

STRATEGIES FOR FINANCING DEVELOPMENT

The Newsletter of the HIPC CBP and the FPC CBP



Issue 29, 4th Quarter 2006

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HIPC Finance Ministers held their 13th meeting in Singapore on 16 September, under the joint chairmanship of Ali M. Lamine ZEINE, Minister of Economy and Finance of Niger; and Maria dos Santos TEBUS TORRES, Deputy Prime Minister and Minister of Planning and Finance of São Tomé and Príncipe. Representatives of 36 HIPCs took part, and made important recommendations to improve debt relief delivery, assure long-term debt sustainability, finance the Millennium Development Goals (MDGs), and continue to build their debt management capacity. A well-attended press conference on 18 September was addressed by Minister ZEINE, Kwadwo BAAH-WIREDU (Minister of Finance and Economic Planning, Ghana) and Mario José FLORES Loaisiga (Minister of Finance and Public Credit, Nicaragua).

1) Improving Debt Relief Mechanisms Multilateral Debt Relief Initiative

Ministers congratulated the international community on the implementation of the Multilateral Debt Relief Initiative (MDRI), and the mobilisation of the financing needed for the relief. However, they:

- Regretted the setting of a cut-off date of end-2003 and an implementation date of July 2006 for the IDA relief, which will exclude a lot of recent disbursements from eligibility for relief.
- Reiterated their concern about the use of performance-based formulas (rather than financing needs for the MDGs) in allocating funds to decide how much of the debt relief would be genuinely addition.
- Regretted the delay in assuring the participation of the Inter-American Development Bank (IADB) in the MDRI. They urged the IADB to agree rapidly on a proposal that would provide relief on the maximum percentage of IADB debt - i.e. with the latest possible cut-off date (preferably end-2004) and the earliest possible implementation date (preferably January 2007).

Ministers also indicated that the MDRI should be applied with equity to all countries reaching reasonable levels of public financial management, regardless of whether they are eligible for HIPC, and that for countries that

did not wish to receive debt relief, additional budget support should be provided to fund their progress towards the MDGs.

HIPC Debt Relief

The recent BWI assessment of HIPC indicates a dramatic slowing of progress towards decision and completion points. Ministers indicated that slow progress to completion points appears to be due to PRGF targets, and urged the international community to link HIPC progress much more closely to PRSPs rather than PRGFs.

Ministers also noted that there has been little progress on increasing creditor participation in HIPC. There is a continuing problem with non-OECD governments and with proliferation of lawsuits against 20 countries by rogue creditors and third parties.

Ministers strongly welcomed the recent establishment of channels to supply them with assistance to ward off lawsuits. They congratulated Advocates for International Development (A4ID) and the Commonwealth Secretariat on these initiatives and urged all in the international community to alert HIPCs and other developing country governments to the availability of such assistance.

Ministers urged the IFIs to show maximum flexibility in providing relief even where rogue creditors did not allow participation to reach necessary thresholds.

Ministers also acknowledged that some poor creditor countries cannot afford to provide debt relief to them, and urged the international community to put in place a small fund destined to resolve the debts owed between severely indebted and low-income countries.

2) Long-Term Debt Sustainability

Ministers stressed that they are determined to maintain their debt sustainability by maximising the concessionality of their new financing, and its effectiveness in promoting development. To this end, they also undertook to implement all the legal and institutional reforms necessary, and to conduct all the underlying analysis necessary, to ensure the adoption of their own borrowing ceilings and criteria for judging whether to accept offers of financing, in parliamentary discussions of their budgets.

However, they stressed that the attainment of the MDGs while maintaining debt sustainability will depend crucially on the provision of higher levels of grants and concessional loans than they are currently receiving, and their widespread extension to financing 'non-traditional' uses such as essential infrastructure. This particularly true for Latin America, where prospects for concessional resources are already limited.

Ministers urged the international community to pursue discussions on an agreement to refrain from offering non-concessional export credit loans to post-HIPC countries in order to avoid 'free riding'.

Ministers urged that low-income countries should themselves be given voice to express their views on what is the level of debt which is sustainable, by having a major input of views into the IDA and AfDF resource allocation assessments of their policies, and by doing the initial calculations of debt sustainability for themselves rather than leaving them to the BWIs.

Ministers strongly urged that the forthcoming IDA14 mid-term review discussions should define thresholds to analyse the sustainability of total (domestic + external debt), in order to ensure that there are not domestic 'free riders'. They underlined that they have already conducted such analysis and would be happy to input strongly into such discussions.

3) Financing the Millennium Development Goals Aid Quantity

Ministers expressed growing doubts that the international community will deliver on the promises made in 2005 to increase aid flows. They noted that from their perspective there has been little increase in aid amounts; little acceleration of aid to Africa; little acceleration of aid to good-performing but 'under-aided' countries; and little acceleration of flows to fragile states. They urged all G8 and EU members to fix firm timetables for implementing these pledges, and urged the G8 to focus on this issue in its deliberations in 2007.

Ministers strongly welcomed the launch of two innovative financing systems: the International Financing Facility for Immunisation (IFFIm) and the airline ticket taxes for development. However, they noted

that the number of countries participating in these systems remained small, as did therefore the level of financing mobilised. They urged the international community to move forward rapidly in expanding these systems to provide significant levels of development financing, and to ensure that all such funding would be additional to normal funds from national budgets and allow developed countries to provide more than 0.7% of their GNI in aid.

Anti-shock Financing

Ministers welcomed the establishment of two new facilities to help them against exogenous shocks - the UN Central Emergency Response Fund (CERF) and the concessional anti-shock loan window in the IMF.

They expressed their strong support for the CERF and urged that funding for it should be dramatically expanded to guarantee a sufficient revolving fund to combat multiple emergencies. They therefore urged the international community to provide more viable solutions to exogenous economic shocks through a grants-based high-access and rapidly disbursing anti-shock facility.

Aid Effectiveness

Finally, Ministers welcomed the continued efforts of the donor community and developing countries to improve the effectiveness of aid, through a process of monitoring whether the targets they had set themselves in 2005 are being achieved. They reiterated their determination to meet all targets assigned to them, in order to convince the international community to use HIPC's own procedures for disbursing their aid.

However, they encouraged donors to adopt more ambitious targets including:

- a reduction of conditionality, especially on political/governance issues,
- a transformation of technical assistance into genuinely capacity building support,
- an increase in budget and sector support aid,
- a clearly defined target for eliminating aid tying.

They also urged the international community to ensure that the process of monitoring donor compliance with the targets is genuinely led by the developing countries (just as the monitoring of developing country

compliance is assessed by donors). They underlined their determination to design aid strategies for encouraging maximum alignment by donors, and holding donors and creditors accountable for compliance with these strategies, but also emphasised that in order to ensure such mutual accountability they will require extensive building of their analytical and monitoring capacity at the national, regional and international levels.

4) Debt Strategy Capacity-Building

Ministers underlined their strong support for the continuation of the HIPC Debt Strategy and Analysis Capacity-Building Programme, which has had a major impact on improving their capacity to design and implement debt strategies. They indicated that they are already making maximum efforts to mobilise their own funds and those of country-specific donors in order to co finance the core financial contributions of donors.

Ministers objected strongly to the characterisation of their capacity levels in recent BWI Board Papers and the World Bank IEG evaluation update of the HIPC Initiative, as poor and declining. They indicated that this might perhaps be based on faulty evaluation criteria or poor information, and does not agree at all with their own evaluation of the improvements made in recent years, with the support of the HIPC CBP and other assistance providers. They therefore urged the HIPC CBP to share urgently with the BWIs both the HIPC CBP self-evaluation methodology and the time series of scores, so that the BWIs could appreciate the improvements that have been made.

Ministers noted that in some cases, donors appear to be less willing to fund debt strategy related assistance (even as part of public financial management programmes) on the grounds that debt relief has resolved debt problems. They indicated that this was not a correct logic: their governments remain in need of support on new borrowing strategy and analysis if they are to maintain their debt sustainability after HIPC and MDRI.

Ministers noted positively that the HIPC CBP is providing this support by training HIPC's to assess their long-term sustainability using the BWIs long-term debt sustainability framework (DSF); to analyse aid effectiveness in reaching the MDGs while maintaining debt

sustainability; and to conduct comprehensive assessment of the sustainability of domestic debt.

Finally, HIPC Ministers welcomed recent initiatives to increase coordination of capacity-building assistance on debt management for low-income countries. They indicated that this marked a return to their proposal for enhanced coordination made in 2002. However, they insisted that any coordination should be led by low-income countries themselves, who are fully capable of assessing their own needs and transmitting them to providers of assistance, as they have been doing for the last seven years through the HIPC CBP.

