STRATEGIES FOR FINANCING DEVELOPMENT

The Newsletter of the HIPC CBP and the FPC CBP















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NATIONAL CAPACITY BUILDING PLANS

ne of the main objectives of the HIPC CBP phase IV is for countries to implement a National Capacity Building Plan (NCBP), to bridge the gap between existing technical and institutional capacity and the high level of debt management as required by the 4th phase logframe targets. To design such a plan, the CBP (in cooperation with HIPCs) has identified four different levels of analysis:

- the government: the government's overall capacity in debt strategy;
- the agency: the capacity of each institution in which debt and/or aid management units are located, such as the Ministry of Finance, or Central Bank:
- the unit: the capacity of each department or division responsible for external debt, domestic debt and aid management and other functions related to debt strategy;
- the individual: the capacity of each staff member with duties and responsibilities relating to external debt, domestic debt, and aid management strategy.

The first step in preparing an NCBP, is to assess existing technical and institutional capacity and compare it to the objectives of phase IV. The capacity building plans then contain the training and actions needed to allow the countries to reach their objectives. The plans should include the following issues:

1. At the government level

- Assess whether the government is designing, implementing and updating annually its national debt and new financing strategy and maintaining its debt at sustainable levels, as well as the overall legal and institutional framework for debt management.
- Recommend the technical and institutional capacity needed to ensure the government designs, implements and updates the national strategy, the steps to take so that it is used to achieve and maintain debt sustainability, measures to strengthen the legal and institutional framework, and to improve coordination structures between institutions.

2. At the agency level

Assess whether the agency is

- incorporating the national strategy into the budgetary process and presenting it to the appropriate authorities for approval, the coordination between different units dealing with debt and aid management, how responsibilities in debt management are distributed and how information flows between units work.
- Recommend measures were to ensure
 that the national strategy is updated
 during budget preparatory processes and
 follows appropriate approval mechanisms.
 This will also include measures to raise the
 profile of debt and aid management within
 the agency and any potential
 improvements in the agency's organigram,
 legislation, regulation, procedures
 manuals, and improving information flows
 within agencies.

3. At the unit level

- Assess whether the unit is contributing to preparing the national strategy, how it is organised, whether it has clearly defined terms of reference, whether it has the right staff number, mix and distribution of work, and its personnel are capable of playing their role in formulating and executing the debt strategy.
- Recommend measures to enhance the unit's role in designing the national strategy, to develop or update its terms of reference, organigram and procedures manual, or to improve information flows.

4. At the individual level

- Assess whether there are enough trained personnel capable of formulating and executing the national debt strategy and whether they are contributing to preparing the strategy, as well as whether they have accurate job descriptions and motivation measures. Additionally, assess whether each staff member has the capacity to execute his or her duties and responsibilities relating to debt and aid strategy.
- Recommend measures to enhance each individual's contribution to the design and implementation of the strategy, to train enough staff to perform each technical task involved in the strategy, and to develop or update job descriptions.

Several HIPCs already have prepared NCBPs. Others will build NCBPs during institutional missions or national workshops early in phase IV. During institutional missions the mission members will have time to interview all

relevant staff members and build an NCBP from the bottom up based on these interviews, as well as from the top down based on government policy objectives. If the NCBP is to be prepared during a national workshop, time allocated will be shorter, so there will need to be a lot of advance preparation using questionnaires issued to the national authorities before the workshop along with the preparatory documents. In addition, national workshops will need to change their format by:

- Adding a presentation during the first day of the workshop to allow government officials to brief participants about existing capacity building plans, implementation progress, and expected next steps want; and
- Adding an additional day to the workshop programme, to review existing capacity by discussing questionnaire results with individuals, units and the workshop participants as a whole, and agree with decision-makers on the review results and next steps.

Workshop coordinators or other resource people may need also to interview other staff and unit or agency heads outside the workshop to complete the plan.

This methodology has been discussed further with HIPCs during the 4th interregional seminar early May. After final comments, it will be applied in all HIPCs with a view to designing NCBPs by the time of the November 2006 Steering Committee.

IDA AND AfDF IMPLEMENTATION OF MDRI

This article explains how and when IDA and AfDF will implement MDRI.¹

IDA IMPLEMENTATION OF MDRI

Country eligibility and qualification criteria for IDA's relief are the same as for the IMF with the exception that only HIPCs are eligible. The same conditionalities apply, except that countries must also be current with IDA debt service. As of May 2006, 19 HIPCs were eligible (including Cameroon) and all but Mauritania met the qualification criteria, as shown in Table 1 below.

Eligible debt and timing of relief: the debt eligible is the disbursed outstanding debt as of end-2003. All disbursements after this date, on existing or new loans, are not eligible. All service paid between end-2003 and the date of qualification is not eligible. IDA will

implement its relief on 1st July 2006, the start of its next fiscal year, at which time qualifying countries will have 100% of eligible debt cancelled irrevocably. Pre-completion point HIPCs will receive relief in the quarter following their completion point.

Amount of relief: Table 1 also shows the estimated amount of MDRI relief to be provided by IDA during IDA-14 and in total. The projected debt relief for pre-completion point HIPCs during IDA-14 is based on assumptions about when these countries will achieve their completion points.

Implications for future flows: for each country, IDA will implement MDRI as follows:

1) Service forgiven annually will be deducted

from the country's annual IDA disbursements. So, for example, if in fiscal year 2006-07 a country had initial IDA planned disbursements of \$100 million and it receives MDRI service relief of \$40 million, then its revised disbursements will be \$60 million, leaving net flows from IDA unchanged at \$100 million.

2) There is also a compensatory mechanism whereby each country will receive some additional IDA disbursements depending on its performance. However, IDA's MDRI relief will not provide fully additional resources for all countries' poverty reduction spending to reach the MDGs. This is because the donor funding provided to compensate IDA for the overall foregone debt service, will be

1/ A more detailed note is available on the HIPC CBP website or on request from DRI.

Table 1: Impact of IDA MDRI Relief (SDR millions)							
Countries IDA 14 FY 2007-08		Total Countries	IDA 1	Total			
	MDRI Relief	Additionality of relief	FY 2007-44		MDRI Relief	Additionality of relief	FY 2007-44
Post-completion point HIPCs approved			Post-	decision point H	IPCs (cont.)		
Benin	18	4.2	467	Congo (R)	-	1.6	83
Bolivia	30	2.9	1,027	Congo (DR)	7	25.2	660
Burkina Faso	16	6.6	497	Gambia	-	0.5	139
Cameroon	4	4.7	587	Guinea	14	2.1	744
Ethiopia	18	35.2	1,582	Guinea-Bissau	-	0.3	85
Ghana	67	12.9	2,019	Malawi	21	5.5	1,067
Guyana	4	0.4	128	São Tomé & Príncipe	0	0.1	25
Honduras	20	3.3	802	Sierra Leone 3 2.3		262	
Madagascar	42	11.2	1,197	Total	54	43.6	3,584
Mali	30	5.6	854		Pre-decision po	int HIPCs	
Mozambique	22	9.0	884	Central African Republic	-	0.2	35
Nicaragua	8	2.8	518	Comoros	-	0.1	17
Niger	11	3.5	506	Côte d'Ivoire	-	5.7	744
Rwanda	4	4.9	235	Liberia	-	1.7	3
Senegal	41	5.3	1,255	Somalia	-	0.0	13
Tanzania	60	26.1	1,898	Sudan	-	15.6	42
Uganda	62	18.1	1,882	Togo	-	0.4	294
Zambia	25	4.6	1,269	Total	-	24	1,148
Total	482	161.3	17,607	New HIPCs			
Post-co	mpletion point i	HIPCs yet to be approved		Eritrea	-	1.9	111
Mauritania	11	2.4	371	Haiti	-	2.6	268
Total	11	2.4	371	Kyrgyz Rep.	-	2.0	299
	Post-decision	point HIPCs		Nepal	-	13.0	749
Burundi	1	4.3	13	Total	-	19.5	1,427
Chad	8	1.7	506	TOTAL	547	250	24,137

Source: World Bank

IDA AND AfDF IMPLEMENTATION OF MDRI (cont.)

reallocated across all IDA-only countries (not just those eligible for debt relief), proportional to their share of IDA disbursements. As a result all IDA-only countries will receive a small additional IDA allocation, but most MDRI countries will receive considerably less than full additionality.

The estimated impact on IDA disbursements in fiscal years 2007 and 2008 is also shown in the 'additionality' column of Table 1. In practice, this additionality will be recalculated annually on a country-by-country basis, to take into account changes in country performance.

AFDF IMPLEMENTATION OF MDRI

Country eligibility and qualification for MDRI relief are the same as for IDA. The same conditionalities apply, except that countries must be current with AfDF debt service. As of May 2006, 14 post-completion point AfDF member HIPCs had qualified for AfDF MDRI relief, as shown in Table 2.

