

STRATEGIES FOR FINANCING DEVELOPMENT

The Newsletter of the HIPC CBP and the FPC CBP



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HIPC Debt Analysis & Strategy

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IADB MDRI RELIEF AT LAST

In January in Amsterdam, the shareholders of the IADB finally agreed on how to provide the IADB's share of MDRI relief. The deal is disappointing in that it will not provide additional funding to HIPC's, instead drawing its financing from the IADB's own concessional Fund for Special Operations (FSO) resources.

The IADB debt relief will cancel 100% of the eligible debt of its post-completion point HIPC borrowers (Bolivia, Guyana, Honduras and Nicaragua), effective from 1 January 2007. Haiti will qualify when it reaches its HIPC completion point. The eligible debt is the disbursed outstanding FSO debt, as of end-December 2004.

Implications for Future Flows

While the IADB will cancel debt totalling US\$ 3.37 billion, the relief is not additional. Its cost is being met from internal FSO resources without any additional funding. It will be reducing eligible countries' total resource allocations by 25%, making the terms of their new borrowing less concessional, cancelling undisbursed loan approvals and exchanging part of the debt relief against countries' local currency contributions to the FSO. The details of these changes are as follows:

- There is to be a 25% reduction in total IADB loan allocations for Bolivia, Guyana, Honduras and Nicaragua (excluding Haiti which is to receive mainly grants, see below). The effect of this is to reduce the IADB's overall allocation of resources from \$400 million per annum to \$288 million.
- For Bolivia, Guyana, Honduras and Nicaragua, the lower level of resources will be in the form of parallel loans, which is a blend of concessional FSO and nonconcessional Ordinary Capital loans. The FSO portion is to be a 40-year bullet loan at $_%$ interest, while the OC portion is to be a 30-year loan, with 5.5 year grace period and 5.5% interest. Up to now all four countries have been able to access solely concessional FSO resources, however with this change the concessional of their future IADB borrowings will be reduced as they will now be borrowing a significant proportion of new resources on OC terms. The proportion of FSO and OC resources making up the new parallel loans from

2007-2015 will be country specific, as shown in Table 1 below. For the four post-HIPC countries this means FSO resources will total approximately US\$ 88 million per annum with the remaining being on non-concessional OC terms.

- The country specific FSO - OC lending mix and the amounts committed to each country are to be determined on the basis of the BWI's Debt Sustainability Framework (DSF) and the IADB's Performance Based Allocation (PBA) system, which is to be reviewed and updated to be more in line with that of IDA. On this basis, better performing countries (Bolivia and Honduras) are expected to benefit from higher resource allocations, while poorer performers (Guyana and Nicaragua) may lose.
- For Haiti, new resources will consist of up to \$50 million in annual grants for the years 2007-2010. Thereafter Haiti will have a maximum allocation of \$20 million in grants and \$20 million in FSO loans annually, with a proportion of OC loans depending on its debt sustainability.
- For all the eligible countries, the undisbursed balances of approved but non-disbursed loans, as of 1 January 2007, are cancelled. If the total cancelled amount is less than US\$ 210 million, then there will be a proportional reduction in future loan approvals and disbursements on a country-by-country basis to make up the difference between the amount cancelled and US\$ 210 million. The undisbursed balances to be cancelled are

those which are not being disbursed in a timely fashion and are not likely to meet their development objectives.

- For the five countries, part of the IADB debt relief (totalling US\$ 258 million) is to be exchanged against existing funds which are due to be repaid to the IADB in local currency in 2010-13. These local currency conversions are to be cancelled and the amounts offset against the debt service due on current FSO loans. If the debt service due is less than the currency conversion requirement, then the remaining obligation will be carried forward.
- For the period 2007-10, \$30 million of FSO resources will be allocated to technical assistance and from 2010 to 2015 this will be \$20 million.
- In addition, the IADB is to reduce the administration expenses borne by the FSO to 15% of the total IADB administrative expenses through 2010, with a further reduction to 11.25% by 2015. The savings from this will average about \$75 million per annum.

In terms of the impact on resource flows between 2007 and 2015, Honduras tends to benefit while Guyana, Haiti and Nicaragua do not. For more information on the detailed impact of the IADB MDRI, please see http://www.hipc-cbp.org/files/en/closed/External%20Debt%20Strategy/External%20ebt%20Reference%20materials/MDRI_Feb_2007_En.pdf

Table 1 Lending Mix for Post HIPCs Under DSF as of 2007

Country	FSO allocation	OC allocation
Bolivia and Honduras	30%	70%
Guyana and Nicaragua	50%	50%
Haiti: 2007-2010	\$50 million in grants	
2011+	\$20 m in grants/ \$20 million FSO loans	

Source: IADB

DEBT SUSTAINABILITY - BEYOND THE DSF

In late November, the BWI Boards discussed a report on applying the Debt Sustainability Framework (DSF) for post-HIPC/MDRI low-income countries. This article examines their conclusions, and presents HIPC reactions and ideas for long-term debt sustainability for low-income countries.

The Boards made 10 recommendations:

1. *Designing more realistic baseline scenarios for BWI country Board papers, which reflect a country's policies and institutions, the likelihood of external shocks, and historical trends.* HIPCs have done this in their HIPC CBP national debt strategy reports for the last 8 years. They also stress that scenarios must target higher growth rates, investment and aid to reach the MDGs.
2. *Suggesting that an annual increase of 5-7% in the PV/GDP ratio for public external debt or total public debt would be a "caution flag" for excessive borrowing, on which Fund programmes could base indicative targets on debt accumulation.* This decision could be confusing to HIPCs unless the Fund clarifies whether the guideline will apply to external or total public debt, and whether debt accumulation ceilings will replace or be added to concessionality thresholds and budget deficit ceilings in IMF programmes. The ceilings also need to take account of the starting point of a country's sustainability ratios, and its potential need for up-front financing of the MDGs. The HIPC CBP is helping HIPCs to design medium-term borrowing ceilings less mechanically, keeping within the DSF ceilings while maximising the use of high quality concessional resources to achieve the MDGs.
3. *Calling for continued efforts by the international community to improve availability and predictability of concessional financing.* In recent months there have been some steps forward with agreements by donors to enhance predictability of budget support in a few countries. However, there have also been some backward steps, notably:
 - an increasing tendency of OECD and non-OECD governments to lend to HIPCs rather than providing grants;
 - continuing reduction of concessional flows to Latin America, enhanced by financing IADB debt cancellation using IADB concessional funds (see page 2);
 - the failure of most OECD donors to live up to their promises of 2005 by genuinely scaling up new grant aid flows to the poorest countries, including those in Africa and those which have previously been deprived of sufficient aid.
4. *Recognising that non-concessional finance should be allowed on a case-by-case basis, depending on its impact on debt sustainability and on a debtor's CPIA score, as well as the quality of the investment and overall public expenditure programme.* HIPC debt managers are sceptical about a need for non-concessional debt, especially for "self-financing" projects whose debt service could reduce overall government revenues and anti-poverty expenditures, and for "non-debt" Public-Private Partnership deals which could allow private partners to keep large revenues for themselves, at higher cost to the government budget than debt finance.
5. *Noting that private external creditors are lending to LICs, and purchasing HIPC domestic debt.* The HIPC CBP has been helping countries to analyse the risks of such lending for several years. The HIPC CBP has also been pointing out the risks surrounding debt contracted by the private sector in LICs (see www.fpc-cbp.org).
6. *Acknowledging that domestic debt is significant and growing in many LICs.* Unfortunately the BWI Boards concluded that it is not feasible to fix thresholds for domestic debt, because of "conceptual challenges", though they saw a strong need for a "total public debt DSA". This leaves HIPCs with no guidelines for domestic borrowing - in spite of repeated urging by their Finance Ministers (see HIPC CBP Newsletter 29). However, the HIPC CBP has overcome these challenges and helped countries to fix domestic debt limits and thresholds based on their fiscal, monetary and financial sector development policies - and the CFA Franc Zone has adopted debt service to budget revenue ceilings which include domestic debt. The HIPC CBP has recently produced a note on debt sustainability indicators (see www.hipc-cbp.org <<http://www.hipc-cbp.org/>> members' site> technical resources > general background).
7. *Increasing transparency on debt data and DSF-related DSAs.* To this end, DSF-related DSAs and DSF templates are available on the IMF and World Bank websites, as are concessionality calculators and information on the IMF's concessionality policy (see <http://www.imf.org/external/np/pdr/conn/index.htm> and <http://www.worldbank.org> and follow Home > About Us > IDA > Nonconcessional Borrowing). The HIPC CBP welcomes this extra transparency, and will also be tracking the DSF DSAs in the centre table of newsletters, while also reporting countries' own views of their debt sustainability (see page 7).
8. *Using the DSF to inform IMF budget deficit or borrowing ceilings.* HIPCs stress that DSAs must be conducted by governments themselves, and ceilings and medium-term debt strategies must be nationally-designed and led, rather than conditionalities. They also underline that ceilings must have a wider view of sustainability than DSF thresholds, providing scope to absorb maximum concessional funding for the MDGs.
9. *Underlining that debt management capacity-building needs to be accelerated to allow countries to build their own Medium-Term Debt Strategies.* HIPCs stress that such capacity-building must be provided independently of lending organisations such as the BWIs, to avoid conflict of interest, and via the regional organisations they have chosen to fund as their capacity-building providers (BEAC/BCEAO Pôle Dette, CEMLA, MEFMI and WAIFEM). They would prefer to receive additional funds themselves, so they can choose the best value-for-money providers of assistance.
10. *Using a 3-year average of the CPIA score to assess debt sustainability.* HIPCs support this as it will reduce the volatility of terms and amounts of AfDF and IDA funds.

