant-based facility to offset exogenous shocks, and recommended that this should be disbursed more rapidly and flexibly than existing anti-shocks mechanisms.

Finally, ministers welcomed the joint efforts of donors and developing countries to improve the effectiveness of aid, reinforced during the High Level Forum, held in Paris from 28<sup>th</sup> February to 2<sup>nd</sup> March 2005. They supported the concrete commitments on that occasion by the European Union, Norway and Switzerland. For their part, they undertook to meet all targets assigned to them, in order to convince the international community to use HIPCs' own procedures for disbursing their aid. In addition, they encouraged donor countries to:

- Reach final agreement among all donors and developing countries, on indicators and targets, well before the post-Monterrey meeting in New York in September 2005;
- Include in the indicators:
  - reduced conditionality, especially on political issues and by bilateral donors;
  - transformation of technical assistance into capacity-building support;
  - commitment of a maximum amount of aid through multi-annual agreements;
  - developing countries designing aid management strategies in addition to PRSPs;
  - reduction of requests by donors for counterpart funds for projects;
  - simplification of procurement procedures.
- Establish an objective system for joint evaluation of progress, by donors and developing countries, at the national, regional and international levels.

Ministers agreed to meet once again at the Annual Meetings of the BWIs, in Washington in September 2005.

# THIRD INTER-REGIONAL DEBT MANAGERS SEMINAR

**T**he third HIPC CBP Inter-Regional Debt Managers Seminar (IRWS3), London March 29-30, was attended by 20 heads of HIPC debt management departments, as well as HIPC CBP implementing partner agencies, donors and the BWIs. It provided an opportunity for frank discussion about:

## 1) New Financing Analysis

Participants discussed the details of procedures and policies of individual donors and creditors, as analysed by 15 HIPCs (based on the paper prepared by DRI for the UK Commission for Africa – visit the 'Other advocacy work' page on [www.hipc-cbp.org](http://www.hipc-cbp.org)), as well as a case study of Guyana. They made many useful suggestions for ways in which donors could improve their practices, and exchanged details on how donor practices vary in different countries. The discussion focussed on the need to disseminate the HIPC CBP methodology for evaluating donors to a wider group of countries and to train desk officers to evaluate the donors they deal with, to establish consistent methods of calculating grant elements across all international initiatives, and to exchange information among HIPCs to ensure that donor best practice is applied in all countries.

## 2) Best Practices in Managing Donors

This session focussed on how to design and implement national aid management strategies, so as to increase donor confidence and encourage them to improve procedures and policies. It was based on a background paper written by DRI for the UNDP Human Development Report (see <http://hdr.undp.org>). It also examined concrete examples of donor coordination strategies and multi-donor budget support programmes from Ghana, Tanzania and Uganda. Discussion centred on how countries with few donors could widen their donor group, and how those with many donors could rationalise them, as well as how to reduce aid dependence, how to increase aid absorption capacity without risks of Dutch Disease, and how to encourage donors to broaden their funding beyond social sectors to growth-promoting infrastructure spending.

## 3) Best Practices in Institutions for Public Debt Strategy

This session drew on the initial results of a study led by MEFMI, with contributions from other implementing partners. Discussion focussed on the need for:

- Structures for coordination and information-sharing among government agencies.
- Coordinated policy on external and domestic national debt, subnational debt and external non-debt financing, linked to budget preparation.
- The need to ensure that short-term financial



stabilisation policies and regional economic convergence criteria are fully reconciled with longer-term development and poverty reduction goals.

- Clear legal mandates, strategic targets, regulations and procedures manuals.
- Coverage of all front, middle and back office functions.
- Essential levels of adequate staffing, resourcing and working conditions.
- Staff motivation through adequate remuneration, job descriptions, work programmes and training plans to reduce staff turnover.
- Political commitment by decision-makers to reinforce institutions.
- Strong roles of parliament and civil society in monitoring debt strategies, supported by public information flows and transparency from government.
- Constant reviews of institutions to follow changes in international and national circumstances, and evolving best practices in debt management institutions.
- The need for countries to adopt debt strategies linked to the national budget law and parliamentary debate, providing full transparent control over government policy.

The study is expected to be published by the HIPC CBP in the second quarter of 2005.

## 4) Latest Developments in HIPC Debt Relief Negotiations

This session presented preliminary results from a study led by Pôle-Dette, with contributions from other implementing partners and HIPCs. It focussed on:

- *Bilateral debt*: the effects of delays in completion points; cancellation and conversion mechanisms of Paris Club creditors; treatment of special categories of debt; and the failure of large numbers of non-Paris Club creditors to participate in HIPC.
- *Multilateral debt*: mechanisms used by the

IMF and Multilateral Development Banks (MDBs) to implement HIPC relief; difficulties in ensuring terms for comparable treatment by non-MDB creditors; and consequences of completion point delays and inadequate topping up.

- *Commercial debt*: the extension of the IDA commercial debt reduction facility until 2007, how it will function and the terms it can help achieve.
- *Lawsuits*: their proliferation in 2004/05, the payment of large amounts to creditors; progress in supplying rapid response legal technical assistance; and the importance of exchanging information among debtors.

Discussion centred around different 'as of' dates in debt cancellations, problems with specific creditors, and the need for HIPCs to share information with international organisations to enlist their help in ensuring full implementation of the HIPC initiative. The study is expected to be published by the HIPC CBP in the second quarter of 2005.

## 5) Current Debt Relief and Aid Initiatives

This session presented current initiatives to improve debt relief and aid. These included:

- Initiatives by the UK Government and other G8 members, to pay HIPC debt service to IDA and the AfDB, and to sell IMF gold to fund relief to the IMF.
- Recent announcements by OECD governments of target dates for aid to reach 0.7% of GNP, the International Financing Facility pilot bond issue for the Global Alliance for Vaccines and Immunisation, and the Landau report on innovative financing sources [http://www.diplomatie.gouv.fr/actual/pdf/landau\\_report.pdf](http://www.diplomatie.gouv.fr/actual/pdf/landau_report.pdf).
- The UK Commission for Africa recommendations, especially for a global

*continued on page 4*

# THIRD INTER-REGIONAL DEBT MANAGERS SEMINAR cont.

grants-based anti-shocks facility, and for increasing aid to Africa by 50% [http://www.commissionforafrica.org/english/report/background/martin\\_and\\_bargawi\\_background.pdf](http://www.commissionforafrica.org/english/report/background/martin_and_bargawi_background.pdf).

- The UN Millennium Project recommending major increases in aid to reach the MDGs <http://www.unmillenniumproject.org/reports/index.htm>.
- The Make Poverty History campaign, focusing on debt relief, aid and trade. <http://www.makepovertyhistory.org>.

Representatives from Sierra Leone and Guinea also presented the communiqués issued by HIPC ministers at their recent meetings in Maputo (see page 2). Discussion focussed on prospects for the Spring Meetings of the BWIs and the G8 Summit in June, and how best HIPCs should advocate their views.

## 6) Long-Term Debt Sustainability Framework

Representatives of the BWIs presented the new long-term debt sustainability framework for low-income countries. They indicated that:

- Domestic debt would be taken into account, though not with specific thresholds.
- It could be used by the global community to decide lending amounts and terms.
- Over time, the framework would move to long-term DSAs as the basis for decisions.
- In the short-term, IDA and the AfDB would

use the framework to guide their decisions for grant allocations (see articles in issues 21 and 22).

- Fund programmes would introduce indicative targets on NPV of debt if the DSA indicated potential problems, but these would not be performance criteria.
- They would also vary minimum grant element conditions around a 35% grant element norm; ensure that fiscal deficit limits take debt policy systematically into account and underline the need for national domestic (as well as external) debt strategies.

Discussion focussed on the need for the assessment of long-term debt sustainability to be country-led and owned, for indicators used to be adapted to the circumstances of each country, and therefore for many officials of HIPCs to be trained in how to apply the framework in their own national circumstances, by CBP-BWIs cooperation in phase 4.

## 7) HIPC Self-Evaluations of Capacity-Building Needs

Finally, HIPC representatives split up into regional working groups to update their national self-evaluations of capacity-building progress and needs for future support. They reported back to a plenary session with excellent suggestions, which will be taken into account in designing the CBP phase 4 (see page 4).

These suggestions included:

- Total debt sustainability analysis, focussing on new financing issues, domestic debt, interest and exchange rate risks, exogenous shocks, and subnational debt.
- The need to tailor assistance somewhat to countries' progress in the HIPC Initiative, with pre-completion point countries needing external debt relief negotiations training, and post-completion point countries needing training on risk analysis.
- Assistance in legal and institutional issues, and in intensive support to institutions on procedures manuals, job descriptions, and work and training programmes.
- Combating staff turnover by establishing national debt strategy teams, and providing distance learning and on-job training, to ensure debt strategies are updated annually.
- Ensuring political, parliamentary and civil society support for approval and implementation of national debt strategies and capacity building plans, and therefore extending CBP interventions wherever possible to enhance civil society capacity.
- Enhancing the self-evaluation methodology to ensure it fully covers new financing, domestic debt, risk management and subnational debt issues.

**Presentations and background papers for the seminar will be available on the HIPC CBP website [www.hipc-cbp.org](http://www.hipc-cbp.org).**

# PHASE 4: PRINCIPLES DESIGNED

**O**n 30 April-1 May in London, the HIPC CBP held meetings of 49 representatives of stakeholders (HIPC debt managers, international organisations, donors and implementing organisations) to lay out the principles for phase 4. The meetings were facilitated by the phase 4 planning consultants, Agriteam Canada Consulting Ltd.

