

STRATEGIES FOR FINANCING DEVELOPMENT

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HIPC Debt Analysis & Strategy

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IRWS 5 URGES CLOSER CBP-BRETTON WOODS COOPERATION

The fifth HIPC CBP Inter-Regional seminar in London from 3 to 6 September focussed on current initiatives to improve debt strategies in HIPCs, by the HIPC CBP and the Bretton Woods Institutions. Its main conclusion was to urge the Bretton Woods Institutions to build on CBP achievements and work closely with the CBP implementing partners in implementing their new initiatives.

The seminar was attended by 51 director-level HIPC government officials who manage existing debt and new aid - as well as representatives of CBP Programme Implementing Partners (PIPs). On its second day, the Bretton Woods Institutions presented three aspects of their work on debt strategy: the Low Income Country Debt Sustainability Framework (LIC-DSF); support to design Country-Led Medium Term Debt Strategies (MTDS); and the World Bank's Debt Management Performance Assessment Tool (DeMPA).

On the **LIC-DSF**, HIPCs suggested:

- Producing comprehensive training materials and a technical manual, and conducting national-level training through CBP events.
- Full tripartite involvement in DSF calculations and sensitisation of policymakers, to ensure ownership of the DSF policy implications.
- Translating all tools, templates and country analyses into French, Portuguese and Spanish and making them available on the BWI websites.
- Developing simulation of financing options as the CBP has done (including benchmarks for domestic debt to avoid excessive domestic debt, the impact of improving aid effectiveness, private sector debt, contingent liabilities and subnational debt) to make the DSF more useful for debt management rather than for assessing fiscal and balance of payments sustainability.
- Additional support to HIPCs on macro forecasting (preferably via the PIPs) and supplying the DSF as part of financial programming tools to allow the development of comprehensive alternative economic scenarios
- Maximum realism in debt projections (including creditor non-participation in HIPC); and tailoring macro forecasts to accelerating growth to reach the MDGs.
- Producing public guidelines for concessionality limits and PV ceilings (just

introduced in Rwanda), and to stop creditors using DSF thresholds as ceilings.

- Supporting HIPCs on data issues especially by constructing automatic links from CS-DRMS, DMFAS and Debt Pro to the DSF tool.
- On the **MTDS**, HIPCs urged the BWIs to
- maximise the relevance of the strategy guidelines, framework and toolkits for countries with limited access to international capital markets, to ensure buy-in from political leaders and technical staff
 - include analysis of restructuring existing domestic debt, and of the impact of domestic debt policy on domestic financial markets, as the CBP already does;
 - analyse as a key risk for LICs the volatility and poor effectiveness of external aid
 - look beyond cost and risk to assess how LICs should choose financing sources and instruments (including emerging donors), building on CBP methodology.
 - assist countries to design pathways for gradually expanding market access and non-concessional borrowing, including the impact of credit ratings.
 - avoid complex less relevant tools such as asset and liability management frameworks or very detailed analysis of exchange and interest risk.
 - ensure the planned assistance to 4-6 countries per year builds capacity, by undertaking it through CBP workshops (with BWI input and quality control).

On the **DeMPA**, countries suggested:

- Making the debt strategy criterion relevant to low-income countries with limited market access, along the lines of the CBP tool, by stressing analysis of debt sustainability, new external financing mobilisation; risks relating to macro shocks, aid volatility and ineffectiveness; and domestic debt impact on financial sector development. As currently formulated, even countries with comprehensive debt strategies relevant to their needs score a D (lowest) in the DeMPA, reflecting the low relevance of the tool to their needs, rather than low capacity.
- Making all criteria objectively measurable and clearly linked to attainable best practice benchmarks.
- Tightening definitions of many criteria, and testing them with LIC debt managers before finalisation, to ensure applicability and enhance ownership.
- Including in assessments country needs to

reinforce debt management capacity (but not conditionality), to help LICs design capacity-building programmes.

- Applying the tool through country self-assessment (with quality control by CBP PIPs) to enhance ownership or (as a second best option) asking the PIPs to make the assessments, to reduce costs and demands on donors funds.
- Applying the tool simultaneously with the CBP self-assessment (or preferably merging the two) to avoid two parallel processes.

A further HIPC request was clearer design of linkages among the three aspects of BWI support. For example, MTDS and DeMPA could focus on debt sustainability issues, and DeMPA could include capacity needs (eg macro forecasting) for applying DSF and MTDS. It was also vital to implement the tools in country in ways which minimise demands on LIC staff time.

In a wrap-up session, the BWIs were urged to continue the positive atmosphere of genuine partnership and mutual learning with the CBP. DRI suggested that the CBP would be happy to work with the BWIs on a series of practical steps:

- refining DSF methodology and designing training materials (building on CEMLA's User Guide), as well as joint regional workshops for training trainers, and assisting member states with implementation at national level.
- providing input on CBP methodology for the MTDS toolkit (especially on domestic and external financing strategies), and working with the BWIs to build strategy capacity in pilot countries, building on existing CBP-assisted strategies and coordination structures.
- continue input into the DeMPA (especially on its debt strategy indicators) as well as assisting with regional seminars for PIP member states to test the tool, and by conducting the assessments of CBP member states.

The BWI representatives indicated that HIPC and PIP inputs had been valuable and that they would adapt their efforts as much as possible to the needs and views of HIPCs. They looked forward to continued cooperation with the HIPC CBP.

All presentations from the inter-regional workshop will shortly be available on the CBP website.

PALOP TFT PRODUCES TRAINERS AND MOZAMBIQUE POLICIES

The HIPC-CBP held two simultaneous events from 18th to 29th June in Maputo, Mozambique. These were a Training for Trainers (TfT) for African countries whose official language is Portuguese (PALOPs), and a Mozambique National Debt and New Financing Strategy Workshop.

The TfT was a priority for Phase IV of the CBP because, even though since 2005 the CBP had organised national debt and new financing workshops in each PALOP, in which most resource people had come from the host country or other PALOPs, some of these resource people had been promoted within Government, reducing their availability for regional or national events. Therefore, there was a need to train a new generation of trainers for all technical areas, including the new external financing analysis and domestic debt methodologies introduced during the third phase which are of more relevance to the PALOPs as they complete their HIPC external debt relief. In addition, trainees benefited from a two day workshop organized jointly with World Bank staff to familiarize them with the new Debt Sustainability Framework (DSF) for Low-Income Countries which will be used to assess their post-HIPC sustainability. During this, participants worked on an external DSF analysis for Mozambique using the BWI template to analyse its ratios.

On the other hand, early in 2007, the HIPC-CBP and Government of Mozambique (GoM) reached an agreement for DRI and MEFMI to provide intensive assistance to government officials in designing and executing a debt and new financing strategy. This capacity building project is embedded in a wider programme called the Financial Sector Technical Assistance Program (FSTAP) which is being jointly financed and implemented by GoM and 6 donors. SIDA is financing the component being implemented by the CBP. The objectives of this workshop for GoM were: to analyse its post-MDRI debt burden and sustainability (including domestic debt), to review donor policies and procedures with a view to formulating a more comprehensive aid strategy, and to design borrowing ceilings for the Medium Term Expenditure Framework (MTEF). The workshop was carefully timed so that the resulting analysis could be incorporated into the budget and MTEF preparation cycles.

The two events were held simultaneously for two reasons: the national Mozambique exercise provided a unique opportunity for potential regional trainers to work with international resource people to train Mozambican participants using the latest methodological improvements; and to take advantage of economies of scale by grouping PALOP participants and potential trainers, rather than having two workshops in the year.

Both workshops were very successful. The TfT trained 17 potential trainers from three HIPC PALOPs (Guinea Bissau, Mozambique and Sao Tome and Principe). As part of the hands on training, regional trainees took over from the resource people many of the tasks assigned to the different technical groups, and led some of the plenary sessions. They then received immediate feedback from the resource people in order to improve their training skills and techniques. At the end of the workshop the resource-people assessed that three-quarters of the trainees would henceforth be capable as national or regional trainers. Three observers from Cape Verde also attended the workshop to familiarise themselves with potential methodology for an upcoming event which will be financed by the Government and UNDP-Cape Verde to design a debt strategy for Cape-Verde as it graduates from least-developed country status.