CBP SHOWS IMPROVED HIPC DEBT M

Newsletter 29 compared the contents, implementation and uses of the HIPC CBP methodology for assessing debt management capacity in HIPCs, with the methodology in the IDA Resource Allocation Index (IRAI) (formerly known as CPIA). This article analyses a four-year time series of scores, assessing progress in debt management from 2002 to 2005 using the CBP methodology. Thereafter it compares the trends with those in the IRAI assessment, using comparable sections of the CBP methodology, and explains possible differences.

1) Methodology: Combining Phase 3 and 4 CBP and Comparing with IDA

In 2002, the HIPC CBP moved from a system in which countries were assessed by the implementing partner organizations to one in which they built the assessment methodology and made the initial assessments (though these are still quality-controlled by the implementing partners). At the end of phase 3 of the HIPC CBP (in 2005), the CBP assessment methodology was updated to focus more closely on domestic debt and new financing. Therefore, to compare scores obtained under phases 3 and 4, it was essential (and relatively easy) to work out the relationship between the assessment criteria in the two phases. In addition, it was essential to compare the IDA and CBP criteria: the methodology for how this was done was explained in newsletter 29.

2) Assessing Debt Management Progress in Detail

Having established a clear time series on this basis, it is possible to assess progress in HIPC debt management since 2002.

Table 1 shows the trends since 2002 for the six aspects used by IDA: Debt Burden Indicators, New Borrowings, Institutional Coordination, Debt Unit, Debt Strategy, and Legal Framework.

The scores show a clear improvement in five of the indicators, producing an overall rise of around 8%:

- The areas of Institutional Coordination (16%) and Legal Frameworks (25%) show considerable improvements, reflecting an enhanced focus on these issues by the CBP regional organizations and CBP institutional missions.
- A smaller improvement (by only 7%) took place in debt strategy, reflecting continued strong efforts by governments in this area. However, the overall score here hides strong improvements in the quality of debt strategy and portfolio analysis, and in the existence of a formal team to prepare strategies, as well as in approval of strategies by government and parliament, reflecting the increased recent focus of the CBP on fostering such debate through Cabinet and parliamentary seminars and inclusion of strategy discussions in budget processes. These are considerably offset by declines in the scores relating to the level of discussion of strategies with national civil societies and the international community, especially for post-HIPC countries.
- Another area on which the CBP has focused since the end of phase 3 was new borrowing, which shows a considerable improvement (14% since 2003), due to many new methodological developments already made on aid quality and borrowing ceilings, which are

improving capacity to design and implement borrowing policies.

- The area of the debt unit, which deals with the number and qualifications of staff, as well as adequacy of the working environment, improved by around 4% during 2002-03. This makes the improvements in other areas more remarkable, but reflects the wider constraints on civil service staffing and conditions, as well as a worrying reduction of debt management staffing in post-completion point countries, often on the grounds that debt problems are resolved, which if continued does not bode well for long-term debt management capacity.
- Additionally, it is worth pointing out that within this area, there was a small improvement in scores for data recording during 2002-04, due to efforts by the Commonwealth Secretariat, UNCTAD and regional organizations to assist countries. For 2005, once the phase 4 methodology included recording of domestic debt, scores fell back somewhat, reflecting lower-quality recording of domestic debt.

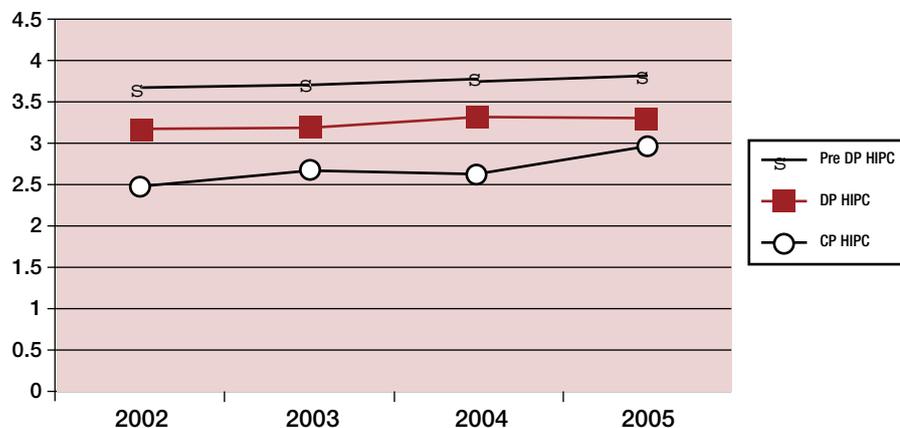
The only area in which scores have fallen (and then only since 2004) is for debt burden indicators. This reflects the fact that under phase 4 of the CBP, countries are allowed to choose the indicators they see as most appropriate to determine their debt sustainability (HIPC ratios, LIC DSF ratios or even regional or national ratios), whereas in phase 3, all

Table 1: Monitoring Progress in Debt Management Capacity Building (adjusted to IDA scale)

	May-02	May-03	May-04	May-05
Debt Burden Indicators	3.25	3.48	3.59	3.02
New Borrowings	3.33	3.09	3.38	3.52
Institutional Coordination	3.02	3.05	3.16	3.51
Average of Debt Unit Area	3.73	3.87	3.87	3.88
Average of Debt Strategy Area	3.13	3.18	3.22	3.34
Average of Legal Framework Area	2.65	2.72	2.86	3.30
Total Average for all criteria	3.28	3.36	3.42	3.53

MANAGEMENT CAPACITY SINCE 2002

Graph 1: Monitoring progress using CBP methodology (Adjusted to IDA scale)

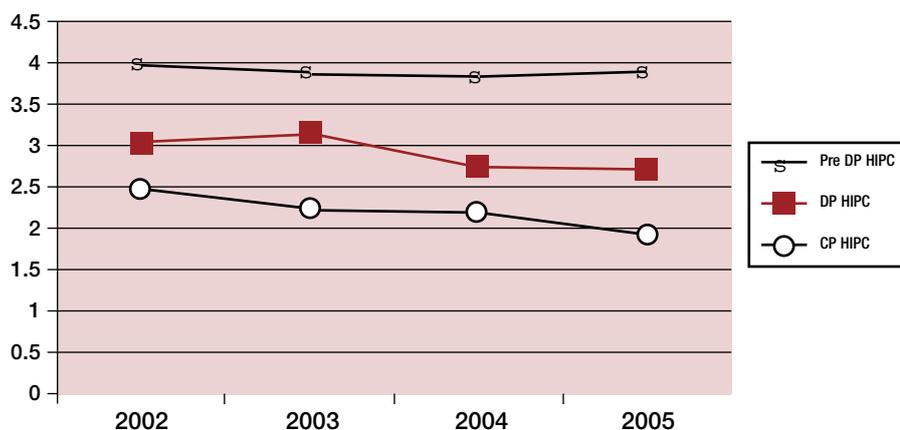


Source: HIPC Countries self evaluation questionnaires

Graph 1 shows that, according to the HIPC CBP, Post-Completion Point countries clearly have the highest debt management scores, at 3.84. However, there has been progress since 2002 in all groups of countries with the average score going from 3.29 in 2002 to 3.53 in 2005. The biggest improvement in scores, albeit from the lowest level, took place among pre-Decision Point countries, which moved from 2.52 to 3.00. Post-Decision Point and Post Completion Point countries also showed smaller degrees of improvement, moving from 3.14 to 3.30, and from 3.62 to 3.84 respectively.

The levels of scores for post-completion point countries are broadly similar using the CBP and IDA methodologies, though broadly IDA finds the scores stable or slightly declining since 2003. IDA's starting scores for the other groups are the same as those of the CBP, but thereafter trends have diverged considerably, with a fall in scores for both interim period and especially pre-decision point HIPCs.