The main conclusions of the meeting were that:

- Phase 4 of the HIPC CBP will be the final phase and will last either 4 or 5 years.
- Its main goals will be for all countries to formally adopt and implement national debt strategies and national debt management capacity-building plans.
- The types of work conducted by the HIPC CBP will remain broadly the same as in phase 3. More stress will be placed on in-country activities and less on regional training events, ministerial meetings will continue to be joint with other international organisations, and Steering Committee meetings will be held only once a year.

- The finalisation of phase 4 activities will take into account the priorities identified by HIPCs in the 3<sup>rd</sup> Inter-Regional Debt Managers Seminar (see page 3). In particular, methodology in phase 4 will be even more adapted to country needs, including the application of the long-term debt sustainability framework for low-income countries, more precise tailoring of training on new financing and domestic debt, and more focus on analysing risks relating to interest rates, exchange rates and exogenous shocks.
- The roles and responsibilities of donors, regional implementing partners and the Technical Office (DRI) will remain broadly the same, but be more clearly spelled out than in phase 3. The Technical Office will focus on multi-regional products and ROs on activities within each region, but inter-regional meetings, information products, distance-learning and methodology development will be managed jointly.
- The main system for evaluating country progress will continue to be self-evaluations by

the countries, quality controlled by implementing partners. However, the project will also introduce a system for continuous independent monitoring of progress.

- An early priority is to design ways to support long-term capacity-building needs of countries which are not members of ROs, at the next BWI Annual Meetings.
- Phase 4 will have roughly the same donor funding contribution for as phase 3, which implies a considerable reduction in annual donor funding.
- To fill the financing gap, HIPCs will be encouraged to provide in-kind contributions for local costs of events, as well as increasing financial contributions to RO budgets. Even greater efforts would be made to save costs in all aspects of CBP budgets.
- Decentralisation will also be increased in the management of CBP finances.

The phase 4 document designers will produce a further draft shortly for discussion and finalisation by Steering Committee members at the next SC meeting on May 16-19.

# POST-HIPC PUBLIC DEBT STRATEGIES: PITFALLS TO BE AVOIDED



**T**he BCEAO/BEAC Pôle-Dette organised a training session from 7<sup>th</sup> to 12<sup>th</sup> March in Ouagadougou for Burkina Faso's Debt Sustainability Analysis Technical Unit, which assists the National Public Debt Committee (CNDP) with debt sustainability analysis (DSA) and approval of borrowing agreements. The participants raised several problems facing post-HIPC completion point countries, in particular how to deal with debts covered by stock cancellation, how to manage HIPC funds to be used for poverty reduction programmes and how to ensure consistency between macroeconomic and debt data. In the CFA Franc Zone, these problems are relevant to Benin, Burkina Faso, Mali, Niger and Senegal, which have all reached their HIPC completion points.

## STOCK CANCELLATION AND AMOUNTS TO BE ALLOCATED TO POVERTY REDUCTION PROGRAMMES

Two issues facing post-HIPC countries are: (i) how to deal with debts covered by stock reduction in their databases, and in DSA beyond HIPC completion point; and (ii) how to calculate HIPC funds resulting from agreements that are subsequently cancelled at 100% discounted value. These problems are dealt with in different ways by the CFA Franc Zone countries.

For example, Benin has removed from its database all debts covered by stock cancellation, and no longer provides for simulation of a restructuring option in respect of these loans in its DSAs. However, agreements are followed up in a separate schedule, in order to enable debt relief amounts to be calculated. Burkina Faso, however, has retained these debts in its database and continues to simulate cancellation of this debt stock in order to ascertain the amount of debt relief to be allocated to the special HIPC account to fund poverty reduction programmes.

In view of the possible errors, Pôle-Dette decided to provide details of the most appropriate ways of processing these debts. When a country benefits from debt service cancellation by the Paris Club, the following treatments are recommended:

1. **debt service partial cancellation:** the initial loan schedule is retained in the database for post-consolidation period maturities. New bilateral agreements whose present value represents the residual cancellation balance are recorded in the database as new loans. In DSAs, complete application of the Paris Club terms is simulated for non- previously-restructured maturities, while debts from previous restructuring operations are dealt with using an additional process.
2. **debt service total cancellation:** the initial loan schedule is retained in the database for post-consolidation period maturities. However, since total cancellation nullifies the present value, bilateral agreements legally record the cancellation but no agreement is registered in the database. In DSAs, complete application of Paris Club terms is simulated for non-previously-restructured maturities, since there are no more debts resulting from previous restructuring operations.

In both cases, the amount to be allocated to poverty reduction programmes is the difference between the pre- and post-relief debt service. When a country's debt stock is cancelled, the following processes are recommended:

1. **database management:** divide the debt database into two, with the main database (1) representing the schedule of debts that are still payable, including bilateral agreements, and a secondary database (2) representing the original schedule of cancelled debts.
2. **restructuring after completion point:** once debts that have been cancelled are removed from the portfolio they must no longer be included in restructuring operations. However, debt service restructuring should continue to be simulated in order to take into account future debt relief (by multilateral creditors and certain non-Paris Club creditors), and additional processes applied to debts resulting from partial debt stock cancellation.
3. **amounts to be allocated to the HIPC account to fund poverty reduction programmes:** the amounts to be assigned to the special account should come from two sources. The first source is database 1. In this context, the amount of debt relief would be the difference between the debt service prior to restructuring and that following restructuring (calculations

should exclude new external financing). The second source is database 2: since the present value of debt is totally cancelled at discounted value, the amount of debt relief represents the totality of the forecasted debt service.

## PITFALLS TO BE AVOIDED WHEN UPDATING A DSA

When a DSA has enabled a borrowing strategy to be designed at the start of the year, whereby budgetary balances are established that are consistent with the authorities' objectives, annual borrowing ceilings are fixed and the parameters for new loans are set (composition of portfolio and terms of new financing arrangements), it is no longer essential to carry out a new DSA when reviewing draft individual agreements. It could simply be ensured that (i) the agreements concern the projects taken into account in the initial macroeconomic forecasts; (ii) the combined amounts of these agreements respect the borrowing ceilings set; and (iii) the terms of the agreements are consistent with the minima set by the authorities.

If the authorities require a new debt sustainability analysis, taking into account the amounts and terms of the new financing arrangements, the following precautions should be taken:

1. New agreements should be recorded in the database and in the Debt-Pro® 'Debt sheet'. The amounts of these new financing arrangements should be divided between the 'New borrowings-External', 'New borrowings-Domestic', 'Gap filling-budget' and 'Gap filling-BOP' categories. It is recommended that these amounts be deducted from disbursements, to avoid 'overfinancing'.
2. If the impact of a financing agreement for a project not initially recorded in the public investment programme has to be simulated, this new project should also be included in public expenditure.
3. It is recommended that systematic use be made of the Debt-Pro® 'Gap filling' module.

The right approach is to simulate the effects of macroeconomic forecasts, restructuring and new identified financing. It is then essential to verify the amounts of financing deficits to be filled in or surpluses to be absorbed, and to adjust macroeconomic forecasts, before activating the command 'Gap filling', in order to avoid errors in DSA.



# HONDURAS: PROGRESS AND CHALLENGES IN MONITORING THE POVERTY REDUCTION STRATEGY<sup>1</sup>

## I. Long-Term Integral Vision

When President Maduro came to power in January 2002, he brought with him an agenda which included the achievement of two fundamental objectives: to encourage economic growth and to reduce the rates of delinquency and increase safety in the streets. The authorities were happy to adapt his campaign proposals to the recently approved Poverty Reduction Strategy (PRS) which, since then, has become the framework for the country's long-term policies.

The PRS was conceived within the context of the HIPC initiative, with which the country will be allowed to draw down US\$ 70 million per year in resources to alleviate its foreign debt, to be used in development programmes with a view to reducing the country's economic problems, exacerbated by hurricane Mitch that devastated the country in November 1998.

The targets identified for 2015 are a version of the Millennium Development Goals (MDGs), adapted to domestic circumstances. In the first report on the progress and updates of the PRS at the end of 2003, the goals were revised to ensure that they were coherent with the basic objective of reducing poverty in a sustainable manner through wide-based economic growth, by providing the population with access to the production factors.

For the project to become operational, an action plan for 2004-2006 was developed, integrating health, education, water and sanitarries and agriculture and forestry sectors. Work is also being done to define a further two other sectors (economic infrastructure and safety). This effort is reinforced by the assistance which central government provides to town councils through its Strategic Municipal Development Plans (PEDM), aligning them to the goals and programmes for 2015. The idea is to replace the old sector-based vision with the holistic approach to development held by civil society.

## II. The Necessary Link between Goals and Budget

One of the fundamental problems for implementing the PRS is the need to monitor Government expenditure and its impact on the goals adequately. To solve this problem, the Government implemented the PRS Information System which monitors actions undertaken and links them to the goal-impact indicators. Following the first progress report, and updates, the authorities extended the definition of expenditure on poverty to bring it more into line with the effort required to achieve the goals and avoid fungibility.

A law was passed for 2004 which regulates the drafting of a programmed budget based on medium-term expenditure framework (MTEF) defined in a medium-term Development Plan. Work is already underway: The pluri-annual plan for the implementation of the PRS (2006-2009) is based on six sector-wide plans, currently under review by the Management Planning and Evaluation Units (UPEG) of the State Secretary's offices at the head of each sector. This new approach to strategic planning will allow the government to adapt the budget to medium-term requirements. An inter-ministerial technical committee (Social Office), presided by the Presidential Secretariat office, will be in charge of implementing it. The Social Office, together with the Technical Support Unit (UNAT) seconded to the office of the Presidential Secretariat office, supervise inter-sector coherence of all the work done in relation to the goals.