At the same time the Mozambique national workshop provided key policy conclusions:

1. Mozambique's post-MDRI external debt ratios (analysed using the DSF methodology) are sustainable over the next 20 years in all foreseeable macro-economic scenarios, especially if all creditors participate in HIPC relief. Mozambique could also afford to borrow limited amounts on less concessional terms (with a grant element between 35% and 50%) or even on non-concessional terms to finance high-return infrastructure projects. However, if Mozambique borrows substantial amounts of non-concessional loans, and Non Paris Club bilateral creditors continue to refuse to provide debt relief, or it continues to be hit by regular exogenous climatic shocks, Mozambique's external debt could rapidly become unsustainable, making it essential that any non-concessional borrowing is thoroughly analysed in advance.
2. Mozambique's domestic debt is highly sustainable, though it needs to continue to keep inflation low and encourage

broadening of the domestic debt market to reduce real interest rates. It should also consider broadening the objectives of its domestic debt policy by issuing regular small annual amounts of medium and long-term government bonds in order to encourage financial sector development, as well as introducing repo and reverse repo operations for monetary policy purposes.

3. Mozambique has substantial scope to increase the quantity and quality of donor aid, and needs such an increase in order to reach all the MDGs. It should be able to increase annual aid flows by at least 2% of GDP during the next three years in order to fund its MTEF, before gradually reducing aid dependence by 2015. Reviewing donors and creditors existing policies and procedures, and designing and National Aid Policy (NAP). The NAP incorporated concrete aims and objectives to dramatically improve the quality of aid reaching Mozambique. It is intended that these concrete objectives, once approved, will serve as basis for discussion with donors.
4. For the first time in a PALOP workshop, Mozambique calculated potential borrowing ceilings for its budget and MTEF, taking into account its financing needs, offers from potential lenders and macro-economic and spending absorptive capacity. It is intended that these borrowing ceilings, once agreed, will be incorporated into the budget submitted to parliament for final approval.
5. There is an urgent need to update Mozambique's debt management legal framework to clarify institutional responsibilities, enhance coordination among units, cover new types of instruments, and especially ensure that debt strategy analysis is regularly conducted, approved by Cabinet and discussed with the budget in parliament.

After the workshop itself, two of the international resource people worked with a core national technical group to produce two main outputs: a national debt strategy, and a national aid policy. These documents were discussed at a sensitization seminar - at the level of director general- at the end of the week. The next steps in the Mozambique programme will include the approval of the debt strategy and more work on aid policy.

AID EFFECTIVENESS: BETTER INDICAT HIGHLY EF

DRI has recently updated the overall HIPC CBP analysis of the effectiveness of aid to HIPCs, based on HIPC officials' assessments of donor and creditor policies and procedures, conducted as part of HIPC CBP national debt and new financing strategy workshops.

1) Methodology

The methodology for analysing donor performance is designed through a consultative process with HIPC government aid managers and Ministers, and was revised and updated in 2006 to reflect HIPC priorities as well as changes in the international aid architecture such as the Paris Declaration on aid effectiveness. As a result the methodology is now comprised of 34 criteria, grouped under 22 headings. While it now includes detailed evaluation of progress against the Paris Declaration's aid effectiveness indicators, the methodology goes beyond this to cover policy and procedural issues important to HIPCs, such as concessionality, conditionality, flexibility to provide financing to overcome exogenous climatic or economic shocks, and coverage of all key sectors of the national Poverty Reduction Strategy.

The methodology also provides more precise definitions of some indicators which proved problematic for the OECD in executing the recent Paris Declaration baseline survey, such as HIPC-designed definitions of what constitutes HIPC-led and genuinely capacity-building technical assistance; as well as wider definitions for indicators such as predictability (which is measured by multi-year programming, setting precise disbursement timetables during the year, and meeting them); and comprehensive analysis of the problems caused by procedural conditions precedent (including counterpart funds), and donor disbursement and procurement procedures. All indicators are quantified by benchmarking against donor best practices including the Paris Declaration commitments.

2) Overall Results

The overall results of this updated analysis (as shown in Charts 1 and 2) are as follows:

- Overall donor performance is marginally

better on policy compared with procedural issues.

- Some HIPC priorities for improving donor behaviour are different from those which have quantifiable targets under the Paris Declaration process. In particular, HIPC governments identified four of the worst areas of donor and creditor performance as being:
 - insufficient flexibility to provide finance to help countries combat exogenous climatic or economic shocks (with less than 10% of aid set aside for this purpose);
 - excessive levels and inflexible enforcement of conditionality (an average of 20+ conditions on budget and sector support programmes);
 - lack of multiyear programming and annual disbursement schedules for around half of aid; and
 - counterpart funds requirements for around 30% of aid which delay disbursements by an average of 5 months.
- For several areas, HIPCs are much less positive in their assessment of donor progress than the Paris Declaration Baseline Survey. This is especially true for the degree to which technical assistance is country-led and capacity-building (24% compared to 48%); use of programme-based approaches (35% vs 43%) donor use of country systems (29% vs 40%) and harmonisation of missions jointly with other donors (7% vs 18%). These differences may also reflect less clear definitions in the Paris Survey, resulting in donors assessing

themselves, and different countries covered.

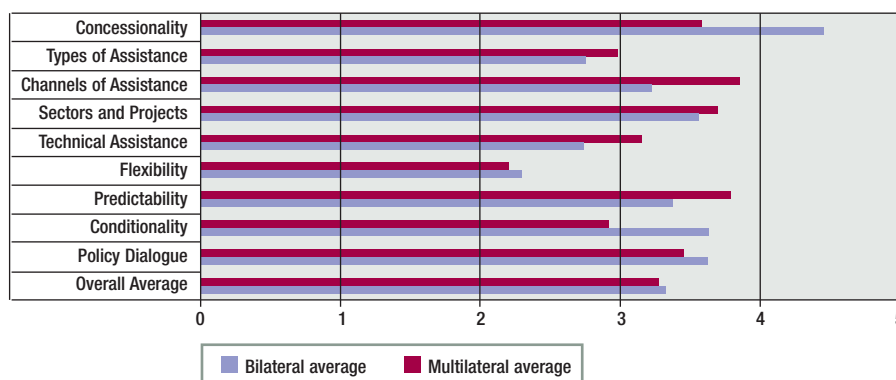
- HIPCs have a very different view of what constitutes genuine "mutual accountability" compared to donors. They feel that many current accountability mechanisms are not really "mutual" because a) there are far more monitorable indicators for the HIPC than its donors; b) the mechanism includes no process through which the HIPC assesses its donors (though some have independent assessors, these assessors themselves often complain about the lack of a firm base of HIPC-provided data and analysis on what donors are doing; and c) many mechanisms apply to only some donors or some types of aid (eg budget support).
- Overall, bilateral donors and creditors score slightly better than multilaterals. Bilaterals provide more concessional aid with lower conditionality, fewer procedural conditions precedent and less complex disbursement procedures. Multilateral institutions are better at providing aid that is on-budget, predictable and untied, and technical assistance that is country-coordinated and builds capacity. From a HIPC point of view, there is no a priori preference for one type of donor.

3) Results for Individual Donors

In terms of individual donors and creditors, the main outcomes are as follows:

- the best performing multilaterals overall according to HIPC assessments are IDA, the in-country and coordinated UN