Eligible debt and timing of relief: debt eligible

for 100% cancellation is the disbursed outstanding debt as of end-2004. All new credits and disbursements after this date are not eligible, and nor are any service payments made between end-2004 and the date a country qualifies for relief. AfDF relief is to be implemented from January 2006 for qualifying countries. However, as the AfDF Governors only approved the details in May 2006, the relief will be delivered in July 2006, but backdated to cover service payments made in the first semester. Countries which have yet to reach their HIPC completion points, will start receiving MDRI relief in the January following their completion point, but backdated to cover all service falling due from the date three months after completion point.

Amount of relief: Table 2 also shows the debt service savings AfDF member countries can expected to receive in 2006, 2007 and in total with the delivery of MDRI by the AfDF.

Implications for future flows: as with IDA, AfDF's MDRI relief will not be fully additional. At the country level, AfDF is adopting the same two-step process as IDA, deducting debt service relief from annual disbursement allocations, and then providing some additional disbursements to all AfDF-only countries (not just those qualifying for debt relief) based on the AfDF's performance-based allocation formula. No detailed data are yet available on the additional amounts per country. However, because the vast majority of ADF-only countries are also HIPCs, the proportion of additionality is expected to be much higher than in the case of IDA.

Table 2: Impact of AfDF MDRI Relief (US\$ millions*)								
Countries	2006	2007	Total	Countries	2006	2007	Total	
Post-completion point HIPCs approved			Post-decision point HIP	Cs (cont.)				
Benin	0.9	1.0	158	Congo (DR)		0.8	68	
Burkina Faso	1.0	1.1	150	Gambia	-	0.8	76	
Cameroon	0.5	1.1	101	Guinea	-	2.2	137	
Ethiopia	2.5	2.7	324	Guinea-Bissau	-	-	36	
Ghana	2.5	2.7	211	Malawi	0.8	1.6	176	
Madagascar	1.3	1.3	163	São Tomé & Príncipe	0.2	0.4	20	
Mali	2.1	2.1	244	Sierra Leone	0.4	0.8	62	
Mozambique	1.5	1.7	239	Total	1.3	8.2	730	
Niger	0.8	0.8	85		Pre-decision point HIPCs			
Rwanda	0.7	0.7	48	Central African Republic	-	-	58	
Senegal	1.9	2.9	180	Comoros	-	-	16	
Tanzania	1.7	1.8	267	Côte d'Ivoire	-	-	126	
Uganda	1.7	1.8	226	Liberia	-	-	8	
Zambia	1.1	1.1	106	Somalia	-	-	27	
Total	20.3	22.8	2,503	Sudan	-	-	95	
Pos	t-completion point	HIPCs yet to be approved		Togo		52		
Mauritania	0.8	0.9	114	Total	0	0	381	
Total	0.8	0.9	114		New HIPCs			
	Post-decision point HIPCs		Eritrea	-	-	29		
Burundi	-	0.1	4	Total	0	0	29	
Chad	-	1.4	146	Total	22	32	2.750	
Congo (R)	-	-	5	iutai	22	32	3,758	

^{*} Converted from UA using end-2004 exchange. Source: AfDF

LEGAL AND INSTITUTIONAL ORGANISATION OF DEBT MANAGEMENT IN PÔLE-DETTE MEMBER STATES



n the framework of institutional support, Pôle-Dette and DRI organised missions to 10 Pôle-Dette member countries (Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo, Guinea-Bissau, Mali, Senegal and Togo), which entailed a thorough assessment of the legal and institutional framework of debt management in each country, and identification of their strengths and weaknesses in comparison with international standards.

1. Strengths

- Definition of responsibilities and division of tasks: in most countries, the texts governing organisation and functions of the structures involved establish their terms of reference and specify their responsibilities. In several countries, competence to negotiate and execute new financing arrangements is clearly defined and debt management responsibilities involving budget and monetary policies are separate.
- Transparency and public information:
 certain countries prepare statistical
 statements and activity reports on a
 quarterly and annual basis, which are
 submitted to the oversight authorities
 and/or to the national assembly. All
 countries provide data and information
 required by the Bretton Woods institutions
 and donors and lenders.
- Assessment and control: the legal and institutional framework established in most countries provides a series of controls designed to help enhance efficacy in management, including: (i) submission of all government expenditure authorisation and commitment operations to a financial controller for prior approval (including those related to debt repayment); (ii) controls by public accountants prior to any payment, according to current legislation; (iii) the office responsible for auditing the government's accounts.
- Data availability and management activities: most countries have reliable databases and an effective accounting and management system. Almost all countries correctly execute back office activities, while some countries perform front office functions adequately.

2. Weaknesses

The following weaknesses were identified in the legal and institutional framework:

- Establishment of debt objectives: in most countries, the aim is primarily to mobilise the resources required to finance development, with little attention to risks and costs, debt sustainability, or qualitative finance factors. Policy is not underpinned by a formal strategy to enable countries to analyse the costs, risks, and features of the financing involved, or to consider future financing capacities.
- Definition of responsibilities and division of tasks: although clear, specific texts exist in certain countries, debt management organisation in most countries has led to conflicts of authority and duplication of responsibilities.
- Control of responsibilities concerning the government's direct and contingent commitments: the only regulatory provisions entail compliance with a concessionality limit imposed in programmes with the BWIs, and a debt ceiling incorporated into the budget laws. Further, external debt of public enterprises and decentralised local governments is not governed by specific texts.
- Scope of debt policy: owing to the absence of a legal framework specifically indicating the scope of debt policy, several aspects of management are not covered in the structures. The fact that all debt (domestic and external debt, direct public debt, and onlent debt) is not centralised and the absence of a formal framework to monitor guaranteed debt and other contingent liabilities do not make it an easy matter to identify total public debt at any given time.
- Information flows: texts (procedure manuals and internal regulations) organising the collection and circulation of information within most administrations are not periodically updated to reflect administrative reforms and reorganisations. Further, there is no formal organisation for information flows specifying the types, content, media, control methods, or periodicity involved.
- Transparency and public information: there is no law or other legal or regulatory

- provision requiring the government or services to publish full information on public debt and borrowing policy and strategy.
- Control and audit: autonomous debt management structures have internal audit and control units. In the directorates of the ministry responsible for finance, either such an audit system does not exist, or it is limited to administrative and procedural factors and does not cover legal and institutional organisation or objectivesbased performance assessment. Debt management structures are not regularly subject to external control, and external auditing is not a routine practice.

The following weaknesses were identified in strategic and operational orientation:

- Data availability: Not all countries have a system that provides full data on debt (external and domestic debt, and contingent liabilities) in a timely, systematic manner, owing primarily to the: (i) unavailability of effective software adapted to debt management (in some countries); (ii) lack of debt management centralisation in one structure; and the (iii) absence of co-ordination between the structures that manage different types of debt.
- Management activities: the back office function is the most effectively carried out, despite a number of problems that could be resolved with the availability of powerful software. The front office function is only half covered owing to insufficient capacities. By contrast, the least coverage was found in the middle office function (analysis and strategy), owing primarily to the absence of a true borrowing policy, lack of a systematic approach in national debt strategy development, and unavailability of co-ordination structures.
- Logistical resources: In most countries, performance in functional debt management organisation is handicapped by insufficient information systems, infrastructures, hardware, and data storage systems.

The recommendations of the HIPC CBP aim to correct all of the problems identified above, and their implementation has begun in some countries.

REGIONAL DEBT SUSTAINABILITY WORKSHOP ANALYSIS FOR LOW-INCOME COUNTRIES



1. Introduction

Aware of the importance of disseminating the existing debt analysis methodologies among the countries in the region, CEMLA -in its capacity as an HIPC CBP partner- and the World Bank (WB) conducted a joint regional workshop from 13th to 17th March in the city of Mexico.

The event focused on making the participating countries acquainted with the new methodology for debt sustainability analysis in low-income countries (DSA-LI). This methodology was designed by the Bretton Woods institutions (BWI) and will be the basis for determining how the World Bank's financial support (either grants or loans) will be provided to recipient countries.

The workshop had a large audience composed of 33 experts from 11 countries: five HIPCs (Bolivia, Guyana, Haiti, Honduras, and Nicaragua) and six middle-income countries (Argentina, Colombia, El Salvador, Mexico, Suriname and Venezuela).

2. Workshop Methodology

The workshop counted on the participation of seven international experts: four from the WB, one from the IMF, and two from DRI, and was conducted by the CEMLA CBP Co-ordinator.

The workshop developed during five days by means of presentations and experience exchange followed by team working on the methodology application.

The first sessions focused on the use of case studies as an introduction of the tools for DSA preparation, including the last Debt-Pro software

version and a review of its most recent improvements.