## III. Co-ordination of all the stakeholders

To ensure sustainability, the agents involved must accept the programmes. To this end, the government is in charge of co-ordinating both civilian society and external co-operation. Within this context, the UNAT is responsible for ensuring that foreign aid is in line with the long-term objectives. The UNAT is also in charge of co-ordinating planning with the MPAU's and civilian society. For its part, the Finance Minister's Office is responsible for handling and monitoring all external co-operation and the budget process. An office for supervising projects was also established, in order to speed up implementation. This office is seconded to the Presidency.

Dialogue and the exchange of information with the main actors co-operating take place within a co-ordination framework known as the G-17. Between 2003 and 2004 the government and co-operators organised a series of workshops to achieve harmonisation and the alignment of co-operation around the PRS.

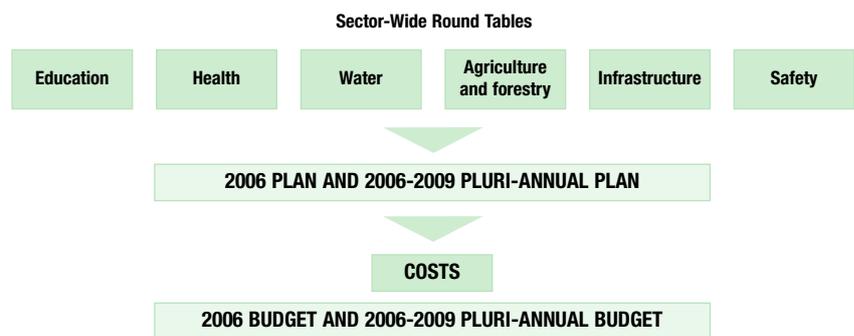
For its part, co-ordination with civilian society takes place in the PRS Consultative Council, a technical and political body with twelve high-ranking members of civil society who represent various sectors and six members of the Social Office. To date, the most important progress has been made in the definition of priorities for the allocation of HIPC resources, the participation of civilian society in the round tables which draft the sector plans and their active participation in the monitoring process through social audits.

## IV. Challenges and Commitments

However, three years into the ERP, the impact indicators show little progress towards the achievement of the goals. The main reason is the lack of financial resources deriving from the break-off of the IMF programme in early 2002. Moreover, we must acknowledge that changes in most of these indicators show medium and long term results. However, important progress has been made as regards institutional regulation, government leadership of the process, harmonisation with donors and technological improvement.

Work needs to be done to interleave the goals of the PRS with the investment required to achieve them. Domestic appropriation must also be strengthened by reinforcing the capacity of civil society, adequately publicising the objectives, goals and results and boosting social audits as a mechanism for the supervision of efficiency and transparency. The mechanisms to articulate supply and demand must be reinforced at local level, to guarantee decentralised implementation of resources and increase technological capacity so as to achieve a better system of information which will ensure adequate feedback from the beneficiaries and achieve greater impact on long-term goals.

## PLANNING AND SCHEDULING BASED ON MEDIUM-TERM GOALS



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# ANGOLA'S NATIONAL DEBT STRATEGY AND NEW FINANCING WORKSHOP

**M**EFMI in collaboration with DRI conducted the second national debt strategy and new financing workshop from 14-25 February 2005 in Luanda, Angola. The Administrator of the Banco Nacional de Angola, Ms. Marinela Amaral, officially opened the workshop while the Minister of Finance, Hon. Jose Pedro de Morais, and other senior Ministry of Finance and Central Bank officials were present at the official opening.

The results of the debt and new financing strategy were disseminated at a closing seminar, which was attended by Dr. Aguinaldo Jaime, the Deputy Prime Minister and the Governor of Banco Nacional de Angola, Mr. Amadeu de Jesus Castelhanó Maurício. The presence of these senior government officials at the workshop reflected the high level commitment of the policy makers to public debt issues in overall macroeconomic management in Angola.

The overall objectives of the workshop were:

- To design a strategy for managing Angola's public debt burden;
- To train 38 Angolan officials in analysing new financing and assessing the sustainability of public debt;
- To sensitise the authorities on the impact of future new borrowings and aid flows;
- To analyse the effects of external debt relief on poverty reduction programmes; and
- To foster creation of a sustainable national team of experts capable of updating debt strategy and new financing analysis regularly, thereby reducing the reliance on external assistance.

The outcome of the debt strategy analysis confirmed that Angola's debt is below the HIPC thresholds. The workshop results re-affirmed Angola's ineligibility for HIPC debt relief as the debt indicators from the results analysis show that after application of Naples Terms, Angola's present value of debt ratios would be considerably below the critical levels for both exports and budget revenue. The present value to export ratio (PV/XGS) is 105% and present value to budget revenue (PV/DBR) ratio is 165%. This is a reflection of the role of the oil sector in the economy and of the current high level of international oil prices. On the other hand, because of the non-

concessional nature of Angola's debt, the debt service to budget revenue ratio is currently well above 20%.

In this context, the workshop moved on to test the effects of two variants of the Evian Terms which can be applied to non-HIPC countries. The two variants were:

- A flow rescheduling along the lines of the Houston Terms, which provide up to 10 years of grace and 20 years of maturity on ODA debt, and 8 years of grace and 15 of maturity on non-ODA debt; and
- A present value reduction along the lines of the Naples Terms, which provides rescheduling of ODA debt over 40 years with 16 years of grace, and reduction of non-ODA debt by 67% in PV terms.

The results of these two scenarios are shown in Table 1. Obviously, the Naples terms treatment had a much more favourable impact on both the PV/XGS and PV/DBR ratios. While the Houston Terms provided considerable liquidity relief, especially in terms of the debt service to budget revenue ratio, the Naples Terms also provide greater liquidity relief. Nevertheless, either set of terms leaves Angola with debt service to budget revenue ratios which are dangerously high for the next twenty years (15-20%). Angola also remains highly vulnerable to any downturn in oil export prices.

On this basis the following conclusions were drawn:

- An IMF programme would facilitate a Paris Club rescheduling on at least Houston Terms, which could assist in reducing liquidity indicators to more sustainable levels.
- In view of the high liquidity ratios even after Naples Terms, it is essential to manage terms and amounts of new loans closely to keep debt levels more clearly sustainable.
- A need to review the high dependence

on external financing for economic growth.

- The need to channel external resources to growth and productive sectors instead of current expenditures.
- The need to shift the prioritisation of expenditure towards poverty reduction efforts.

The workshop further provided a practical training opportunity for broad participation of the relevant officials and covered all methodological aspects of DSA including domestic debt and new financing which were not covered at the earlier workshop in 2003. Participants were able to enhance capacity/skills in these technical areas.

The participant evaluations indicated that:

- Over 85% of participants found the workshop very useful and learned a great deal.
- The content was very relevant for their work and the instruction was high quality.
- None of them found the workshop contents too difficult to the extent of not contributing to the group's tasks.
- The materials for the work were adequate and the activities were participatory.

Finally, the workshop made additional recommendations to the authorities on capacity building aspects for debt management, which included the need to:

- Conduct a debt strategy analysis annually in order to measure the impact of new financing on the budget and medium/long-term debt sustainability.
- Improve coordination of institutions through greater activism by the debt management committee in informing policy decisions and sharing information.
- Implement fully agreed institutional procedures to facilitate circulation of information on debt management issues to all relevant authorities.

**Table 1: Results of Angola's relief scenarios**

Ratios	Scenario 1: Houston Terms			Scenario 2: Naples Terms		
	2005	2010	2020	2005	2010	2020
PV/XGS	105	64	84	105	55	80
PV/DBR	165	127	138	164	109	131
TDS/DBR	20	20	18	20	18	16

# HIPC INITIATIVE AND PRSP PROGRESS: APRIL 2005

Sources:  
HIPC Governments,  
IMF & World Bank

Countries	HIPC II Dates		PRSP Dates		HIPC Initiative
	Decision	Completion	Interim	Final	Creditor Participation
Angola	no current timetable		2005	...	NA
Benin	7/00	3/03	7/00	3/03	99%
Bolivia	2/00	6/01	2/00	6/01	95%
Burkina Faso	7/00	3/02	5/00	7/00	76%
Burundi	2Q2005	2Q2006	1/04	2Q2005	NA
Cameroon	10/00	1Q2006	10/00	7/03	98%
Central African Rep.	...	...	1/01	4Q2005	NA
Chad	5/01	3Q2005	7/00	7/03	93%
Comoros	2005	...	2005	...	NA
Congo, Dem. Rep. of	7/03	3Q2006	6/02	3Q2005	93%
Congo, Rep. of	2005	...	12/04	4Q2006	NA
Côte d'Ivoire	2006	...	3/02	...	NA
Ethiopia	11/01	4/04	3/01	9/02	92%
Gambia	12/00	1Q2006	12/00	7/02	81%
Ghana	2/02	7/04	8/00	4/03	90%
Guinea	12/00	4Q2006	12/00	7/02	85%
Guinea-Bissau	12/00	4Q2006	12/00	1Q2005	81%
Guyana	11/00	12/03	11/00	9/02	81%
Honduras	7/00	4/05	7/00	10/01	93%
Kenya	DSA Nov. 2003		8/00	2/04	NA
Lao PDR	no current timetable		4/01	12/04	NA
Liberia	no current timetable		no PRSP process		NA
Madagascar	12/00	10/04	12/00	11/03	91%
Malawi	12/00	1Q2006	12/00	8/02	97%
Mali	9/00	3/03	9/00	3/03	85%
Mauritania	2/00	6/02	NA	1/01	90%
Mozambique	4/00	9/01	4/00	9/01	88%
Myanmar	no current timetable		no PRSP process		NA
Nicaragua	12/00	1/04	12/00	9/01	87%
Niger	12/00	4/04	12/00	2/02	86%
Rwanda	12/00	4/05	12/00	8/02	95%
São Tomé & Príncipe	12/00	3Q2006	4/00	2Q2005	85%
Senegal	6/00	4/04	6/00	12/02	81%
Sierra Leone	3/02	1Q2006	9/01	2Q2005	84%
Somalia	no current timetable		no PRSP process		NA
Sudan	no current timetable		...	...	NA
Tanzania	4/00	11/01	3/00	12/00	90%
Togo	...	...	...	...	NA
Uganda	2/00	5/00	NA	5/00	96%
Vietnam	DSA 2002		4/01	6/02	NA
Yemen	6/00	...	2/01	8/02	NA
Zambia	12/00	4/05	7/00	5/02	97%

Dates for HIPC decision and completion points and PRSPs are those of final BWI Board approval. Most governments have published PRSPs several months before BWI approval.