Chart 1: Donor Policies



ORS NEEDED, NON-OECD AID OFTEN EFFECTIVE

Chart 2: Donor Procedures

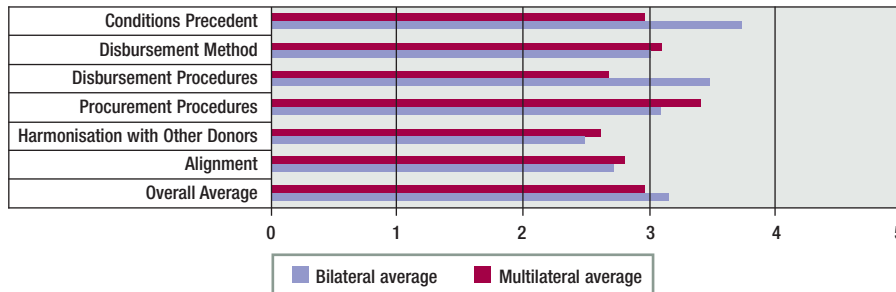


Chart 3: OECD vs Non-OECD Bilateral Donor Policies

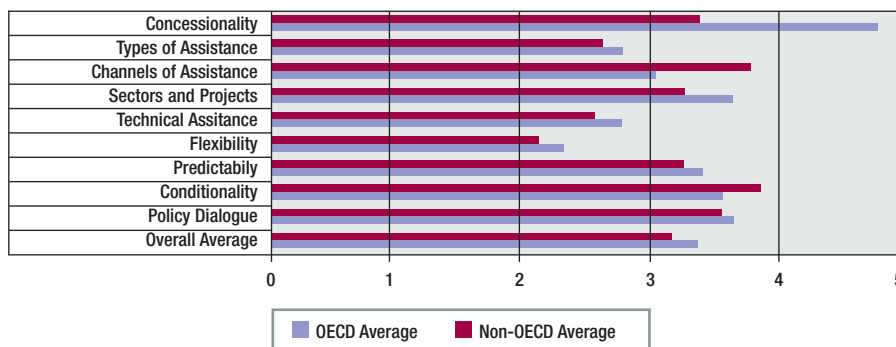
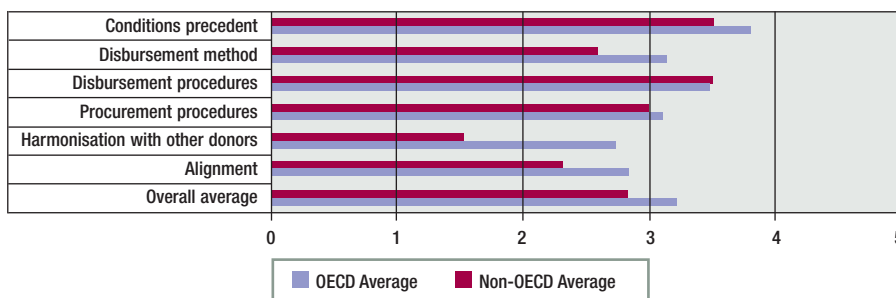


Chart 4: OECD vs Non-OECD Bilateral Donor Procedures



less conditionality. On procedural issues, traditional bilateral donors score more highly and in particular they are better harmonising and aligning their aid than non-traditional donors. The performance of individual non-OECD donors also seems to be even more variable across HIPCs than that of OECD donors. However, average differences between OECD and non-OECD donors are much smaller than international debate (provoked by high profile negative examples of non-OECD aid) suggests.

4) Implications for Future Aid Effectiveness Actions

What are the implications of these findings for future steps to improve aid effectiveness?

- Indicators are needed to define donor progress on increasing flexibility, multiyear programming, disbursement scheduling, and reducing conditionality and counterpart funds requirements.
- Clearer indicators and closer monitoring (including a stronger input by HIPCs themselves) are needed on such areas as capacity-building, programme-based approaches, use of country systems and harmonisation of missions.
- Much more effort is needed for genuine mutual accountability, through accountability systems which provide a greater balance of monitorable indicators between HIPCs and their donors, apply to all donors and types of aid, and are implemented by building HIPC country capacity to monitor and analyse their donors' performance.
- All donors need to improve their performance, and reduce its variability across countries.
- Some donors are making virtually no progress on aid effectiveness and therefore risk "free riding" on improvements by others. It is essential to set realistic targets for improving each individual donor's performance.
- The reasonably high effectiveness of non-OECD aid indicates strong prospects for expanding the dialogue on effectiveness to include them more fully.

Forthcoming meetings of the UN ECOSOC Development Cooperation Forum and OECD Global Development Forum, and the Accra High-Level Forum in 2007/08 should pay attention to these issues.

- agencies, the EU, IFAD and the IMF the best performing bilaterals overall include the UK, Netherlands, Ireland and Sweden from amongst the traditional OECD DAC donors.
- however, even the best-performing donors remain weak in some areas,
- there is a high degree of variability in performance among donors (with some major DAC donors and multilateral organisations well below average) and for the same donors in different HIPCs.

One internationally controversial recent issue has been the emergence (or dramatic expansion) of aid programmes by non-OECD donors. HIPCs also assess India and Venezuela (and in some countries China and Taiwan) as being above average performers and better than many OECD donors. As shown in Charts 3 and 4 above, OECD bilateral donors provide more concessional resources to HIPC priority sectors and projects, whereas non-OECD donors provide more resources on-budget, with

This was the second successful workshop in the series requested by the Government of Bolivia to implement the methodology designed by CEMLA, to help subnational governments analyse the fiscal and financial sustainability of their debts. It took place in La Paz, from 2 to 9 July 2007, with participation by 18 staff of the Municipal Autonomous Government of La Paz.

General Objective and Methodology of the Workshop

The objective of the Workshop consisted of developing staff capacity in the Municipal Government of La Paz (GMLP in Spanish) for analyzing public finance, and was especially focused on debt sustainability analysis. This event was preceded by a Preparatory Mission intended to compile the debt database and basic fiscal information, besides training the participants on those concepts that are most relevant for fiscal and debt analysis, so as to count on basic and relatively standardized knowledge prior to the Workshop.

The methodology developed as follows: (i) during

the first morning both the authorities and CEMLA introduced the issues to be addressed in the Workshop and provided the working guidelines for the participants; (ii) from the first afternoon to the third day, the government officers grouped in teams according to their respective specialization in order to perform such initial technical and analytical tasks as reviewing recent debt and financing developments, analyzing fiscal variables, and scenario-designing; (iii) the fourth morning was devoted to presenting various scenarios and the technical work performed on previous days; (iv) between the fourth and sixth day the results were produced, analyzed, and adjusted, and the analytical report was drafted; time was also devoted to fiscal and financial management self-assessment, and (v) during the seventh morning the report and results were presented during a session attended by the competent authorities.

Workshop Results

In general terms, the results of this event were quite satisfactory and allowed for achieving both the general and specific objectives.

Its products included the analytical report, the creation of a comprehensive debt database, the

design of financial flows for public finance analysis, debt microeconomic and sustainability analysis, and the improvement of institutional coordination. The Fiscal and Debt Management Capacities were also assessed using the methodology designed by CEMLA.

The intensive work carried out by staff members was very fruitful as far as results and conclusions were concerned, such as:

- After the unsustainable debt experienced some years ago, the GMLP currently counts on a sustainable fiscal and debt situation thanks to resource increase and implemented adjustment policies. Consequently, the GMLP ranks as an example of financial management in both Bolivia and South America.
- Despite the above, the GMLP reflects a notorious dependence on resource transfer from the Central Government.
- On the other hand, there is some asymmetry between the progress made on fiscal-financial management and investment implementation capacity, which might suggest the need for institutional re-engineering.
- Current GMLP income policies should be



Presenters at the Subnational workshop in La Paz, July 2007

WORKSHOPS MOVE FORWARD

supplemented so that the expectations on self-generated income collection could be implemented as projected.

- Some macroeconomic and political factors might affect the resource generation needed for the fulfilment of municipal responsibilities, which would translate into the need for a larger funding and might jeopardize GMLP fiscal and financial sustainability.
- Due to the remarkable progress in fiscal and financial management that gave rise to more complex operations, the GMLP considers the development of an IT system for Debt Management to be essential.
- To replicate this exercise at least once a year.

Workshop Evaluation

The participants evaluated the Workshop on the basis of three comprehensive areas: (i) presentations made; (ii) group work, and (iii) organization.

As far as presentations are concerned, 90 percent of participants agreed on their usefulness, as the

issues addressed clearly reflected the objectives of the Workshop and the GMLP fiscal-financial situation, as well as the results expected by municipal authorities.

The aspects evaluated in the work of technical groups were mainly three: (i) task simplicity; (ii) Manual usefulness, and (iii) the assistance of instructors. In such connection, 59 percent of the participants considered that technical tasks were simple, while 37 percent thought they were complex. Concerning the training Manual, 53 percent of the participants stated that it had been very useful for their work, while 45 percent considered it just useful. In connection with instructors, 71 percent of the participants qualified their support as significant.

As far as the organization was concerned, the following aspects were evaluated: (i) duration; (ii) technical-administrative organization, and (iii) usefulness of the Workshop. 56 percent of the participants considered that the duration of the Workshop had been adequate, 33 percent

thought it was insufficient, and 11 percent deemed it too lengthy. 84 percent qualified the technical and administrative organization as good or fair, while 89 percent considered that the knowledge acquired during the event will be very useful or useful for the fulfilment of their responsibilities.

On the other hand, the participants also made comments on the usefulness of the event, i.e., that it was an opportunity to acquire knowledge and apply it in their daily work, thus enabling them to analyze public finance and widening their approach to municipal financial management. They also highlighted the importance of improving coordination among the various GMLP working areas.

Finally, the participants noted that it would be very useful to receive the working manuals two weeks in advance, in order to become familiar with theoretical issues prior to the event and to have time enough for preparing the relevant information.

PUBLIC DEBT CULTURE IN THE FRANC ZONE



In September 2003, the economy and finance ministers of CFA franc zone countries committed themselves to work for the development of a real public debt management culture. This followed the realisation that the public debt crises experienced by member states stemmed from structural problems linked inter alia to an erroneous perception of the goals of public debt management. This article sets out to show how the absence of a genuine public debt management culture impacts negatively on the systems in franc zone countries, and to highlight Pôle-Dette's contribution to enhancing the public debt management culture.