ASSESSING HIPC CAPACITY:

Recently the World Bank's Independent Evaluation Group (IEG) suggested that, based on IDA assessments, HIPC debt management capacity has fallen in recent years.¹ However, as shown in CBP Publication 10, the HIPC CBP assesses that HIPC debt management capacity has increased recently.² Given this discrepancy, as reported on pages 2-3, HIPC Ministers and the CBP Steering Committee have urged the CBP to publicize its findings widely and conduct comparative analysis of CBP and IDA findings.

This note therefore analyzes the methodology currently used by IDA and compares it to the self-assessment methodology developed by the CBP Phase IV, in order to understand their different approaches, applications and objectives. A future article will compare their current and historical results and explain possible reasons for the differences.

The overall methodology used by IDA is now known as the IDA Resource Allocation Index (IRAI) - formerly the Country Policy and Institutional Assessment (CPIA).³ It consists of 16 criteria, grouped into four areas, and the "debt policy" criterion in the economic management area covers debt management capacity. The debt policy criterion has four sub-elements: strategy/sustainability; coordination between debt and macroeconomic policy; statistics and institutions; and coordination among agencies. However, staff are asked to give one overall score on a 6-point scale rating to debt policy, without any indication as to how to combine scores in the four sub-areas which have different levels, or which of the criteria to treat as more important if capacity varies.

As described in issue 26, the CBP methodology for Phase IV is subdivided into 22 criteria, each with five sub-divisions. These distinguish clearly between an overall goal of debt sustainability, the processes needed to design, approve and implement a strategy, the legal, institutional and coordination structures needed to support debt management; and technical capacity organised according to front, middle and back office functions, as well as sub-divided into external debt, domestic debt and new external financing. It also assesses

the availability of trained staff capable of formulating and executing strategies, the quality of national plans to build capacity further, and whether the Government is interacting with civil society, political structures and the international community to discuss the strategy. This disaggregation allows each country to give itself a score between 1 and 5 for each sub-division, and to distinguish among areas clearly, or to aggregate scores transparently to reach an overall debt management score.

Table 1 shows in more detail how IDA and CBP criteria relate to one another. As the CBP methodology is much more comprehensive, in order to compare the criteria more precisely, it has been necessary to eliminate many of the areas covered by the CBP methodology and to focus only on those few criteria or sub-criteria which can be compared with the IDA sub-elements. Table 1 also shows that:

- The HIPC CBP assessment of debt sustainability allows flexibility for countries to choose regionally- or nationally-agreed indicators as criteria, and provides indicative thresholds for domestic as well as external debt.
- In terms of new borrowing, IDA focuses only on whether amounts and terms are conducive to long term debt sustainability, whereas the CBP looks at a range of 23 financing effectiveness indicators (including amounts and concessionality), to judge whether aid is likely to be sufficiently effective to improve repayment prospects, and allowing a country to assess its performance in achieving its national aid policy.
- IDA assesses coordination between debt and macro policies, and singles out separation of debt and monetary policy functions, but the CBP methodology also assesses coordination with poverty reduction strategy financing needs, and across fiscal, monetary and financial sector development policy for domestic debt issuance.
- It is difficult to identify exactly how many of the IDA institutional aspects are to be assessed (such as a "well established" debt unit, with "efficient systems" or "analytical capacity"). On the other hand, the CBP analyses the functions and composition of the Debt Unit thoroughly using five areas evaluating its legal

underpinning, responsibilities, administrative and work procedures. It has three separate ways to assess analytical capacity, including the existence of a team trained to formulate a strategy, capacity in six analytical areas, and the numbers, job descriptions, qualifications, experience and training of staff in each unit. On debt statistics, it goes beyond the IDA criterion to include timeliness and dissemination, aligning it closely with the IMF Data Quality Assessment Framework.

- In terms of debt strategy, the CBP goes beyond the capacity of countries to produce a debt sustainability strategy, and also looks at whether the strategy is being discussed at the appropriate level (with cabinet, parliament, civil society and the international community) and whether the strategy is ultimately implemented.
- Finally, on the legal framework, the CBP looks beyond loan contraction to guarantees and servicing, as well as flow of information on debt within and beyond government.

Implementation

Another key difference between the two assessments is in how they are undertaken.

- Under the CBP the country undertakes its own self-assessment in a participatory coordinated process, which includes all relevant government structures. The scores are fully justified by a description of gaps and proposed solutions. This is then quality-controlled by the partner institutions which implement the CBP. In addition, the CBP assessment is updated at each capacity building activity carried out in the region or country, ensuring that it reflects accurately the country situation. There is no reliance on secondary sources or reports. This allows for full ownership of the resulting assessment while at the same time guaranteeing realism and comparability across countries. The assessment scores are also made public on the CBP website.
- The IRAI assessment is conducted by IDA staff, in two phases: a benchmarking phase where a small, representative sample of countries drawn from all regions is rated; and a second phase in which IDA country desks rate the remaining countries using the benchmark countries' scores as

¹ See *Debt Relief for the Poorest: an Evaluation Update of the HIPC Initiative*, available at www.worldbank.org/oed

² See *Assessing Debt Management Capacity: the HIPC CBP Methodology*, available at www.hipc-cbp.org/files/en/open/Publications

³ For more details, see the World Bank. *Operations Policy and Country Services. "Country policy and Institutional Assessment: 2005 Questionnaire". December 20, 2005.*

CBP AND IDA COMPARED

guideposts, submitting a written justification for review at management level. IDA staff are urged to use two secondary sources as guideposts when assessing countries scores: the PREM/DEC Indicators on Access to Capital (which measure the types of capital countries receive), and the World Bank's Debt Reporting System (DRS) reporting status ratings (which measure whether countries report debt data to the World Bank annually). But neither of these sources relate directly to the sub-criteria used to assess country capacity. The Indicators on Access to Capital are outcome indicators which may reflect either a government strategy or exogenous factors. Similarly, the World Bank reporting indicators apply only to one aspect of dissemination of national statistics (and a country could have accurate debt statistics without reporting them to the Bank). The assessments are not discussed with the countries though since 2006 scores have been published on the IDA website.

Objectives and Uses of the Results

The final difference between the two methodologies lies in their ultimate objectives.

The CBP results (and the accompanying solutions proposed by the countries) are used to assess progress towards the debt management capacity results expected from the CBP, and therefore act as an RBM tool to design (in conjunction with the country authorities) a programme of precisely targeted support to countries to improve the low-scoring areas which have been identified as a priority. On the other hand, the IDA RAI is used as a means to allocate IDA resources according to country performance: but no systematic link is made between low scores on debt management and a higher focus on assisting countries to improve debt management, let alone between sub-elements of the criterion and specific assistance on aspects such as institutional reform or database improvement.

Conclusion

Overall, the CBP and IDA methodologies are so different that they are barely comparable. The CBP methodology is a more in depth and comprehensive assessment of country technical and institutional capacity for debt management, whereas the IDA methodology is a more summary assessment of debt management as part of a wider assessment of country policies and institutions. As a result the

IDA criteria do not allow assessors to be as objective or comprehensive as those of the CBP. They also focus more on whether specific indicators are being achieved rather than on whether the government is designing and implementing its own policy affecting those indicators.

Finally, given that they are applied through analysis by non-debt specialists relying considerably on secondary sources, their results are unlikely to be as objective or realistic as those of the CBP which are conducted by specialists with detailed knowledge of debt issues and of conditions in each country; and the IDA results are not owned by countries because they do not include any country self-assessment. As a result they do not (and indeed are not intended to) provide any operational basis for designing with country authorities measures to increase country debt management and debt strategy capacity. In this context, it is welcome that IDA is currently launching a process to design better IDA indicators - a process to which the CBP has offered full cooperation.

Table 1 Comparing WB and CBP coverage

World Bank Criteria	CBP Criteria
Debt Burden Indicators	Performance Indicator 1 – Number of HIPCs maintaining debt at sustainable levels
New Borrowings	II. 2. II. 5. Outcome: application of guidelines and best financing available to the country. Achieving national aid indicators
Institutional Coordination	Performance Indicator 2b. 4 - Coordination mechanisms among agencies
Debt Unit	Performance Indicator 2a. 2 – Technical quality of the national debt strategy
	II.(1,3).I External and Domestic Debt Recording:
	II. 5. III. 2. Appropriate units well placed under the Agency, their responsibility clearly stated, well supported by legislation, and administrative and work procedures in place to regulate interactions
	II. 5. I. 2. Staff numbers and allocation
	II. 5. I. 3. Qualifications/experience/training of staff for jobs
Debt Strategy	Performance Indicator 2a – Number of HIPCs with debt management strategies that are updated at least once a year
	Performance Indicator 3a. 1 – Trained team available to formulate the national debt strategy
	II. 4. III. 4. Portfolio and Risk Analysis
	II. 5. IV. 2. Interaction/discussion with civil society on strategy
	II. 5. IV. 3. Interaction/discussion with political structures
	II. 5. IV. 4. Interaction/discussion with international community
Legal Framework	Performance Indicator 2b.2 – Comprehensiveness and quality of laws and regulations/decrees on publication and provision of public information on debt management and of information flow among agencies
	Performance Indicator 2b.2 – Comprehensiveness and quality of laws and regulations/decrees on publication and provision of public information on debt management and of information flow among agencies

STEERING COMMITTEE AGREES STEPS TO ACCELERATE PROGRESS

The 18th Steering Committee meeting of the HIPC CBP took place in Tegucigalpa on October 31-November 2. The main points emerging from the discussions were:

- Donors continued to be positively impressed by the CBP achievements both in enhancing debt sustainability and in building capacity.
- HIPCs need to decide by December how they wish to measure their long-term debt sustainability, going beyond the BWI debt sustainability framework where necessary.
- All HIPCs should design national debt management capacity-building plans with assistance from the ROs as soon as possible, and these should be the basis for all future support to improve their debt management capacity.
- Donors urged the BWIs to use the CBP's self-assessments of debt management capacity in designing their current initiatives to assist HIPCs with debt strategies, and to execute any future assistance via CBP regional partner organisations
- HIPCs declared their intention to enhance their role in Steering Committee meetings, by more active preparation and follow-up, and reiterated their commitment to mobilise cofinancing and coordinate all future debt

strategy support through the HIPC-led frameworks designed by the CBP.