The presentations gave rise to a warm debate that translated into various positions on the applicability of the new methodology and specific comments on debt sustainability analysis practices currently in place in the countries.

The workshop participants had the opportunity of implementing the new methodology; for such purpose some time was devoted to data preparation and to debt sustainability analysis based on country information.

3. Major DSA-LI Features

According to empirical BWI studies, the quality of policies and institutions has a significant incidence on threshold indicators measuring the debt burden. The key element is the Country Policy and Institutional Assessment (CPIA) that is implemented on the basis of a WB-designed methodology (see Newsletter no. 19). Countries with a better CPIA will be able to maintain higher indebtedness levels than those with a poor CPIA.

Besides introducing rankings and including the quality of policies and institutions this framework provides for different calculation systems as compared to those used within the HIPC Initiative. The main differences are shown in the following table:

According to the above the following methodology-driven changes can be identified: (a) debt composition by currency; (b) export volatility; (c) factor services and *maquila* industries.

4. Implications for IDA loans and grants

The eligibility criterion to receive IDA grants is based on the country's risk to incur in indebtedness, resulting from the differences between current and projected indicators as per pre-defined thresholds. Countries are therefore assigned a 'traffic light' (see Newsletter no. 23):

- a) Red light (high risk): 10% or more above the threshold, 100% in grants apply;
- b) Yellow light (average risk): 10% above or

below the threshold, 50% in grants apply; c) Green light (low risk): 10% below the threshold, 100% in loans apply.

5. Workshop Outcome

Those countries that would apply this methodology experienced DSA by using Excel worksheets designed for such purpose. Thus, Bolivia, Honduras, Guyana, and Nicaragua qualified their risk level as average while Haiti qualified it as high.

These results should be considered with some caution, particularly as far as export-related indicators are concerned, as they may substantially differ from previous national estimates. This is the result of the different export concepts applied in this methodology that provide for larger export volumes and consequently lower debt indicators.

Anyway, it was reiterated that the new methodology should only be considered as a basis for the World Bank's loan or grant allocation system and does not imply a replacement of DSA methodologies in place in the countries.

The workshop achieved the expected results in terms of knowledge transfer, experience exchange, and discussions on the applicability of the new methodology. Likewise, it served for analysing the application of this methodology in higher-income countries and allowed for reviewing the IMF spreadsheets used for emerging countries.

The participants noted that this was a useful and user-friendly methodology but that the DSA within such framework should be tripartite, meaning that it should involve the active participation of countries. They also suggested adding the description of variables used in the DSA within the new framework, including pre-designed exercises for the use of templates, as well as a glossary and guiding manual for their completion, besides providing for additional training events that would enable its full application.

Methodological Differences							
HIPC DSA-LI							
Numerator							
Exchange rates	Fixed, at reference year-end	Projected (from the <i>World Economic Outlook</i>)					
Discount rates	Specific by currency	Single					
Denominator							
Exports	Three-year average of goods and non-factor services	Current year Factor services included					

^{1/} The debate on these methodological aspects, as well as the various roles performed by the outstanding debt and service indicators will be resolved according to the experience gained from the use of the framework.

^{2/} According to this methodology the Nicaraguan debt would be sustainable in case of receiving from non-Paris Club creditors the full outstanding HIPC relief plus the Multilateral Debt Relief Initiative (MDRI).

DEMAND ASSESSMENT MISSION TO LIBERIA



t the request of the Government of Liberia, WAIFEM and DRI jointly conducted a demand assessment mission (DAM) to Monrovia from February 6 to 10, 2006. The mission was composed of Dr. Chris O. Itsede, Director General WAIFEM; Mr. Baba Musa, Director, Debt Management WAIFEM; and Mr. Juan Carlos Vilanova, Programme Manager, DRI.

In the CBP, a DAM is the key initial step in capacity building events for a HIPC. The objectives were to discuss with the Government of Liberia its capacity building needs in debt management, to assess the different functional areas of debt management and to make proposals to address observed capacity constraints.

The mission met executive and senior officials and staff of the ministries of Finance (MoF), Planning and Economic Affairs (MPEA), and Justice (MoJ), the Central Bank of Liberia (CBL), the Bureau of the Budget (BoB), Statistics Liberia, the General Auditing Office (GAO), Permanent Claims Commission and RFTF Implementation and Monitoring Committee (RIMCO). It examined Liberia's institutional and legal structures for debt management, and its technical debt management capacity.

Findings & Recommendations

Two institutions conduct debt management: the

Debt Unit at MoF and the Debt Management Unit at CBL. However, their mandates do not specify either as having responsibility for designing and implementing debt strategy.

The Government established a National Debt Management Task Force (DMTF) on April 15, 2004. to enhance prudent fiscal management, transparency, accountability and credit worthiness. The DMTF includes technicians and professionals seconded from the CBL. MoF. MPEA. GAO and BoB. The DMTF was mandated to consolidate domestic and external debt statistics and documentation, as a reference for analysing debt and fiscal data. The DMTF has compiled comprehensive data on domestic loans, and achieved some degree of coordination among institutions. However, it still has a lot of ground to cover in reconciling debt data with its external creditors. The mission recommended that its mandate should be extended to monitoring loan transactions, projecting debt service payments and loan disbursements, and designing and implementing a national debt and new financing strategy, through the passage of appropriate legislation. It also recommended that such legislation should regulate signing of new loans, monitoring of external aid flows, and all responsibilities and tasks for each institution involved in debt management. The legislation should be comprehensive and up to date in covering all executive, management and technical

functions, and be supported by clear implementation regulations.

The mission also found that Liberia needs to reinforce its human resources and technical capacity in debt strategy analysis, new financing policy, disbursement, debt recording and servicing, debt renegotiations, macroeconomic projections, poverty reduction programming and portfolio and risk analysis.

It recommended that the government of Liberia should request WAIFEM and DRI to organise a national debt and new financing strategy workshop in order to build Liberia's capacity to access the HIPC initiative, and train at least 30 staff in strategy concepts. The mission also recommended a more comprehensive training programme for the staff participating in debt management, and a clear career path for each position. The mission also recommended Liberia to take advantage of other WAIFEM training programs such as legal issues in debt management, macroeconomic management and financial sector development during 2006.

Finally, it underlined that the Liberian authorities need to give political priority to debt management so as to ensure the necessary legal, institutional and technical reinforcements are implemented as early as possible, in order to maximize HIPC debt relief as well as grant flows to support Liberia's poverty reduction strategy.

NEW HIPCs

ince its launch in 1999, the Enhanced HIPC Initiative has had a 'sunset clause' (a time limit on country eligibility to join). This was initially set at three years but has been extended several times. In 2004, the BWIs extended the clause for a fourth time until end-2006 and 'ring fenced' eligibility to those countries qualifying on the basis of end-2004 debt data. At that time, four countries — Eritrea, Haiti, Kyrgyz Republic and Nepal — were identified as being potential HIPCs with a further five — Bangladesh, Bhutan, Myanmar, Sri Lanka and Tonga — possible HIPCs depending on a final assessment using more comprehensive data.

In April 2006, the BWIs have confirmed that Eritrea, Haiti, Kyrgyz Republic and Nepal have qualified on the income and indebtedness criteria and become HIPCs. They join the previously identified pre-decision point HIPCs (Central African Republic, Comoros, Côte d'Ivoire, Liberia, Somalia, Sudan and Togo) making a total of 11 pre-decision point HIPCs.

Bhutan, Lao PDR and Sri Lanka also technically met the income and indebtedness criteria at end-2004 but decided they do not wish to avail themselves of the initiative. Bangladesh and Tonga have debt ratios below HIPC thresholds and Myanmar could not be assessed due to a lack of data. The BWIs have also identified that Afghanistan could potentially be included as a HIPC once the issues relating to its unverified debt and debts under dispute have been resolved.