Graph 2: Monitoring progress using IRAI scores



Source: Debt Relief for the Poorest: An evaluation update of the HIPC Initiative. The World Bank Independent Evaluation Group. 2006
2005 IDA Resource Allocation Index (IRAI)

It is difficult to understand why the IDA scores would be so different from those of the CBP, which have been validated by countries and quality-controlled by implementing partner organisations. Ultimately, the discrepancy may reflect different methodologies, especially the weaknesses in the IRAI methodology and the more in-depth nature of the analysis conducted by the CBP, which were highlighted in Newsletter 29.

countries were using the same HIPC indicators to determine the sustainability of their debt. As a result, sustainability as judged by the countries has fallen because of the inclusion of domestic debt. This represents a clear warning of the need to take domestic debt fully into account in assessing sustainability.

3) Comparing CBP and IDA scores

As explained in newsletter 29, comparing the two methodologies requires notably

the conversion of CBP scores from a 5-point scale to match the IDA 6-point scale. Graphs 1 and 2 above show the trends in debt management capacity for different countries based on their stage within the HIPC process, as identified by the HIPC CBP and IDA methodologies. Countries were classified as Pre Decision Point, between Decision Point and Completion Point, and Post Completion Point. The cut off date for determining their classification was December 2005.¹

¹ Because Lao PDR and Madagascar have not received assistance from the CBP they are not included in the CBP scores, but their exclusion from the IDA scores would not change any of the conclusions presented.

MISSIONS TO FINALISE NATIONAL CAPACITY BUILDING PLANS



The BEAC/BCEAO Pôle-Dette has initiated information and data gathering missions to finalise national public debt management capacity building plans in the CFA Franc Zone countries. These missions successively visited Lomé (Togo) and N'Djamena (Chad) during 7-15 October; Bissau (Guinea Bissau) on 16-20 October; Bamako (Mali) and Malabo (Equatorial Guinea), 28 October-5 November; Dakar (Senegal), 30 October-3 November; Libreville (Gabon) and Niamey (Niger), 5-12 November; Brazzaville (Congo), 13-25 November; Bangui (Central African Republic), 18-26 November; Ouagadougou (Burkina Faso), 25 November-8 December; and Abidjan (Côte d'Ivoire) 8-14 December. Missions to Cotonou (Benin) and Yaoundé (Cameroon) will be scheduled during first quarter 2007.

The main purpose of these missions was to assist the authorities in these countries to design national debt management capacity building plans according to a model designed by Pôle-Dette. More specifically, the plans will ensure that Pôle-Dette focuses its activities to address the real needs of member countries in its programme, in all areas of debt management (going beyond the capacity building activities concerning debt analysis and strategy in the context of the Heavily Indebted Poor Countries Debt Strategy and Analysis Capacity Building Programme (HIPC CBP). They will therefore guide the Pôle-Dette project during its second phase.

Against this backdrop, the missions aimed to:

- Define the volume and profile of skills essential to raise public debt management to international

standards, and to ensure that capacity building is part of a general framework of developing a true culture of sound public debt management in CFA Franc Zone countries;

- Identify the skills available in each government, at all stages of the debt cycle, and on this basis, assess the capacity building requirements of the institutions and individuals who intervene in the debt cycle, in order to raise their debt management to international standards;
- Identify all activities required to fill the identified skills gaps (national workshops, regional seminars for managers or decision-makers, publications, field missions, distance learning, etc.) and the institutions that can provide them;
- Ensure that there is consistency between capacity building plans for agencies intervening in the public debt cycle, and their training plans for individual staff members.

Based on model national capacity building plans provided earlier to these countries, HIPC CBP self-assessment questionnaires, and aide-mémoires from previous missions providing institutional support to public debt management, the missions received contributions from almost all agencies involved in the debt cycle, and reached the following conclusions:

- Despite the efforts by Pôle-Dette and HIPC CBP, which in most countries have achieved important improvements in capacity in recent years, a large skills deficit was observed in middle office (strategy design and analysis) functions, particularly in the post-HIPC context where emphasis is placed on mobilising new high-quality financing to support national development objectives; and on risk management to avoid overindebtedness in the years to come.
- The available skills are substantially

focused on front office activities (issuing securities, fundraising, and debt service payments) and back office activities (recording and accounting).

- Pôle-Dette's future activities will therefore particularly target the capacity building required to manage middle office activities, while also improving front office and back office functions.
- In terms of the types of activities, two specific types of capacity building support are required to bring debt management to international standards in the Franc Zone countries.
- The countries will need institutional support to strengthen the governments' financing and debt laws, as well as reinforce coordination among institutions, and to draft manuals regulating and analysing debt management procedures and information flows among the institutions, to guide the personnel involved in debt management.
- Approximately 600 debt managers must be trained in various front, middle and back office functions such as risk management, effective use of debt management software, debt sustainability analysis, global public debt strategies, and legal matters.



LONG TERM DEBT SUSTAINABILITY WORKSHOP

The second HIPC CBP workshop on the BWI's Long-Term Debt Sustainability Framework (DSF) took place in the WAIFEM region from January 22-26. It was organized and facilitated by WAIFEM, DRI, the IMF and the World Bank, and attended by 38 executive/middle level officials from the Central Banks, Ministries of Finance, Debt Management Offices, Statistical Bureaus, and Offices of the Accountant General, from The Gambia, Ghana, Liberia, Nigeria, and Sierra Leone. MEFMI officials and candidate fellows from Lesotho and Swaziland also attended.

Objectives

The main objective of the 5-day workshop was to train WAIFEM's constituent countries on the DSF and to build their capacity to provide their governments with early warning signals on potential risks. The workshop covered the following broad themes:

- Operational Framework for Debt Sustainability Assessments in Low-Income Countries
- Technical Underpinning of LIC Debt Sustainability Framework(DSF)
- The DSF implications for the World Bank and the Fund
- Helping low-income countries avoid debt distress
- DSA incorporating Domestic Debt
- Thereafter, each country team ran a DSA using 3 scenarios namely baseline, historical and stress test, and made a presentation highlighting its findings on the last day.

Conclusions of the Country Presentations

The Gambia

The Gambia's baseline analysis assumed that for 20 years, exports would grow at 7-8%, imports at 6% and real GDP at 5%. Nominal exchange rate depreciation was assumed to be relatively low. The Gambia concluded that to achieve long term debt sustainability it must continue public external borrowing on concessional terms only with sustained GDP growth and exchange rate stability.

Ghana

Ghana's key baseline assumptions were: GDP growth of 8% until 2015 due to accelerating infrastructure investments, and 6% thereafter; exports growing with GDP and imports with domestic demand; and the cedi depreciating in line with relative inflation. The baseline scenario and stress test results pointed to continued debt sustainability with maintenance of the current policy of concessional borrowing with a minimum 35% grant element, or even with a small amount of non-concessional borrowing. However, continuance of historical growth rates would lead to explosion of the debt indicators to exceed the DSF thresholds by around 2017-22.

Liberia

Because Liberia has not reached HIPC decision point, it assumed large amounts of debt relief in its baseline scenario, as well as new borrowing on only concessional terms. Based on new FDI, real GDP growth was projected to rise from 7.8% in 2006 to 12.7% in 2026, with inflation stabilizing at 5.3. The baseline scenario, and an alternative scenario which tested less debt relief, both produced unsustainable debt ratios throughout the period. The Liberia team concluded that this highlights the need for macroeconomic and structural reform, capacity and institution building, maximum debt relief and highly concessional future borrowing.

Nigeria

Nigeria assumed in its baseline that the current reform programme anchored on objectives of the National Economic Empowerment and Development Strategy (NEEDS) is sustained, producing an average real GDP growth rate of 5.1%, with gradually declining inflation. Based on these numbers, the Nigeria team concluded that in order to avoid a relapse to debt overhang the country should:

- borrow from only concessional sources (IDA or near IDA terms), including official bilateral borrowing with a maximum 3% interest and not less than 10 years maturity.
- limit the growth of debt stock to only 3.6% of GDP a year until 2011, and to 0.7% thereafter.

Sierra Leone

In the case of Sierra Leone, following strong recovery in the immediate post conflict, real GDP growth is expected to slow gradually from 7.4% in 2006 to 6.6% in 2010 and stabilize at around 5.2% up to 2026. Exports are to rise from 22.2% of GDP in 2006 to 28.3% in 2010 as a result of expansion in mining. Imports will grow in line with GDP. Inflation will decline from 12.2% in 2006 to 6% in 2015 and stabilize at around 5% thereafter. Under this baseline scenario, without taking into account MDRI relief, debt sustainability will not be assured until after 2020. Under the most extreme stress test, debt sustainability will only be achieved in relation to GDP in the next 20 years. Sierra Leone is therefore a high risk debt distress country pending MDRI relief.