- Project implementation needs to accelerate: donors agreed more flexibility to respond to urgent country needs between Steering Committees.
- Donors agreed that the CBP can undertake demand assessment missions to the new "sunset clause" HIPCs (Eritrea, Haiti, Kyrgyzstan, Nepal) using core funds as soon as possible, subject to receiving

requests from the HIPCs themselves.

- Donors urged ROs to redouble efforts to mobilise other financing and plan for their financial sustainability beyond June 2009, by developing Sustainability Plans.
- The CBP Monitor presented a draft work programme, with the top priority being to agree indicators and a monitoring system for RO performance and sustainability.
- The next SC meeting will take place in the WAIFEM region from 29 October 2007.



HIPC CBP's 18th Steering Committee, Tegucigalpa, October 2006.

PUBLIC DEBT DYNAMICS OF THE FRANC ZONE



Public debt indicators in Franc zone countries have evolved substantially during the past four decades, characterised specifically by a substantial increase in gearing ratios and liquidity indicators for debt between the 1960s and 1980s, with a downward trend beginning during the mid 1990s. During the past decade, in particular, a substantial decline has been registered in public debt indicators.

In this analysis, we shall use the new fiscal

sustainability analysis framework from the International Monetary Fund (IMF) and World Bank, that entails the study of the impact of fiscal policies on public debt. This analytical framework entails several advantages, including a more systematic identification of the interaction between public debt and the macroeconomic framework and the controls that the economic policy authorities must use to ensure long-term public debt sustainability.

From this standpoint, changes in a country's public debt are influenced by several variables, and most importantly, the real interest rate, the real economic growth rate, depreciation or appreciation in the real exchange rate, the primary budget balance, and other flows, whether or not they create debt (debt relief,

contingent liabilities, and grants).

Examination of public debt dynamics in franc area countries shows that public debt in all countries registered declines during the period 1994-2004, although in different ways. Gearing ratios, however, remained high in certain countries at end 2004, primarily in those that had made the least progress in the Heavily Indebted Poor Countries (HIPC) Initiative, that are or have been undergoing conflict situations. Several essential remarks are in order, however:

1. The influence of endogenous or automatic dynamics is preponderant in reducing gearing ratios in the franc area (except in Cameroon, Côte d'Ivoire, Gabon, and Senegal). Endogenous debt dynamics

describe changes in the gearing ratio occurring independently of new financing derived from fiscal policy. This situation can be attributed to the difference between the relative contributions of the real interest rate, real GDP growth rate, and the real exchange rate;

2. Growth in real output has generally had a substantial impact on debt dynamics. The extent of this impact highlights the fact that debt sustainability is more fragile owing to the narrowness of the productive base. As a result, exogenous shocks—even low-intensity ones—can undermine debt dynamics, even when new financing is highly concessional. As a result, it is essential to strengthen the productive base to protect against deterioration in debt dynamics;
3. Debt relief has contributed significantly to the reduction of gearing ratios in the franc area, even before the HIPC Initiative, owing primarily to the concessional nature of conventional debt relief obtained by most countries (Naples terms), and to public debt renegotiation, which has made it possible to avoid its recapitalization through accumulated payment arrears;
4. Fiscal policies have been factors in debt accumulation rather than in debt relief for

several countries, with the noteworthy exception of Benin, Cameroon, Côte d'Ivoire, Gabon, Equatorial Guinea, Senegal, and Togo. As emphasised in several studies, the simultaneous accumulation of budget deficits and economic growth performance in these countries confirms the procyclical nature of fiscal policies in several franc area countries;

5. Despite the concessional nature of financing mobilised by franc area countries, their new financing policies have contributed little to debt relief. Accordingly it would seem that borrowing at concessional rates alone does not guarantee stable or decreasing gearing ratios;
6. The importance of endogenous dynamics of debt and debt relief in the downward trends in gearing ratios shows that the observed changes are not the result of systematic debt relief programming by the states. This situation raises the question of debt relief strategy ownership, as well as awareness of the consequences of excessive debt. The need has been expressed in certain countries for new debt increases to finance development and poverty reduction;
7. Although debt relief programming has been complicated by the fact that economic

performance in franc area countries is highly dependent on fluctuations in commodities prices and exchange rates, it is still essential to ensure that the countries themselves support the debt relief strategies;

8. The HIPC Initiative and other international debt relief initiatives (multilateral debt relief initiative-IADM and debt relief and development agreement-*Contrat de Désendettement et de Développement-C2D*) will clearly contribute to a substantial reduction in debt stock in countries whose gearing ratios were still above 70 percent at end 2004 (Congo, Côte d'Ivoire, Togo, and Guinea Bissau). However, the credibility of debt monitoring indicators is in question for several countries that have reached the HIPC Initiative completion point, as their gearing ratios are below 70 percent while their external debt levels remain unsustainable in light of the HIPC Initiative criteria (net present value/exports of goods and services exceeding 150 percent);
9. Attempts to achieve the Millennium Development Goals by the 2015 horizon may lead to increased financing requirements which will clearly cause deterioration in gearing ratios if they are not met with supplementary contributions and grants.

MALAWI GETS PARIS CLUB RELIEF AT COMPLETION POINT



Malawi reached Completion Point under the Enhanced HIPC framework on 31 August having met all but two of the trigger conditions that were agreed with the IMF and World Bank at Decision Point in December 2000. The CP Debt Sustainability Analysis (DSA) conducted by the Government and staffs of the IMF and the World Bank indicated that with HIPC assistance alone, Malawi's external debt stock of US\$2.97 billion as of end 2005 would have continued to be unsustainable even after receiving maximum debt relief as pledged at the Decision Point. The present value (PV) of

debt relative to exports of goods and services was 245% as of end-2005, which is above the HIPC Initiative threshold of 150 percent. The DSA results indicated that external debt would have been unsustainable beyond 2015, the year for attaining the Millennium Development Goals. The indicators have worsened since the Decision Point when it was estimated that the ratio of present value to exports would be 169% at the end of 2005.

It was further estimated that if bilateral creditors (most of which are from the Paris Club) provided voluntary additional debt relief, Malawi's NPV of debt relative to exports would be reduced from 245% to 229%, above the HIPC threshold by 79%.

Topping-up on HIPC Debt Relief

The unsustainable external debt situation

described above suggested that Malawi would require "topping-up" or additional debt relief at Completion Point in order to attain sustainability. Malawi qualified for "topping-up" because it had been exposed to three major exogenous shocks since Decision Point: lower exports as a result of a significant decline in export prices; a decline in the international discount rates used to calculate debt sustainability; and a decline in the value of the US\$ compared to other currencies. In view of this, the Boards of the IMF and the World Bank approved that Malawi would require 'topping-up' amounting to US\$411 million in present value terms in order to reduce PV to exports to 150%. This implies that total debt relief to Malawi required to attain sustainability would be US\$1,054 million in present value terms.

Prospects for Debt Sustainability under MDRI

Upon reaching Completion Point, Malawi also became eligible for relief under the Multilateral Debt Relief Initiative (MDRI) which provides for 100 percent cancellation of most debt stock owed to the IMF, IDA and AfDB. The CP DSA indicated that with implementation of MDRI, Malawi's external debt is expected to be reduced 43% PV/exports as of end 2005. In nominal terms external debt has been reduced from US\$2.97 billion to US\$488 million.

Paris Club Debt Restructuring

The Malawi Government and the creditor

countries of the Paris Club met on 19 October to provide further debt relief following Completion Point. The Paris Club creditors agreed to cancel US\$356 million of Malawi's US\$363 million debt as at 1 August, in recognition of Government's commitment to good economic governance and determination to use debt relief and other public resources to implement a comprehensive poverty reduction strategy. The procedures were as follows:

- US\$180 million was written off immediately as part of the Paris Club's share of debt relief efforts in the Enhanced HIPC Initiative.

