

# STRATEGIES FOR FINANCING DEVELOPMENT

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**S**outh-South aid has been growing rapidly since 2005, and has become controversial because some OECD policymakers have suggested that it might compromise debt sustainability and undermine pro-poor development strategies. The UN recently commissioned DRI to conduct a study of South-South aid for its Development Cooperation Forum, based in considerable part on evidence provided by aid managers from HIPC countries. This article reports the summary findings of that study, the full text of which can be found at <http://www.un.org/ecosoc/newfunct/2008dcfbckgrd.shtml>.

In terms of scale, the study collected considerable amounts of new data and estimated disbursements by the main southern donors<sup>1</sup> at as much as US\$12.1 billion in 2006, representing almost 10% of global aid flows. This underestimates total Southern aid as several smaller bilateral and multilateral contributors were not included due to lack of data. Many Southern donors have dramatically increased their aid in recent years, and most are planning considerable future increases.

As shown in the table below, the largest donors are China, India, Saudi Arabia and Venezuela (each over US\$1 billion a year), followed by the Republic of Korea, Taiwan Province of China and Turkey (more than US\$500 million). Southern donors contribute only an average 18% of their ODA via multilateral institutions, compared with an OECD DAC-donor average of 29%.

The main features of Southern donor aid are as follows:

- Around 90% is project aid and technical assistance, with only 10% balance of payments or budget support. However, some are planning to increase future budget support.
- Some Southern projects are co-financed by “triangular co-operation”, whereby Northern donors finance projects executed by Southern institutions. Its primary focus is technical co-operation, as Southern institutions are seen as having expertise more relevant to meeting developing country needs.

- Most of the aid goes to countries with which donors have close political, trade or investment ties. There is also a strong regional focus, reflecting better understanding of neighbours’ needs, similarities of language and culture, opportunities to improve trade, and lower administration costs. This also enables Southern donors to focus strongly on regional projects, which recipient countries often note are under-funded by DAC donors.
- As with some DAC donors, political and strategic considerations, as well as opportunities for trade and investment, can lead some Southern donors to provide aid to recipients with poor human rights records. However, most Southern assistance does not go to such countries: with the exception of Myanmar, the largest beneficiaries of Southern aid also feature in the top-ten recipients of aid from DAC countries.
- In some cases, as with some OECD donors, aid provision is linked to progress on trade and investment relations, or other political or strategic allegiances.
- Around two-thirds of Southern aid is provided as loans, and one third as grants. However, for most recipient countries, the loans carry little risk of making debt unsustainable because the terms are not necessarily less concessional than Northern loans, partly because many Southern donors ensure that their loan terms are within IMF-agreed country concessionality limits.
- Southern assistance has virtually no policy conditionalities, making it more attractive to recipients than DAC assistance. As a result, very few Southern donors engage in macroeconomic or social policy dialogue with recipient governments
- Some Southern providers have a good record of channelling their assistance via the recipient’s budget, whereas others do not.
- A major strength of Southern aid is its orientation to recipient priorities such as infrastructure (telecommunications, energy, roads) and productive sector investments (agriculture), compared to a DAC focus on the MDGs through social sector support.
- Recipient governments view Southern assistance as being relatively predictable because it is disbursed on schedule within the intended financial year. This not only benefits government fiscal planning but also leads to timelier project completion.
- Recipient countries also see Southern aid as less encumbered by procedural and administrative delays, although not necessarily using national financial management systems and more than DAC aid.
- The bulk of Southern assistance is tied to the procurement of goods and services from suppliers in the contributing country. However, in spite of this, beneficiaries often see projects implemented by Southern donors as cheaper and of high standard.
- There is concern among recipients that speed and cheapness of execution (especially of infrastructure projects) may imply less analysis of environmental and social impact.
- There is relatively little harmonisation among Southern donors, except among Arab institutions through the Arab Coordination Group’s extensive project co-financing arrangements. Coordination is highest (including with DAC donors) in regional initiatives.
- Few Southern donors participate in national donor coordination meetings, partly because they are often not represented in country. However, this may change as Southern donors increase the scale of their aid.
- Many Southern donors have signed international aid effectiveness agreements such as the Paris Declaration, but few have concrete plans for implementation, and all argue that the Paris framework should be adapted to the particularities of South-South aid.