Participant Recommendations

The participants highly appreciated the workshop and recognized the need for all low income countries to have a forward-looking borrowing strategy and observed that the new LIC template is a relatively user friendly tool for this purpose. However, they observed that:

- endogenous variables like GDP are determined outside the template and there is a need to expand the template to ensure that macroeconomic variables are interconnected;
- BWI staff should complete a user-friendly manual to guide understanding and customization of the template, and make it available to country teams to facilitate DSAs;
- the BWIs should set aside 2 days during Article 4 missions to conduct the DSF analysis with officials of the countries to further strengthen their capacity;
- there is need to continue capacity building on the DSF through step-down and step-up training;
- countries should create or strengthen national DSA teams;
- countries should improve the quality of macroeconomic and debt data and include information on private sector external debt and contingent liabilities in debt databases for comprehensiveness of debt sustainability analysis.

HIPC PROGRESS AND DEBT SUSTAINABILITY STATUS MARCH 2007

Countries	HIPC II Dates		PRSP Dates		HIPC Initiative
	Decision	Completion	Interim	Final	Creditor Participation
Angola	no current timetable		2005	...	NA
Benin	7/00	3/03	7/00	3/03	99%
Bolivia	2/00	6/01	2/00	6/01	95%
Burkina Faso	7/00	4/02	5/00	7/00	76%
Burundi	8/05	end-2007	1/04	9/06	84%
Cameroon	10/00	05/06	10/00	7/03	98%
Central African Rep.	2Q2007	...	1/01	mid-2007	NA
Chad	5/01	1Q2008	7/00	7/03	93%
Comoros	4Q2007	...	05/06	2007	NA
Congo, Dem. Rep. of	7/03	2008	6/02	7/06	93%
Congo, Rep. of	03/06	end-2009	12/04	2Q2007	60%
Côte d'Ivoire	mid-2007	...	3/02	...	NA
Ethiopia	11/01	4/04	3/01	9/02	92%
Gambia	12/00	2nd half 2007	12/00	7/02	81%
Ghana	2/02	7/04	8/00	4/03	90%
Guinea	12/00	mid-2007	12/00	7/02	85%
Guinea-Bissau	12/00	2009	12/00	11/06	81%
Guyana	11/00	12/03	11/00	9/02	81%
Haiti	10/06	Q3 2008	11/06	end-2007	96%
Honduras	7/00	4/05	7/00	10/01	93%
Kenya	no current timetable		8/00	2/04	NA
Laos PDR	no current timetable		4/01	12/04	NA
Liberia	mid-2007	...	1/07	2Q2008	NA
Madagascar	12/00	10/04	12/00	11/03	91%
Malawi	12/00	09/06	12/00	8/02	97%
Mali	9/00	3/03	9/00	3/03	85%
Mauritania	2/00	6/02	NA	1/01	90%
Mozambique	4/00	9/01	4/00	9/01	88%
Myanmar	no current timetable		no PRSP process		NA
Nicaragua	12/00	1/04	12/00	9/01	87%
Niger	12/00	4/04	12/00	2/02	86%
Rwanda	12/00	4/05	12/00	8/02	95%
São Tomé & Príncipe	12/00	1Q2007	4/00	8/05	85%
Senegal	6/00	4/04	6/00	12/02	81%
Sierra Leone	3/02	12/06	9/01	7/05	87%
Somalia	no current timetable		no PRSP process		NA
Sudan	no current timetable		2007	...	NA
Tanzania	4/00	11/01	3/00	12/00	90%
Togo	end-2007	NA
Uganda	2/00	5/00	NA	5/00	96%
Vietnam	no current timetable		4/01	6/02	NA
Yemen	6/00	...	2/01	8/02	NA
Zambia	12/00	4/05	7/00	5/02	97%
Potential HIPC's					
Eritrea	no current timetable				NA
Kyrgyzstan	Decided not to apply for HIPC		...	02/03	NA
Nepal	no current timetable			11/03	NA

Sources:
HIPC Governments,
IMF & World Bank

¹ World Bank IDA Resource Allocation Index (IRAI), formerly Country Policy and Institutional Assessment (CPIA), which is used to assess countries' institutional strength and policy performance (Strong ≥ 3.75 , medium 3.25-3.75, weak ≤ 3.25). Based on 2005 CPIA.

² This is the debt distress rating for FY 07 incorporating DSF-based DSAs and used as basis for IDA traffic light classification: Green = low risk of debt distress, Yellow = moderate risk of debt distress and Red = high risk of debt distress. Latest DSF-based DSF for Bolivia (July 2006) and Honduras (December 2006).

³ Blend and gap countries are not eligible for IDA grants.

This table has been revised to include HIPC's rankings according to the BWI's IRAI (formerly CPIA) indicator of policy performance and institutional strength and debt distress, incorporating the new DSF-based DSAs and used as the basis for countries' IDA allocation of loans and grants.

IRAI ranking of policies and institutions ¹	Debt distress ranking for IDA-14 FY07 ²	IDA-14 grant allocation for FY07	Key Debt Relief and New Financing
Weak	Moderate	50%	HIPC CBP DSA shows ratios under HIPC thresholds
Medium	Low	0%	Most creditors provide relief, unsustainable due to new borrowing. MDRI
Medium	Low	na ³	New borrowing ceilings. Debt unsustainable compared to Treasury revenues. MDRI
Strong	Low	0%	Algeria, Libya, Saudi, Taiwan refuse relief. MDRI. New borrowing ceilings
Weak	High	100%	IDA, ADB, Paris Club creditors providing interim relief and promise of relief from EU
Medium	Low	0%	Facing increasing lawsuits. MDRI
Weak	High	100%	Arrears being cleared before HIPC DP
Weak	High	100%	IsDB and BADEA providing interim assistance
Weak	High	100%	DP could be mid-2007 once PRGF concluded. High arrears.
Weak	High	100%	USA only PC creditor yet to finalise relief. Agreements with 13 commercial creditors signed.
Weak	High	100%	IMF interim relief pending negotiations with London Club. Lawsuits continue
Weak	High	100%	DP delayed because of civil conflict. Potentially qualify with PV/revenue=361%
Medium	Moderate	50%	Still to conclude with some non-Paris Club creditors. MDRI
Weak	High	100%	Interim IMF relief suspended, IDA and AfDF interim relief limit reached
Strong	Low	0%	Signed agreements with almost all creditors. MDRI
Weak	High	100%	IMF, AfDB, PC interim relief suspended. Egypt, Kuwait, Saudi willing to provide relief
Weak	High	100%	Only IDA and AfDB providing interim relief. Round Table donor meeting held in Nov 2006.
Medium	Moderate	50%	Lawsuit relating to government bonds ongoing. MDRI
Weak	High	100%	Possible HIPC relief of US\$ 139m in PV terms.
Strong	Moderate	na ³	Guatemala, Mexico and Taiwan refuse to provide relief; agreements with Cosat Rica, Venezuela, Kuwait and commercial banks pending; Argentinian lawsuit. MDRI
Medium	Low	0%	DSA shows ratios under HIPC thresholds. PC Houston terms relief
Weak	High	100%	Despite eligibility, government does not wish to participate in HIPC
Weak	High	100%	Debt stock estimated \$3.7 bn (3000% of exports), nearly all in arrears. Debt data being reconciled with creditors
Medium	Low	0%	Well advanced with PC relief, contacting all non-PC creditors. MDRI
Medium	Moderate	50%	CP plus topping up reached in September 2006. MDRI
Medium	Low	0%	Difficulties with non-PC creditors. MDRI
Weak	Low	0%	Unsustainable due to lack of relief from Arab creditors. MDRI
Medium	Low	0%	Agreements with China, Kuwait and South Africa. MDRI
Weak	High	100%	No WB lending since 1987. Probably unsustainable
Medium	Moderate	50%	Strong debt strategy and borrowing ceiling. New non-PC relief but lawsuits continuing. MDRI
Medium	High	100%	No agreement with non-Paris Club creditors. Taiwan won lawsuit. MDRI
Medium	High	100%	Ceiling on new borrowings. Received topping up at CP. MDRI
Weak	High	100%	To receive retroactive PC relief following new PRGF
Strong	Low	0%	Benefited from non-PC creditors relief. MDRI
Weak	High	100%	Lawsuits for US\$35m. MDRI
Weak	High	100%	Accumulating large arrears to creditors. World Bank engaged under LICUS
Weak	High	100%	IMF urged to minimise non-concessional borrowings. Need to clear arrears.
Strong	Low	0%	Benefited from non-PC (Bulgaria, China and Kuwait) relief. MDRI
Weak	High	100%	Potentially qualify with PV/revenue of 394%
Strong	Low	0%	Ceiling on new borrowings, seeking more grants as debt is unsustainable. MDRI
Medium	Low	0%	Debt ceiling for public debt/GDP of 50% by 2010
Medium	Low	0%	Ratios under HIPC thresholds so Paris Club Naples stock treatment
Medium	Low	0%	Donegal lawsuit has resulted in payment to be made. MDRI
Weak	Low	100%	Potentially qualify with PV/exports of 362%
Medium	Low	100%	Potentially qualify with PV/revenue of 345%
Medium	Low	100%	Potentially qualify with PV/exports of 201%. Authorities undecided about HIPC participation.