Honduras, Rwanda and Zambia reached their completion points in April. Rwanda obtained a topping-up of US\$243.1 million.

Key Debt Relief and New Financing Issues	Key Macroeconomic and Poverty Reduction Issues
HIPC CBP DSA shows ratios under HIPC thresholds	Discussions for a new SMP on-going
Most creditors provide relief, unsustainable due to new borrowing	New PRGF to be negotiated. PRSP progress report due soon
Debt unsustainable after new borrowing; heavy fiscal debt burden	PRSP review completed. 2004 stand-by agreement negotiated and pending approval. New PRGF expected for 2005 or 2006
Topping-up assistance from IMF. Côte d'Ivoire threatens lawsuit; Kuwait and Saudi Arabia offered non-comparable rescheduling terms	2 <sup>nd</sup> and 3 <sup>rd</sup> PRGF reviews completed. PRSP on-track
Preliminary HIPC document presented to BWI boards in Jan 2005, decision point expected in May	2 <sup>nd</sup> PRGF review expected in May 2005. Final PRSP expected for mid-2005
79% buyback from IDA on commercial debt, 2 lawsuits. Paris Club consolidation period extended to Dec. 2004	PRGF off-track; SMP still under discussions
Political instability postpones HIPC timetable, multilateral arrears accumulating	Emergency post-conflict assistance programme approved by IMF in July 2004. Final PRSP delayed due to instability
IMF grants additional interim assistance of US\$2.1m. PC consolidation period extended to end-Sept. 2005	New 3-year PRGF approved in February 2005. PRSP review expected
High debt burden. HIPC timetable still uncertain	SMP approved in early March 2005. PRSP process being accelerated
IMF grants US\$1.7m additional interim assistance (Jul.04)	Slippage with PRGF due to security tensions. Final PRSP due soon
Naples terms from PC	3-year PRGF granted in Dec. I-PRSP approved
DP delayed because of civil conflict. Large external arrears	2002 PRGF which was off-track expired in March 2005. PRSP delayed
CP topping up of \$707m approved	Good PRGF record, despite exogenous shocks
Interim IMF relief lapsed, 2 <sup>nd</sup> tranche Paris Club relief not implemented	PRGF off-track, SMP being negotiated. Donors' budgetary support suspended
PC Cologne terms on stock. Participation of some Non-Paris Club and commercial creditors remains an issue	Multi-donor budget support programme set up. PRSP progress report finalised and IBWs staff assessment published June 04
IMF, AfDB, PC interim relief suspended	6-month SMP agreed. PRSP progress report assessed by BWIs
IMF and Paris Club have suspended relief	SMP approved in March for the remainder of 2005. PRSP expected mid-2005
PC Cologne terms agreed; commercial lawsuit dropped	PRSP progress report completed. PRGF on-track
Reached CP on 5 <sup>th</sup> April. Expected to meet Paris Club creditors in June	2 <sup>nd</sup> PRSP review completed and PRSP on-track
DSA shows ratios under HIPC thresholds. PC Houston Terms relief	PRGF on track. Joint staff assessment recommends PRSP Jan. 2005
Despite eligibility, government does not wish to participate in HIPC I	4 <sup>th</sup> PRGF review still pending
Debt stock estimated \$3bn (600% of GDP), nearly all in arrears	SMP to be negotiated
After CP, unsustainable on fiscal ratios	On track with PRGF, programme extended through March 2005. 1 <sup>st</sup> PRSP progress report completed and 1 <sup>st</sup> PRSC endorsed by World Bank
South Africa has written off its debt. No agreement yet with other non-Paris Club creditors	Satisfactory progress on SMP. Discussions begin for new PRGF Feb. 2005
Difficulties with non-PC, commercial creditors	1 <sup>st</sup> PRSP progress report finalised and IBWs staff assessment published May 04. Drought and Côte d'Ivoire shocks
No relief from some non-Paris Club creditors (Algeria, Kuwait, FKDEA)	PRGF on-track. PRSP progress report due
Agreements with China, Kuwait and South Africa. Commitments from other non-Paris Club creditors to provide comparable debt relief	PRGF being implemented. PRSP on-track
No WB lending since 1987. Probably unsustainable	No IMF programme since 1981-82
CP achieved in January 2004	2 <sup>nd</sup> PRSP progress report finalised. PRGF being implemented
No agreement with non-Paris Club creditors. Taiwan won lawsuit	New 3-year PRGF. 2 <sup>nd</sup> PRSP progress report completed in March
CP reached on 13 <sup>th</sup> April, topping up granted. Meets Paris Club in May	Joint staff assessment of PRSP progress report endorsed. PRGF on-track
Running out of ADF relief. CP delay	Discussions for new PRGF concluded in Jan, Boards discussion planned for late April. Final PRSP pending BWIs approval
CP reached. Cologne stock agreement signed with Paris Club	On track with PRGF. PRSP progress report completed
Commercial lawsuits of US\$35m. Running out of ADF interim debt relief. CP expected Jan. 2006	PRGF on track. Final PRSP completed Feb. 2005, pending Boards' approval
Accumulating large arrears to creditors. No World Bank lending since 1991	Still no current IMF programme despite cabinet appointed in Jan. 2005
Donors' conference to clear multilateral arrears planned in April	I-PRSP near completion. 2004 SMP satisfactory, negotiations for a new one
Bulgaria, China and Kuwait have provided debt relief	3 <sup>rd</sup> PRGF review completed Feb.2005. New PRSP expected soon
No current prospect of debt relief	Still no resumption of engagement. Government approved I-PRSP in November 2004
Ceiling on new borrowings, seeking more grants as debt is unsustainable	4 <sup>th</sup> PRGF review completed Feb. 2005. Revised PRSP ready
Board report on HIPC eligibility due shortly	New PRGF to be negotiated. 1 <sup>st</sup> PRSP progress report approved by BWIs
Ratios under HIPC thresholds so Paris Club Naples stock treatment	PRGF on track
Reached CP on 8 <sup>th</sup> April. Expected to meet Paris Club creditors in May; no agreement with non-PC creditors	2 <sup>nd</sup> PRGF review underway. Satisfactory implementation of PRSP

# HIPC CBP ACTIVITIES

## **Inter-regional and Regional workshops**

The **3<sup>rd</sup> Inter-Regional Debt Managers Seminar (IRWS3)** took place in London in March (see page 3).

## **WAIFEM Domestic Debt Strategy**

**Workshop.** WAIFEM and DRI organised this workshop in Banjul, The Gambia, from 14 to 24 February. Twenty-six participants from 4 countries (The Gambia, Ghana, Nigeria and Sierra Leone) took part. It provided domestic debt managers with the tools needed to prepare a domestic debt strategy and to design and implement policies for future new borrowing and domestic debt restructuring consistent with long-term sustainability. Using Debt-Pro<sup>®</sup> simulations, technical group work and Ghana's database as a case study, the participants made the following recommendations:

- Central banks should design domestic debt policies to promote sound financial systems;
- Participants should canvass fiscal discipline by policymakers, especially as curtailing fiscal deficits is a key convergence criterion in the West African Monetary Zone;
- WAIFEM member central banks all need to reduce domestic debt levels to ensure total debt sustainability and additional financing for poverty reduction;
- Member states should adopt appropriate policies, institutions and laws for domestic and total debt management, through joint committees of central banks and treasuries.

## **National workshops**

**Angola.** MEFMI and DRI conducted a National Debt Strategy and New Financing workshop from 14<sup>th</sup> to 25<sup>th</sup> February in Luanda (see page 7).

**Bolivia.** A mission and a seminar to provide exhaustive training to officials from the Ministry of Finance in debt sustainability analysis (DSA) and debt strategy, centred around the operations of the central government took place in La Paz, 1-10 March. Officials from the external and domestic debt, financial and fiscal programming departments of the Deputy Ministry for the Treasury and Public Credit took part in this event. The development of the Seminar hinged around adapting the CBP's technical material to a specific application for performing DSAs in central government. The main conclusion is that the results of the two approaches for evaluating debt sustainability are totally contradictory:

- From the point of view of present value/exports, Bolivia's debt is sustainable due to the increase in exports over the last few years.
- However, according to the central government, that pays back the debt, the situation is unsustainable in the light of present value/central government revenue.



**Dr. Mario Flores, General Manager Central Bank of Nicaragua, IRWS3, London, March 2005**

**Burkina Faso.** Pôle-Dette and DRI held a national workshop in Ouagadougou from 7<sup>th</sup> to 12<sup>th</sup> March for the members of the debt sustainability analysis technical unit, which assists the National Public Debt Committee (CNDP) in the review of draft borrowing agreements, before signature. Around 20 participants worked on the following issues: (i) coordination of debt management and macroeconomic and financial policies; (ii) setting the parameters of borrowing policy; (iii) preparation of the guideline on borrowing policy. The work highlighted the need for decisions to be taken within the context of a formal and transparent strategy at the start of each year. The advantages of such a strategy are manifold: (i) broadening the horizon of economic policies; (ii) coordination, consistency and global vision of economic policies; (iii) consensus on a common vision of future financial constraints; (iv) credibility of policies towards the international community and financial markets. The participants plan to put the training into practice as early as May 2005, when drawing up the 2006 Finance Act.