I - CAUSES AND CONSEQUENCES OF THE ABSENCE OF A GENUINE PUBLIC DEBT MANAGEMENT CULTURE

A critical look at the public debt management practices of OECD and some emerging countries shows that they all have very dynamic and efficient debt management mechanisms. The strengths of these mechanisms lie in the clear definition of public debt management objectives, debt strategies designed to guide decisions to borrow, risk management systems aimed at minimizing the cost of public debt and keeping risk at acceptable levels, transparency in debt management and financial forecasts (especially the provision of complete and detailed information to the public), the accountability of debt managers, and a comprehensive legal and institutional framework in line with international standards.

Why is this lacking in the franc zone?

The different practices in franc zone countries stem primarily from their different financial commitments. OECD countries contract their debt mainly from financial markets under conditions of free international

competition. They are therefore very careful to reduce the administrative costs associated with debt management, and the risk premiums accepted for their issue of government securities. On the other hand, the bulk of franc zone countries' debt consists of concessional loans from multilateral lending institutions or foreign governments. The resulting low cost and risk (the loans generally carry a fixed and moderate interest rate) do not lead the debtor countries to take the same precautions as OECD countries in managing their debt. In addition, some franc zone countries consider public debt only as a means for countries to find financial resources, at any price, to meet their financing needs. The numerous external debt relief initiatives by the international community since the early 1980s have also led franc zone leaders to believe that most debts will eventually be cancelled.

These considerations result in inefficient public debt management mechanisms which are characterized by: numerous institutional shortcomings compared to international standards; absence of real debt strategies on which decisions to borrow can be based; poor coordination of debt management with macro-economic

PUBLIC DEBT CULTURE IN THE FRANC ZONE *(continued)*

and financial management; and marginalization of policy formulation in favour of resource mobilization, debt accounting and recording.

II - CONTRIBUTION OF PÔLE-DETTE

Several factors underline the need for a stronger debt management culture in the franc zone. These include: the attainment of HIPC completion point by a number of countries (so that they can receive no more debt relief); the appearance of “emerging” creditors who grant sometimes non-concessional financing; and the growing issuance of public securities on regional financial markets. These new conditions make it imperative to improve debt management: as a result, Pôle-Dette has redirected its capacity-building programme to focus on the following five strategic areas:

- **reform the legal and institutional framework to bring it in line with international standards:**

Pôle-Dette took stock of the existing legal and institutional framework to identify reforms needed, and then worked with the Member States, central banks (BCEAO and BEAC) and their community organizations (the WAEMU Commission and CEMAC Executive Secretariat) to adopt for each sub-region a regulation for a generic public debt management framework. This is being supplemented at country level by instruments which

specify the rationale of public indebtedness, the modalities for contracting new debts and the consequences of debt for medium and long-term economic development.

- **foster the systematic formulation of public debt strategies and the demarcation of debt policies:**

Pôle-Dette encouraged its Member States to set up National Public Debt Committees. These bodies coordinate debt management with macro-economic policies. Their main duties are to craft, at the start of every year, a borrowing strategy to guide the authorities' decisions, determine the indicative terms and annual ceilings of new debts and preserve debt sustainability. A special training programme assists their members.

- **promote the middle office function within public debt management:**

This function covers debt policy analysis and formulation, and has been supported by seminars and workshops devoted to the analysis of debt sustainability, formulation of new external financing strategies, policies for issuing bonds, and restructuring external debt. Special training sessions were also organized for lawyers, to enhance their debt management role.

- **sensitize decision-makers to the benefits of**

efficient public debt management: This was achieved through specific seminars for decision-makers, publications, direct discussions with decision-makers during institutional missions, and stronger partnerships with other decision centres (regional economic communities and central banks) that shape economic and financial decisions within the region, through the governing bodies of Pôle-Dette and official meetings of the franc zone;

- **place fiscal sustainability at the top of the agenda of economic policy officials:** the generic framework for public debt policies in the franc zone will require member countries to adopt, as an annex to their budget laws, debt strategies clearly indicating their debt sustainability profile over the next 15 years, and prompt the countries to be more transparent in debt management, so that financial markets will be able to better appraise the risks associated with lending to each debtor country.

The goal of these actions by Pôle-Dette is to preserve franc zone countries' debt sustainability beyond HIPC completion points and reduce their dependence on foreign aid. This will occur through better protection against external shocks, more accurate forecasts of financial difficulties, and more efficient use of resources mobilized to support development.



COMPREHENSIVE REGULATION OF SUB-NATIONAL DEBT

Recent experience in major global economies (the US, Brazil, Mexico and Russia) and in LICs such as Bolivia and Nigeria indicates that fiscal risks incurred by sub-national governments can endanger 'central governments' public finances and macroeconomic stability. One important lesson learned from the experience of growing decentralization in some countries is that a country's debt sustainability and public financial system suffers when sub-national governments expose themselves to excessive risk and unchecked borrowing. Sub-national debt crisis also increases risks to the health of a country's private sector financial system, and can damage the overall national credit rating.

In most developing countries, central governments lack the information needed to monitor the fiscal risks of sub-national governments. However, some countries have established systems to monitor and regulate such borrowings and risks. These systems assess sub-national fiscal health and call for central government attention and possible intervention if predetermined indicators of fiscal imprudence are exceeded. In developing countries such systems also provide useful information for sub-national credit ratings. Building on CBP experience working on sub-national debt issues in Bolivia and Nigeria, this article describes several country experiences with regulating sub-national debt and makes a case for comprehensive action to ensure that it remains sustainable.¹

1. Ohio's Fiscal Watch Program

As a result of the defaults of New York City in 1975 and Cleveland (Ohio) in 1978, in 1979 the US state of Ohio, in a path-breaking move, launched a local government monitoring system called the Fiscal Watch Program. The program, implemented by the Office of Auditor of the State, covers local governments in Ohio—defined to include counties, municipalities, school districts, and state universities and colleges. In simplified terms, the risk indicator is that if a local government's accrued deficit exceeds one-twelfth of its annual revenue, the state auditor issues a fiscal watch warning. Once under fiscal watch, local authorities and agencies are required to limit spending and build reserves. During this process the Office of Auditor of the

¹ This article draws heavily on World Bank PREM note March 2002 number 64 and work by the PREM Lead Economist Li Li Liu, see <http://siteresources.worldbank.org/PGLP/Resources/Wed3LiliLiu.pdf>.

State provides advice, such as in the form of a performance audit indicating options for budget cuts and operational improvements. If the situation worsens, a local government may experience a fiscal emergency- defined by Ohio state code as occurring when, among other things, there is more than a 30-day default on a debt obligation, a failure to pay employees within 30 days, or a deficit or overdue amounts payable exceeding one-sixth of the previous year's revenue. Once a local government is declared to be in emergency, the state is required to establish a financial planning and supervision commission. The commission has the power to review all of the local government's tax, spending, and borrowing policies, bring civil actions to enforce the fiscal emergency law, and ensure proper accounting and reporting.

2. Experience of Brazil

In the 1990s, after three sub-national debt crises, Brazil began tightening controls on sub-national borrowing. The central government now restricts both the demand for and supply of sub-national debt. For instance, sub-national governments are not permitted to borrow from their own enterprises or suppliers; total debt cannot exceed the capital budget; new borrowing cannot exceed 18 percent of net current revenue; debt service cannot exceed 13 percent of net current revenue; the debt stock should be less than 200 percent of net current revenue; indebted governments should maintain a primary surplus; defaulters should not borrow further; outstanding guarantees should not exceed 25 percent of net current revenue, borrowing in anticipation of future revenue should not exceed 8 percent of net current revenue; new bond issues (other than rollovers) are prohibited; and at least 5 percent of all bond issues should be retired at maturity. The central bank is authorized to control the amount of credit supplied to sub-national governments by domestic banks and to advise the Senate on sub-national borrowing practices. The Senate, however, is free to bypass legal restrictions on borrowing, which makes the control mechanism vulnerable to political pressures.

3. Colombia's "traffic light" system

During 1993-97 Colombia established a system which links each sub-national government's debt to its payment capacity. Two indicators act as "traffic lights"- alerting the central government to potentially excessive sub-national debt. The first indicator, the ratio of interest payments to operational savings, shows a sub-national

government's liquidity burden. The second, the ratio of debt to current revenue, measures debt sustainability. Sub-national governments facing a yellow or red light are able to borrow only with permission from the Ministry of Finance and a performance agreement with the lender. The performance agreement sets binding targets for revenue increase, spending cuts, current surpluses and debt profile.