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

MEFMI ENTERS PHASE 3 (2007-2011)



The third phase of MEFMI begins on 1 January 2007, following approval by MEFMI's Board of Governments of a project document that outlines the strategies, funding, governance and management structures to be used for effective delivery of capacity building activities over a five-year period.

MEFMI is a regionally-owned institute with 13 member countries (Angola, Botswana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Rwanda, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe). MEFMI aims to build sustainable capacity in identified key areas in ministries of finance, planning commissions and central banks, or equivalent institutions. It strives to improve sustainable human and institutional capacity in the critical areas of macroeconomic and financial management; foster best practices in related institutions; and bring emerging risks and opportunities to the fore among executive level officials. It seeks to achieve, within its member states, prudent macroeconomic management, competent and efficient management of public finances, sound, efficient and stable financial sectors and stable economies with strong and sustained growth.

In the last ten years MEFMI has scored a large number of successes in the delivery of its capacity building programmes. Reviews and end of project evaluations have scored highly on key dimensions including: the validity of the main assumptions of capacity building; programme objectives; outputs, impact and relevance; and progress in implementation of work plans. At the same time MEFMI has learned lessons that will be useful in the design, implementation and monitoring of future activities.

MEFMI operates in a context where significant progress has been made at global level to reduce poverty in recent years, but progress in Africa has been very limited. In the MEFMI region, some countries have managed to attain high rates of economic growth in recent years, and others are well on the way to economic recovery, but in the majority of countries poverty levels are still very high. In all countries, however, MEFMI needs to play a pivotal role in reinforcing the necessary capacity to manage economic development policy. The main challenge for member states remains inadequate human and institutional capacity to deliver the economic fundamentals for sustained economic growth and poverty reduction.

MEFMI is a centre of a wide network of stakeholders who have an interest in macroeconomic and financial management both in the region and internationally. These stakeholders include the member states, who make annual contributions accounting for approximately 43% of the budget; and financial cooperating partners (the ACBF, Austria, Canada, Ireland, the Netherlands, Norway, Sweden, Switzerland and the UK). In addition, MEFMI has technical cooperating partners who provide staff and technical resources to capacity building activities. These include the AfDB, IMF, World Bank and their respective institutes, BIS, DRI, COMSEC, UNCTAD, UNITAR, and the US Federal Reserve System. The relationship with all these stakeholders has been mutually beneficial and MEFMI intends to continue and deepen these relationships.

Independent reviews together with consultations with stakeholders have indicated very strong support of MEFMI by member countries and other stakeholders because the Institute delivers products and services needed by member state institutions. These have confirmed that over the long term, the Institute's products and services will still be in demand, making it sustainable from that perspective. The countries also regard the institution as vital: as a result, the Board of Governors comprises the

most senior officials of the ministries of finance and planning, and central bank governors, and all member states have fully paid their annual contributions. Apart from member states, the issue of sustainability involves other stakeholders, including cooperating partners and the Secretariat. To date cooperating partners have contributed a significant share to the MEFMI budget and have affirmed their willingness to continue to support the institute on the understanding that the member countries will increase their technical leadership of capacity-building and their financial contributions progressively over phase 3. Part of the answer to sustainability is for member states to gradually increase their contribution ratio to the budget and for the Institute to train more fellows and increasingly use regional experts in the delivery of training and capacity building activities.

Although MEFMI operates in a five-year cycle for planning purposes, member states that own the Institute consider it a permanent institution. In each member state there are still obvious capacity gaps to be tackled. Member state senior officials confirmed during the consultation processes for preparing the project document that there is need to rebuild capacity due to staff changes and attrition, and that given the dynamic nature of the macroeconomy there is need for new methods to tackle new challenges. For all these and other reasons, MEFMI will continue to play a vital role in building sustainable capacity in the region.

HIPC CBP RECENT AND FORTHCOMING ACTIVITIES

Regional Workshops/Seminars

The joint WAIFEM/DRI/World Bank/IMF Workshop on the **Long Term Debt Sustainability Framework for Low Income Countries** took place in January (see article on page 3).

National Workshops

Burkina Faso (Ouagadougou, 12-23 February)

Pôle-Dette and DRI organised a national workshop to design a strategy for future mobilisation of new financing. This was the most recent stage in a process through which the HIPC CBP has been assisting the government to redefine its legal and institutional framework and its strategy goals for future public sector development financing. It trained 38 officials in techniques of analysis and strategy formulation as well as refining plans for the implementation of Burkina Faso's national debt management capacity-building plan (see article on NCBPs on page 6).

The workshop achieved its three main goals:

- To analyse Burkina Faso's debt sustainability using the new DSF methods of calculating PV and ratios, as well as the regional economic convergence criteria of the UEMOA zone. The workshop found that after MDRI relief Burkina Faso's debt was sustainable using both methods of assessment.
- To define borrowing ceilings for future public sector indebtedness, to feed into the 3-year Medium-term Expenditure Framework and the budget process. Government officials agreed preliminary ceilings including a small proportion of less concessional borrowing (with a grant element of between 35% and 50%).
- To define a set of principles for a Burkina Faso national aid strategy, as well as conducting a "baseline" assessment of the degree to which donors are currently following these principles. The officials agreed on 5 principles, which will guide the government's efforts to improve its aid management policies and procedures, as well as donors' efforts to align with these in the context of (but also going beyond) the Paris Declaration.

The Gambia (Banjul, 12-22 February)

This WAIFEM-DRI workshop (cofinanced by DFID) was attended by 30 officials from the Department of State for Finance and Economic Affairs, Central Bank of The Gambia, Department

of State for Treasury, Strategy for Poverty Alleviation Coordination Office (SPACO), Gambia Revenue Authority, Department of State for Health, Department of State for Fisheries, Gambia Bureau of Statistics, Policy Analysis Unit-Office of the President and Department of State for Education. It aimed to provide comprehensive training in the analysis of debt strategy and new financing issues, update the Government DSA conducted in 2000 and constitute a national team for the regular updating of the national debt strategy.

The key finding of the workshop was that after receiving all planned HIPC relief, the Gambia's external debt is projected at USD 294.8 million, corresponding to a PV/export ratio of 166.3%, and will stay unsustainable until 2009. As a result, the Gambia might qualify for topping up debt relief under the Enhanced HIPC Initiative. Thereafter, implementation of the MDRI would reduce all ratios to clearly sustainable level throughout the 20-year projection period, provided that it implements a prudent (concessional) borrowing policy.

Institutional/Follow-up Missions

Burundi (Bujumbura, 5-16 February). This DRI mission had two goals: to help the National Aid Coordination Committee (CNCA), created in August 2006, to plan how to implement its mandate; and to help the Treasury Department of the Finance Ministry to implement a completion point trigger condition agreed with the IMF - production of a monthly analytical report on Burundi's debt. The Burundian authorities saw this mission as essential, because they have just approved their final PRSP and want to switch away from the humanitarian assistance which has predominated during the conflicts of recent years, and accelerate their absorption of development-related aid, which is expected to grow as Burundi moves to its HIPC completion point.

The mission found that Burundi needs to review its aid management procedures to 1) increase government-wide ownership of the potential benefits of aid coordination; 2) clarify the roles of each government agency in the aid cycle; and 3) ensure that each structure better fulfils its key functions in ensuring that aid is disbursed on schedule and produces sustainable results. It therefore recommended:

- holding a national aid coordination workshop to harmonise legal documents and validate a "framework-document" regulating the aid

management cycle;

- improving computerised aid information flows in government and with donors, and
 - finalising an aid policy document as the basis for donor alignment with government priorities (based on that designed in 2005 with CBP assistance - see issue 26).
- Based on best practices by other developing countries, the mission agreed an action plan with the Permanent Secretariat of the CNCA.

Simultaneously, the mission trained the personnel of the Treasury Department to write the debt management analytical report for January 2007. It noted that an AfDB-funded project is expected to enhance Burundi's use of the DMFAS 5.3 debt recording system over the next two months, providing more automatic data for future reports. It also made recommendations for work programming within the Treasury, to ensure that staff play clearly-defined roles in the preparation and dissemination of future reports.