Of the eleven pre-decision point HIPCs, six (Central African Republic, Côte d'Ivoire, Haiti, Kyrgyz Republic, Nepal and Togo) have met the policy performance criterion and Central African Republic, Haiti and Kyrgyz Republic are making progress in implementing PRGF or Emergency Post Conflict Assistance programmes. Côte d'Ivoire, Nepal and Togo are experiencing difficulties with maintaining macroeconomic performance, and Comoros, Eritrea, Liberia, Sudan and Somalia have not had an IDA or

Estimated Cost of Debt Relief (US\$ billions, end-2004 PV terms)								
	All pre-decision point Meeting performance Remaining countries (5)			of which Liberia,				
	HIPCs (11 countries)	criterion (6 countries)		Somali, Sudan				
Countries meeting policy performance criterion	Central African Repub	Central African Republic, Côte d'Ivoire, Haiti, Kyrgyz Republic, Nepal, Togo						
Countries not meeting policy performance criterion	Comoros, Eritrea, Libe	Comoros, Eritrea, Liberia, Somali, Sudan						
Multilateral creditors, of which:	8.3	2.4	5.8	5.5				
World Bank	1.3	1.3	1.7	1.5				
IMF	2.4	0.2	2.2	2.2				
AfDB	1.0	0.4	0.6	0.6				
AsDB	0.4	0.4	-	-				
Bilateral creditors, of which:	10.2	2.1	8.1	8.1				
Paris Club	6.8	1.8	4.9	4.9				
Non-Paris Club	3.5	0.2	3.2	3.2				
Commercial creditors	2.5	0.8	1.7	1.7				
Total	21.0	5.3	15.7	15.3				

RELIEF INITIATIVES AND P PROGRESS: MAY 2006

Sources: HIPC Governments, IMF & World Bank

Countries	HIPC II Dates		PRSP Dates		HIPC Initiative	
Countries	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	4/02	5/00	7/00	76%	
Burundi	8/05	2007	1/04	4Q2006	84%	
Cameroon	10/00	05/06	10/00	7/03	98%	
Central African Rep.	4Q2006		1/01	4Q2006	NA	
Chad	5/01	2007	7/00	7/03	93%	
Comoros	2007		05/06		NA	
Congo, Dem. Rep. of	7/03	2007	6/02	4Q2006	93%	
Congo, Rep. of	03/06	2007	12/04	4Q2006	60%	
Côte d'Ivoire	2006		3/02		NA	
Ethiopia	11/01	4/04	3/01	9/02	92%	
Gambia	12/00	1Q2007	12/00	7/02	81%	
Ghana	2/02	7/04	8/00	4/03	90%	
Guinea	12/00	2007	12/00	7/02	85%	
Guinea-Bissau	12/00	2009	12/00	2006	81%	
Guyana	11/00	12/03	11/00	9/02	81%	
Honduras	7/00	4/05	7/00	10/01	93%	
Kenya	DSA No	v. 2003	8/00	2/04	NA	
Laos	no current	timetable	4/01	12/04	NA	
Liberia	2Q2007		no PRSF	process	NA	
Madagascar	12/00	10/04	12/00	11/03	91%	
Malawi	12/00	3Q2006	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 PRSF	no PRSP process		
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	2006	4/00	8/05	85%	
Senegal	6/00	4/04	6/00	12/02	81%	
Sierra Leone	3/02	2006	9/01	7/05	87%	
Somalia	no current	timetable	no PRSF	process	NA	
Sudan	no current				NA	
Tanzania	4/00	11/01	3/00	12/00	90%	
Togo	2007				NA	
Uganda	2/00	5/00	NA	5/00	96%	
Vietnam	DSA 2		4/01	6/02	NA	
Yemen	6/00		2/01	8/02	NA	
Zambia	12/00	4/05	7/00	5/02	97%	
	no current	timetable			NA	
Haiti	no current	timetable			NA	
Kyrgyztan	no current	timetable		02/03	NA	
Nepal	no current	timetable		11/03	NA	

Cameroon reached its completion point and qualified for MDRI in May 2006, while Republic of Congo reached its decision point in March 2006. Malawi, São Tomé and Príncipe and Sierra Leone are all expected to reach completion point during 2006, with Burundi, Chad, Democratic Republic of Congo, The Gambia and Guinea tentatively on course to reach completion points in 2007. Finalising and completing 1-year implementation of the PRSP has delayed completion point for Burundi and Democratic Republic of Congo, but IMF conditionality has caused problems for the other countries.

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 staff-monitored programme (SMP) on-going
Most creditors provide relief, unsustainable due to new borrowing. MDRI	1st review of new PRGF expected. PRSP II due soon
Sustainable external debt/exports. But unsustainable total debt on fiscal criteria when domestic debt is included. MDRI	Stand-by agreement extended until 1Q2006.
Côte d'Ivoire threatens lawsuit; Kuwait and Saudi Arabia offer non-comparable reschedulings. MDRI	5* PRGF review completed. PRSP on-track
Decision point reached in August 2005	Final PRSP expected 4Q2006
Reached CP in May; MDRI approved. Still facing lawsuits	PRGF and PRSP on-track
Significant arrears accumulated	Emergency post-conflict assistance programme (EPCA) approved in 2004. Preparation of PRSP has resumed
PC consolidation extended to end-Sept. 2005. IsBD and BADEA providing interim assistance	World Bank suspended disbursements in Jan. 2006 due to petroleum revenue issues
High arrears	3 st review and extension of the SMP through June. Updated I-PRSP approved by BWIs
USA only PC creditor yet to finalise relief. Agreements with 13 commercial creditors signed	PRGF review delayed due to expected presidential elections
DP agreed March 2006; CP Cologne terms. IMF interim relief pending negotiations with London Club. Lawsuits	2 [™] PRGF expected. PRSP expected end-2006.
DP delayed because of civil conflict. Potentially qualify with PV/revenue=361%	PRSP still delayed. Ongoing discussions for EPCA
Agreement reached with Hungary. MDRI	Good PRGF record. UK resume assistance through a 'Protection of Basic Services' grant
Interim IMF relief suspended, IDA and AfDF interim relief limit reached	SMP review due. Updated PRSP in progress
Signed agreements with almost all creditors. MDRI	Satisfactory progress on PRGF. Updated PRSP approved
IMF, AfDB, PC interim relief suspended. Egypt, Kuwait, Saudi and Morocco willing to provide relief	2™ PRSP review completed. 2™ SMP review completed satisfactorily
Only IDA and AfDB providing interim relief	Government instability halted planned SMP. EPCA projected for 4Q2006
Agreement reached with OPEC and Trinidad & Tobago. MDRI	Satisfactory progress on PRGF
PC Cologne stock terms agreed in May 2005; with additional topping up. MDRI	PRSP on-track. 4th PRGF review under discussion
DSA shows ratios under HIPC thresholds. PC Houston terms relief	2 [™] PRGF review still under discussion
Despite eligibility, government does not wish to participate in HIPC Initiative	PRGF expired in April 2005, no new developments
Debt stock estimated \$3bn (600% of GDP), nearly all in arrears	SMP agreed through Sept. 2006. PRSP process not yet begun
Well advanced with PC relief, contacting all non-PC creditors. MDRI	Negotiating new PRGF
IMF provided interim relief up to 1Q2006. Need to agree extension of PC agreement. South Africa debt write-off	1 st PRGF review completed satisfactorily. PRSP progress report approved by BWIs
Difficulties with non-PC, commercial creditors. MDRI	4 ⁿ PRGF review completed. Still difficulties with drought and Côte d'Ivoire unrest. Annual PRSP implementation report issued
No relief from some non-Paris Club creditors (Algeria, Kuwait, FKDEA)	SMP satisfactory review
Agreements with China, Kuwait and South Africa. MDRI	3 st PRGF review completed satisfactorily Dec. 2005. PRSP on-track
No WB lending since 1987. Probably unsustainable	No IMF programme since 1981-82
Benefited from new debt relief from some non-PC creditors; other negotiations in course but with some difficulties. MDRI	PRGF extended to December 2006. PRSP on-track
No agreement with non-Paris Club creditors. Taiwan won lawsuit. MDRI	2™ PRGF review to be completed soon. Food crisis continues
Received topping up at CP. PC Cologne stock. MDRI	BWIs assessment of PRSP progress report endorsed. PRGF on-track
To receive retro-active PC relief following new PRGF	PRGF approved Sept 2005, 1st review satisfactorily completed.
Benefited from non-PC creditors relief. MDRI	On track with PRGF and PRSP
Lawsuits for US\$35m. AfDB interim relief resumed July 2005, IFAD and BADEA provide arrears clearance	New PRGF approved
Accumulating large arrears to creditors. World Bank engaged under LICUS	Still no current IMF programme
IMF urged to minimise non-concessional borrowings	SMP extended through 2006. I-PRSP being prepared
Benefited from non-PC (Bulgaria, China and Kuwait) relief. MDRI	4° PRGF review completed. New PRSP published in 2005
Potentially qualify with PV/revenue of 394%	Still no resumption of engagement. Government approved I-PRSP in November 2004
Ceiling on new borrowings, seeking more grants as debt is unsustainable. MDRI	PSI approved in Jan 2006. Revised PRSP in August 2005
Boards report on eligibility due	No current PRGF
Ratios under HIPC thresholds so Paris Club Naples stock treatment	Slower growth following decline in oil production
CP achieved in April 2005 providing US\$3.9bn relief. MDRI	3" PRGF review approved
Potentially qualify with PV/exports of 362%	Draft I-PRSP was completed but further work has halted
Potentially qualify with PV/exports of 190%	EPCA satisfactory. I-PRSP being prepared
Potentially qualify with PV/revenue of 345%	PRGF on-track. PRSP 2 [™] progress report approved
Potentially qualify with PV/exports of 201%	PRGF on-track. PRSP 2 nd progress report approved

HIPC CBP RECENT AND F

Regional Workshops/Seminars
CEMLA Regional Debt Sustainability
Workshop for Low Income Countries. This
workshop, organised with the World Bank, took
place from 13 to 17 March (see page 6).