4. The Need for a Comprehensive Framework

Successful management of sub-national debt requires a comprehensive regulatory framework. This should include ex ante controls and ex post insolvency frameworks, both of which need to be applied to the potential borrowers, lenders and others (such as central government) which may contribute to causing or resolving the crisis. It is vital to make clear up front the ex-post consequences of a sub-national debt crisis for both borrowers and lenders, to provide incentives for ex ante caution by central government, prudent lending and reducing contingent liabilities, which will limit risks of debt crisis.

Ex ante controls on governments (such as those in Brazil, Colombia, India, Mexico, Peru and South Africa) take the form of debt ceilings, deficit targets and restrictions on international borrowing (to reduce exchange rate risk), as well as specific regulations by central government to limit sub-national borrowing, based either on the fiscal capacity of the borrower or on limiting borrowing to long-term capital investments. Borrowers also require ex ante regulation by supervision agencies, preventing the central bank and commercial banks from providing financing, tightly rationing any systems through which they provide credit to subnational governments, and increasing capital requirements for lending to risky sub-national governments. Central governments can also insist on procedural measures such as medium-term fiscal frameworks, transparent

budget processes involving independent audits, and disclosure/inclusion in the budget of contingent liabilities. They can also help to provide capacity-building analytical support to subnational governments.

Ex post insolvency frameworks (such as those in Brazil, Hungary, South Africa and the US) can include clear and closely monitored insolvency triggers; strict limits on the degree to which the central bank, the central government or the international community can finance sub-national governments or lenders (temporarily or through permanent bailouts) including refusal by the central government to accept subnational debt or to make any transfers to subnational governments for debt service payments; clear and fast acting insolvency procedures involving burdensharing by creditors and debtors; and sensitive use of adjustment to increase fiscal sustainability, which maintains essential spending and takes account of restrictions on sub-national governments such as limited revenue-raising powers, dependence on central government transfers, and the influence of central government policies such as wage rises or tax exemptions for donors/investors. It also needs clear regulations requiring capital write-offs and provisions for losses incurred by lenders of subnational debt.

The main advantage of regulating sub-national borrowing, especially when accompanied by appropriate incentives and capacity-building programmes, is improved behaviour by sub-national governments which show increased commitment to fiscal discipline, accountability for use of taxes, fiscal transparency and coordination with central government. Improved lender behaviour should improve subnational access to the capital market, facilitate financial market reforms, increase availability of infrastructure financing and (in case of crisis) allow transparent debt restructuring.

COLOMBIA'S "TRAFFIC LIGHT" SYSTEM			
Indicator	Autonomous debt - a green light	Intermediate debt - a yellow light	Critical debt - a red light
Liquidity indicator			
<i>Interest/operational savings*</i>	<40%	40-60%%	>60%
Solvency Indicator			
<i>Debt/current revenue</i>	<80%	<80%	>80%
*operational savings are defined as current income minus expenses and transfers paid by the sub-national government Source: World Bank PREM notes March 2002 number 64			

Regional Workshops / Seminars
PALOP Training for Trainers Regional Workshop (See page 3)

MEFMI Debt Sustainability Framework for Low Income Countries (Windhoek, Namibia, 2 - 10 July). The workshop, which was jointly organized by MEFMI and the World Bank, drew 30 participants from 10 MEFMI member countries (HIPC and non-HIPC Low Income Countries). Experts from the World Bank and the International Monetary Fund led the training, with DRI and MEFMI also providing presentations and facilitators.

The main purpose was to provide a deeper understanding of the Debt Sustainability Framework for Low Income Countries methodology developed by the IMF and the World Bank, while also addressing the differences between this methodology and the one used under the HIPC Initiative. Day one was dedicated to a “HIPC clinic” for all MEFMI members that have benefited from the HIPC initiative. It discussed the remaining challenges for obtaining HIPC external debt relief, especially from non-OECD creditors, and implications for debt sustainability and country risk perceptions. For the remaining 6 days, participants analysed the sustainability of their countries’ debt using presentations, case studies and “hands-on” sessions using the DSF templates. Each session clearly established the differences between the DSF and the HIPC methodologies.

National workshops
Bolivia (2-9 July) - Subnational Workshop for La Paz (See article page 6).

Mozambique (16 June - 6 July) - (See article on page 3).

Nigeria DSF (Abuja, 16-20 July). DFID Nigeria funded WAIFEM to organise a workshop on the BWI DSF-LICs. Its objective was to produce a national Debt Sustainability Analysis to guide Nigeria’s debt management strategy and avert future debt sustainability problems. It was attended by 44 government and civil society officials, and facilitated by 5 resource people from WAIFEM, DRI and the Nigerian Debt Management Office (DMO).

The results showed that public external debt PV/GDP and PV/Revenue ratios would remain below Nigeria’s DSF thresholds (30% and 200%) in all scenarios. However, total public debt (including an estimate of 3.5% of GDP for contingent liabilities) will be considerably less sustainable, breaching the DSF external debt thresholds in 2008 with export price shocks, or in 2011 under the most extreme stress test. In addition, public debt service/budget revenue exceeds 15% in all shock scenarios, and in all scenarios in 2007-09, reflecting service due under the external debt exit deal.

The policy implications of the workshop were that Nigeria needs to:

- Develop a framework for managing contingent liabilities.
- Design appropriate limits on sub-national borrowing in the Fiscal Responsibility Act.
- Diversify Nigeria’s export base by continuing current reforms.
- Establish a mechanism for monitoring and analysing private sector debt.
- Focus future borrowing on concessional loans to finance high-quality development programmes, in order to strengthen debt sustainability further.

Niger (6-17 August, Niamey). Pôle-Dette and DRI organised a national workshop with three main aims: to define a strategy to clear Niger’s domestic debt arrears and issue future domestic debt instruments; to fix external borrowing thresholds and concessionality limits for the budget; and to design an aid strategy for discussion with development partners in forthcoming alignment and Round Table meetings.

The main conclusions of the workshop were:

- Niger has strong prospects for higher growth and budget revenue mobilisation if it can capture a fairer price for its uranium exports and diversify its export base.
- Nevertheless, it needs to increase aid flows by 50% a year for each of the next three years if it is to mobilise sufficient financing to attain the MDGs.
- Niger’s external debt is sustainable, and it can reduce its minimum grant element on new borrowing from 50% to 35% without compromising this sustainability.
- Domestic debt arrears would be best

cleared by refinancing through issuing 10-year bonds, saving substantial fiscal resources compared to current cash payments.

- Donors need to make much more progress on aid effectiveness, especially increasing predictability, budget support, capacity-building, and reducing conditionality, separate procedures, PIUs and counterpart funds.
- Niger needs to improve its management of aid for development results, coordination and mutual accountability with donors, and coordination within government.

Senegal (11-22 June, Dakar). Pôle-Dette and DRI organised a national workshop to define a strategy to mobilise the most effective financing to support Senegal’s development and poverty reduction strategy, while keeping debt levels sustainable.

The workshop results indicated that (i) Senegal’s recent sustained economic growth has allowed it to reduce poverty significantly; (ii) its public debt will stay sustainable over the medium-to-long term (after HIPC and MDRI) if it gives priority to mobilising concessional financing; (iii) UEMOA’s regulatory framework needs to be reviewed to encourage long-term domestic financing through the creation of a secondary market in government bonds, to reduce bond interest rates; (iv) Senegal needs to continue diversifying exports to fulfil all international market opportunities, and to improve the legal and fiscal environment, and build infrastructure, necessary for private investment.

Most important, analysis of the scale of expenditures needed to reach the Millennium Development Goals, compared to potential growth of budget revenue and domestic financing, underlines the need for Senegal to mobilise additional external financing. To this end, Senegal’s plan to establish a multi-donor budget support agreement between the government and its development partners should help increase donor commitments and disbursements of programme support and national absorption of the resources.

Zambia (23-31 July, Livingstone). This workshop aimed to update the 2004 national debt strategy, and to provide

FORTHCOMING ACTIVITIES

comprehensive support to Government in four areas:

- training external resource mobilization staff to evaluate donor/creditor policies and procedures, using the CBP methodology, and to simulate the impact of future donor behaviour on Government financing and debt sustainability;
- updating the external debt policy in a post-HIPC and post-MDRI context, including recommending minimum grant elements and borrowing ceilings;
- analysing the impact of various domestic debt scenarios on debt sustainability;
- providing comprehensive training in debt strategy issues to maintain a sustainable team capable of updating Zambia's debt strategy regularly.