- US\$176 million will be written off after concluding bilateral agreements. Of this amount, US\$150 million is owed to Japan. The Government already signed the Exchange of Notes with Japan on debt cancellation in 2004. The remainder, (US\$26 million) is owed to Spain and France, which also committed to provide 100 percent cancellation upon signing of bilateral agreements.

CBP NEW FINANCING METHODOLOGY UPDATE

The HIPC CBP methodology for analysing donor/creditor policies and procedures has been updated to include the Paris Declaration indicators for mutual accountability on aid effectiveness, enabling countries to evaluate donors' Paris Declaration compliance at the same time as assessing wider issues such as conditionality. The Paris Declaration contains 12

indicators, eight for monitoring progress by donors and four for recipient or "partner" countries. Although all of these indicators were being covered by the HIPC CBP criteria for assessing donor and recipient policies and procedures, the new methodology separates them out in more detail to allow each Paris indicator to be monitored. The table below

compares the criteria of the revised HIPC CBP methodology and the Paris indicators. It shows how all the Paris criteria are covered and also how the CBP methodology evaluates far more aspects which are of concern to countries. The new methodology can be downloaded from the private HIPC CBP website.

HIPC CBP assessment of donors	Paris effectiveness indicators for donors
Policy criteria	
Concessionality: as measured by the grant element	
Types of assistance: budget/balance of payments support, project, TA or food/commodity aid	Indicator 4: provide technical assistance as capacity-building assistance led by partner Indicator 9: use of common arrangements or procedures - % of aid provided as programme support
Channels of assistance: on or off-budget	Indicator 3: aid flows are aligned on national priorities (channelled via budget)
Sectors and projects: support for PRSP or donor-led priorities	
Flexibility: support for 'shocks' or for new areas	
Predictability: multi-year or 1-year and whether pledges are fulfilled	Indicator 7: aid is more predictable (% of disbursements released according to schedule, and % of commitments made multi-year)
Policy conditionality: number and degree of enforcement	
Policy dialogue: degrees of donor engagement in economic policy, independent support for government or alignment with BWI	
Procedures criteria	
Conditions precedent: types and degree of enforcement (including matching funds, PIUs)	Indicator 6: strengthen capacity by avoiding parallel project implementation units (PIUs)
Disbursement method: via cash direct to budget or reimbursement claim	
Disbursement procedures: number of separate procedures (monitoring, banking, accounting, reporting and auditing), disbursement delays in months	
Procurement procedures: number, complexity and disbursement delays arising (% tying, average delays in months)	Indicator 8: % of aid untied
Harmonisation: donors conduct joint field missions and analytical work	Indicator 10a: harmonisation: % of field missions that are joint Indicator 10b: Harmonisation: % of joint country analytical work
Use of government systems: government public financial management and procurement procedures	Indicator 5a: use of country public financial management systems (% of aid and % of donors). Indicator 5b: use of country procurement systems (% of aid and % of donors)
	Criteria for donor assessment of recipients
	Indicator 1: Ownership: partners have operational development strategies
	Indicator 2a: Alignment: reliable country public financial management systems
	Indicator 2b: Alignment: reliable country procurement systems
	Indicator 11: results-oriented frameworks - number of countries with performance - assessment frameworks
	Joint progress indicator
	Indicator 12: mutual accountability: number of countries where partner and donors undertake mutual assessment of aid effectiveness progress

PALOP INSTITUTE FOR ECONOMIC AND FINANCIAL MANAGEMENT (IPGEF)

In Washington DC in September 2005, the governments of the five countries whose official language is Portuguese (PALOPs - Angola, Guinea-Bissau, Cape Verde, Mozambique and Sao Tome e Principe) decided that they had an urgent need to establish an institute to fulfil their capacity-building needs in their own official language, and improve the performance of key government institutions dealing with debt, macroeconomic and financial management. Represented by their Ministers of Finance and Planning and their Governors of Central Banks, they identified in detail their capacity-building needs in the following areas:

- Debt management including a) institutional and legal issues; b) statistics and data recording, and c) debt strategy, including interpretation and analysis of loan agreements, debt policy and the development of domestic debt markets and instruments
- Financial management including a) institutional and legal issues; b) statistics, including reserves and monetary and financial operations; c) analysis and policy issues including reserves management, supervision of banking and non-banking institutions, risk management, and capital market development policies; and
- Macroeconomic management including a) institutional and legal issues, b) statistics

including national accounts, balance of payments, monetary and fiscal accounts; and c) analytical and policy issues especially fiscal policy (both revenues and expenditures), trade, real sector policy, and programming and modelling growth and poverty reduction.

During the project preparation process, the PALOPs benefited from comprehensive inputs from capacity-building experts such as the African Capacity Building Foundation (ACBF) and other regional capacity-building organizations (BCEAO, BEAC, MEFMI and WAIFEM) on the key elements and tools of capacity building and techniques for capacity-building needs assessment in debt management. It is important to point out that countries that already belong to one of these other regional organizations will remain members of these other organizations, which will continue to provide training in English or French.

At the HIPC CBP Steering Committee meeting in November 2006, donors signaled their willingness to allow the CBP to implement its capacity building for PALOPs with the Institute. They made clear that before they disburse funds the Institute would need to:

- Be legally established as an independent regional training organization.
- Have formal agreement by PALOP Governments to fund 20% of its budget.
- Ensure formal agreement among PALOP

- Governments about its location
 - Recruit an Executive Director and senior staff transparently and competitively
 - Sign a Memorandum of Understanding with DRI describing the Institute's work programme and budget for using HIPC CBP funds, as well as the process for transferring responsibilities from DRI to the Institute; and
 - Formally accept the HIPC CBP financial procedures as the basis for expenditures.
- Once these conditions are met, the PALOP institute will join the other Regional Organizations that work with DRI in implementing phase 4 of the HIPC CBP.

The PALOPs are already well advanced in these steps. They have agreed that Angola will host the Institute and asked the Government of Angola to carry out the necessary preparations to set up the Institute as soon as possible. Angolan delegations have visited the other PALOPs to secure approval signatures and commitments of 20% of the total financing, and led discussions with donors which have resulted in financial pledges from the African Capacity Building Foundation and European Union, and pledges of technical cooperation from the IMF, UNDP and World Bank. The Government of Angola is finalizing the granting of legal status to the Institute as an intergovernmental organisation so that it can start hiring staff. Subject to donor approval, the HIPC CBP looks forward to beginning work with the PALOP Institute in 2007.



WAIFEM LAUNCHES CAPACITY BUILDING PROGRAMME PHASE II

In spite of rich natural resource endowments and two decades of reforms, the five Anglophone West African countries that constitute the WAIFEM sub-region are yet to attain sustainable growth high enough to reduce absolute poverty substantially or achieve the Millennium Development Goals (MDGs). Inadequate knowledge and skills for economic and financial management persist as a daunting constraint. As a response, WAIFEM was established in 1996 by The Gambia, Ghana, Liberia, Nigeria and Sierra Leone to develop sustainable financial and macroeconomic management expertise for central banks and governments. The Institute has for nearly a decade made significant interventions to increase capacity. In 1997-

2000 it focussed on delivering short-term customized training courses. But since 2001 it has implemented a medium-term integrated capacity-building programme (CBP), embracing wider institutional and organisational aspects.

Impact of CBP Phase I (2001-05)

The principal objective of Phase I was human capital development and institution-building in debt, reserves and foreign exchange management, fiscal operations and macroeconomic statistics, regulation and supervision of the financial system, monetary and liquidity management, anti-money laundering techniques and managing micro-finance institutions. The total financing was US \$12.6 million with member central banks

constituting the major source, US\$2.5m from the ACBF and the remainder from other donors and institutions (DFID, DRI, IMF, Sida and UNITAR).

The programme was executed through workshops, senior policy seminars, executive and legislators fora, demand assessment, advisory and institutional building missions, fellows schemes, an interactive website and distance learning courses. Implementation exceeded expectations in both quantitative and qualitative terms. On average 28 activities a year were delivered for 761 beneficiaries, compared to a planned 24.5 activities for 500

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Regional Workshops/Seminars

The HIPC Ministerial Meetings were held in Singapore on 16 September (see page 2) and the Steering Committee in Tegucigalpa, Honduras, on October 31-November 2 (see page 4).

Pôle-Dette High Level Seminar on Preventing Public Debt Crises. DRI and Pôle-Dette organised a high level regional seminar on debt crisis prevention, 9-11 October 2006, in Dakar (Senegal). CEMAC and UEMOA countries participated in this event together with representatives from the Union of the Comoros, BCEAO, BEAC, UEMOA Commission and CEMAC Executive Secretariat. Several international institutions contributed to enriching the debate with their valuable presentations. These were Advocates for International Development (A4ID), the Banque de France, Morocco's Directorate of Treasury, the International Monetary Fund (IMF) and Standard & Poor's.