**Chad.** Chad reached its decision point in May 2001, on the eligibility criterion of present value/exports. At that date, its external debt was FCFA 794 billion, or 64% of its GDP. DRI and Pôle-Dette held a national workshop from 29<sup>th</sup> March to 9<sup>th</sup> April, bringing together 34 senior officials, with the aim of helping the authorities draw up strategies to preserve post-HIPC debt sustainability. Three strategies drawn up showed that external debt was rendered sustainable again following the HIPC initiative. However, Chad continues to face major problems:

- Domestic debt service representing 9.4% of budgetary revenue in 2005;
- General liquidity problems, arising from the fact that budgetary revenue appears to remain generally weak several years after completion point;
- A limited production base, and exports based mainly on petrol.

To improve its prospects, Chad will need to securitise certain debts, create a fund for reducing domestic debt, supplied by grants, improve its policy for new financing and reinforce its macroeconomic framework.

## **Country missions**

### **Bolivia: Mission and Seminar for a Capacity Building Programme at Sub-national level**

(La Paz, 24<sup>th</sup> February to 8<sup>th</sup> March). The purpose of this mission was to help municipal authorities consider the method for evaluating debt management capacities for, designed by the HIPC PFC and to discuss the orientation and minimum content of a CBP in this area. Results were satisfactory because:

- The exchange of ideas between the attendees was enriching;
- The applicability of the self-assessment methodology for sub-national government was confirmed;
- The input required to fine-tune the methodology was obtained and it was obvious that sub-national governments were extremely interested in gaining access to a CBP; and
- It was obvious that the focus, lines and contents of the programme advanced by the CBP were relevant to sub-national governments.

**Cameroon: Institutional Mission.** Cameroon was declared eligible for the HIPC Initiative in October 2000. However, in view of macroeconomic forecasts, the extent of domestic debt and constraints in mobilising new financial resources, it is essential to align Cameroon's institutional organisation of debt management with international standards, in order to maintain debt sustainability beyond completion point. It is with this aim that the Pôle-Dette/DRI joint mission made the following recommendations:

- Reform the legal and institutional framework, embodied by the adoption of (i) a law or decree on the mobilisation of financing; (ii) procedure manuals and regulations within the debt chain;
- Institutionalise coordination of debt management with macroeconomic policies, through the creation – within the Interministerial Structural Adjustment Programme Monitoring Committee – of a national public debt sub-committee;
- Draw up a capacity-building programme to bridge the existing gap between international standards and current debt management practice.

### **Guinea-Bissau: Institutional Mission and National Workshop Preparatory Mission.**

Guinea-Bissau was declared eligible for the HIPC initiative in December 2000. However, in view of its socio-political problems the economic

# TO END OF PHASE 3

programme signed with the IMF, and the HIPC debt reduction operations, were suspended in 2001. A joint mission comprising Pôle-Dette, DRI and the UNDP, met in Bissau from 31<sup>st</sup> January to 10<sup>th</sup> February with the aim of evaluating institutional capacities and agreeing with the Bissau-Guinean authorities on the measures to be adopted to bring the institutional organisation of debt management into line with international standards.

The mission concluded by making the following main recommendations:

- i) Strengthen legal and institutional mechanisms by adopting a law governing the framework and policy for the mobilisation of finance;
- ii) Reinstatement of the debt management committee as the official coordination body;
- iii) Improve the skills of senior officials involved in debt management.

In order to prepare for the national workshop scheduled to take place in May, the mission also held working sessions with the Bissau-Guinean authorities.

**Honduras Institutional Mission.** Between 7 and 18 March, a New Financing mission was organised in Tegucigalpa. The main feature of this mission was the preparation for future negotiations with the Paris Club, after reaching completion Point. A database with information on new financing was prepared, that will facilitate the drafting of new financing strategies in the national workshop. The mission also revised debt strategies in preparation for the next Paris Club meeting.

**Sierra Leone Preparatory Mission.** A DRI/WAIFEM preparatory mission to Freetown took place from 7-11 March. The objective was to assist the Government in preparing the National Debt and New Financing Strategy Workshop. The mission met with different institutions to identify the appropriate staff to participate in the workshop, and reviewed the data and document related to external and domestic debt, new financing, macroeconomic forecasts and poverty reduction, to prepare the different technical groups. At the end of the mission, the Government organized a meeting of all relevant institutions to plan the workshop.

### **Intensive assistance programmes**

**Burundi.** A mission to Bujumbura, from 14-26 February, as part of an intensive assistance programme funded by DFID, aimed to assist the Government to prepare a debt strategy analysis before the decision point. The mission found that Burundi would qualify for HIPC debt relief on the PV/exports ratio. However, even after full implementation of HIPC debt relief, Burundi's debt burden would remain unsustainable and

therefore Burundi's creditors need to provide maximum additional front-loaded liquidity relief, especially on multilateral debt (83% of the total). While maximum front-loading of HIPC relief will lower Burundi's excessive debt servicing burden after HIPC relief, huge new donor grants will be needed to fund Burundi's poverty reduction and post-war reconstruction programmes. A recent IMF/World Bank pre-decision point mission has validated the conclusions of the mission.

**The Gambia.** As part of an Intensive Assistance programme financed by DFID, DRI and WAIFEM conducted a mission from 17-28 January, which made 42 recommendations for:

- Reducing the domestic public debt overhang to promote fiscal and monetary sustainability;
- Reducing interest rates and extending maturities of domestic debt in the medium term;
- Reviewing the existing institutional structures and suggesting needed changes.

**Mozambique.** Further discussions with the Government have led to agreement on a programme of intensive assistance, to be financed by Sida, which will begin in the second quarter with a mission to assist the government in finalising an action plan for implementing its national strategy, and providing support to institutional reforms.

**Nigeria.** Nigeria recently finalised the preparation of its database in CS-DRMS, for a debt strategy analysis. As a result, WAIFEM and DRI are moving ahead rapidly with the DFID-financed intensive assistance programme on debt strategy. They will conduct a Debt-Pro<sup>®</sup> training workshop in May, followed rapidly by a National Debt Strategy workshop and sensitisation seminar for policymakers, to assist Nigeria in achieving the maximum debt relief during 2005.

### **Attachments**

**From Pôle-Dette Region.** Du Prince Tchakoté Noubissi (Cameroon Sinking Fund) was attached to DRI from 17-28 January, in order to analyse non-HIPCs. He carried out the following tasks: (i) review of the new methodology of the Bretton Woods Institutions; (ii) exploitation of DRI documentation and research on the Evian Terms; (iii) case studies of Gabon, Kenya, Nigeria and Iraq; and (iv) initial considerations of how the CBP methodology can be adapted to non-HIPCs.

**From CEMLA Region.** Two officials from the Ministry of Finance of Guyana were attached to International Debt Management in Washington D.C., took place from 7-11 February. This attachment aimed at providing them with skills training in the using of Debt-Pro<sup>®</sup>.

**From MEFMI Region.** Mr. Stan Nkhata, a MEFMI candidate Fellow from the Ministry of Finance in Malawi, went for attachment to DRI from 14-24 March. He aimed to become familiar with all aspects of HIPC CBP debt strategy analysis methodology (in particular restructuring in the context of Malawi's approaching HIPC Completion Point), and to strengthen his expertise in debt strategy design, including the use of the Debt-Pro<sup>®</sup> software. Mr. Nkhata also discussed with his mentor, Ms. Alison Johnson, how to strengthen his technical paper.

### **Liaison and advocacy**

During the first quarter of 2005, the HIPC CBP partners have been asked to take part in many different liaison and advocacy meetings to discuss debt relief and financing for development. In January and February 2005, DRI contributed to several OECD meetings on improving the effectiveness of aid, including the DAC High-Level Forum on Aid Effectiveness held in Paris on 3-4 February. All four CBP partners were invited to co-host the HIPC Ministerial Meetings and Commonwealth HIPC Ministerial Forum Meetings held in Maputo 15-16 March, as well as facilitating meetings of low-income countries as an input into the UN Multi-stakeholder Consultation on 17th March. DRI was also asked to contribute to and facilitate dialogues on the 'Macro-Economic Impact of Aid' in Maputo, 'Anti-Shocks Financing' in Nairobi and 'Policies and Strategies for Financing Development' at the ECOSOC meeting in New York. CBP partners MEFMI, and WAIFEM were asked to co-host and participate in IMF/World Bank workshops to disseminate the new long-term debt sustainability framework methodology to African LICs.

### **Information products**

**Distance-Learning.** Module 8 has been designed and issued to students during this quarter, and module 9 is being completed for the residential workshop to be held in London in July, in which the vast majority of cycle 1 students are expected to graduate from the programme.

**Publications.** Publication No.9, 'Modelling Poverty Reduction' is currently being designed and printed, and will be despatched to countries shortly. Publication No. 10, 'Assessing Debt Management Capacity: The HIPC CBP Methodology' is now with the Editing team, and is expected to be printed during the next month.

**Websites.** The newly redesigned and more user-friendly HIPC CBP website is about to go live on the first week of May, and the FPC CBP website is expected to go live at the end-May. In the meantime, please continue to consult the

*continued on page 12*

# HIPC CBP ACTIVITIES TO END OF PHASE 3 - cont.

HIPC CBP website at [www.dri.org.uk](http://www.dri.org.uk), which will run in parallel with the new sites until the end of May.