Chad (N'Djamena, 15-20 January). Pôle-Dette organised a training mission for the members of the National Debt Analysis Committee (CONAD) and the technical team responsible for debt sustainability analysis (ETAVID). This training followed from an initial mission to assist the CONAD in April 2005, which had trained officials in how to prepare a debt sustainability analysis and to design a strategy for reducing the government's debt burden. This training, which lasted 6 days for 20 officials, therefore concentrated on how to analyse the government's repayment capacity and its determinants, how to set sustainable borrowing ceilings and budget deficit levels, and how to calculate the impact of debt relief on the budget.

Guinea-Bissau (Bissau, 6-10 February). Pôle-Dette and DRI organised a follow-up mission to provide training to Guinea-Bissau's technical officials. The subjects included: basic concepts in debt management; debt portfolio analysis and review techniques; dissemination of debt information within and beyond government; debt relief under the HIPC Initiative and the MDRI, and by the Paris Club; policies and procedures for mobilising new financing; recent developments in international aid financing; best practices in aid management by low-income countries; and the macro-economic framework for debt management.

Participants came from the Finance Ministry, the Economics Ministry, the National Economic

HIPC CBP RECENT AND FORTHCOMING ACTIVITIES *continued*

Policy Committee, and the BCEAO. At the end of the training, the participants made recommendations for how Guinea-Bissau could get maximum benefit from future debt relief and aid flows. In particular, they recommended the adoption by government of a comprehensive legal and institutional framework which covers all stages of the process of financing government operations, the urgent finalisation and implementation of the PRSP, and further reinforcement of the capacities of personnel involved in debt and aid management to reduce reliance on external expertise.

Mali (Bamako, 15-19 January). Pôle-Dette organised a mission to build the capacities of the National Public Debt Management Committee in Mali. The training provided to 25 participants focused on: best practices in public debt management, Benin's experience in coordinating public debt management with macroeconomic policy, techniques of formulating and forecasting government financing strategies, and basic elements of the construction of borrowing ceilings. At the end of the training, participants made several recommendations for reinforcing the capacities of the personnel in charge of middle office (debt strategy formulation) activities.

Pôle-Dette National Capacity-Building Planning Missions. During the last quarter of 2006, missions to Pôle-Dette member countries have designed national capacity-building plans (see page 6).

Methodology, Distance Learning and Attachments

Methodology

Methodology work this quarter has focused on the following:

- the MDRI documentation has been updated to incorporate the relief to be provided by the Inter-American Development Bank announced in January 2007 (see also page 2). The updated document is now available on the HIPC CBP website (www.hipc-cbp.org)
- a technical note explaining the debt sustainability indicators and thresholds currently being used internationally, regionally and nationally, the methodologies used for their calculations, and the main purposes for which they are being used has been prepared. The note also explains how DSF indicators are used to assess country eligibility for IDA grants and loans. This was distributed via the March 2007 Listserve and is available on www.hipc-cbp.org.
- the technical resources pages of the HIPC CBP website (www.hipc-cbp.org) have been

updated to include the latest CIRR rates and interest and exchange rates for debt strategy analysis.

- work is on-going to update the DSA workshop manuals to further enhance the CBP's domestic debt strategy methodology, allowing officials to ensure that domestic debt issuance is coherent with domestic debt supply needs (for Government budget financing and monetary policy implementation) and with demand by financial and private sector institutions for government paper to enhance financial sector development. The updated manual tasks, tables and templates will be available for countries to use shortly.

Distance Learning Programme

In the distance learning programme, most students completed their second module and started their third module in the week of 5th March 2007. Heavy work schedules have prevented some students from completing their assignments on time, but most of them are doing their best to catch up. CBP partners have been taking the opportunity to meet with students when in-country for other events, most recently in Burkina Faso, Malawi, Senegal and Tanzania. These meetings have been very productive and useful in providing feedback on the programme, which has been very positive, with students indicating that they learn more than in workshops. The students have also been highly appreciative of the feedback and comments provided by Mentors. However, they have indicated that some of the data-related assignments are very time-consuming: as a result the CBP is already taking steps to ensure that data are provided in more refined formats.

Attachments

Leonard Rugwaziba Minega from Rwanda was attached to the Centre for the Study of African Economies of Oxford University during 31 October-11 November, in order to further develop CBP methodology to analyse the effects of aid flows on the macroeconomy. He worked on a Rwanda case study as well as on simple spreadsheet-based modelling tools to enhance the analysis, and is expected to finalise this work during an attachment to DRI in Q2 2007.

Staff changes

During the last few months there have been a few staff changes in the CBP implementing agencies. In particular,

- BEAC/BCEAO Pôle Dette. Mme Coumba FALL GUEYE, Technical Coordinator, who made a major

contribution to Pôle-Dette's success over 6 years, has moved to AFRITAC-Libreville. Pôle-Dette has also recruited two macroeconomic experts (Appolinaire Houenou from Benin and Gabriel Ngakoumda from Cameroon) who will start work in March 2007.

- CEMLA has recruited an Economist, Jaime Andres Garron Bozo, from the Central Bank of Bolivia, who will work on the activities of both the HIPC capacity-building programmes.
- DRI. Due to Yolande's leave of absence, DRI has appointed Mame Pierre Kamara as temporary Francophone Programme Manager and Myriam Sallah as Francophone Programme Administrator. In addition, Sandrine Lévy has returned from maternity leave to resume her duties as Distance Learning Programme Administrator and Travel Coordinator.

Future Activities

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

1. **Regional Workshops:** Distance Learning Programme Mentors Workshop, Pôle Dette and MEFMI on the New BWI Debt Sustainability Framework, Training for Trainers for Pôle-Dette and PALOP countries;
2. **National Workshops:** Bolivia (2 sub-national debt workshops), Burundi, Cape Verde (non-CBP), Ethiopia, Guyana, Kenya, Mali, Niger, Senegal, Uganda.
3. **Institutional/Follow-up Missions:** Benin, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Ethiopia, the Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Liberia, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tomé e Príncipe, Rwanda and Senegal.
4. **Attachments:** of a CEMLA staff member, a MEFMI fellow, MEFMI staff and Pôle-Dette fellows to DRI, and of Pôle-Dette and non-RO fellows to the IMF in Washington;
5. **Information products:** the CBP will distribute its publication on Debt Negotiations within the Enhanced HIPC Framework, and prepare the manuscript on Best Institutional and Legal Practices for Debt Management, produce newsletters 31 and 32, and disseminate 4 listserves on latest debt management developments.

The first quarter of the year saw the FPC CBP pursuing its activities at country level by finalising various country project cycles, developing its information products, and continuing to assist potential new applicants, while further elaborating plans for an extension of the programme to the entire CFA Franc zone.

COUNTRY PROGRESS

The programme countries have progressed as follows:

- **Bolivia** has requested CBP assistance on more advanced areas of monitoring and analysis. Meanwhile Bolivia's Confederation of Private Employers (a member of the National Taskforce) has published its own BOP analysis (www.cepb.org.bo)
- **Burkina Faso** has finalised its pilot phase and published its report.
- **Cameroon** has finalised its analytical report (see page 14 for the findings), and will close its pilot phase in March.
- **Ethiopia** is working with DFI to finalise a proposal to join the CBP
- **The Gambia (Cycle 2)** is preparing to host a second Follow Up Mission in March to finalise data quality checks and begin analysis and report writing, follow up on institutional priorities, and prepare the next cycle
- **Ghana** has confirmed World Bank funding, and is finalising arrangements for a launch to go ahead in Q2.
- **Honduras** is following up with donors about financing arrangements for entry in the programme with a launch in Q2
- **Kenya** has World Bank financing for the programme and is pending final confirmation of arrangements so it can join the CBP in Q2
- **Malawi (Cycle 3)** is working on data quality checks, and is planning a closing dissemination event in June 2007 combined with training for the next cycle
- **Nicaragua (Cycle 1)** is pursuing fieldwork and will be hosting a Follow Up Mission in April to focus on data and analysis

- **Rwanda's** proposal to participate in the CBP in 2007 is currently being finalised
- **Tanzania (Cycle 3)** will have preliminary data and summary analysis ready for a closing and dissemination workshop in Q2 2007, followed by a training event to launch the next cycle, and publication of full reports for Mainland and Zanzibar
- **Uganda (Cycle 5)** has increased response to over 90%. It is preparing to disseminate data, publish a joint Cycle 4/5 analytical report, and launch Cycle 6 in Q2.
- **Zambia** is finalising the identification of financing for a potential relaunch of its participation in the programme in Q3.

FPC CBP SOFTWARE

In response to country demand, EIS has added a new feature to the Administrative Module, to promote user-friendliness and speed. **Version 1.79.7.2** features a "copy survey button" which enables the user to create a new survey by editing the features of a previous survey (questions, years, currencies, industrial classifications, etc) rather than having to create from scratch. Registered users can download this latest version and accompanying new guidelines in the Software Users' Manual by following the DFI link on www.evinsol.co.uk/software. EIS is due to finalise shortly the draft Section 3 of the *Software Technical Manual for Designers* (VBA Programming with an interactive dummy database), which will be circulated for user comment. It is also providing direct support to The Gambia and Uganda.