Prior to the workshop, a mission from July 18-21 validated Zambia's external debt database at end 2006 (particularly implementing the MDRI), reconciled national domestic debt databases, and prepared the macroeconomic base case scenario.

The Zambian team ran DSA results using both the HIPC-CBP and BWI DSF methodologies, and produced the first draft of a debt strategy report. A final report will be presented to senior Government officials at a sensitisation seminar in September, where its results and recommendations will be discussed for approval and inclusion in budget processes.

Institutional/Follow-up Missions

Pôle Dette. As the next step in the programme of « preventive » debt management, institutional support missions went to Brazzaville (**Congo**) and N'Djamena (**Chad**) from 10 to 22 June, and to Moroni (**Comoros**) from 22 to 31 July. These missions aimed to: (i) present to the authorities the reference framework for public debt management for the CEMAC and UEMOA member states, and sensitise them to the need to own and rapidly apply international debt management best practices by reinforcing legal and institutional arrangements to keep their debt sustainable over the long-term; (ii) assess progress in executing the recommendations of previous institutional missions; and (iii) agree with authorities on additional legal reforms compatible with the reference framework.

The missions found unqualified support from the authorities for executing the measures implied by the reference framework. In particular, it will rationalise the negotiation, agreement and management of government borrowing, which has been a constant concern of the countries. The legal form of the framework also explains much of the welcome provided by the authorities, because it has been specifically designed to overcome national problems and to be adapted to different national structures.

Methodology and Distance Learning Methodology

The HIPC CBP has updated the Debt Strategy and Training for Trainers manuals. These methodological updates are for now available in English, French and Portuguese on the Technical Resources pages of www.hipc-cbp.org. The Spanish update will be posted at a later date. In addition work is almost complete on a compendium of donor best practices which is designed to assist countries to maximise donor alignment with their aid strategies.

Distance Learning Programme

As quite a number of students are coming to the end of their study pathways, the CBP is preparing for the first of the residential schools. The residential schools are two-week workshops whereby the students build on the work of the modules already completed to finalise debt and new financing strategies and to analyse the results. The first two residential schools will be for English students in mid-November and Spanish students in December. The French and Portuguese residential schools will be held in 2008.

Staff changes

Pôle-Dette has recently recruited three technical macroeconomic experts:

- **Appolinaire HOUENOU** (Benin), previously Head of the Research and Statistics Unit in the Ministry of Development, Economy and Finance
- **Gabriel NGAKOUMDA** (Cameroon), previously Deputy Director of Financial Operations in the Ministry of Economy and Finance.
- **Gervais Magloire DOUGOPOU** (CAR), previously Permanent Secretary of the PRSP Committee in the Ministry of Economy, Planning and International Cooperation.

The CBP welcomes all these new staff and looks forward to their contributions.

Future Activities

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

1. The fourteenth **HIPC Ministerial Meeting** in Washington on October 19
2. **Regional Workshops:** Interregional Workshop, CEMLA Domestic Debt Regional Workshop, Caribbean Sub-regional Workshop on DSF, Pôle Dette Training for National Debt Committees and Domestic Debt Regional Workshop; 19th Steering Committee Meeting, two CBP Distance Learning Residential Workshops
3. **National Workshops:** Bolivia (Sub-national Debt for two municipalities), Central African Republic, Rwanda (on Aid Negotiation) and Uganda
4. **Institutional/Follow-up Missions:** Benin, Burkina Faso, CAR, Congo, The Gambia, Guinea, Guinea-Bissau, Mauritania, Mozambique and Togo; as well as 2 missions and a workshop under an EU-funded project for Guyana and 3 missions under a Swiss-funded project for Kyrgyz Republic.
5. **Attachments:** a 10 day attachment of a MEFMI fellow specializing in Domestic Debt to DRI and of a MEFMI staff member to the BWIs, two attachments of Pôle Dette experts to DRI, and attachment of CEMLA staff to the BWIs on the DSF.
6. **Information products:** newsletters 33 and 34, 4 listserves on latest debt management developments, and publication 12 on best practices in debt management institutions.

Countries participating in the FPC CBP have been making significant advances in collecting FPC data through surveys. But before embarking on surveys, they are advised to assess the availability and quality of data from non-survey sources. These cannot replace enterprise surveys in small open economies, because the availability and quality of the data they produce varies widely and cannot fulfil government needs. However, “non-survey reporting mechanisms” (NSRM) can help with the collection of FPC data in several key ways. These include: updating an investor register, defining a survey frame, designing a sample, removing duplicative questions from a survey, identifying firm and sector level issues to investigate in a survey, cross-checking firm level or aggregate data, and providing cross-comparisons in analysis. Thus, NSRM is a major focus of the current phase of the CBP.

This article addresses the main types of NSRM (national, regional, and international); the problems with availability and quality of data, and possible solutions to these challenges; and strategies for compilers and users to benefit most from NSRM.

In order of their usefulness for FPC, national NSRM comprise government sources (direct reporting via exchange controls, banking supervision, stock exchange, and government agencies), private sources (eg, financial statements, private sector associations), and others (eg, donors, embassies, and the media). Regional NSRM include data collected by other countries and regional bodies. International NSRM includes data collected from creditors or investors (by eg the BIS or OECD) - but these were discussed comprehensively in Newsletter 31.

1) National NSRM

National NSRM have several advantages. They are cost effective compared to enterprise surveys; and can provide data more quickly or regularly if

effective systems exist (eg for online reporting) or exchange controls remain (allowing direct reporting through the banking system), assisting moves to SDDS (Special Data Dissemination Standard) They provide a valuable crosscheck to survey data. However, fundamental disadvantages limit their relevance and therefore their use by countries: notably that exchange liberalisation means key items are not tracked; they are not compliant with international data standards; they are frequently not complied with; and as a result are not comprehensive or credible.

Banking Supervision and Exchange Control data are collected by Central Bank Supervision and Foreign Exchange departments. They are often of limited quality with definitions that are not BPM5 compliant, and incomplete or misleading returns, and their limitation to onshore transactions misses offshore and intra-company borrowing and reinvested earnings. However, for some FPC items (such as onshore short-term trade credit) they may provide more reliable data than early surveys in which respondents do not understand debt-related questions. They are therefore an important additional source of data, but require major initial efforts at office estimation to fill their data gaps, together with training of bank and bureau counter staff and enforcement of reporting supervision measures, to promote better quality returns. In the medium term, NTFs should revise formats to improve BPM compliance, and work with private sector associations to explain to respondents why they are needed, but not expect them to replace surveys.

Stock exchanges provide accessible data on BPM5 items which are challenging for surveys to collect (such as market value of equity, and portfolio debt), but generally very few enterprises are listed, and low frequency of transactions can outdate their market values. NTFs need to check market value with the enterprise and to cover unlisted companies through surveys.

Company Financial Statements are very useful crosschecks for surveys (especially for filling gaps and undertaking office estimations when enterprises do not respond to all questions). Though enterprises are often reluctant to supply them, they can often be obtained from other government or private sector agencies. However, their compliance with BPM5 and international accounting standards is often limited, and even audited statements may contain deliberate or accidental over- or under-estimates (though deliberate mistakes may be reduced over time if it is made clear that documents are kept

confidential from the tax authorities).

Investment Promotion Agencies' data provide an initial source for establishing an investor register. But companies approved for investment often bear little relation to actual investors (showing a closer linkage to companies seeking tax exemptions), so IPA lists can sometimes be quite misleading. The quality of IPA data is usually poor as approvals bear no relation to actual FPC; their classifications are not compliant with BPM5; they capture initial investments but omit reinvested earnings and/or debt; and there is no regular follow-up to collect subsequent data. In theory IPAs could collect actual data and make their formats BPM compatible, but this would amount to a costly parallel exercise, so they prefer to obtain data via an enterprise survey.

Strategic *line ministries* (such as tourism, mining, manufacturing) face coverage and quality challenges similar to IPAs, but can be useful sources of financial statements.

Regulators and privatisation commissions are mandated to compile much more detailed data and therefore have fewer quality problems, but tend to exist for relatively few enterprises. They can provide a valuable cross-check for survey data.

Private sector associations do considerable research, and can be useful sources for compiling investor registers through business directories. However, few gather their own data, and where they do it is limited to a few companies and not BPM compliant.

The national *media* carry some data (for example on major foreign or local projects, or announcements of profits and dividends). But these are only partial, may be unreliable, and are not BPM5 compliant. The media are best used as a source for the investor register, and providing background information for crosschecking surveys.