**Listserves.** Every six weeks, the HIPC CBP sends out a listserv informing all members of the latest developments in debt relief and new aid initiatives, and in the methodology of the HIPC CBP to help LICs with their debt and aid management. The aim of the listserves is to provide a rapid update to HIPC debt managers and other experts to assist them in their jobs. If you would like to join the HIPC CBP listserves, with the latest developments on debt relief and aid policies, please contact us at [mail@hipc-cbp.org](mailto:mail@hipc-cbp.org)

## Future activities

HIPC CBP activities planned to end of phase 3:

- National debt and New financing workshops in Ethiopia, Guinea-Bissau, Guyana, Honduras, Nicaragua, Nigeria, São Tomé and Príncipe and Sierra Leone;
- National decision-maker sensitisation seminars in Guyana and Mauritania;
- Regional workshops: 2<sup>nd</sup> Pôle-Dette regional domestic debt workshop;
- Distance-Learning course residential workshop and graduation in London;
- Intensive Assistance missions to Burundi, Gambia, Guinea, Mozambique and Rwanda;
- Institutional missions to Bolivia, Comoros, Ghana, Mozambique and Nicaragua;
- Debt-Pro<sup>®</sup> Training in Nigeria;
- Follow-up missions to Benin, CAR, Congo and Senegal;
- Attachments: CEMLA, from Honduras and Nicaragua to Bolivia, and to IDM; from MEFMI to IDM and; from Pôle-Dette to the IMF and DRI; and from non-RO countries to DRI;
- Information products: HIPC CBP website to be launched; publications 9 and 10 to be distributed, and 11 to 14 to be produced; and two listserves to be dispatched;
- 16<sup>th</sup> HIPC CBP Steering Committee meeting in Dakar in week of 16th May, and finalisation of the phase 4 document (see principles in article on page 4).



## FPC CBP: FOUR NEW APPLICANTS

**T**echnical resources and country projects moved forward fast in the first quarter of 2005. New versions of the Access<sup>®</sup> Software, Software Manual, and National Taskforce Manual were launched, and new technical approaches to sampling and time series were defined (see related articles in this issue). The **Gambia** re-entered the Programme, **Bolivia** and **Uganda** launched project cycles, **Malawi** secured EU funding, and **Nicaragua** and **Paraguay** requested entry into the programme.

### COUNTRY PROGRESS

- **Bolivia** launched its first quarterly survey under the CBP in January.
- BCEAO and BEAC confirmed that the regional programme would begin by revising methodology, to be tested through pilot surveys in **Burkina Faso** and **Cameroon**.
- **The Gambia** re-entered the FPC CBP. WAIFEM and DFI conducted a Demand Assessment Mission in February, and are preparing for training in June/July.
- **Ghana** applied to the World Bank for its participation to be supported under its Financial Sector Support Programme, and expects a decision shortly.
- **Malawi** secured EU funding, and is expected to launch the next FPC cycle in Q2.
- **Nicaragua** joined the IMF GDDS, and requested entry into the FPC CBP.
- **Paraguay** asked to join the FPC CBP: a Demand Assessment Mission is due in June.
- **Tanzania** finalised its analytical reports for Mainland and Zanzibar.

- **Uganda** prepared to launch its next project cycle in April with support from MEFMI/DFI.
- **Zambia** finalised its proposal for presentation to donors and committed national funds.

### OTHER ACTIVITIES

Among other activities, the FPC CBP:

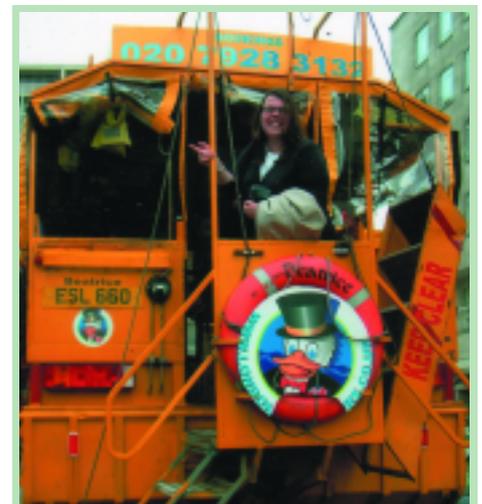
- Commenced preparations towards the next **Steering Committee** in May;
- Produced new **technical resources** on data coverage rates in surveys, approaches to data quality and office estimation, and time series;
- Updated the **National Taskforce Manual** (available to members on [www.dri.org.uk](http://www.dri.org.uk));
- Launched Version 1.54a of the **Software** and **Software Manual** ([www.dri.org.uk](http://www.dri.org.uk));
- Updated the **Website**, and agreed format and content for the new separate FPC CBP site to be launched at the end of May ([www.fpc-cbp.org](http://www.fpc-cbp.org));
- Progressed on three **publications**.

### FORTHCOMING WORK PROGRAMME

In the next six months, the FPC CBP will:

- Organise the Steering Committee meeting on 20 May in Dakar, followed by meetings with BCEAO and BEAC to design pilot regional methodology for the Franc Zone;
- Conduct follow up missions to Bolivia (June) and Trinidad and Tobago (Q3), demand assessment missions to Paraguay (Q2), Burkina Faso and Cameroon (Q3), opening awareness and training events for 4<sup>th</sup> surveys in Malawi and Uganda (Q2) and for a 2<sup>nd</sup> survey in the Gambia (Q2/Q3) and a closing

- results dissemination event and preparations for 4<sup>th</sup> survey in Tanzania (Q2);
- Pursue mobilisation of funding for Ghana, Nicaragua and Zambia to join the CBP (Q2);
- Continue to enhance and disseminate technical materials and software;
- Launch the new dedicated FPC CBP website;
- Finalise the three draft publications;
- Launch the mid-term review of the second phase of the FPC CBP.



**Cleo Rose Innes** embarking on her DFI courtesy boat to join the Treasury of her native South Africa. For Cleo: Duck, duck...

# INTRODUCING THE NATIONAL TASKFORCE MANUAL

As reported in previous newsletters, the FPC CBP has developed best practice resources for technical aspects of monitoring and managing FPC, as well as for management processes within a FPC project cycle. Following a peer review in September 2004, these resources have been centralised into a **CBP National Taskforce(NTF) Manual**. The FPC CBP is most grateful to participating countries and implementing organisations for sharing their best practices so as to create a community of knowledge exchange.

## Rationale and applicability

The NTF Manual draws together the FPC CBP's experiences in monitoring FPC in African, Caribbean and Latin American countries, as well as latest international codes and standards and the best practices of OECD and other countries. The Manual is thus applicable to any country that wants to improve its monitoring and management of FPC. The NTF Manual:

- Recommends approaches supporting the activities in a typical 1-year FPC cycle;
- Identifies individual tasks within the overall process;
- Defines responsibilities in these task areas;
- Provides best practice technical resources for each task area.

It is continuously revised to reflect new methodologies and solutions to new challenges identified by country teams or the FPC CBP, and developments in international codes and standards.

## Access and revisions

The NTF Manual is modular: relevant modules incorporate the **FPC CBP Enumerator Manual**, materials for country-led refresher training, and for training during follow-up missions. Country teams adapt and use materials from the NTF Manual for their training events, and are encouraged to apply and develop their own management and technical tools for individual country circumstances. The Manual is revised every 6 months (the last revision was in Q1 2005) to include new materials or revisions of existing material. Countries participating in the FPC CBP are placed on a listserv and encouraged to sign up to the closed website, to take advantage of instant and free access to the latest NTF Manual materials, accessible via <http://www.dri.org.uk> To join the listserv or access closed pages on the website, contact DFI at [dfi@dri.org.uk](mailto:dfi@dri.org.uk) to become a

member. The FPC CBP welcomes comments and suggestions for improving best practices – please email these to [dfi@dri.org.uk](mailto:dfi@dri.org.uk).

## Contents

**Section 1** summarises the **tasks and processes within a FPC project**. It describes the best practice for data capture and stages of a project cycle; identifies the resources required; defines the skills and capacities created; and the roles and responsibilities of the NTF chair, supervisors, enumerators, data inputters, software administrators and external advisors. Tasks are divided into: handling returns, enumeration, software, data input, data quality checks, data corrections, data estimation, producing output tables, and report writing and analysis.

**Section 2** is adapted by country teams from CBP generic examples. It describes the **specific institutional participation and responsibilities** for a country, as well as containing a number of project planning and management tools, for project managers within an NTF adapt to their country needs. These include country profiles; supervisor and enumerator directories; institutional arrangements for an NTF; country implementation plans; confidentiality agreements; questions respondents may ask about the project; a checklist of non-survey sources; and the monitoring of staff skills and training requirements.

**Survey questionnaires and theory on the compilation and use of FPC data** are in **Section 3**. This includes presentations on the Balance of Payments, and the importance of monitoring private sector external debt and investor perceptions including corporate social responsibility. Material in this section was recently revised following national training events in Uganda.

**Section 4** provides guidelines for devising an **investor register, sampling, fieldwork** and managing enterprise returns. To take sampling as an example, Zambia initiated a scientific approach, which was further refined by the FPC CBP and Uganda (as reported in newsletter 20).

FPC CBP best practice methodology on **enumerating** enterprise returns is in **Section 5**. These valuable resources provide cutting edge methodologies in:

- Industrial classification;
- Identifying source countries;

- Editing and checking returns;
- External checks;
- Checking enterprise returns with data for more than 1 year;
- Calculating book values of equity capital;
- Estimating market values of equity capital.

**Section 6** gives more details of the CBP **generic software** for entering FAL and investor perception data. This includes a summary of the Software Manual and uses of the three main software modules (administration, input and output). These resources supplement the detailed tools in the **FPC CBP Software Manual** which is now downloadable from the website.

Another area of major FPC CBP work is hosted in **Section 7**, which summarises techniques for **data quality assessment and up-rating**. After data entry, information must be reviewed for data accuracy. This process includes an introduction to data quality, checks that the data is correctly labelled, checks that the data is internally consistent, and aggregate checks before analysis and report writing. Multi-stage data up-rating includes up-rating:

- Data on returns;
- From sample responses to the complete sample; and
- From a complete sample to the investor register.