The **PALOP Debt-Pro® Regional Workshop** took place in Angola, from 20 to 26 February (see box on page 16).

4th Interregional Debt Managers Seminar.

This took place in Addis Ababa on 8-10 May and was attended by 87 representatives of HIPCs and PIPs, and followed by a **Pôle-Dette Regional Seminar on Institutional and Legal Best Practices.** Detailed articles on these events will appear in the next issue.

Demand Assessment Mission

Liberia. DRI and WAIFEM conducted the first demand assessment mission from 6 to 10 February (see details on page 7).

National Workshops

Nicaragua. The National Debt and New Financing Strategy Workshop took place in Managua from 27 March to 1 April. It reinforced the capacity of many existing government staff, and provided training to new members of the national strategy team. It also produced a preliminary national debt strategy document, fulfilling the General Law on Public Debt. The participants therefore judged the event to have attained its objectives, though it was too short to finalise the document, which is currently being finalised by the national team to present to Government policymakers and the international community.

The strategy findings and recommendations included:

- Nicaragua's debt will become sustainable only if all creditors (including non-Paris Club bilateral creditors and the Inter-American Development Bank) provide HIPC and MDRI relief.
- Even with such relief Nicaragua will have insufficient financing to attain the MDGs: this will require far more concessional financing (especially grants) to keep debt sustainable.
- As a result, Nicaragua will need to remain dependent on aid financing in the near future.
- It is essential to reinforce institutional coordination through the working group that is responsible for updating the national debt strategy annually.

Togo. The workshop on sustainable debt reduction took place from 28 March to 8 April and involved 36 officials from all agencies involved in debt management as well as the social sectors. During the workshop, participants reconfirmed Togo's eligibility for HIPC. They also simulated four future strategies:

- 1) Pessimistic: continuing the current debt and economic situation, including no debt relief;
- 2) Baseline: HIPC debt reduction with a moderate baseline economic scenario;
- Realistic: HIPC with realistic creditor participation and a baseline economic scenario:
- 4) Optimistic: HIPC plus MDRI with a more optimistic economic scenario.

The last scenario was the only one capable of keeping Togo's debt sustainable over the long-term, but its implementation will depend on a strict policy of mobilising only concessional external financing, a diversification of the economy, and socio-political environment which allows the normalisation of financial flows from development partners.

Institutional/Follow-up Missions **Central African Republic.** Pôle-Dette

organised a follow-up mission to CAR from 3 to 14 April. The mission worked on: (i) updating the DSA, (ii) implementing the recommendations of the institutional mission in July 2004 and (iii) designing a national debt management capacity building plan for the country.

The DSA update involved two groups of national staff, who (i) confirmed CAR's eligibility for HIPC on the PV/XGS ratio, (ii) estimated the expected relief and contribution of each creditor, (iii) estimated the funding relief will provide for the poverty reduction strategy; and (iv) identified when CAR's debt will become sustainable and how maintain sustainability.

On institutional issues, the mission found that government has begun negotiations with the AfDB for the purchase of DMFAS, but greater efforts are needed to implement the other recommendations of the 2004 mission.

The mission recommendations focussed on how to: (i) clear arrears to multilateral creditors; (ii) clear or restructure domestic arrears; (iii) implement a policy for mobilising increased grants given the fragility of debt sustainability; (iv) increasing budget revenue collection to support national investment; (v) reinforcing debt management, coordination and capacity.

Comoros. An institutional support and training mission visited Moroni from 10 to 15 April. Its main objectives were:

• To help the Union of Comoros to design a

- strategy to clear its external debt arrears. The mission and Comorian officials designed a strategy and presented it to policymakers. Its main objective was to restructure and repay arrears in ways that minimise the negative impact on Comoros' debt service burden.
- To help design a national debt and new financing strategy capacity building plan. The plan reviews the legal and institutional framework for public debt management and analyses the country's overall capacity to design its own debt reduction and new financing strategy, as well as the capacity of each agency and unit involved in debt management. It makes recommendations including an implementation plan to improve public debt management; and
- To provide training in macroeconomic forecasting to Comorian officials. The mission conducted training on basic concepts, the importance of data reliability and consistency, and how to make economic projections, as well as the usefulness and fundamentals of macroeconomic modelling using various tools. It also trained officials in using the macroeconomic forecasting tool designed by the CBP.

Malawi. MEFMI conducted an institutional mission during 27 to 31 March, which held discussions with senior officials of the Ministry of Finance and the Reserve Bank of Malawi. The mission focussed on:

- The status of the CS-DRMS debt database. During the last national debt sustainability analysis workshop held in October 2005, Malawi's debt database had numerous problems, reflecting inability of staff to input data correctly in the CS-DRMS database, and the lack of a timetable for data validation. Malawi is one of the first countries to have fully migrated to the new version of the CS-DRMS. The mission therefore identified capacity building needs for CS-DRMS users, including IT support, and increased government understanding of the importance of debt data management.
- Distance learning demand assessment (see distance learning below for more details).

Rwanda. The mission from 7 to 17 March had three objectives:

 Training staff in strategies for mobilising external new financing, including basic concepts of aid; elaboration of portfolio reviews; and analysing policies and procedures of donors and creditors based

ORTHCOMING ACTIVITIES

on Rwanda's Aid Policy Document. It produced a draft compendium of policies and procedures, comprising nine multilateral and bilateral institutions, which will be enlarged to cover all financing sources by August 2006.

- Reviewing institutional mechanisms for coordinating aid and debt policy, commitments and disbursements. There has been progress on grant data with the establishment of a *Development Assistance Database* (DAD), but also a severe loss of capacity to monitor debt using the DMFAS. The mission urged government to reinforce coordination by creating a Debt and Aid Management Committee with reinforced powers.
- Assisting Rwanda to develop a 4-year
 national capacity building plan in the context
 of the Ministry of Finance and Economic
 Planning Strategic Development Plan.
 Rwanda is making major progress in
 strengthening its legal framework, clarifying
 institutional responsibilities, and including a
 government financing strategy in the
 budget, and recent improvements in
 salaries and working conditions should
 enhance staff retention. Nevertheless,
 training is urgently needed for new staff. The
 mission designed a comprehensive plan for
 financing by CBP and local donor funds.

Senegal. A Pôle-Dette mission visited Dakar from 10 to 14 April, to reinforce debt management capacity of the National Economic Policy Committee (CNPE), with two aims:

- To help members of the CNPE (which coordinates debt and macro-economic policy management) analyse how to use a DSA in the formulation of economic policies; and
- To make recommendations based on the experience of other countries for a structure to ensure coordinated policymaking that reconciles the attainment of the MDGs, regional convergence criteria and long-term debt sustainability. The mission presented the experience of Benin's National Debt Management Committee, which is responsible for formulating and implementing the national debt and new financing strategy; analysing the sustainability of debt and public finance; studying financing offers from donors and recommending their approval or rejection; and ensuring a better fit between sources, costs and quality of financing, and the nature and productivity of projects.

At the end of the mission, participants indicated

a strong wish for further support from the HIPC CBP to establish a National Debt Management Committee in Senegal.

Distance Learning

The distance-learning programme proceeded with four demand assessment missions (to Burkina Faso during 15-19 May; Ethiopia during 8-12 May; Malawi during 27-31 March; and Tanzania during 18-21 March). Each mission had four objectives:

- To assess the need for distance learning in the areas of external debt strategy, new financing strategy and domestic debt strategy;
- To ensure that the study environment (access to computers, internet, data and documents) would be conducive to successful implementation of the programme:
- To identify potential students, National Coordinators and mentors; and
- To reinforce policymaker commitment to distance learning, by ensuring that they allow staff to study in work hours, and have access to computers and internet for their studies.

All of the missions achieved their goals, and five countries are now ready to launch the next wave of distance learning. Demand for distance learning in each country far exceeded the availability of places, and countries were also anxious to use the portfolio review modules to conduct local training of new staff without external assistance. Many other HIPCs have also expressed strong interest in early access to distance learning. Debt Relief International also finalised the first study module for the domestic debt pathway and updated all modules in the external debt pathway to take account of recent developments in debt relief.

Information Products

During the last quarter the website was updated regularly, the remaining language versions of the publications *Modelling Poverty Reduction* and *Assessing Debt Management Capacity: The HIPC CBP Methodology* were produced and distributed, and the HIPC CBP sent two email listserves to HIPC debt managers on latest developments. To subscribe to newsletters or publications, or receive listserves, please contact publications@dri.org.uk.