The aim of the seminar was to raise awareness of policy makers on the value of managing debt prevention and implementing strategies for the prevention of new debt crises. The seminar also provided a platform for discussion and a valuable opportunity for participants to share their experience on debt crisis prevention and to gain valuable insight from their discussions on:

- Reviews of national debt dynamics (see page 6);
- Strategies and tools used by the IMF to prevent public debt crises in low income countries;
- Morocco's experience in the proactive and pre-emptive management of public debt;
- The development of domestic debt markets and the prevention of systemic risk;
- The importance of a strong new financing policy in preventing crises;
- The importance of budgetary regulations for long term debt strategies in the Franc Zone;
- Sovereign rating as a tool for debt crisis prevention;
- Legal protection against rogue creditors and debt crises.

During the seminar, representatives of member-states presented their experience of debt crisis prevention. This helped to identify the main risks of crises that each country may face and the actions to be implemented to address them. Overall, participants agreed:

- To develop, approve and implement national debt and financing strategies;
- To set up a debt crisis prevention analytical framework, including the BWI DSF models;
- To develop new financing strategies to increase absorption capacity and aid effectiveness;

- To establish structures to coordinate debt management and macroeconomic policies;
- To develop the financial market and management of systemic risk;
- To work through a capacity building programme to implement these measures.

National Workshops

Bolivia Workshop on MDG-Based Debt Sustainability Analysis

This event took place in La Paz on 16-26 October with the participation of a national technical team of 20 officials from the Ministry of Development Planning, the Ministry of Finance, and the Central Bank. Consistent with efforts made by CEMLA to mobilize support and cofinancing from other entities, CEMLA and GTZ were responsible for its organization, GTZ funded the event, and DRI was in charge of its coordination from the technical viewpoint.

The purpose was designing a strategy to fund the MDGs and Bolivia's National Development Plan goals while keeping debt sustainable. Consequently, besides preparing a report on debt analysis and sustainability, the work focused on: (1) assessing the costs required to reach the MDGs and NDP goals and (2) evaluating the performance of donors and creditors to identify prospects for improving donor funding. The resulting document will be finalised and presented to the Consultative Group meeting in early 2007.

Tanzania National Debt Strategy Analysis Update Workshop

This technical workshop was held from 22nd to 29th November 2006 in Dar es Salaam. It was preceded by a data validation exercise that started in September, conducted by a country team of experts who were on joined on 16th November by the MEFMI CS-DRMS Regional Advisor. Organized following the HIPC-CBP methodology, the workshop was successful as a result of a good database, high level of capacity (including six Tanzanian resource people), cooperation among the debt management agencies and strong support from senior officials in Tanzania. The workshop was largely funded by the Government of Tanzania, with HIPC-CBP support by providing international and regional resource people, training materials and logistical support.

The workshop was aimed at updating the country's debt strategy and imparting the necessary knowledge and skills to the national team responsible for debt management in Tanzania. Considering the Post MDRI and HIPC indicators, Tanzania is highly sustainable with a PV/XGS ratio of 48.5% owing to debt relief obtained under HIPC

and MDRI amounting to USD 4.6 billion, improved economic performance, and prudent borrowing from concessional sources.

The workshop recommended that borrowing by Government should give priority to highly concessional loans especially those offered by multilateral and bilateral creditors, in order to ensure that sustainability further improves in the outer years. Should Government decide to borrow from a commercial source (by USD 1 billion per annum at a grant element of 15%), this would increase the PV of debt by up to 65% of exports rapidly. Therefore this strategy would not be desirable and Tanzania needs to be very prudent about future borrowing so as to fund the attainment of its development goals without undermining future debt sustainability

Institutional/Follow-up Missions

Ethiopia. DRI conducted an institutional review and capacity building planning mission to Addis Ababa in October. The top institutional priority is to implement the legal framework by constructing and adopting a detailed long-term Government financing strategy, which updates and combines earlier debt and aid management strategies and integrates them with the budget process. There is strong ownership of this proposal by all relevant departments of the Ministry of Finance and Economic Development and the National Bank of Ethiopia, and of the belief that future Government financing is a Government-wide priority in which many departments have key roles to play. The mission also worked with officials to design a National Capacity Building Plan and to finalise the Ministry of Finance and Economic Development's Intensive Assistance Proposal for presentation to donors for possible co-financing.

Guinea. A mission by two Franc Zone experts visited Conakry (Guinea) during 16-20 October 2006 to provide training in the debt strategy-related functions of CS-DRMS 2000+ 1.2 software to professional staff in the Debt Division. The mission also provided training in connection with Paris Club rescheduling treatment and its application in the software, based on the use of various Paris Club records and the relevant bilateral agreements. The mission successfully ensured that a validated database is finalized for forthcoming debt strategy and sustainability exercises with the BWIs and CBP.

Mauritania. At the request of the Mauritanian authorities, a mission from DRI visited Nouakchott during 20 August-05 September to support the National Public Debt Committee (CNDP) in conducting a long-term public debt sustainability analysis combining analysis of HIPC and MDRI relief

ORTHCOMING ACTIVITIES

with the new BWI framework. According to the analysis, Mauritania's debt sustainability will be possible only if it receives substantial additional cancellations of Arab bilateral debt. The report prepared by the CNDP was widely shared among its members and was the subject of in-depth discussions with an IMF mission. An awareness workshop for the post-election authorities is planned in 2007 to promote political commitment to debt management.

Pôle-Dette Missions Capacity Building Plan Missions

Developing national capacity building plans for countries in the Franc Zone involved missions to Chad and Togo (9-13 October), Guinea Bissau (16-20 October), CAR (23-27 October), Equatorial Guinea and Mali (30 October-3 November), Gabon and Niger (6-10 November), Congo Republic (13-25 November), Burkina Faso (27 November-1 December) and Ivory Coast (4-8 December). The main objective was to help officials of these countries to complete the template national capacity building plans in debt management. These plans consist of:

- Defining the skills needed (breadth and depth) to bring debt management up to international standards;
- Identifying the skills available in the debt cycle and assess needs for capacity-building among all actors (institutions and individuals);
- Identifying all the actions needed to bridge any competency gap as well as the institutions able to provide such skills;
- Ensuring consistency of capacity building among structures involved in debt management and of their individual staff.

Overall, the missions found a broad range of skills needs, to ensure that debt management is carried out by a multi-disciplinary team of macro economists, statisticians, financial experts, computer programmers, lawyers and accountants. The missions also identified individuals who are to take part in training sessions as well as the various capacity building interventions needed. Middle office staff need support in debt sustainability analysis, risk analysis, public finance sustainability and new financing policy design. Front office staff need support in new financing policy implementation, risk management, domestic debt management and debt renegotiation. Back office activities are relatively more advanced, but need to focus training on optimal use of debt software and cash flow management.

Sierra Leone. WAIFEM and DRI visited Freetown from July 31 to August 4, for an institutional mission which aimed to review the implementation of earlier

recommendations, and to design a national capacity building plan for debt management. It found that Sierra Leone had implemented most recommendations by updating the legal framework, increasing coordination among government agencies, and enhancing transparency by regular publications on debt management. However, grant and loan data are captured separately and most units lack procedures manuals.

Each unit has a staff training program for academic and professional qualifications, but there is a strong need for capacity-building on new financing and domestic debt. Sierra Leone has clear new financing policies favoring grants or loans with a grant element of 35%, and is keen to eliminate reliance on external assistance to design and implement policies. So the mission recommended that:

- Legislation should describe all steps and analysis needed for contracting new loans;
- Sierra Leone should develop its own aid management policy to hold donors and creditors accountable for accelerating alignment with government policy.
- More staff should be trained in how to evaluate donor and creditor policies and procedures, and government should develop a Compendium of their practices.
- Government should have a clearer domestic debt issuance policy.

Government suggested that WAIFEM/DRI help it design an intensive assistance project for support on new financing and domestic debt policy, for which MOF could seek funding.

Methodology, Capacity-Building Tools, Distance Learning, Attachments and Liaison

Methodology work in this quarter has focussed on revising the new financing methodology changes (see page 8) and updating technical documents to include latest MDRI developments, as well as writing a further module for domestic debt distance learning. The CBP is also conducting a comparative analysis of IDA and CBP assessments of HIPC debt management capacity (see page 4).

In the distance learning programme, 30 students have completed their first module on time and have started work on their second module on 27th November 2006. Delays in compiling national data and documents have resulted in some modest delays in task submissions for students in Sao Tome and Principe and Senegal, but they are now submitting work on time. The feedback on the first modules has been highly positive, with students indicating that they are learning even more than they do in workshops and that mentors have been very helpful.

The WAIFEM Director and Programme Officer for Debt Management were attached to DRI in September in order to receive training in all aspects of HIPC CBP programme methodologies, planning and co-ordination of events, report-writing, RBM tools and contributions to multi-regional products, and financial procedures and practices.