**Section 8** summarises best practice methodology for writing country analytical reports and features FPC techniques for basic and advanced analysis. It includes general **report writing guidelines**, and details for chapters on **FAL, investor perceptions, corporate social responsibility and development financing strategies**.

**Section 9** covers **policy analysis and advocacy** and **Section 10** contains **glossaries** and additional technical notes.

## Conclusions

The NTF Manual contains a wealth of information, applied methodologies and practical tools in various areas of FPC management. It is a dynamic instrument that is evolving with best CBP and other international practises. As such it is applicable to all countries and interested parties are invited to utilise this important new manual, by accessing the FPC CBP website as explained above. Comments are welcomed and should be directed to [dfi@dri.org.uk](mailto:dfi@dri.org.uk).

# IMF BALANCE OF PAYMENTS MANUAL REVISION: IMPLICATIONS FOR MONITORING FOREIGN ASSETS AND LIABILITIES

The IMF is conducting a thorough revision of the *Balance of Payments Manual 5<sup>th</sup> Edition* (BPM5), to reflect:

- New international economic, financial and accounting standards developments;
- The need to give greater emphasis to the International Investment Position (IIP);
- A parallel revision to the *System of National Accounts 1993*, and integration with specialised frameworks including the *External Debt Statistics Guide*;
- Amendments made to BPM5 since publication;
- Data dissemination standards and the data quality assessment framework (DQAF).

## 1. Process and Structure

The IMF Committee on BoP Statistics published an *Annotated Outline* in April 2004, and assigned three Technical Expert Groups (comprising IMF staff, national compilers, international and regional organisations and other experts) to produce a draft manual. Each group covers one area (direct investment; other BoP and IIP issues; and customs unions) and has produced issues papers (see <http://www.imf.org/external/np/sta/bop/bopman5.htm>).

A draft is scheduled for December 2006, and a final draft in English in 2008. Translations would follow, together with revisions to the *BoP Textbook* and *BoP Compilation Guide*.

The provisional revised structure is as follows:

- Introductory chapters on underlying concepts;
- Reorganisation into account-specific chapters;
- An additional chapter on analytical uses of international accounts statistics.

## 2. Changes and Their Implications

Table 1 shows the main changes, chapter by chapter, that will impact on monitoring and analysing FAL. The changes and their implications are of five types:

- Reclassifications for consistency (e.g. with National Accounts, External Debt Guide, IIP). At the level of overall national statistics, this should reduce inconsistencies – but for FAL compilers, it may require reclassifications and changes to forms/software.
- Further clarified definitions (e.g. the FDI 10% threshold). This should help to streamline compilation and processing.
- New concepts (e.g. ultimate beneficial owner / destination of FDI; medium term debt; the fair value principle). These will require additions to forms and softwares and to analytical treatment of the data.
- Additional emphasis on existing standards (e.g. IIP, satellite accounts, time series) should improve the quality of data, but could also place an additional burden on compilers, especially if any 'additional details' become 'standard components' which are essential to complying with GDDS or DQAF.

Introductory Chapters	Main Proposed Changes
2. Overview of International Accounts	Emphasis on satellite accounts for analysis (activities between residents, related companies, within sectors), time series, errors and omissions
3. Accounting Principles	Treatment of debt guarantees, reverse income flows on reverse investment, equity of branches, time of recording debt repayments, valuation of traded and non-traded loans
4. Economic Territory, Units, Institutional Sectors, and Residence	Refined definitions; review treatment of certain entities (e.g. unincorporated, holding, ancillary, special purpose, wealth holding, and nominees); supplementary information on direct investment using ultimate beneficial owner and/or ultimate destination as the basis
5. Classifications	Clarification of direct equity for unincorporated joint ventures, mutual funds, insurance and trusts; threshold for direct investment; supplementary data for direct investment (e.g. round-tripping, mergers and acquisitions); further breakdowns of equity in mutual funds and derivatives; classification of arrears; direct investment debt by term; reclassified direct, portfolio and other investment; introduction of medium term maturity; debt by variable and fixed rate interest
Account Specific Chapters	
6. International Investment Position	Use of proxies for untraded equity when book values are inadequate; emphasis on limitations in analytical use of historic cost data; debt to include accrued interest; treatment of franchises; introduction of 'fair value' principle reflecting default risk and interest rate changes
7-8. Financial Account	Presentation to reflect IIP and income
10. Primary Distribution of Income Account	Clearer definition and presentation of investment income, modified and reclassified reinvested earnings, reclassified income on other and reverse investment, amended timing basis for dividends
12. Capital Account	Separation from the Financial and Capital Account
Additional Chapter	
13. Uses of BoP & IIP Data	Policy applications: vulnerability to external shocks; exchange rate movements; globalisation effects; role of FDI; income generating capacity of investment abroad; effect of interest rate change on external finance; links between international and domestic banking systems; external economic relations

- Widening the scope to cover analysis, should improve the way data is used, promoting more meaningful and better quality analysis.

## 3. Issues for Consideration

The changes raise practical issues for legal and institutional frameworks, methodology, political priority and acceptance:

- What are the implications for any countries that have not finished moving from BPM4 to BPM5 by 2008? Can there be a 'shortcut' from BPM4 to the revised standards?
- What are the implications of reclassifications for compiling a consistent time series?
- Because data are collected using various survey and other sources, and functions of compilation and analysis reside in different government agencies, countries may need to re-examine institutional arrangements or inter-agency coordination structures, and their legal frameworks providing mandates and incentives for collection.

- The changes will need to be explained to technical staff, with training in new concepts.
- Investors will need to be made aware of any changes to methodology, consulted on whether they can supply any extra data required, and trained in any new concepts.
- Finally, FAL data are not always seen as a top priority in all countries (compared, for example to household surveys). Policymakers and private sector leaders will need to be sensitised as to why these changes are important for government policy and business decisions, so that they change methodologies as rapidly as possible.

All of these issues will require technical and financial support for intensive in-country capacity building and sensitisation work, to make sure that the new revised BPM is effectively applied. Future Newsletters and website updates will flag major developments in the revision process and their implications for FPC capacity building.

# FOREIGN PRIVATE CAPITAL: FREQUENTLY ASKED QUESTION

## HOW TO ESTIMATE SURVEY COVERAGE?

This article extends the sampling methodology presented in issues 19 and 20, by suggesting ways to approximate enterprise survey coverage rates to monitor FPC.

### Response and Coverage Rates

A survey response rate (RR) is often calculated by dividing returns received by returns administered (net of those enterprises which have closed since the last survey or were not located during the survey). A RR calculated in this way assumes every enterprise has the same weight (has the same amount of FL), thereby giving excess weight to small enterprises while underestimating the contribution of large ones. A more accurate coverage rate (CR) is adjusted for differences in enterprise FL size, and hence better reflects the coverage of data obtained from a survey.

### Uganda's Experience

In 2004, Uganda introduced a system of weighting enterprises to calculate CRs better:

- The National Task Force (NTF) added equity and debt stocks from the most recent survey and classified enterprises in 4 groups: above US\$1m (category A); US\$0.5-0.999m (B); US\$0.25-0.49m (C); and below US\$0.25m (D).
- The NTF was then able to identify key enterprises, and focus its resources on obtaining their data. It decided that 1 category A survey return was worth 2 category B returns, 5 category C returns or 12 category D returns. As a result, it directed resources to getting quality responses from A and B.
- It was also able to calculate CRs on a more scientific basis. Using statistical practices described below, an RR of

82% was estimated to represent a CR of 84%.

- Its first step was to assume the midpoint of each category band (column 2) as the weight for each category (column 3). Thereafter it multiplied returns (column 5) by the weight (column 3) to obtain column 6, and divided column 6 by the multiplication of weight and administered forms (column 7) to obtain the CR.

### Further Improvements

This system for estimating CRs could be adopted by other countries as it has many advantages. In particular, it allows an NTF to know when to conclude a survey cycle. Uganda established a CR target (85%) and closed the survey when it reached 84%.

However, it is more difficult to use it accurately for countries conducting their first surveys – these would need to use investment intentions from the national investment promotion authority or the investor register, to establish bands and midpoints.

It could also be improved, in order to provide an even more accurate CR:

- Countries could use a combination of transactions and stocks to determine band weights. They could also use the market values of stocks, instead of book values.
- Ideally aggregate data should be dissected by sector and financial instrument in order to check more disaggregated coverage and ensure good representation of sectoral financing patterns.
- The number of bands could be reduced to three to simplify the task.
- Countries should design the bands of the categories to have the same widths, based on the results obtained from the previous survey. In the case of Uganda, 3 categories might be adopted instead

– C (US\$0.0-0.5m), B (US\$0.5-1.0m) and A (above US\$1.0m). Then each weight would be the exact midpoint of each band and the same distance from the previous and next midpoint. In this way, the upper band (which does not have an upper limit) will have the same equidistant position from the previous midpoint.

- The width of each band should be based on making sure that the midpoint of category A allows coverage of all large firms. It is very important to be confident about the largest midpoint, as the CR is very sensitive to changes in this midpoint. For example, in Uganda a midpoint for category A of US\$2m (closer to the average size of investments) would increase the CR to 85%. Therefore countries need to periodically review all category midpoints for possible changes to the estimated average level of FL, before commencing a new FPC cycle.
- Countries should keep an important percentage of each band in future FPC surveys, to make sure that they are monitoring perceptions of all enterprise bands. As a result, it is recommended that NTFs draw samples in such a way as to include approximately 60% category A, 20% category B and 20% category C, rather than focusing excessively on only the largest enterprises.
- Countries need to check investment reported in the current survey against that reported in the previous survey, to ensure that data quality is adequate and time series are representative, before using new data as a basis for weighting and CRs.