GOVERNANCE AND LIAISON

MEFMI hosted its first **Regional Monitoring and Managing Foreign Private Capital in MEFMI Member Countries Workshop** in Lusaka during 5-9 March, for all 13 of its member states. It featured training in all aspects of monitoring and analysis, with support from MEFMI and DFI staff and a pool of regional resource people. Important methodological advances were planned on issues relating to non-survey mechanisms, financial statements and sampling. In addition, countries (whether participating in the FPC CBP or not) conducted their own capacity

assessment and identified many priorities for future work to be assisted by MEFMI.

WAIFEM and the IMF Statistics Department (STA) hosted a DFID-funded **GDSS External Sector Workshop on FDI** in Accra during 26 February - 2 March, with DFI participating to optimise coordination with the FPC CBP. The event launched a GDSS Module for a group of 5 countries (The Gambia, Ghana, Kenya, Mauritius, and Mozambique), and discussed methodology, country implementation plans, and (following on from meetings between STA and DFI last November) optimal coordination with the FPC CBP for countries participating in both programmes.

Outcomes from both these events will be reported in more detail in the next issue.

INFORMATION PRODUCTS

The **FPC CBP website** (www.fpc-cbp.org) continues to be updated every 6 weeks. The last update, in January, covered latest developments in the CBP and related initiatives (on FAL, investor perception, CSR, remittances, and methodology). Country analytical reports and Newsletter 29 are now available for download on the open pages of the site. **FPC CBP Briefing #12** was disseminated in January, and Briefing #13 is due in March. Past issues of the Briefings are now also stored on the open pages of the website.

FORTHCOMING WORK PROGRAMME

In the next quarter the FPC CBP will:

- Undertake demand assessment missions (Ghana, Honduras and Kenya), an opening workshop in Bolivia, a follow up mission and closing workshop in Nicaragua, and combined closing/training events in The Gambia, Malawi, Tanzania and Uganda;
- Finalise plans for wider programmes for the CFA Franc Zone and Latin America
- Finalise its publication on analytical findings
- Continue to produce information products, methodology, and software
- Refine and implement a dissemination and awareness strategy.



Cameroon has recently concluded its pilot survey of foreign assets and liabilities and investor perception, a full report of which will shortly be available via the FPC CBP and national websites. A National Taskforce comprising public and private agencies, donors and cooperating partners (MINEFI, BEAC, GICAM, CGCI, SNV and DFI) surveyed 226 enterprises for investor perceptions, and 147 (covering 86% of turnover and 90% of foreign capital) for assets and liabilities. It achieved excellent first time response for FAL (almost 60%). In line with best practice, survey data was checked and updated using non-survey data. As this article shows, the exercise yielded very good data on assets (a very challenging area in most countries) and liabilities, and generated valuable practical lessons for future surveys reports.

Investor Perception

To enhance coordination with other surveys, the questionnaire combined IFC-style business climate with the wider methodology of the FPC CBP. The main positive perceptions of investors related to:

- National and regional market size, and access to credit
- Productivity and the cost of qualified personnel
- Efficiency/cost of telecommunications and access to the Internet
- Good-quality economic and political information products issued by government and private sector agencies (in contrast to many other FPC countries, where word of mouth and local contacts have tended to be most important to decisionmaking).

Overall, the vast majority of respondents considered the level of risk in Cameroon to be acceptable - and therefore most planned to expand their future operations.

The negative factors are mainly governance and infrastructure-related:

- 94% expressed concern with taxes, other charges, and related bureaucracy. On average, respondents indicated they spent 28 days during 2005 on meetings with tax authorities, 1.8 days per week on tax and customs procedures, and 13 days delay to clear customs at Douala
- 73% lacked confidence in the judiciary
- Almost half rated corruption as having a strong negative impact
- Challenges to competitiveness included contraband, fake goods, and informal sector imports
- The quality and costs of roads and energy were rated poorly

Consistent with these findings, respondents indicated priority areas for improvement for policymakers to be reducing taxes; reinforced use of the accounting system (OHADA); reform of the legal system

(independence, effective application of decisions); enhanced arrangements under the Investment Charter; improved maintenance of existing infrastructure; and improved energy supply.

Foreign Assets and Liabilities

The table below shows that the stock of foreign assets increased steadily and substantially during 2002-4. Stock of liabilities also increased but (the first time for a CBP country) stayed lower than assets. This reflected very high deposits held abroad by Cameroonian residents: excluding these, liability stocks were 2-3 times higher than assets. Liability flows exceeded asset flows during 2003, but the situation reversed during 2004 with a large drop in liability flows, and rise in asset flows.

Assets

The table shows that Cameroon's assets were predominantly debt rather than equity related. By far the most significant component were deposits held abroad, followed by trade credits to unrelated recipients. FDI in the form of lending to related enterprises was the next largest, and FDI equity and portfolio were very small by comparison.

All these items increased over the period...

- FDI stock tripled due to large intra-company debt flows. This was primarily intra-regional and related to mining concerns in Mauritania (25%), Equatorial Guinea (15%), Congo Brazzaville, Mali, Gabon and Chad
- Mining also accounted mainly for increased deposits in foreign banks by 7-9%, and (in spite of declines in other sectors) in trade credits
- Lending by Cameroon's financial sector to non-residents remained at less than 28 billion FCFA
- Portfolio assets remained marginal, and were mainly intra-regional (Côte d'Ivoire (20%), Chad (19%), Equatorial Guinea (16%)), and to France (18%)

Liabilities

The stock of liabilities increased by 51% during 2002-4. Of these:

- FDI was the main contributor (over 60% of total by end 2004). But this masked a decline in equity after the completion of the Chad-Cameroon Pipeline and declines in the Wood, Paper, and Printing Sector, which were offset by large increases in intra-company debt stock
- "Other investment" was the second most important component comprising debt from unrelated sources (almost 40%) in the form of trade credits and other debt
- Portfolio investment was recorded, but remained low.

Investment showed the following patterns by sector of economic activity...

- By far the biggest recipient was transport, storage and communication (57%). This was followed by electricity, gas and water (8%); commerce and other services (7%); agro-industry and the financial sectors (each 6%)
- Portfolio investment was concentrated in drinks and financial sectors (reaching 89% stock by 2004)
- Over half the trade credits from unrelated sources went to the mining sector in 2004, followed by commerce and other services (20%), and the chemical industry (11%)
- Almost two thirds of other debt from unrelated sources went to transport, storage and communication, which was related mainly to construction of the Chad-Cameroon Pipeline

...And by source country ...

- Most FDI was from the USA (41% by 2004), and this concentrated in transport, storage and communication. France followed (31%), but by contrast invested widely across all sectors implying wider knowledge of opportunity. Intra-regional investors included Côte d'Ivoire, Mauritius, Nigeria, and Senegal
- Two thirds of portfolio came from the EU, although perhaps reflecting its inherent volatility, sources fluctuated, most notably with the Netherlands share decreasing from 55% to 15% of stock.

Item	Assets					Liabilities				
	Stock 2002	Flow 2003	Stock 2003	Flow 2004	Stock 2004	Stock 2002	Flux 2003	Stock 2003	Flux 2004	Stock 2004
TOTAL (incl. deposits)	2531	423	2954	603	3557	1884	617	2500	350	2850
FDI	116	104	220	135	355	1261	296	1557	154	1711
Equity	8	...	8	1	9	959	145	1104	-76	1028
Intra-company debt	109	103	212	134	346	302	152	453	230	683
Portfolio	2	...	2	1	3	7	1	8	17	25
Other	2413	319	2732	468	3200	617	319	936	179	1115
Trade credits	477	174	651	292	943	245	199	444	211	656
Other debt	15	12	27	0	27	372	120	492	-33	459
Deposits	1921	133	2054	176	2230	-	-	-	-	-

ACCESSING AND USING INTERNATIONAL FAL DATA SOURCES

Newsletter 29 considered the extent to which international compilers use FPC CBP country data, compared international datasets, and made general observations on their quality. The FPC CBP encourages countries to refer to international data so as to crosscheck them against their own national data, fill gaps, assess acceptance of national data, and compare national against wider regional and global trends for analysis and policy making. This article describes how to access and use selected international datasets, highlighting those that provide additional analytical benefit.