Attachments

MEFMI Staff Attachment to IDM (30 January-9 February). To consolidate expertise in debt strategy analysis, the CBP funds attachments of implementing partner staff to

best practice institutions. A MEFMI team visited IDM in Washington to reinforce their Debt-Pro® skills, allowing MEFMI to provide enhanced face-to-face and long-distance support to HIPCs during debt strategy updates, and to train more regional resource-persons and officials.

The training concentrated mainly on analysis of results and their use for policy recommendations, which should allow MEFMI staff to lead extended results analysis and interpretation sessions in national workshops during phase 4, as well as demonstrating the utility of Debt Pro to debt units while on missions. It also focussed on new features of Debt Pro, especially sensitivity analysis on exchange and interest rate changes, which will be useful to MEFMI member states in future.

Future Activities

During the next six months, the HIPC CBP will implement the following activities:

- Institutional/Follow-up missions: Benin, Bolivia, Cameroon, Chad, Congo (R), Gambia, Guinea, Guinea-Bissau, Mauritania, Niger, São Tomé and Príncipe, Sierra Leone and Uganda.
- National workshops: Bolivia (on sub-national debt), Comoros, Congo (R), Gambia, Ghana, Guinea, Honduras, Kenya, Rwanda (government-funded), Tanzania and Zambia.
- Regional workshops: MEFMI and Pôle-Dette on domestic debt sustainability analysis, and Pôle-Dette on avoiding future debt crises.
- Sensitisation seminars: Guinea, Rwanda (government-funded), Nigeria (DFID-funded), São Tomé and Príncipe.
- Intensive assistance programmes: Burundi, the Gambia, Guinea, Mozambique, and Rwanda (government-funded).
- Advocacy: 13th HIPC Ministerial Meeting in Singapore.
- Governance: 18th Steering Committee in
 Honduras
- Distance learning: demand assessment missions to Ghana, Honduras, Senegal, Sierra Leone, and the start of the second group of students.
- Attachments: from CEMLA, Pôle-Dette and WAIFEM regions to DRI and the BWIs.
- Two newsletters, four listserves, two publications and continuous updates to the website.

FPC CBP POSITIVE REVIEW LAUNCHES PHASE III



Review Conclusions

In the first half of 2006, the FPC CBP reviewer, Cristina Orbeta of the Philippines, presented a very positive but constructively critical review of the FPC CBP phase II to programme stakeholders. The key conclusions of the review were that:

- Methodology. Almost all plans for improving and documenting methodology had been implemented or exceeded, including major development of national task force manuals, data quality control techniques, and the programme's Access@-based software. One important exception was the reinforcement of the use of non-survey methodologies for monitoring.
- Data Quality. For countries participating fully from the start of phase II, there had been a dramatic improvement in data quality on the International Investment Position and the FPC-related lines of the balance of payments, as well as in the comprehensiveness and representativeness of surveys of investor opinions. The remaining problem was timeliness: countries had moved from unreliable but rapid estimates to reliable but less rapid survey data, with delays exceeding 12 months.
- Analysis and Policy Impact. The FPC CBP has
 also provoked a marked improvement in the
 quality and depth of analysis of FPC, including
 its characteristics and sustainability,
 macroeconomic impact, investor perceptions
 and intentions, and corporate social
 responsibility. However, there is a need to
 reinforce analytical capacity on new trends in
 international financial markets, as well as to
 accelerate the application by countries of
 CBP-derived recommendations for policy
 changes.
- Institutionalisation of Capacity. There has also been a high level of institutionalisation of FPC work in participating governments, reflected by increased staffing levels, large commitments of local funding, and a higher political profile of the issues relating to FPC. However, in some countries that joined phase II late, this institutionalisation remains fragile.
- Country Participation. In spite of dramatic acceleration of country demand to participate in the programme, there has been a disappointing shortfall in the number of participating countries (9 instead of the

- planned 11-14), due almost entirely to lack of financing from donors. Delay in such financing (in spite of early commitments of financing by the governments themselves) means that five countries joined phase II relatively late, and therefore made less progress in building their capacity.
- Transfer to regional partners. While regional partners now have a high level of methodological and technical capacity, transfer of capacity to manage country projects has been limited in some regions by the delay in launching country programmes. Most regional organisations therefore need more time to cement their capacity to manage the FPC CBP and to mobilise financing for country projects.
- Awareness. The FPC CBP's major
 achievements in data quality, analysis and
 policy recommendations are not being
 sufficiently disseminated nationally, regionally
 or internationally. As a result, there have been
 problems with international acceptance of
 data changes, analytical conclusions and
 policy recommendations. There is a need to
 reinforce liaison with units of NTF agencies,
 and with national, regional and international
 agencies outside the NTF, to increase policy
 impact.

The review concluded that a further and final phase of the FPC CBP should be funded, lasting between 18 and 36 months, to assure the full transfer of execution of the programme to regional partner institutions, the institutionalisation of capacity in a wider range of countries, and greater policy impact of the findings.

Preparation of Phase III

As a result of this positive review, at a meeting in January 2006, donors indicated a willingness to fund a third phase of the FPC CBP (SECO through core financing and DFID through country-level financing). The review also provided an opportunity to consult stakeholders (countries, programme implementing partners and donors) on their needs from a future phase.

As a result of these consultations, phase III will have three overall purposes:

- (i) to build lasting national capacity to monitor and manage international private capital flows. This will be measured by the number of countries meeting GDDS standards, implementing FPC policy action plans, and having high-quality institutional and legal frameworks for managing FPC.
- (ii) to build regional organisations' capacity to

- coordinate high quality training, advisory and advocacy in their regions. This will be measured by the quality of FPC capacity-building services provided by ROs, the level of satisfaction of countries with these services, and the institutionalisation of FPC services in ROs
- (iii) to raise national, regional and global awareness of national achievements in monitoring and managing private capital. This will be measured by increased acceptance of the data and policy recommendations produced by the programme.

In line with the recommendations of the review, phase III will:

- place top priority on using non-survey methodologies for monitoring and for crosschecking survey results;
- work with countries to reach GDDS timeliness deadlines of six months;
- supply more international data and analysis on current market trends, and accelerate policy change through policy action plans (see article on page 13);
- (subject to donor funding) institutionalise capacity in a larger number of countries;
- cement management and financial mobilisation capacity of ROs;
- increase national, regional and global liaison to raise FPC CBP policy impact.

Programme implementing partners have designed a phase III document using results-based management tools, which is being finalised in consultation with programme donors, based on a 3-year capacity-building plan for each participating country.

Finally, it is evident that country demand for FPC CBP assistance far exceeds the financing pledges made by donors. Though financing commitments have reached US\$4.3 million (US\$1.5 million of core financing, US\$1.3 million of country-level donor financing, and over US\$1.5 million of contributions by participating countries), this will allow only 22 countries to participate fully in the programme, whereas 40 countries have requested participation. In addition, such amounts will finance FPC CBP activities for only two years, whereas implementing partners and countries would prefer three years to ensure long-term sustainability of FPC CBP achievements. Implementing partners and countries will therefore be making strenuous efforts to mobilise additional core and country-specific financing (from donors and participating governments) in the coming months.

FPC POLICY ACTION PLANS



hase III of the FPC CBP will place even more emphasis on the policy impact of the recommendations arising from the programme, encouraging countries to design and implement a Policy Action Plan (PAP). This article explains what a PAP contains.

Why should countries have a policy action plan? For three reasons. First, because data and analysis have little value if they are not used to implement policy. Second, because FPC country reports are already producing wide-ranging analysis and policy recommendations to support macroeconomic growth and stability, private sector development, foreign and domestic investment promotion, and poverty reduction. Third, because most countries participating in the FPC CBP have until now had policies which are i) passive, accepting all FPC and offering it comprehensive tax holidays; ii) poorly-focussed, targeting historically important source countries or recipient sectors and regions rather than new dynamic areas; or iii) hostile to all FPC as undermining development. It is time to change these strategies, for each country to identify its priorities and have a focussed policy to maximise FPC's development contribution.

As discussed in earlier newsletters, FPC CBP country reports contain five types of analysis:

- basic disaggregated analysis of FPC, including its scale, its composition by instrument, source countries, recipient sectors and regions;
- analysis of macro-economic causes and effects: on the real sector and growth; the balance of payments, exchange rates and foreign exchange availability; monetary and financial sector developments; and government spending and revenues;
- analysis of investor perceptions of a wide range of political, economic, financial, social and environmental conditions and their effects on investment intentions;
- analysis of corporate social responsibility, including use of investment (human capital, technology transfer, diversification), and effects of corporate non-financial behaviour on labour, health, the environment, poverty reduction and development;
- 5. 'sustainability' analysis of costs, profitability,

financing structures, risks, net flows and transfers, the factors that influence these, the results in terms of investor behaviour, and therefore the prospects for sustainability of EPC flows.