Overall, Southern aid has some considerable advantages and some important risks for recipients. The CBP is finalising more detailed guides to aid from major Southern providers (they are already complete for China, India, Korea, Kuwait, Saudi Arabia and UAE)

<sup>1</sup> **Argentina, Brazil, Chile, China, Egypt, India, Israel, Kuwait, Malaysia, Republic of Korea, Saudi Arabia, Singapore, South Africa, Thailand, Tunisia, Turkey, United Arab Emirates, Venezuela, the Arab Bank for Economic Development in Africa (BADEA), Islamic Development Bank (IsDB) and OPEC Fund for International Development (OFID).**

# SOUTH-SOUTH AID

## Southern donors' net aid disbursements, 2006

	US\$ million		as % of GNI		% of aid to multilaterals	Future Quantity Intent
	lower bound	upper bound	lower bound	upper bound		
<b>Bilaterals</b>						
<b>Africa</b>						
South Africa (0)	194		0.07%		77%	- Policy proposal to increase aid to 0.2%-0.5% in the foreseeable future.
<b>Asia</b>						
China (1)	1,500	2,000	0.06%	0.08%	na	- Doubling aid to Africa to US\$ 1bn by 2009 - Debt relief for 31 HIPC's (US\$ 1.3-1.4 bn).
India (2)	504	1,000	0.06%	0.11%	7%	- Increase envisaged, but not detailed.
Korea, Republic of (incl. aid to N. Korea) (3)	579	885	0.07%	0.10%	17%	- US\$ 1 billion by 2010 (excl. aid to N. Korea) - 0.25% of GNI by 2015 (=US\$ 2.8 billion).
Malaysia (4)	16		0.01%		36%	- 25% increase in technical co-operation over 2006-2010 (appr. US\$ 2.5 mn extra)
Thailand (3)	74		0.04%		12%	- Increase envisaged, but not detailed
<b>Middle East &amp; North Africa</b>						
Israel (3)	90		0.06%		17%	- No information available
Kuwait (3)	158		0.19%		3%	- No information available
Saudi Arabia (3)	2,095		0.70%		2%	- No information available
Turkey (3)	714		0.18%		10%	- Aims for 0.2% of GNI, no time-path announced
United Arab Emirates (3)	249		0.24%		0%	- No information available
<b>Latin America &amp; Caribbean</b>						
Argentina (5)	5	10	0.0025%	0.0050%	na	- Increase envisaged, but not detailed
Brazil (6)	356		0.04%		na	- No information available
Chile (7)	3.0	3.3	0.0026%	0.0029%	na	- US\$ 3,8 million by 2008
Venezuela (8)	1,166	> 2,500	0.71%	1.52%	na	- Amount of oil aid dependent on future oil price
<b>Multilateral Development Institutions (non-OECD)</b>						
Arab Agencies (AFESD, OPEC Fund, IsDB & BADEA) (3)	440		-	-	-	- BADEA's 2005-2009 five year plan budgeted at US\$ 675 mn. Planned total commitment of US\$ 200 mn by 2009. - IsDB aims for a total (concessional + non-concessional) of US\$ 4 bn in disbursements over the next 5 years. It has also mobilised US\$ 2 bn for a newly established poverty fund. - No information available on OPEC Fund.
<b>Other</b>						
Taiwan, Province of China	513		0.14%		4%	- No information available
Arab Support to Palestinian Adm. Areas (9)	456		-	-	-	
<b>TOTAL</b>	<b>9,111</b>	<b>11,752</b>	<b>0.16%</b>	<b>0.22%</b>	<b>18.2%</b>	<b>(avg for % of GNI)</b>

Source: For detailed list of data sources see (<http://www.un.org/ecosoc/newfunct/2008dcfbckgrd.shtml>).

**In 2005, the Bretton Woods Institutions introduced a new methodology to analyse the debt sustainability of low-income countries (LIC-DSF), which is becoming the standard tool used by governments, international organisations and creditors. The African Development Fund and IDA have adopted the DSF as a formal criterion for deciding whether to provide grants to countries, and other lenders such as OECD export credit agencies have also agreed to align lending with the framework. So it is vital that LICs are able to use this framework to argue that the funding they need for development will not compromise their debt sustainability, and as the basis for national debt strategies (rather than leaving analysis to be led by BWI staff).**

To strengthen the capacity of government officials to use the LIC-DSF, the HIPC CBP is implementing a comprehensive programme of training at regional and national levels, in cooperation with the BWIs. As an early step in the process, CEMLA has written a Practical Guide, which details the characteristics of the new methodology and how to use its templates.<sup>1</sup>

The new BWI methodology uses an Excel template to analyse external debt (of the public and private sectors) and public debt (external and domestic – though the DSF sets sustainability thresholds only for external public debt). This article explains the main steps for using the external debt section of the template.