IMF Balance of Payments Statistics Yearbook (BOPSY)

BOPSY is the most comprehensively presented source in terms of coverage, published annually in line with BPM5, and therefore one of the first points of reference. Unfortunately it is not free to download, and needs to be purchased from the IMF. Part 1 contains country tables, Part 2 regional and global, and Part 3 metadata. The country tables in Part 1 present an 8 year time series of historic data in US\$, coded to IMF / OECD conventions:

- Table 1 gives a 1-page summary of the Financial Account's broad components
- Table 2 is a better reference point, with a 4-page breakdown of the Current Account (including investment income and transfers), Capital Account (including migrant transfers) and Financial Account (detailing the above-mentioned components)
- Table 3: International Investment Position is provided for some countries only (and presented as a time series of end-period stocks rather than strictly as an IIP)

As discussed in newsletter 29, the BOP/IIP data are taken from country sources.

IMF Country Reports

These are downloadable free from the IMF website (www.imf.org), via the "Information by country A-Z" links on the homepage. Each country page presents publications reverse chronologically, and they can also be sorted by type. They can provide very useful resources for analysis and policy, as well as more recent data than BOPSY, and data projections. But on historical data, they are

not as thorough as BOPSY or UNCTAD's FDI, and may not always be BPM5-compliant.

Article IV reports contain recent economic developments; "other issues" (which may for example include a discussion of data quality); and summary BOP indicators. *Selected Issues reports* cover topical issues. A Statistical Appendix may be published separately or attached to Selected Issues reports. In addition to summary BOP, it can include data helpful for analysis, eg on the tax system, labour and sector indicators, infrastructure, and prices. *PRGF reports* cover current and intended government policies, and can be useful for linking National Development Plans to CBP Policy Action Plans for example to sector and economic growth, regional priorities and CSR.

World Bank Global Development Finance (GDF)

Volume 1 contains the analysis and outlook which often touches on CBP-related issues, and summary tables, which may be freely downloaded from the World Bank website (www.worldbank.org). Volume 2, which needs to be purchased, contains the country tables. These comprise 10 sections with several years' time series in US\$. They do not comply fully with BPM5. Relevant items include PSED long-term debt data, net FDI, portfolio equity, profits remitted on FDI, private net transfers, and worker remittances. However, arrears and short-term debt do not distinguish private non-guaranteed debt, and unfortunately for many of the low-income countries PSED data are not reported. Data are compiled from secondary (mostly developing country) sources.

UNCTAD FDI Databases and Analysis UNCTAD compiles FDI and related information in the following databases: FDI / TNC (the primary UN source for FDI data and TNC activities); Cross-border M&A (deals and parties involved); the largest TNCs (sales, assets, employment etc); and Investment and tax treaties by country and region. Much data is freely available in different formats via the website (www.unctad.org), and can be accessed interactively (subject to free registration) with a facility to prepare data extracts.

The freely downloadable *World Investment Report (WIR)* is a good starting point. Part 1

and 2 contain global and regional analysis. Annex A presents further analytical data, and data sources and methods by country. Annex B gives FDI time series by country and region in US\$ for Inflows, Outflows, Inward Stock, Outward Stock, Flows to Gross Fixed Capital Formation, and Stocks to GDP. Additional tables distinguish Mergers and Acquisitions transactions by region / country, and sector / industry. Most of the data are obtained from national investment promotion agencies.

OECD FDI Database

The International Direct Investment Statistics Database and related Yearbook can both be obtained via the OECD site. They include summaries, and detailed tables by country and sector. However, both are subject to a charge, although it is possible to subscribe for a free trial to the Database (via www.sourceoecd.org). Countries may alternatively want to contact the OECD Investment Division direct, for information on availability and how best to access creditor sourced FDI data by country via www.oecd.org/daf/investment. This site also includes links to freely downloadable related information on codes and standards and analysis. These data are extremely valuable as a creditor-sourced crosscheck against data collected in country, and are recommended to all countries.

BIS - OECD - IMF - World Bank Joint External Debt Hub (JEDH)

This is of limited relevance to FPC CBP countries as it provides data only for SDDS countries. There are plans to extend to GDDS countries, which would make JEDH the first point of reference for countries seeking to crosscheck their own data against creditor data, because it includes creditor-sourced data from the BIS. Unfortunately the JEDH Database does not distinguish public and private sector external debt. Therefore, from the homepage (www.jedh.org), users are therefore advised to follow the "data release calendar" link, which leads to a page indicating which of the four participating institutions supply each data line. The "Contact JEDH" link from this page gives details for the person (in almost all cases from the BIS) countries should contact to obtain more detailed PSED information.

DEBT RELIEF TECHNICAL QUESTIONS

What are the best debt relief terms available from non-Paris Club bilateral creditors?

The HIPC CBP Publication No. 11, **NEGOTIATING DEBT REDUCTION IN THE HIPC INITIATIVE AND BEYOND**, will be published soon. In the process of finalising it we have updated information on what all creditors are giving as terms, finding out about considerable progress on Russian debt, non-Paris Club bilaterals, multilateral institutions and lawsuits. Below we print the new version of our table describing what non-Paris Club bilaterals are doing. Those of you who are negotiating with these creditors will probably spot some very useful precedents set by other HIPCs in these negotiations. For more details and any further assistance, please contact us at DRI.

Best Terms Agreed with Non-Paris Club Bilateral Creditors						
	TYPE OF DEBT	GRACE PERIOD	MATURITY PERIOD	BASE INTEREST RATE	"MARGIN %"	"PENALTY %"
Algeria	Concessional	7	24	2%	0	+1
Angola		No agreement to relief - creditor is HIPC and lacks resources				
Argentina		Buybacks at 8-16% of face value but rapid payment of rest				
Bulgaria	Bilateral	Comparable relief		Reduced from 5% to 0%	0	+4
	Commercial			No debt relief - see lawsuits in Chapter 7		
Burundi		No relief provided but initial threats of lawsuits dropped - see Chapter 7				
Cape Verde		No comparable treatment - debt was workers remittances				
China	Commercial	No HIPC-comparable relief		LIBOR	1	+1
	ODA	Comparable - cancels 100% of stock at end 2004 if diplomatic relations				
Colombial		MF indicates promised comparable treatment to Honduras				
Costa Rica		Agreed to provide comparable relief but still being negotiated				
Cote d'Ivoire		No agreement to relief - creditor is HIPC and lacks resources - but has dropped lawsuit				
Cuba		Cancels 100% for countries with good relations				
Czech Rep		Buybacks at 10-16% of face value - comparable with Lyons or Cologne				
DRC		No agreement to relief - creditor is HIPC and lacks resources				
Ecuador		No agreement to relief - legal constraints to cancellation cited				
Egypt		No agreement to relief				
Guatemala		Buyback of debt by Spain, then HIPC comparable relief provided				
Honduras		Indicated similar operation to Guatemala possible				
Hungary	Commercial	90% cancellation, reschedule rest over 16 years, 0 grace, 0% interest during grace				
India	ODA	Comparable - lines of credit 100% written off				
	ECGCorporation	No comparable relief		LIBOR	2	+1
Iran		No agreement to relief - cites legal constraints to cancellation				
Iraq		No agreement to relief for 7 countries - sold debt to commercials who are litigating				
Korea (DPR)		No agreement to relief				
Korea (Rep)	Concessional			Reduced from 2.5% to 1%		+2
Kuwait	Kuwait Fund	10	30	1-4.5%, reduced to 0.5-2%	0	+0
	Kuw Inv Authority	No agreement to participate in HIPC - needs to change law				
Libya		Mixture of cancellation, conversion at 20% and payment - usually not comparable				
Mexico		90.5% cancellation under HIPC I				
Morocco		Promised but not yet delivered comparable relief				
Namibia		No agreement to relief				
Niger		No agreement to relief - creditor is HIPC and lacks resources				
Nigeria		No agreement to relief				
Oman		No agreement to relief for 6 countries				
Poland		80% cancellation and 20% for embassy costs - comparable HIPC I				
Peru		No agreement to participate in HIPC - cites legal constraints				
Romania		Buybacks at 8-10% of face value but sold some debts to commercial				
Rwanda		Comparable relief for Uganda but not DRC				
Saudi Arabia	"Saudi Fund (if fully disbursed)"	10	30	Reduced from original to 1-2%	0	+0
Serbia (ex-Yugo)		Some ex-parastatals buyback at 95% discount, many seeling then lawsuits - see Chapter 7				
Slovak Rep	Commercial	6	23	0% for 10 years then 3% for 3	0	
South Africa		Cancels 100% of debt				
Taiwan		No agreement to relief for 11 countries - sued Niger - see Chapter 7				
Tanzania		Buyback of Uganda debt funded by Austria @ 10%, remainder cancelled				
Thailand	No agreement to relief					
UAE	"Abu Dhabi Fund (arrears only)"	5	12	Not comparable - 2%	0	0
Venezuela		100% cancellation for countries with good relations				
Zambia		No agreement to relief - creditor is HIPC and lacks resources				
Zimbabwe		No agreement to relief - creditor is severely indebted and lacks resources				

Sources: HIPC Governments; IMF/World Bank September 2006