Of course, as discussed in previous newsletters, samples also need to take account of different characteristics of enterprises (sectors, regions, source countries, FAL and non-FAL) in order to ensure that they represent the overall investor population.

**Table 1: Calculating Coverage Rates**

1. Categories	2. Bands	3. Weight	4. Administered	5. Returned	6. 3 x 5	7. 3 x 4	CR=6/7
A	1.00+	1.5000	115	101	151.50	172.50	87.8%
B	0.50-0.99	0.7495	56	41	30.73	41.97	73.2%
C	0.25-0.49	0.3745	56	43	16.10	20.97	76.8%
D	0.00-0.249	0.1245	54	46	5.73	6.72	85.2%
<b>Total</b>			<b>281</b>	<b>231</b>	<b>204.06</b>	<b>242.16</b>	<b>84.3%</b>

# DEBT RELIEF TECHNICAL QUESTIONS

## WHAT IS THE 'AS OF' YEAR FOR CALCULATING ELIGIBILITY FOR HIPCs WHICH HAVE NOT AS YET REACHED THEIR HIPC DECISION POINT?

In September 2004, the BWIs extended the period of the HIPC Initiative to end-2006 as it had been due to expire to new entrants at end-2004. However, at the same time, the eligibility requirement has been amended for

countries which have yet to reach their HIPC decision point (Burundi, Côte d'Ivoire, Central African Republic, Comoros, Congo Republic, Lao PDR, Liberia, Myanmar, Somalia, Sudan and Togo). For these

countries HIPC eligibility will be assessed on the basis of their debt data as of end-2004, instead of end-year data in the year prior to the anticipated decision point as it has been for all other HIPCs.

## WHICH COUNTRIES WILL BE ELIGIBLE TO RECEIVE GRANTS UNDER IDA14 AND WHY?

The IDA14 framework has been agreed and it will link the risk of debt distress and grant eligibility to the quality of a country's policies and institutions, as measured by the World Bank's Country Policy and Institutional Assessment (CPIA) scores, on the basis that better performing countries are able to bear a higher debt burden and therefore need less grants. The thresholds for assessing debt distress are presented in Table 1. Countries will be classified as high-medium-low risk of debt distress depending on how far above or below their actual debt indicators are, compared to the performance-based thresholds set out in Table 1. Eligibility for grants will be determined using a 'traffic light' system, whereby countries with a high risk of debt distress (i.e. those with debt indicators well above the threshold) are categorised as 'red light' and are eligible for 100% grants, while those categorised as 'green light', with a low risk of debt distress, will not be eligible for any grants. Countries with a medium risk of debt distress will receive a mixture of

grants and loans, as shown in Table 2.

The decision rule for assessing a country's risk of debt distressed, using national debt indicators, is:

- Average percentage distances between the two stock indicators (PV/GDP and PV/exports) to their respective thresholds; and
- Relative distance of the debt service/exports ratio from its threshold;
- Number which yields the most conservative (prudent) decision in terms of debt distress classification is used.

Table 3 illustrates how this works for HIPCs, based on 2002 debt indicators, with the debt distress ranking and traffic light system function in columns 5 and 6 of the table.

The final IDA14 grant allocation a country can expect to receive is not solely determined by its debt distress ranking. An adjustment, referred to as the 'modified volume approach', is made whereby a 20% upfront discount is applied to countries

receiving grants in order to recoup the loss of foregone service charges by the switch from loans to grants and to enable a redistribution to IDA-only countries to help achieve the MDGs'. This effectively means that grant eligible countries will have their IDA grant allocation reduced by 20% and then receive an offsetting reallocation linked to their performance and need.

For example Uganda's initial IDA14 allocation was SDR 735m of which half was to be received in grants (SDR 367.5m). The 20% upfront discount means Uganda will receive SDR 73.5m (20% \* SDR 367.5m) less in grants and therefore its total IDA14 allocation will be SDR 661m. However Uganda will receive an offsetting SDR 39.6m (half of which will be grants) and so its final IDA14 allocation will be SDR 701m, of which 45% will be grants. In the case of Ghana, the initial allocation was SDR 522m and since Ghana is not eligible for grants, there is no 20% discount applied. However under the reallocation system Ghana will receive an additional SDR 28.2 million and hence its final allocation will be SDR 550m.

**Table 1: IDA14 Debt Sustainability Thresholds (%) and Policy Performance**

Debt sustainability indicators	Country Policy and Institutional Assessment score		
	Strong (CPIA ≥ 3.75)	Medium (3.25 < CPIA < 3.75)	Weak (CPIA ≤ 3.25)
PV of debt/GDP	50	40	30
PV of debt/exports	200	150	100
Debt service/exports	25	20	15

**Table 2: Traffic Light Systems for IDA14 Grant Allocations**

Risk of debt distress	Traffic light	Distance from debt thresholds (% points)	Grant allocation (%)
High	Red	10% above	100%
Medium	Yellow	between 10% above and 10% below	50%
Low	Green	10% below	0%

Other eligibility factors are as follows:

- Blend countries will not be eligible for any IDA grants, irrespective of their debt distress ranking.
- It is proposed that countries will cease to be eligible for grants if the government contracts or guarantees new non-concessional loans during any year of IDA14.

<sup>1</sup> *This reallocation is done according to the World Bank's Performance Based Allocation (PBA) system. This mix of grants and loans in a country's reallocation will be determined by the traffic light system, with no further discount applied for those receiving grants.*

# DEBT RELIEF TECHNICAL QUESTIONS cont.

**TABLE 3: IDA14 GRANT ALLOCATIONS FOR HIPCS**

	Debt indicators <sup>1/</sup>			Debt distress ranking <sup>2/</sup>	Grant allocation			Total IDA14 allocation <sup>3/</sup> (m SDF)
	PV/GDP	PV/XGS	TDS/XGS		% based on traffic light	final % after adjustment <sup>4/</sup>	m SDR	
<b>Strong (CPIA ≥3.75)</b>	<b>50</b>	<b>200</b>	<b>25</b>					
Mauritania	79.9	213.2	7.5	3 = red light	100%	100%	82	82
Tanzania	23.1	156.2	3.5	1 = green light	0%	0%	0	1114
Uganda	33.1	288.4	10.2	2 = yellow light	50%	45%	315	701
<b>Medium (3.25&lt;CPIA&lt;3.75)</b>	<b>40</b>	<b>150</b>	<b>20</b>					
Benin	29.6	145.4	5.6	1	0%	0%	0	178
Bolivia <sup>4/</sup>	37.7	196.4	23.4	3	100%	0%	0	119
Burkina Faso	23.3	233.2	5.9	2	50%	45%	114	254
Cameroon	53.4	184.0	13.6	3	100%	100%	164	164
Ethiopia <sup>5/</sup>	35.1	216.2	11.4	3	100%	100%	1218	1218
Ghana	41.0	101.1	5.8	1	0%	0%	0	550
Guyana	80.1	85.2	2.6	3	100%	100%	16	16
Honduras <sup>4/</sup>	46.8	124.5	16.0	2	50%	0%	0	141
Kenya	37.0	153.4	15.5	2	50%	45%	192	427
Madagascar	26.8	136.6	5.6	1	0%	0%	0	479
Malawi	46.6	175.7	7.3	3	100%	100%	191	191
Mali	43.4	178.6	8.4	3	100%	100%	195	195
Mozambique	34.5	74.6	2.8	1	0%	0%	0	386
Nicaragua	38.8	161.1	10.4	2	50%	45%	48	106
Rwanda	39.7	540.6	17.3	3	100%	100%	168	168
Senegal	38.8	138.3	8.7	2	50%	45%	91	203
Vietnam	32.3	64.9	6.8	1	0%	0%	0	1297
Yemen Rep	34.1	87.0	4.2	1	0%	0%	0	350
Zambia	116.3	423.1	30.5	3	100%	100%	160	160
<b>Weak (3.25≤CPIA)</b>	<b>30</b>	<b>100</b>	<b>15</b>					
Angola	86.1	131.1	11.6	3	100%	100%	190	190
Burundi	104.4	1324.8	41.1	3	100%	100%	150	150
Central African Rep	71.2	704.2	0.8	3	100%	100%	7	7
Chad	31.6	217.4	10.3	3	100%	100%	58	58
Comoros	75.0	567.0	14.2	3	100%	100%	5	5
Congo DR	147.3	818.9	90.3	3	100%	100%	872	872
Congo Rep	162.1	201.3	1.0	3	100%	100%	55	55
Côte d'Ivoire	80.4	210.9	18.6	3	100%	100%	197	197
Gambia	76.0	104.8	6.8	3	100%	100%	19	19
Guinea	45.1	176.2	16.7	3	100%	100%	71	71
Guinea-Bissau	211.3	735.7	23.9	3	100%	100%	9	9
Lao PDR	85.2	291.1	9.1	3	100%	100%	37	37
Liberia	438.7	1765.7	0.6	3	100%	100%	59	59
Myanmar	0.8	164.9	15.3	2	50%	0%	0	0
Niger	26.6	176.1	11.2	3	100%	100%	120	120
Nigeria <sup>4/</sup>	72.3	153.3	7.3	3	100%	0%	0	1029
São Tomé & Príncipe	223.4	681.2	37	3	100%	100%	4	4
Sierra Leone	90.8	771.5	24.8	3	100%	100%	78	78
Sudan	117.4	857.3	1.3	3	100%	100%	541	541
Togo	84.1	263.6	3.0	3	100%	100%	15	15
All HIPCs						45%	5442	12015

<sup>1/</sup> Based on 2002 data. <sup>2/</sup> Using decision rule. <sup>3/</sup> After modified volume approach of 20% upfront discount on grants and PBA-based reallocation. <sup>4/</sup> Blend or hardened-terms countries. <sup>5/</sup> 2004 data. IDA14 is from July 2006-June 2008.