Embassies (of source and host countries) may have information including a list of expatriate (though not necessarily non-resident) investors which can be helpful for updating the investor register. Some more proactively compile and analyse data, though this is unlikely to be BPM5 compliant, and serves only for crosschecking.

2) Regional and International NSRM

Data from other regional countries, especially aggregate FAL data and analysis from FPC CBP and other FAL surveys are invaluable provided

MECHANISMS FOR FPC

they are broken down by country, and may often be obtained easily from national institutions' websites. But it is important to verify that they have similar compilation sources and methods (because most countries do not have comprehensive enterprise survey systems), and data can be exchanged only on an aggregate basis because enterprise level reconciliation is blocked by confidentiality constraints. However, countries should contact other governments or the CBP regional organisations for aggregate data regularly, as well as for lists of national enterprises with FAL (with no data) to enhance the investor register.

Some **regional organisations** carry data (eg, AfDB and IADB on remittances, EADB on debt) and others are working towards harmonised sub-regional databases (eg, EAC, ECCB). *There is scope for countries to enhance use of these databases.*

International creditor sources include the OECD's FDI database, the BIS-OECD debt

databases, and the OECD creditor reporting system. Their country coverage is mostly limited to OECD members, which given rapidly increasing non-OECD flows means incomplete coverage. Methodology usually aims to be BPM5 compliant but sources, methods and quality vary across countries; and key items may be omitted (eg, market value of equity, reinvested earnings). *To address gaps and weaknesses, data should be supplemented by other sources, with OECD and BIS HQ advice sought on implications of differing methodologies for constructing office estimations.*

3) Compiler and User Strategies

Overall, the best strategy is to use each source for its best attributes. This means IPAs, private associations, line ministries, embassies and the media for building and updating the register or defining survey samples; the stock exchange to revising forms to exclude portfolio debt liabilities covered by its reports; organisations helping investors (such as IPA, private associations) and financial statements to identify firm-level issues for

follow up with further questions; and other aggregate data at national level (exchange control and bank supervision reports) and regional level (regional countries, BIS, OECD) to crosscheck enterprise returns.

All these steps require compilers to ensure permanent and clear institutional links with many other stakeholders, so that the NTF Secretariat (eg the BOP Unit) can compile and assess the quality of all useful NSRM data in tandem with surveys. FPC CBP regional implementing partners can coordinate international and regional information-sharing, if necessary via a multi-region hub such as the FPC CBP website.

Overall, NSRM provide very useful supplementary information for particular tasks, but have serious weaknesses relating compliance and coverage. While there is scope for countries to use NSRM more fully, to meet global codes and for policymaking and promotion purposes, enterprise surveys remain the essential core collection method.

BUILDING PARTNERSHIP WITH THE PRIVATE SECTOR

One of the important goals in implementing a national FPC Capacity-Building Programme is to build a partnership between Government and the private sector, in monitoring, analysis, dissemination, and policy design. While most CBP countries now accomplish this initially by integrating targeted private representatives into the National Taskforce (NTF) of data compilers and users, such efforts need to be supported by intensive wider interaction with the business community.

This article outlines the benefits of such a partnership for all involved. Because many NTF member organisations do not have close ties with the private sector, and are therefore not always sure where to begin, this article details the diverse ways in which

the private sector organises itself within and across countries and the implications for partnerships.

Why a partnership?

Partnership benefits compilers and users in Government and the private sector. Government requires accurate data to promote dialogue with investors in an increasingly business-led environment, and formulate policy in a consultative and transparent manner. It wants to increase investor confidence and trust in its actions, and promote an attractive investment climate for greater and higher-quality investment.

Private sector representatives on the NTF recognise that cooperation strengthens their influence and role in policymaking. They use data for decision-making, and defining the needs of members to help source joint ventures, cheaper financing, more competitive suppliers, or new markets. They

also improve relations with government and civil society by promoting more socially and environmentally responsible practices.

The wider business community requires explanation of the objectives for collecting data, assurance of confidentiality, indication of how data will be used, and training in responding to technically demanding surveys. They express opinions on policy, and expect their views to be reflected in feedback by policymakers, and in policy response. They are interested in analysis of best practices in corporate responsibility which they can potentially emulate. They expect NTF to report back with timely and quality data and analysis to enrich their decision-making.

Organisation of the private sector

This article uses the term "association" generically to refer to several ways in which businesses associate. The diversity, degree and effectiveness of private sector

BUILDING PARTNERSHIPS WITH THE PRIVATE SECTOR *(continued)*

associations vary greatly by country, so partnership building requires maximum fact-finding on the aims and membership of organisations, followed by targeting those associations whose partnership is likely to be most mutually beneficial.

Membership of associations may be compulsory or voluntary. Associations with compulsory membership usually need to be consulted when Government proposes new laws that affect their constituency directly. Voluntary associations however attract members as they enable businesses to develop contacts, and demonstrate their commitment e.g. to the local economy. Thus while not obliged to do so, Government may find it in its interest to consult voluntary associations, given their influence and representation.

Most countries have associations representing priority **sectors** (e.g. financial, industrial), or **groups** (eg, exporters). However, not all sectors are represented by associations: some, which are “insulated” from and have major influence over the economy by virtue of scale and multinational structure (for example, mining or petroleum), do not form associations, preferring to represent their views to the government individually. This implies that Government often needs to pay particular attention to the complex organisation of investors in strategic sectors of the economy.

Most countries have associations defined by **region** with a common interest in the local economy including critical issues such as regional development policy, and infrastructure development. Again, these need to be targeted in line with Government policy and regional priorities.

Not all “private sector” associations are private. Cameroon has two private sector “chambers”, one publicly and the other privately funded. Both have broad membership and the mandate to represent members’ interests and Government therefore has the incentive to work with both regardless of their funding source.

Smaller countries may have far fewer associations. In that case, government may reap greater rewards from relying on prominent individual investors to speak for wider interests and encourage wider

partnership (Guyana, Zanzibar). Presidential or Ministerial trade or investment promotion initiatives similarly target high profile individual investors at home and abroad (Ghana, Guyana, Tanzania) to join high level promotion and liaison missions.

Foreign investors often organise themselves by country of origin. For example, British, French and South African associations operate in several countries, crosscutting sectors, and networking via a hub in their home country. Some national associations (such as Nicaragua’s United States Chamber of Commerce) open membership to local investors in order to broaden local trade and investment ties with their home country.

Local donors may network with investors from their own countries, and represent interests via a commercial attaché. For example, the British High Commission in The Gambia coordinates investment promotion meetings with visiting UK investors, the West Africa Business Association, and Gambia Chamber of Commerce and Industry.

Ethnic, religious or family ties are common criteria for associations, and such communities or groups can be very influential in some economies. However, these ties may be very complex and may not have a formal institutional structure. Notable challenges include distinguishing multiple Asian groups in East Africa, and tracing the decision making and financing processes of extended family networks across countries.

Overall, private sector representation structures vary greatly. Some countries have umbrella bodies (Bolivia, Burkina Faso, Ghana, Nicaragua, Uganda) which play a coordinating role. Bolivia has a particularly comprehensive sub-structure beneath the national employers’ confederation, with almost all regions and sectors having their own associations. The Gambia has many sector chambers but no umbrella, making outreach and cooperation more complex, necessitating bilateral contact with the main players.

Efficacy

The efficacy of these associations in representing their members’ interests

depends on their human and financial resources, degree of organisation, access to high level networks, representation and coverage of their constituency, and ability to ally with other associations or interest groups. As mentioned above, distinguishing between compulsory and voluntary membership is secondary as voluntary associations may be highly influential and effective.

Some associations are extremely well organised, containing departments for research and advocacy, and budgets to conduct surveys and publish findings which are larger than those of government agencies, making them independently influential in government policy. This sophistication leads them generally to regard cooperation in joint public-private initiatives as another means to increase their policy input. However, most are not so well endowed with resources or capacity, and tend to be keen to benefit through cooperation via the NTF.

This discussion has focused on the “formal” sector - though all countries have significant **informal sectors**. Mostly these comprise smaller to medium sized operators without FAL, but sometimes they can be well organised and sector-focused, engaging in FPC-related transactions. In those cases, as the scale of activity can be large in relation to GDP and employment, NTFs need to establish links with some groups to obtain a rough idea of the scope and type of operations. Strategies for this very challenging area are being developed in some countries (eg, Bolivia, Mexico).