The CBP has also conducted various liaison activities during the last six months to cement relations with international organisations and donors. These include missions to the BWIs, the African Development Bank, and the Canadian and Swiss governments, as well as participating in the OECD-African Forum on Public Debt Management. These held very positive discussions about future joint work, sharing summary assessments of country capacity, and analysis of post-HIPC debt sustainability.

Future Activities

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

- **Regional workshops:** on the new BWI debt sustainability framework for MEFMI, Pôle-Dette and WAIFEM, Training for Trainers for Pôle-Dette and PALOP countries, and the Distance Learning Programme Mentors Workshop;
- **Demand assessment missions** for new HIPCs (prioritising Haiti and Kyrgyzstan);
- **National workshops:** Angola, Bolivia, Burkina Faso, Burundi, Cape Verde (non-CBP), Comoros, Ethiopia, Guyana, Kenya, Malawi, Mali, Senegal, Zambia;
- **Institutional/Follow-up missions:** Angola, Benin, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, the Gambia, Ghana, Guinea, Guinea-Bissau, Honduras, Liberia, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tomé e Principe, Senegal, and Togo;
- **Attachments:** of a MEFMI fellow, MEFMI staff and Pôle-Dette fellows to DRI, and of Pôle-Dette and non-RO fellows to the IMF in Washington;
- **Information products and Distance Learning:** the CBP will finalise publications on Debt Negotiations within the Enhanced HIPC Framework, and Best Institutional and Legal Practices for Debt Management, and produce newsletters 30 and 31, and 4 listserves on latest debt management developments. The distance learning students will complete 2 more modules, and two more domestic debt modules will be written.

Over the last quarter, the FPC CBP worked towards closing project cycles in several countries, assisted new countries in their applications for support, held its 7th Steering Committee, conducted liaison meetings with African Development Bank, CIDA, IMF, UN and World Bank, and further developed its software, technical resources, and information products.

COUNTRY PROGRESS

The programme countries have progressed as follows:

- **Bolivia** formally requested further support, and is identifying potential donors with CBP help
- **Burkina Faso** (Cycle 1) closed its pilot project with a results dissemination event in November, and finalised and disseminated its analytical report (see page 14).
- **Cameroon** (Cycle 1) has been busy editing its analytical report, having completed the fieldwork and data quality checks. Dissemination has been rescheduled to early Q1 2007
- **Gambia** (Cycle 2) has been implementing the recommendations of the first Follow Up Mission in September, and is planning to host a second mission in Q1 2007 to finalise the database, and address analysis and report writing
- **Ghana** is discussing launch in Q1 2007 with the World Bank, and currently reviewing CBP technical materials for their adaptation in good time
- **Honduras** hosted a donor meeting in November with CEMLA and DFI during the Steering Committee, to present its proposal to join the CBP. Following positive feedback, it is identifying funding sources. The CBP also held meetings with government and private sector
- **Kenya** is consulting the World Bank on launch timing, with a Demand Assessment Mission in Q1 2007, and meanwhile reviewing CBP technical resources
- **Malawi** (Cycle 3) will close Cycle 3 and launch Cycle 4 with a dissemination and training event in Q1 2007
- **Nicaragua** (Cycle 1) has experienced delays due to political factors. It will start a publicity campaign in January to boost response, and receive a Follow Up Mission in March to address data and analysis
- **Rwanda** is putting the final touches to its proposal to join the CBP in 2007
- **Tanzania** (Cycle 3) is working on its database and analysis. It will disseminate with an event in Q1 2007, with training to launch Cycle 4 to follow
- **Uganda** (Cycle 5) has boosted response to over 80%, and is finalising its database and analysis. It

will disseminate, and launch Cycle 6 in Q1 2007

- **Zambia** is in discussions with MEFMI about taking forward its proposal to rejoin the CBP

FPC CBP SOFTWARE

Responding to user demand, EIS further improved the software by enabling:

- Sequential question ordering in Enterprise Return Reports, facilitating editing and checking
- Data for a given enterprise in a previous survey to be saved under a different reference period, accelerating inputting as duplicate data does not need to be re-entered for each survey.

Users are encouraged to download Version 1.78 and corresponding updates to the Software User Manual from www.evinsol.co.uk/software, and get back to DFI with comments. EIS has also been progressing on schedule with the accompanying Technical Manual for Software Designers, assisted by timely inputs from The Gambia and Uganda.

GOVERNANCE AND LIAISON

The 7th Steering Committee in November in Tegucigalpa, Honduras, included country representatives from Cameroon, the Gambia, Nicaragua, and Tanzania. Meetings agreed to:

- Finalise Phase 3 baseline and target CCE scores to facilitate monitoring of country progress
- Fine-tune country CCE methodology to distinguish investor perception from CSR
- Promote RO and member country coordination in generating input to information products
- Further decentralise responsibilities for methodology design to RO and countries
- Revise financial procedures and reporting in line with any HIPC CBP modifications
- Enhance dissemination and awareness creation by designing a detailed strategy

In order to design a detailed dissemination strategy, DFI held intensive liaison meetings on behalf of the CBP with IMF and World Bank in Washington in the week after the Steering Committee, and subsequently with African Development Bank, CIDA, and the UN. It briefed these organisations on latest CBP achievements, assess their awareness of these and obtained feedback, learned about related initiatives and priorities, and confirmed potential coordination and joint working arrangements. The main points of agreement were:

- the African Development Bank is interested in working with the CBP on FPC, investment climate, and remittances issues.
- CIDA has expressed interest in close coordination with Caribbean and CSR initiatives
- the IMF Statistics Department is very supportive of CBP results at country level, and will coordinate closely with partners in disseminating

revised BPM5 in 2007, on its Coordinated Direct Investment Survey, and with the second phase of the Anglophone Africa GDDS support project.

Area Departments were very interested in the analytical results, and supportive of CBP work, and will coordinate closely via country authorities through missions. PDR was interested in more information on private sector external debt sustainability. Executive Directors' Offices urged close coordination with GDDS and data quality initiatives.

- the World Bank agreed to share information through FIAS on investment promotion, CSR and investment climate. Financial and Private Sector and Development Research departments expressed interest in presentations of CBP analytical findings, as well as closer coordination with Doing Business and Regional Programme on Enterprise Development surveys and with World Bank remittance work.
- UNDP and UNDESA expressed interest in exchanging analytical findings.

INFORMATION PRODUCTS

The FPC CBP website now includes donor presentations and seminar papers, the latest Steering Committee report, country capacity evaluation methodology, and the Phase 3 Document. The What's New page has been updated every 6 weeks. FPC CBP Briefing #11 was disseminated in November, and #12 will be due in January. The CEMLA website now includes the methodological guide to central banks for compiling international remittance flows: <http://www.cemla-remesas.org/english.html%20>.

FORTHCOMING WORK PROGRAMME

In the next quarter the FPC CBP will:

- organise a regional workshop in the MEFMI region;
- undertake demand assessment missions (Ghana and Kenya), follow up missions (The Gambia, Nicaragua) and closing workshops (Cameroon, Malawi, Tanzania and Uganda);
- continue to provide long distance country support to all participating countries;
- help Bolivia, the Caribbean, Honduras, Rwanda and Zambia to finalise proposals and mobilise funding for participation in the programme, as well as plans for a work programme for the CFA Franc Zone for phase 3;
- finalise the publication on analytical findings, continue to deliver on methodology, software, and information products;
- finalise and begin implementing a dissemination and awareness strategy; and
- hold further liaison meetings with potential funding donors to increase core funding.

BURKINA FASO PILOT RESULTS GO TO CABINET

The Burkina Faso NTF has decided that the results of the FPC CBP are so important that they should be the subject of a Cabinet discussion. The Burkina Faso pilot project lasted from August 2005 to October 2006, and was led by the Ministry of Finance and Budget through the Treasury, chairing a Task Force including the Ministry of Commerce, Industry and Handicrafts; the National Agency of the BCEAO, the National Statistics Institute, the Chamber of Commerce and Industry, and the Maison de l'Entreprise.

The BCEAO, Chamber of Commerce, Ministry of Commerce and INSD combined their previous registers of investors into a comprehensive listing. Of the 326 enterprises surveyed, 257 replied, representing a response rate of 79%, substantially above the response rate of other economic surveys in the country and a high level for a pilot survey.

The survey produced fascinating results on investor perceptions and behaviour which will be a crucial input to the national private sector development strategy. As shown in Graph 1, investors indicated that the main factors determining their initial decisions to invest were economic and political stability, steady growth of the national market, and the high productivity and low cost of the labour force - especially the higher skilled and management levels. Moderately important positive factors included labour market regulation, foreign exchange market liberalisation, legal protection of investments, fiscal incentives, access to local financing, and the relatively low level of corruption. The members of the NTF were surprised that investors were less interested in the regional market in spite of all the recent efforts at regional integration, and concerned that lack of regional infrastructure, and competition and customs barriers within the region were the main causes. The main factors which had threatened to deter them from investing were malaria, HIV/AIDS, the high cost of electricity, inflation and tuberculosis.