## A. Data Entry Needs

Macroeconomic data and external debt aggregates are entered into the “Input\_external” page of the Template. This requires a wide range of macroeconomic data – including the real and external sectors, prices and population, with 20 years of projections, and 10 years of historical data to facilitate assessment of shocks. Experience in HIPC CBP workshops demonstrated that countries need a detailed list of definitions of the exact data to enter into the template, so the Practical Guide contains this in a matrix of conceptual definitions in its Annex 1.

More detailed debt data are entered into the “Inp\_Outp\_debt” page. This is split into three parts: i) aggregate projections of service on disbursed debt, to the end of the repayment period; ii) projections of arrears; and iii) projections of new disbursements. The disbursed debt is entered in aggregate amounts by type of creditor (multilateral, bilateral and commercial), which can be extracted from countries’ national debt recording systems (eg DMFAS and CS-DRMS) or from Portfolio report produced by Debt Pro(c). The projections should include 100% HIPC and MDRI relief, as the LIC-DSF assumes all creditors are participating in HIPC, though in alternative scenarios countries can vary assumptions to be more realistic.<sup>2</sup> Any simulation of the impact of debt relief needs to be done outside the Template before data are entered.

New disbursement projections need to be disaggregated at least into 6 categories: 3 multilateral, 2 bilateral and 1 commercial. Nevertheless, most countries prefer to reflect their new financing strategy more accurately by introducing data for more creditors or on a creditor-by-creditor basis. Box 3 of the Practical Guide explains how to modify the standard template to include more creditors. The disbursements also need to include financing needed to close the balance of payments financing gap (if there is one), because the template does not calculate gaps or simulate scenarios to fill them. To calculate gap-filling, the user needs (before entering data into the Template) to run a comprehensive debt strategy scenario simulating the impact of external and domestic debt relief and new financing, and macroeconomic variables, outside the template using the HIPC CBP methodology.

## B. Results Analysis

The DSF debt sustainability analysis is based on a baseline scenario, which is retested using two standard “alternative scenarios” (projecting historical averages of macroeconomic variables; and a rise of 2% in interest rates on new debt); and sensitivity tests of key macroeconomic variables (historical averages minus half a standard deviation in the first two years of the projection period, for real GDP, exports, the deflator, current transfers and FDI, as well as a combination of all of these; and a 30% one-off depreciation of the national currency). These are all generated automatically in other

pages of the Template, as are output tables and graphs which show the dynamics affecting debt stock and service.

However, the “alternative scenarios” generated are not really comprehensive, because they do not vary all relevant macroeconomic or debt variables, and exclude second round effects. In addition, neither they nor the standard sensitivity tests necessarily reflect the risks that a country may think are likely to occur in its own economic or borrowing prospects. So, while they are useful as an overall general tool to compare debt sustainability across multiple countries, individual countries need to interpret their results with caution in analysing risks of debt crisis. In using them for the second purpose, countries have therefore typically designed their own comprehensive macroeconomic and financing scenarios, and used the DSF framework to apply stress tests to each of these.

The CEMLA Practical Guide begins the process of providing LICs with the practical tools they need to use the DSF effectively. However, to ensure it is a credible basis for national debt strategies, so that national development financing needs do not compromise debt sustainability, it will need to become part of even more comprehensive training materials which ensure that countries use more detailed and realistic inputs on prospects for financing and the economy, as well as tailoring these inputs and analysis of the results to their own needs.

<sup>1</sup> **HIPC CBP Guidelines of the Debt Sustainability Framework (DSF). Debt Strategy and Analysis Capacity Building Programme. March 2008. CEMLA. Available online: [http://www.cemla.org/dri/compendio\\_pfc\\_aed.htm](http://www.cemla.org/dri/compendio_pfc_aed.htm).**

<sup>2</sup> **For countries in the HIPC interim period, projections should assume only interim HIPC relief. For countries not yet reaching decision point, projections should include only “traditional” debt relief. For more details see page 15 of the Guide.**

# GUINEA-BISSAU: AN URGENT CASE FOR DEBT RELIEF



**A** recent Pôle-Dette/DRI mission to Guinea-Bissau assisted the Government, in line with the UEMOA regional framework for debt management, to put in place a debt policy ensuring that the level and growth of public debt will be sustainable; debt service will be paid on schedule; and the Government will achieve its debt management objectives in terms of cost and risk. In addition, Guinea-Bissau could make more rapid progress towards the MDGs. However, none of these objectives will be achieved without a rapid move forward towards HIPC completion point for Guinea-Bissau, as well as a considerable increase in aid flows to the country.