Conclusion

NTFs can reap tremendous benefits from wider outreach by coordinating with selected private sector associations (more from consultation and information exchange, than from adding them as members of NTFs which might make coordination more cumbersome). Future articles will outline possible strategies for partnership-building, addressing awareness creation strategies, technical exchanges, dissemination practices, and the implementation of policy recommendations to benefit enterprises and investors.

FPC CBP ACTIVITIES UPDATE

Over the last three months, the FPC CBP has closed cycles in Bolivia and Uganda, pursued activities in other countries, refined the forthcoming wider programme in the Franc Zone, and developed methodology and information products.

COUNTRY PROGRESS

The programme countries have progressed as follows:

- **Bolivia** conducted dissemination events for its most recent survey and will conduct further CBP-supported training in Q3.
- **Burkina Faso** and **Cameroon** are finalising plans towards the third phase in consultation with BCEAO and BEAC
- **The Gambia (Cycle 2)** has been finalising its database and analytical report, and will host a further mission in September, which will overlap with a complementary mission by the IMF GDDS 2 FDI Module Team.
- **Ghana** has confirmed World Bank funding and is preparing towards a Demand Assessment Mission in Q3
- **Honduras** has requested a Demand Assessment Mission and an Opening Awareness and Training workshop in Q3 and Q4
- **Kenya** is finalizing funding arrangements for a Demand Assessment Mission and expects to launch its first survey cycle during Q1 2008
- **Malawi (Cycle 3)** is finalising arrangements to close cycle 3 through data checking and writing the analytical report.
- **Nicaragua (Cycle 1)** is planning to disseminate results and launch the next cycle in Q4
- **Tanzania (Cycle 3)** has finalised its analytical report after comments from MEFMI and DFI and is planning results dissemination in the third quarter, with the launch of the next survey cycle due in September.
- **Uganda (Cycle 5)** commenced its Cycle 6 in June, after a Dissemination and Sensitization workshop and a training of enumerators in May. Response rate reached about 30% by late July. Dissemination is expected in fourth quarter 2007

- **CBP applicants:** Caribbean countries, Ethiopia, Liberia, Rwanda, Sierra Leone, and Zambia have all expressed interest in joining or rejoining the CBP. All are currently discussing proposals with donors and CBP partners.

METHODOLOGY AND SOFTWARE

The CBP has been developing methodology in line with the plan outlined in Newsletter 31. It finalised methodology on non-survey reporting mechanisms which had been identified as a priority for Phase 3.

Following up on priorities identified during the last Steering Committee, it continued work on developing an awareness and dissemination strategy with a series of documents focusing on building relations between government and the private sector. The first of these documents addresses how the private sector is organised, which has implications for liaison arrangements across countries. Documents will be included in the NTF Manual for download from www.fpc-cbp.org, and those mentioned above are presented in this Newsletter (see article page 13).

EIS is continuing to work on the *Technical Manual for Software Designers*, to support the transfer of the FPC CBP generic software to countries. The current version of the FPC CBP generic software (Version 1.79.7.2) together with its *User Manual* can be downloaded freely from the designer's website: www.evinsol.co.uk/software/dfi (username and password required). MEFMI hosted a workshop to discuss the development of its regional software in July.

GOVERNANCE AND LIAISON

The CBP is working closely with the IMF GDDS 2 FDI Module Team, coordinating on The Gambia (with an overlapping mission due), Ghana and Kenya. Discussions are underway with the Commonwealth Secretariat on future joint work with Botswana and other countries.

INFORMATION PRODUCTS

- The **FPC CBP Website** (www.fpc-cbp.org) continues to be updated every 6 weeks and was last updated in July, covering the latest developments in the CBP countries and related initiatives.
- **Newsletter 31** is now available for

download on the open pages of the website.

- **Briefing #14** was disseminated in July, and can now be downloaded from the website. Briefing #15 will be sent out in August. For subscription enquiries, contact dfi@dri.org.uk.

FORTHCOMING WORK PROGRAMME

In the next quarter the FPC CBP will:

- Finalise plans for wider regional programmes in the CFA Franc Zone, Latin America and the Caribbean, and launch the CFA Zone programme with a regional training of trainers workshop
- Conduct demand assessment missions (Ghana, Honduras, Kenya), technical support missions (Bolivia, the Gambia), dissemination workshop (Nicaragua), and combined dissemination/ launch workshops (Malawi, Tanzania)
- Continue to provide long distance assistance to participating countries
- Continue to assist countries seeking entry to the CBP
- Continue to deliver on methodology and produce information products
- Finalise and begin implementing a dissemination and awareness strategy
- Hold its 8th Steering Committee meeting in Accra.

DEBT RELIEF TECHNICAL QUESTIONS

HOW DOES THE WORLD BANK RATE COUNTRIES AS STRONG, MEDIUM OR POOR PERFORMERS FOR THE DSF?

The rating of a country's institutional and policy performance as strong, medium or poor for the purposes of the DSF is based on the World Bank's IRAI scores. IRAI, which stands for IDA Resource Allocation Index, is based on the results of the annual CPIA (Country Policy and Institutional Assessment) exercise that covers the IDA eligible countries. The CPIA measures the extent to which a country's policy and institutional framework supports sustainable growth and poverty reduction, using sixteen criteria covering economic management (including debt policy), structural policies, policies for social inclusion and equity and public sector management. Details can be found at <http://siteresources.worldbank.org/IDA/Resources/73153-1181752621336/CPIA06CriteriaA2.pdf>.

The scores for each criteria grouping are then weighted, and the average weighted overall score determines a country's rating. For the DSF, poor performers are those with an overall IRAI score of 3.25 or less; while a strong performer is one with an overall score of 3.75 or above. The medium performer has a score between 3.25 and 3.75.

The IRAI scores for 2006 have recently been posted on the World Bank website (go to www.worldbank.org and follow the Home > About Us > IDA > Performance Assessment > IRAI 2006. The 2006 classification of HIPC and post-HIPC countries is summarised in the table below.

Although quite a number of HIPC and post-HIPC countries' scores changed between 2005 and 2006, the only countries to change rankings were as follows:

- Burkina Faso and Senegal slipped from strong to medium performers, and Cameroon from medium to poor performer
- Mauritania rose from poor to medium performer and Nicaragua from medium to strong.

As a result the debt sustainability of these countries is now being judged using different thresholds, because at present the IMF and World Bank are using annual IRAI scores to rank countries. However once they have three years of data, they will switch to using 3-year averages, reducing volatility.

Institutional and Policy Assessment Based on IRAI 2006 Scores

Strong	Ghana; Honduras; Nicaragua; Tanzania; Uganda
Medium	Benin; Bolivia; Burkina Faso; Ethiopia; Guyana; Kenya; Kyrgyz Rep; Madagascar; Malawi; Mali; Mauritania; Mozambique; Nepal; Niger; Rwanda; Senegal; Zambia
Poor	Angola; Burundi; Cameroon; Central African Republic; Chad; Comoros; Congo, Dem Rep; Congo, Rep; Cote d'Ivoire; Gambia; Guinea; Guinea Bissau; Haiti; Sao Tome & Principe; Sierra Leone; Sudan; Togo
Source: World Bank	

USING DEBT-PRO® TO SIMULATE DSF-STYLE PV/EXPORT RESULTS

Debt-Pro® can be used to simulate the DSF methodology for calculating PV of debt by entering the appropriate exchange rate projections to convert loan currencies to US dollars and the common 5% discount rate for all currencies. The steps to be followed are:

- To create the projections in US dollars using projected exchange rates, enter the future exchange rates in the Reference sheet Section 4 for the appropriate projection years, starting in Column J,
- To use the common 5% discount rate, instead of currency specific CIRR rates, enter 5% for all currencies in the CIRR Rates column in Section 4 the Reference sheet in Column G.

- Enter the appropriate debt reorganisation (if needed), new external borrowing, new grants and gap-fill assumptions in a Debt-Pro® strategy file.
- Enter the appropriate macro projections in the Macro sheet of the database.

The PV results calculated using Debt-Pro® with the projected exchange rates and 5% CIRR rate will yield results similar to that produced for the basecase using the DSF template.

For the DSF methodology, the export denominator differs in two ways from that of HIPC. First it uses goods, services and factor income (including factor receipts) rather than goods and non-factor services.

So to simulate DSF-style results it is necessary to move factor receipts from their separate line in the Macro sheet of the Excel debt database and add them into the exports of goods and non-factor services. Second, the DSF uses the current year of exports rather than the three-year average of HIPC methodology. It is easy in the Excel DSAREPS report of Debt Pro® to recalculate the ratios using annual data.

When analysing these ratios, do check that the debt coverage is appropriate (eg public or public and private debt) by looking at the footnotes in the reports.