In terms of future intentions, the positive findings were that investors intended to expand their investment, that their priority was investing in human capital, and that they intend to diversify their products within their current sector, and to a lesser extent to invest in new technology. However, less positively for the national poverty reduction strategy, under half intended to

diversify sectorally or regionally within Burkina Faso., or to spend significant sums on research and development.

The main concerns of investors regarding the 2005 investment climate were:

- Excessive taxes (especially on profits) and inefficiency in tax and customs authorities
- High levels of malaria undermining labour productivity
- Excessive competition from the informal sector and related illegal imports
- The high cost of electricity and road transport
- The need to improve the productivity of unskilled labour

The cost and availability of credit was of less concern to investors because most relied on self-financing from reinvestment of their profits.

In addition, overall relatively few investors use information provided by the members of the NTF to inform their investment decisions. Of the available information sources, far more use the opinions of their fellow investors and the media - though the Chamber of Commerce, Maison de l'Entreprise and BCEAO are also considered useful sources.

The national report therefore makes recommendations to overcome these barriers to future investment, including reviewing tax levels, increasing tax and customs efficiency, investing more resources in the fight against malaria, tighter controls on informal sector companies and illegal imports, and reducing electricity and road transport costs. It also makes recommendations to enhance the dissemination

FOREIGN ASSETS AND LIABILITIES

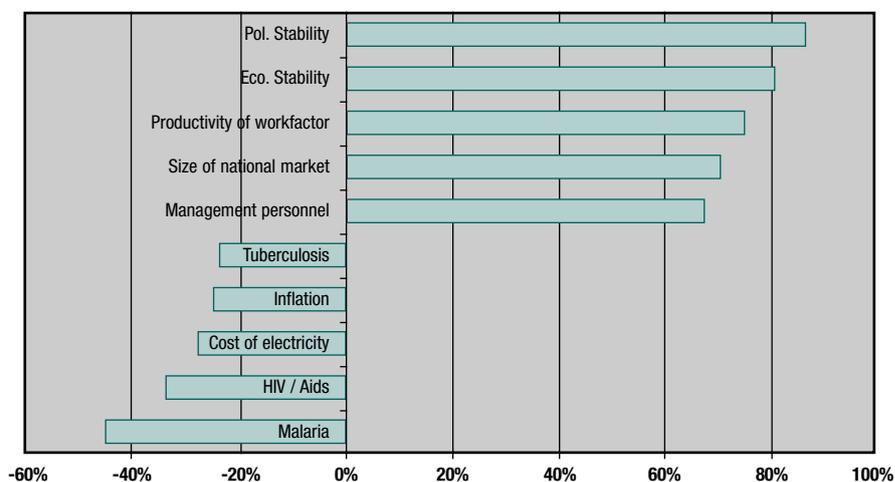
In general the level and quality of response on financial transactions was very impressive for a pilot survey. However, some key large enterprises did not reply reliably, making total figures incompatible with the non-survey results the BCEAO has gathered through non-survey reporting by commercial banks. Nevertheless, the results were considered to be reliable in terms of their lessons for future policy, because they are broadly representative of the composition and trends in FAL. As a result, the NTF decided to report results in percentage terms.

Among the key findings were that:

- Equity investment represented around 78% of total foreign liabilities, with debt-related flows representing 20% and portfolio investment 2%;
- Most of the debt-related stocks were long-term rather than short-term
- Around 70% of foreign liabilities were in the commerce sector,
- The concentration of equity investment in commerce was even higher at 78%.
- 86% of FAL (89% of equity investment) was in the Ouagadougou region
- 90% of investment in Burkina came from France, with the Netherlands, Cote d'Ivoire, Libya and Togo the other significant investors.

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MAIN POSITIVE AND NEGATIVE INFLUENCES ON INVESTMENT



A key objective of the Phase 3 is to promote awareness of achievements nationally, regionally and internationally. One indicator of success is the extent to which internationally published data reflect national data produced under the CBP. International data also provide a helpful crosscheck and contrast against national data, allowing countries to fill gaps and analyse them when preparing country reports.

Most international organisations (IOs) collect data directly from “debtor” country sources (the exception being OECD and the Joint External Debt Hub which collect from “creditor” sources). In theory therefore, one might expect broad agreement across sources, but this is often not the case. Developing a consistent picture of capital flows to developing countries using international sources is not easy because they give different estimates, making comparison of reported results difficult. In addition, it can be difficult to obtain data disaggregated to the levels of detail required for responsive policy making.

This article compares recent CBP data with international data, and looks at some key challenges that need to be addressed in enhancing acceptance of national data.

Source comparison

CBP countries have been capturing data in line with international standards, and their analytical needs. They have been innovative in capturing data on retained earnings and equity stock at market value. International monitors are noting

this positive impact in IMF Reports on the Observance of Standards and Codes (Gambia, Malawi, Zambia), the IMF Balance of Payments Statistics Yearbook (Malawi, Tanzania, Trinidad and Tobago, Uganda, Zambia); and feedback from staff directly and in mission reports (Cameroon, Tanzania, Uganda, Zambia).

Nevertheless, there is still a long way to go for country data to become fully accepted by the international community. The table below compares selected liabilities transactions data from recent CBP surveys with corresponding international data.

The IMF's Balance of Payments Statistics Yearbook (BOPSY) 2004 recognises country surveys in its description of national compilation practices. Surprisingly therefore, there appears to be little relation with CBP data. On the other hand, IMF Country Reports source country data, but appear to use CBP FDI data only in a couple of cases. This implies much more scope for countries to ensure that their data is accepted by IMF missions, by overcoming presentation differences, reconciling compilation practices (between BPM4 and BPM5, fiscal and calendar years, preliminary and revised data).

UNCTAD's World Investment Report (WIR) sources country data for FDI. Its data corresponds closely with CBP data for 3 countries, and IMF BOPSY for 2. Minor differences might be due to office estimations.

The World Bank's Global Development Finance (GDF) is mainly a source for debt data. However, it includes non-detailed lines for FDI and portfolio

equity. FDI data appear to rely on either IMF BOPSY or UNCTAD WIR. However, data for portfolio and private non-guaranteed long-term debt are limited, and short-term external debt data do not distinguish public and private debt. It is therefore difficult to compare the data meaningfully with other sources.

BIS-IMF-OECD-World Bank Statistics on External Debt assemble data currently compiled and published separately by contributing IOs (most recently via the Joint External Debt Hub). Data are principally from creditor and market sources but include information from debtor countries. Gaps in coverage relevant to CBP research include non-guaranteed suppliers' credit not channelled through banks, and private placements of debt securities.

In summary:

- FDI data appear to show the highest consistency: sources agree on 2 or 3 figures for all countries, although the range between them can be narrow (Bolivia, Trinidad) or high
- Portfolio data for most sources for most countries are extremely weak. While CBP data appears to be more comprehensive, this area is a major challenge
- Debt data, which are more readily available, appears with the exception of Zambia to show least similarity across sources, and each country, reflecting partly creditor/debtor sources.

Challenges

The main challenges to consistency are as follows:

- To judge by ROSCs, GDDS and BOPSY

In US\$ millions								
Data Source / Country	Bolivia	Gambia	Ghana	Malawi	Tanzania	Trinidad & Tobago	Uganda	Zambia
Reference Year	2003	2000	2000	2001	2001	2004	2003	2001
1. FDI (net)								
FPC CBP	197	9	86	42	467	973	102	158
IMF BOPSY	167	na	166	19	327	na	194	na
IMF Country Reports	195	15.8	110	28	284	973	192	na
UNCTAD World Investment Report	197	44	115	19	467	1001	211	72
World Bank GDF	167	44	166	19	327	na	194	72
2. Portfolio								
FPC CBP (equity + debt)	0	0.1	31	0	8	-690	1	5
IMF BOPSY (equity + debt)	na	na	Na	na	na	na	20.8	na
IMF Country Reports	-68	0	0	0	0	0	1	na
World Bank GDF (equity)	0	0	0	0	0	na	1	0
3. Other								
FPC CBP	148	6	-166	-8	129	-981	7	25
BIS-IMF-OECD-WB		-15	-203	-33	10	169		53
IMF BOPSY (banks + other)	25.6	na	51.7	54.8	139.4	na	1.1	na
IMF Country Reports	111	-16.4	-45	In FDI	-55.8	-1109	0	na
World Bank GDF (long term)	129	0	-3	0	-4	na	0	55

Sources: FPC CBP country reports; IMF BOPSY 2004; IMF Country Reports; UNCTAD WIR 2004, 2005; World Bank GDF 2004, 2005

metadata, there are still a few examples where IOs are not aware of the best national source for statistics. Countries need to ensure all metadata are up to date and accurate.