## Context and Aims

Guinea-Bissau has already come a long way in adopting the regional debt management framework and establishing a National Debt Management Committee (NDMC). It intends to annex its debt strategies to future budget laws, including ceilings for borrowings and guarantees, portfolio indicators and concessionality floors, and analysis of public debt sustainability for the next 20 years. Pôle-Dette has undertaken to assist each NDMC with specific training to fulfill the undertakings in the regional framework. As a result, Pôle-Dette and DRI organised a technical training workshop in Guinea-Bissau from 21 April to 2 May. More specifically, the workshop aimed to: i) train the CNDP members on their roles and responsibilities; ii) design the national debt strategy; and iii) write the annex of the budget law stating the public debt management policy.

## Methodology

The workshop was attended by 30 officials (decision-makers and high-level technicians) from the Presidency, the Prime Minister's Office, the Ministries of Finance, Economy and Development, and Foreign Affairs and Cooperation.

In line with the new methodology in the Pôle-Dette region, and particularly in order to simulate the effect of HIPC relief, the national strategy was built using the HIPC CBP methodology and Debt Pro©, and then further sensitivity tests were conducted using the LIC-DSF. A considerable number of plenary sessions also introduced all concepts relevant to debt strategy and sustainability, as well as facilitating exchanges among different units and demonstrating the need for strong coordination.

The overall report and the annex to the budget law for 2009 (both in Portuguese) were approved on Friday 2 May during a seminar involving all relevant Government agencies and Parliament. All the decision makers and participants commended the workshop for the relevance and timeliness of its content and the high quality of the resource persons, and

indicated that Pôle-Dette should design a multiyear programme for debt management capacity-building to follow it up.

## Scenarios and Results

The workshop designed two scenarios: a baseline continuing current trends, and one containing enhanced stabilisation and structural reform measures to attain the MDGs. The baseline scenario assumed a completion point in 2010, and the other in 2009. Both scenarios maintained a policy of new financing limited to grants, and to loans with a grant element of at least 50%. The table below shows the results of the enhanced scenario, which provides a much greater fiscal space than the baseline, for accelerating development in Guinea-Bissau and making sure that it reaches the MDGs more rapidly. Indeed an earlier completion point will be essential to making major MDG progress.

Table 1: Results of the enhanced scenario (%)

	2008	2009	2010	2015	2020	2025
PV/Exports	935,4	84,1	81,6	72,9	75,0	82,3
PV/Budget Revenue	1072,2	144,6	119,5	122,3	117,0	120,5
External Debt Service/Budget Revenue	20,0	14,8	7,1	5,2	3,7	4,7
External Debt Service/Exports	15,4	7,8	4,3	2,8	2,2	3,0
Public Debt Service/Budget Revenue	20,0	14,8	7,1	5,2	3,7	4,7

# IMPROVING AID EFFECTIVENESS FOR MALAWI



**M**alawi relies heavily on donor inflows to finance its development strategy. According to 2007 estimates, about 48% of the national budget is financed by donor inflows. The proportion of donor resources in the development budget in 2007 is even higher estimated at 80%. With limited opportunities for internal revenue generation, donor inflows will continue over the medium-term to play a critical role in national development. Against this background, it is important to understand the factors that influence donor inflows to avoid sudden swings in the disbursements timetables.

Historically, Malawi has experienced disruptions and unpredictability in donor flows. For example in the run-up to the first multi-party elections in 1993 and more recently in the period 2002-2003, donors suspended all aid to Malawi except humanitarian assistance. In both instances, the impact on the economy was dramatic, resulting in increased domestic borrowing to finance government expenditure, and potentially crowding out private sector investment.

Another major problem is the channelling of support outside the budget. According to the 2006/07 Summary of Extra-Budgetary Support to Malawi, 31% of donor funds were channelled outside the budget, meaning that they were not administered by Government organizations, and therefore representing a significant volume of support having nothing to do with Government systems. This proportion is likely to be an underestimate, as a number of development partners have failed to provide full details of their project portfolio in Malawi to the Debt and Aid Division. Under the circumstances, only those projects administered through the Government systems are known and properly accounted for.

Government needs to make concerted efforts to ensure that donors provide more predictable aid, channelled through government systems. This will involve reform to improve Government systems, and pressure on development partners to switch to using those systems.