So how can governments build a PAP from this analysis? FPC CBP reports already contain specific policy recommendations based on analysis, of the following types:

- targeting specific FAL instruments, and the diversification of financing types, source countries, sectors and regions, as well as the return of assets or the diversification of resident holdings abroad;
- changing macro-economic policy to stabilise and encourage FPC, to promote availability of domestic finance to complement FPC, and to mobilise FPC types which promote exchange rate and financial sector stability, and financial and real sector development;
- identifying policy responses to improve investor perceptions (while taking account of potential biases in investor views) across the range of political, economic, financial, social and environmental issues;
- encouraging higher payment of taxes, expenditure on human capital development (health, training, promoting national staff), technology transfer and environment protection, and involving the workforce and community in business decisions;
- reducing costs, increasing profitability, diversifying financing structures to reduce risks, increasing net flows and transfers, and increasing FPC sustainability.

Therefore a PAP in part formalises existing policy recommendations. However, it also needs to draw out the policy implications of each analytical finding, as well as taking account of policy measures being implemented as a result of other initiatives to promote the private sector, foreign or domestic investment, or macro-economic sustainability. An 'action plan' must also identify priorities among the many possible resulting policy recommendations, set deadlines for their introduction, and make institutions responsible for implementing the policy changes.

Responsibility for implementation is best divided among chief executives of NTF and other institutions according to their mandates: economic ministries and the central bank for macro-economic policy; investment promotion agencies and private sector groups for investment promotion and CSR; stock exchanges for portfolio flows issues. In finalising PAPs, it is essential to

involve senior officials and chief executives of all NTF member agencies to maximise ownership and implementation, with decisions effectively coordinated by the NTF and fed into other coordination bodies such as economic policy committees or private sector promotion task forces

A PAP should not be limited to government actions - such as improving macro-economic policy or targeting of investment promotion. It should also expect the private sector to improve its behaviour, led by private sector members of the NTF - for example in obtaining more favourable financing terms, adopting more sustainable financing strategies or improving corporate governance. So private sector NTF members should also be made responsible for disseminating recommendations.

A PAP on foreign private capital should preferably be part of the overall identification of financing sources for a national development plan and poverty reduction strategy. It should be combined with analysis of public sector financing (through external and domestic debt and budget revenue) and development of the domestic financial sector, to design a national development financing strategy.

The countries participating in the FPC CBP have identified policy change as a key area for building capacity in phase III. As a result, in phase III of the FPC CBP, countries and the programme will be judged by their success in generating an agreed coordinated PAP, by the quality of the PAP in including all the above elements, by the dissemination of the PAP beyond the NTF to other national, regional and international bodies, and by the execution of the plan by all stakeholders. To help prepare PAPs, the FPC CBP implementing partners will develop tools to train NTF members in how to plan and implement PAPs, during opening workshops and follow-up missions. They will also assist country teams to finalise PAPs, ensure their formal approval by policymakers before closing workshops, and make commitments to policy change the focus of dissemination workshops, discussion with private sector and civil society stakeholders, and dissemination via country reports and FPC CBP information products.

By designing and implementing PAPs, the FPC CBP will accelerate its policy impact, and enhance the sustainability of FPC and its contribution to national development.



FPC CBP MOVES FORWARD TO THIRD PHASE

fter a very positive review in January 2006, and a decision by donors to continue with a third phase, the FPC CBP pursued its activities to finalise phase II, including finalising a publication on institutional issues, and prepared its third phase to start in June with the re-launch of the programme in Ghana and Kenya.

COUNTRY PROGRESS

The programme countries have progressed as follows:

- Bolivia has disseminated its first analytical report, and is preparing to resume quarterly surveys.
- Burkina Faso's first survey report is being finalised, after a follow-up mission by BCEAO and BEAC in March that helped with data quality control and software training. A closing workshop is planned shortly to present results and discuss policy recommendations.
- Cameroon held its opening workshop and launched its first survey in January. A BEAC-DFI follow-up mission took place at the end of April, and the survey is expected to be completed soon.
- The Gambia has launched its second survey and already has a good response level. A DFI-WAIFEM follow-up mission is expected soon.
- Ghana and Kenya are still finalising arrangements with donors for re-entry into the CBP.
- Malawi hosted a successful time series mission in February, which reconciled the data from the first three surveys. The 3rd survey report is being finalised, and the 4th survey will be launched in September.
- Nicaragua held its awareness and training workshop in February with CEMLA and DFI, and recently launched its first survey.
- Tanzania started its 3rd survey in February 2006, and is making excellent progress, with preliminary results expected to be disseminated around July.
- Uganda has hosted a mission to assist with data quality, time series and preparation of the analytical report on its 4th survey, as well as training staff for the 5th survey. Results were expected to be disseminated in May.

OTHER ACTIVITIES

Among other activities, the FPC CBP:

- Presented analytical findings at an awareness seminar hosted by DFID in March, which was very well attended. The seminar presentation can be found on the FPC CBP website. SECO will be holding a similar seminar in the second quarter.
- Completed one publication on how to build sustainable institutions, which is available since the end of May, and a draft manuscript of a second publication on analytical lessons.
- Prepared a draft programme document for phase III, as well as related resultsbased management tools including logframes and budgets.
- Finalised the French translation of the Software Manual for posting on the website, at www.fpc-cbp.org.
- Uploaded the National Taskforce Manual on the website, translated into French (by BEAC) and Spanish (by CEMLA).
- Continued to prepare and disseminate listserves every six weeks.

FORTHCOMING WORK PROGRAMME

In the forthcoming months, the FPC CBP will:

- Conduct follow-up missions to The Gambia, Nicaragua, Tanzania and Trinidad & Tobago, closing workshops in Burkina Faso, Cameroon, Malawi and Uganda, and demand assessment missions to Ghana and Kenya.
- Finalise the phase III programme documents and work programme.
- Present analytical findings at a SECO's awareness seminar in Bern.
- Continue to improve and update the website, software and technical materials.
- Produce listserves every 6 weeks.
- Publish the remaining two publications.

FPC CBP LAUNCHES PUBLICATION SERIES

The FPC CBP is producing a publication series in response to many requests for information on programme findings. The aim of the series is to present topics in a concise, accessible and practical way for implementation by developing country governments.

The first in the series, Monitoring and Analysing Foreign Investment: How to Build Sustainable Institutions, was published in English, French and Spanish in May 2006. It finds firstly that, in spite of international initiatives to improve data quality, the international community has failed to comprehend fully the complexities of monitoring FPC. Most low-income countries and even most OECD economies are unable to meet codes for monitoring without a major reinforcement of their institutions. Secondly, monitoring serves little purpose on its own, unless the data collected are used for analysis and proactive policymaking by low-income countries and the international community, to stabilise private capital, and redirect investment promotion and macroeconomic policy efforts.

To address these concerns, donors have supported the FPC CBP to create sustainable institutions for monitoring, analysing and improving policies related to international private capital. Participating countries have made extensive progress in each of these areas. This publication focuses on the key lessons in achieving the institutional improvements.

Each key aspect of institutional reinforcement is dealt with in separate chapters. With specific examples of best practices, these cover institutional and legal structures (Chapter 2), human resources, management and working environment (Chapter 3); international data codes and standards (Chapter 4); building or reinforcing monitoring systems (Chapter 5), analysis, policy, and development financing strategy (Chapter 6); political commitment, transparency and capacity self-evaluation (Chapter 7), and finally, building partnerships with the private sector (Chapter 8).

Two more publications will follow shortly: one on technical methodology, and the other on synthesis analytical findings and policy lessons. We welcome comments on the publications, as well as suggestions for future work.



FOREIGN PRIVATE CAPITAL: FREQUENTLY ASKED QUESTIONS

CREATING RELIABLE TIME SERIES - LESSONS FROM MALAW

ICountries have greatly improved the quality of data from individual surveys, using the techniques described in earlier newsletters and the National Taskforce Manual. This is only the first step. The next step is making data acceptable to policy makers, international institutions and other users, over a time series of multiple surveys. Countries need to be able to correct differences due to changes in survey methodology (sample, response rate etc). Tanzania, Malawi and Uganda have started this process. This article follows the technical discussion of time series in Newsletter 24, by sharing practical experiences gained on the Time Series mission held recently in Malawi.

The materials in the NTF Manual describe how to make data internally consistent within each cycle. Although this provides a good foundation for adding later cycles, it does not guarantee a reliable time series, for two main reasons. Firstly, survey forms are not always filled in fully, so forms from different surveys may contain different types of information. Secondly, enterprises do not always fill out a form for each survey. This is overcome within each 'survey' cycle by the uprating procedures, but if better data is collected in later cycles the time series will be improved. So a data editor can improve the quality of the data further by undertaking a fundamental revision after 2-3 surveys. Here, countries need to use both manual data re-editing for each survey, to estimate data missing for an enterprise or line item; and software-based checks for consistency across all cycles. For very large data sets, where countries have good individual survey data, software checks are more applicable.