- concerns about national level data may deter acceptance on particular lines, for example if they question the value of data on Market Value and profitability, or if new data vary greatly from old and need to be offset by changes in other data lines. Countries need to reassure IOs on the validity of their sources and methods and suggest offsetting changes.
- IO lags in accepting and reporting new country data. Countries need to ensure that full updating of preliminary data takes place

and that final data are communicated to IOs, as well as checking that later publications change data as soon as possible and alerting IOs to any discrepancies.

- IO different methodologies. For example, UNCTAD estimates stocks based on accumulated flows. This could be changed by communicating CBP stock data to UNCTAD as well. In other cases, IOs need to be convinced to change from BPM4 to BPM5, or encouraged to disaggregate or aggregate data in different ways.
- IOs may “office estimate” country data, sometimes building incorrectly on office estimations done by the countries themselves. To avoid this, countries should ensure that full descriptions of their updating

and estimation processes are included in their GDDS metadata and communicated to the IOs with the data.

In conclusion, it is a major step forward compared to the 1990s that the IOs are officially recognising the quality of data produced by CBP countries, and accepting considerable portions of the data countries produce. However, much work still needs to be done to ensure that international and national data are fully reconciled. Related future articles will give practical guidance on how to access and use international data sources, and on how to enhance awareness and dissemination practices.

WAIFEM LAUNCHES CAPACITY BUILDING PROGRAMME PHASE II *(continued)*

beneficiaries. For further details on the impact of Phase I on countries, see Box 1.

CBP Phase II (2006-09)

To consolidate the gains and address current macroeconomic management challenges, especially meeting the MDGs and implementing the New Partnership for African Development (NEPAD), WAIFEM has launched a second phase CBP, spanning 2006-09.

The need for accelerated growth has increased demand for capacity for effective implementation (not just formulation) of macroeconomic and financial policies. Thus, WAIFEM will strengthen transparency, accountability and probity in public resource management, with special attention to IT-based sound accounting and auditing as an aid to the African Peer Review Mechanism (APRM).

In addition, as post-conflict countries, Liberia and Sierra Leone have suffered more severe brain-drain and glaring capacity gaps. The Institute plans demand assessment mission (DAMs) to these countries at the outset to ascertain their priority needs and design customized support. The Institute will also coordinate a special arrangement for attaching staff of their central banks to counterparts in Ghana and Nigeria.

In debt management, although WAIFEM CBP Phase I (in part through participation in HIPC CBP phases 2 and 3) registered considerable

gains in specific areas of debt management, overall capacity for external and domestic debt management remains weak, though needs vary among countries. WAIFEM will also place greater emphasis on strengthening monetary management and inflation targeting, as well as national and regional ownership of macroeconomic policies by tailoring its courses further to national needs.

The CBP Phase II will cost US\$17.6 million, with funding from member central banks, beneficiaries, donors including the ACBF and the HIPC CBP, and in-kind contributions from the host Central Bank of Nigeria.

The main risk to the full attainment of the objectives of CBP Phase II is the possibility (although remote) of the political environment of the countries shifting into unfavourable governance or civil unrest. The minor risks include political interference in personnel management of the civil service, and the brain-drain of trained officials to greener pastures nationally or internationally.

IMPACT OF WAIFEM'S CAPACITY BUILDING

- 1) Greater coordination among economic policy management institutions; core economic ministries, central banks, debt management units, presidency, and parliaments;

- 2) More appropriate macroeconomic policies formulated in constituent countries;
- 3) Improvement in macroeconomic stability as a consequence of (1) and (2) above;
- 4) Improved governance as a result of encouraging fiscal responsibility rules and greater autonomy for auditors general;
- 5) Adoption of modern institutional arrangement in debt and reserves management, with clear cut front, middle, and back office units;
- 6) Debt fellows in senior positions where they now directly influence policy;
- 7) Graduates of WAIFEM programs embedded in strategic positions in core policy organs;
- 8) Collaboration with the Central Bank of Nigeria to lay the groundwork through capacity building for successful bank consolidation;
- 9) Palpable improvement in the quality of reporting, analysis and interpretation of economic and financial issues in the mass media as a result of programs for journalists;

DEBT RELIEF TECHNICAL QUESTIONS

WHAT THRESHOLDS ARE BEING USED TO ASSESS SUSTAINABILITY OF POST-MDRI COUNTRIES DEBT?

Debt Sustainability Thresholds					
	Present value of debt			Debt service	
	GDP	Exports	Revenue	Exports	Revenue
DSF Thresholds					
Strong policies	50%	200%	300%	25%	35%
Medium policies	40%	150%	250%	20%	30%
Weak policies	30%	100%	200%	15%	25%
HIPC Thresholds					
Eligible countries	-	150%	250%	<15%-20%	-

While the HIPC thresholds are still applicable for countries which have not yet reached completion point, for the 20 post-HIPC and post-MDRI countries, the applicable thresholds are the policy-dependent benchmarks of the Bretton Woods Institutions' Debt Sustainability Framework (DSF). These are also used to assess countries' IDA-14 and ADF allocation of loans and/or grants. The table below summarises the HIPC and new DSF thresholds.

Under the DSF, a country is classified as a strong, medium or weak policy performer on the basis of its IDA Resource Allocation Index (IRA), which replaces the Country Policy and Institutional Assessment (CPIA) index. For strong policy performing countries, their debt burden is considered sustainable as long as the ratio of PV/exports is below 200% - 50% percentage points above what was deemed sustainable under HIPC. This provides considerable 'headroom' for new borrowings as MDRI debt cancellations have resulted in many post-HIPC countries having PV/export ratios in the range of 40% - 60%. For weak performers, however, the scope for contracting new debt is much more limited as their debt sustainability ceiling is measured at with a PV/exports ratio of 100%.

How do HIPC and DSF debt sustainability analysis methodologies compare?

While both HIPC and DSF conduct debt sustainability

analyses, they do so in different ways as shown in the table below. The HIPC DSA is essentially historical as it is used to assess the amount of debt relief needed to achieve sustainability. On the other hand, the DSF DSA is forward-looking, aiming to ensure countries do not return to unsustainably high debt burdens through poor borrowing policies.

DSA issues	HIPC	DSF
Debt coverage	External public debt	External/domestic public + private debt
PV calculation	On loan-by-loan basis using currency-specific CIRR discount rates	On aggregate basis, in US\$, using 5% (approx US\$ CIRR) discount rate
Export and revenue denominators	3-year average for exports, current year for revenue	Current year data for exports and revenue
Currency rates used for conversion to US\$	Analysed in original currency	Forward-looking projections
Debt relief	Assumes all creditors participate in HIPC	Assumes all creditors participate in HIPC
Risk assessment	Sensitivity analysis (eg lower/higher growth of GDP and/or exports, less concessional new lending)	Base case, alternative scenarios + stress tests (GDP and/or export growth rates, primary balance, depreciation and borrowing policy)
Policy implications	Eligibility and amount of HIPC relief	By IDA/ADF for determination of loan-grant allocation. By the IMF in programme and surveillance contexts.

While HIPC DSAs are conducted on a tripartite basis by the IMF, World Bank and national officials ahead of a country's decision and completion point, DSF DSAs are generally being conducted by the staffs of the IMF and World Bank once a year, as part of Article 4 or PRGF/PSI consultations. However, in the latest DSF Board paper, the BWIs have indicated that they would like LICs to play a more active role in the DSF DSAs, which is in line with HIPC Ministers' requests in Singapore (see page 2).

For information on DSF, go to new IMF webpages (<http://www.imf.org/external/pubs/ft/dsa/lic.aspx>); or go to the IDA website (<http://web.worldbank.org/WBSITE/EXTERNAL/EXTA/BOUTUS/IDA>) and follow the links for Home > Topics > Economic Policy and ... > Debt Sustainability Framework for Low-Income or Home > About Us > IDA > Debt Sustainability ... > Debt Sustainability & Grants. You can download the DSF calculation template from the World Bank's webpages.

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of information to investors. Many of these measure are already being taken under existing economic reform programmes, including a review of the national investment code, promotion of more local investment financing, reinforcing economic and political governance, enhancing the institutions responsible for supporting private sector and investment promotion, increasing labour force productivity through training and health measures, and streamlining business law.

Overall, the NTF was satisfied with the results of the survey, which were presented to government authorities and the private sector at a closing conference on 13 October. It was agreed that the conclusions of the pilot phase should be transmitted to the Cabinet of Ministers, as well as to the Union Economique et Monétaire Ouest Africaine (UEMOA) discussions on a regional investment code, given that Burkina Faso is currently President of the Council of Ministers. In

addition, it was agreed that Burkina Faso should continue to execute the methodology of the FPC CBP, as well as to enhance efforts in future surveys to ensure response by larger enterprises so as to increase the reliability of the FAL data. Together with the successful pilot survey in Cameroon, this provides a good basis for the BCEAO and BEAC to generalise the FPC CBP methodology through the Franc zone for future FAL and investment data collection under phase 3 of the FPC CBP.

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