This article will highlight how manual data re-editing was conducted in practice in Malawi, creating a time series over three cycles covering six years. It highlights a few key guidelines used and lessons learnt. A comprehensive methodological note is available in the NTF Manual on the FPC CBP private website.

Categorising survey forms into manageable groups

This is the first task. The work needed on an enterprise will depend on how many survey forms were returned and for which cycles. Hence in Malawi, which was creating a time series over three cycles, the forms were divided into seven groups as seen in Table 1. The editing and creation of a time series for each group requires slightly different techniques.

Time series editing for each group

Guidelines were followed to ensure consistency in

Table 1. Questionnaires structured in groups								
Group	Questionnaires returned in cycle:	Count	Edited	Cleared	Processed			
1	C3							
2	C3 & C2							
3	C3 & C1							
4	C1							
5	C2							
6	C1 & C2							
7	C3 & C2 & C1							
Totals								

assumptions. However financial accounts and incountry knowledge of a company or sector provided invaluable information and should override the guidelines given below. In addition, changes or additions should be compiled into a brief note detailing assumptions, making the job of the Chief Editor much easier.

For Group 1, a return was received for Cycle 3 (C3) only; the first check was to ascertain when the enterprise received its first FPC. If this was after C2 only internal checks were needed. If it was during or before C2 or C1 a form was created for each non-responded cycle, making sure that sectors, regions and closing/opening balances were consistent.

Time series for different types of FPC

Foreign direct investment (FDI), portfolio investment (PI) and earnings attributable to foreign investors: it is easier to start with retained earnings (RE) and then use this information to calculate FDI/PI. This requires an assumption that retained earnings of the enterprise grow in line with the sector, allowing sector growth rates (r) to calculate RE backwards using the formula:

$$RE_{99} = \frac{RE_{00}}{\left(1 + \left(\frac{r}{100}\right)\right)}$$

Dividends were assumed to be zero unless there was other evidence of a regular payment. Dividends were used to estimate changes in the book value (BV) of the investment. When calculating the market value (MV)/BV ratio, reported ratios by sector were used as a guideline, supplemented by local knowledge of the enterprise.

 Long-term debt: this was assumed to be constant unless evidence indicated otherwise.
 For data on debt interest payments, averages of 10% on private sector non-affiliated enterprise creditors and 5% on IFIs were used.

- Debt from affiliated companies was assumed to be interest free unless otherwise indicated.
- Short-term debt: it was assumed that debt had been accumulated in the year preceding the current survey year, unless the debt was trade credit. Trade credit balances were assumed to be stable with equal inflows and outflows unless there was any evidence of sharp collapses in production quantity or price.

Groups 2 to 7 were treated similarly. If data conflicted among surveys, the person completing the survey was identified and, if it was the same person, more recent data were assumed to be correct, assuming a learning curve.

Lessons Learned

- It is vital to have a sustainable group of editors working together as much consultation is needed particularly where no financial accounts are available.
- Each country will differ slightly in the guidelines they want to use. These must be agreed before work begins and disseminated to editors and clearers in a training day.
- Financial accounts are invaluable, so enterprises should be encouraged to submit them with survey forms.
- 4. Changes in the ownership percentages can be helpful in tracking changes in flows.
- Due to the scale of manual checking, it is helpful to finish one group before starting the next, and essential to keep track of the editing process by using Table 1 above.
- As some 'missing' data in previous cycles was based on uprating, this needs to be taken into account when entering the 'new' survey forms for these cycles.
- Due to the large amount of work required, it is essential to complete editing and clearing of forms in each cycle, and begin time series work during the second cycle.

DEBT RELIEF TECHNICAL QUESTIONS

WHAT ARE THE IMPLICATIONS OF MDRI FOR DEBT CATEGORY CODING IN A DSA?

Multilateral debt eligible for HIPC relief is the disbursed outstanding debt stock used as the basis for a country's decision point DSA. So, for example, if a country reached its decision point in 2000, on the basis of its stock at end-1999, then the multilateral debt eligible for HIPC relief is the stock as of end-1999. This means that all disbursements made after end-1999 are not eligible, whether on loans signed before or after end-1999. In principle, this country should have already separated HIPC eligible and non-eligible debt service in your national debt database, by classifying all disbursements after 1999 as ineligible. For loans, which were disbursing at end-1999, this means splitting them into two, with one part representing the disbursed stock as of end-1999 (HIPC eligible debt) and the second part being disbursements after end-1999 (not eligible for HIPC).

So for each multilateral creditor there will be two debt category codes:

 HIPC eligible debt: the disbursed stock for all loans on the 'as of' date for the HIPC decision point

 HIPC non-eligible debt: all loans signed after the decision point as of date and all disbursements made after the 'as of' date on loans signed before that date.

For example, for IMF loans of a country with an end-1999 'as of' date, there will be two codes:

- IMFHIPC = HIPC eligible debt: the disbursed stock on all loans as of end-1999
- IMFPOST = HIPC non-eligible debt: all loans signed after end-1999 and all post-1999 disbursements on loans signed before end-1999.

A similar categorisation of IDA, ADF and IMF loans is required to implement the MDRI for post-HIPC countries. The MDRI will cancel AfDF and IMF disbursed outstanding debt as of end-2004, and IDA disbursed outstanding debt as of end-2003. To implement the MDRI for AfDF and IMF debt, it is necessary to separate the disbursed debt stock as of end-

2004, from post-2004 disbursements on loans signed before or after end-2004. IDA loans need to be split based on end-2003 stock.

Therefore to implement both HIPC and MDRI relief for the IMF, HIPCs need three category codes:

- IMFHIPC = HIPC eligible debt: the disbursed debt stock at the 'as of' date for decision point (e.g. end-1999 in the example above). This category is also eligible for MDRI relief as it represents the debt stock prior to end-2004.
- IMFMDRI = MDRI eligible (but not HIPCeligible) debt: all stock resulting from disbursements made between the 'as of' date for decision point (e.g. end-1999) and end-2004.
- IMFPOST = MDRI and HIPC non-eligible debt: all stock arising from disbursements made after end-2004, regardless of the date when the loans were signed.

AfDF loans will need the same three categories (as will IDA but with a cut-off date of end-2003).

NEW VERSION OF DEBT-PRO

nternational Debt Management (IDM) has recently released Debt-Pro © 2006, fully translated into French, Portuguese and Spanish. Its new features include:

- Two new reports: (1) Key, which shows the key debt sustainability indicators in a short and simple format and (2) Risk, which shows the impacts of exchange rate and interest rate changes on debt flows and stocks. The DSAREPS1 and DSAREPS2 reports have also been merged into a single report (DSAREPS-BOP).
- New coding system for currencies and interest rates. To feed into the Risk report a -KEY suffix was introduced for currencies and for variable interest rates. At the moment, up to five key currencies may be designated as KEY.
- New domestic debt assumptions, which enable a rollover of all instruments except Treasury loans, and the use of the sale price when instruments are sold at a discount or premium to their nominal value.

The new version also incorporates changes

suggested by HIPCs and the CBP, including:

- Integrating grant assumptions into the main Assumptions menu.
- Expanding the Compress command to include the grant assumptions.
- Expanding buy-back operations to take account of new debt relief by multilateral creditors.
- Allowing the **Details report** to be run for an individual creditor or debt category.

The CBP has renewed HIPCs annual licenses for Debt-Pro®, so countries should ensure they have the latest version installed. Users are encouraged to download the latest version at www.debt-pro.org. They can do this by going directly to the website above (of the system designer, International Debt Management), clicking on the area '7. File Downloads', and then choosing their language version from the first column of the table. They are also encouraged to submit comments or suggestions about how to improve Debt-Pro directly to IDM (info@debt-pro.org).

The Regional Debt-Pro Training Workshop for Portuguese speaking countries (PALOPs) took place in Luanda, Angola from 20 to 25 February 2006. Participants came from Angola, Mozambique and São Tomé and Príncipe. Guinea-Bissau could not attend because the workshop overlapped with an IMF mission. The objectives of the workshop were to improve capacity in PALOPs to use Debt-Pro so that:

- governments can continue to produce analytical studies;
- governments can produce their own debt strategies;
- PALOPs can establish their own independent capacity to train in Debt-Pro

The workshop used Debt-Pro 2006 in order to expose participants to the latest developments and carry out practical exercises in assessing the macroeconomic impact of debt forgiveness and new financing. Participants found the new features very useful, and also submitted some suggestions to IDM for future revisions of the software.