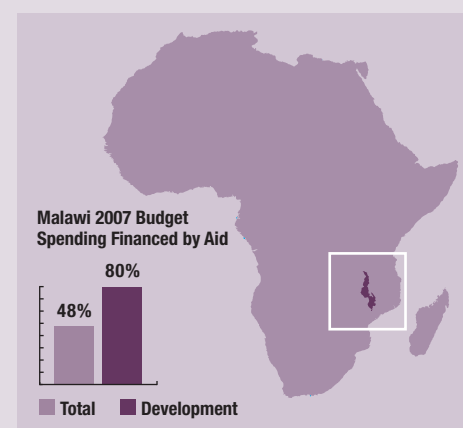
The Government must operationalise a credible Malawi Growth and Development Strategy (MGDS) and reform the Public Finance Management (PFM) system. Having an operational and credible development strategy is a prerequisite for alignment of donor funds to the strategy. Strong PFM systems that enjoy the confidence of development partners are required for donors to channel more funds through Government systems. There is also need for establishment of a clear resource envelope to achieve donor buy-in into providing considerably more funds for the Government's needs, as well as greater alignment of sector strategies to the MGDS. Another key need is for Government to have clear policies and procedures for managing development assistance: the Government of Malawi has led the process of formulating a Development Assistance Strategy (DAS) whose ultimate objective is to improve the effectiveness of aid in line with the principles of the Paris Declaration.

While Malawi needs to do more to attract increased aid, donors also ought to re-examine their policies and procedures, especially to increase predictability and avoid separate Project Implementation Units. Another major problem is that donor disbursements fall way short of their large commitments. This is partly explained by delays in approving disbursements. It takes almost twelve months from donor agencies approving a project to seeing physical progress on the ground. Delays of up to two months are experienced between a request for disbursement and disbursement of funds into a project account. The delays are not unique to project support: budget support disbursements also experience extended delays due to extended approval processes by headquarters of agencies. Most agencies that give aid to Malawi are not fully decentralized, so country offices are not sufficiently empowered and most decisions are made in capitals.

At the international level, donor policies and procedures are increasingly being criticised for causing long delays in project implementation. Yet, three years after countries and development agencies agreed on the Paris Declaration to overcome these problems, few development agencies have started using national systems. They continue to cite weakness in national systems as a reason for not using them – but the systems themselves can only be strengthened if development partners start using them. Preliminary results of the Paris Declaration monitoring survey reveal dismal performance by donors, with over 200 separate projects using different procedures for procurement, financial management and reporting.

Lastly, developing countries generally prefer direct budget support as an aid delivery modality. It has lower transaction costs and is better aligned to national priorities. Other programme-based support (such as sector budget support) is almost as desirable, because it also has low transaction costs. Neither requires parallel systems of procurement, financial management or implementation. Project support is less desired because of its high transaction costs, delays in project execution and tying to procurement of goods and services from the donor country.

Major change is needed in both donor and recipient policies and practices for development assistance to bring the much needed improvement in the lives of poor people in the developing world. The Government of Malawi will continue to engage its development partners to promote such reforms, to build on good progress in making aid more effective since 2005.



# DEBT MANAGEMENT INSTITUTIONS IN ANGLOPHONE WEST AFRICA



**This article examines public debt management institutions in WAIFEM member states. In line with international best practices, debt management needs to be governed by an explicit legal mandate and framework, which specify roles and responsibilities of each agency, rules and procedures, and oversight structures. In WAIFEM countries, locations of debt management offices and their specific responsibilities differ, as do strengths, weaknesses and priorities for action.**

## The Gambia

The Department of State for Finance and Economic Affairs is responsible for external debt through its Directorate of Debt Management oversees policy and operational issues. The Central Bank externalizes debt service payments and manages domestic debt. Coordination is strong, via two technical committees, the Debt Management Committee, which deals with securities issuance strategy, and the Monetary Policy Committee, which sets monetary policy and central bank interest rates. New borrowing must be approved by Parliament.

However, the legal framework does not cover all types of debt, or require the approval of an annual debt strategy. As a result there is no published strategy. The detailed implementation decrees supporting the law are also outdated and not observed. Coordination on negotiations of new financing could be reinforced, and information flows among units could be strengthened through technical working groups. Staff numbers and training are insufficient, with high turnover, and more training and incentives are needed to improve retention.

## Ghana

External debt management is undertaken by the Aid and Debt Management Division of the Ministry of Finance and Economic Planning. Other agencies involved are the Accountant General's Office and Bank of Ghana. These institutions are coordinated via the Aid and Debt Management Committee and Economic Policy Coordination Committee (which handles domestic debt and interest rate policy). Information flows among actors function well. Parliament approves new borrowings. Debt strategies and portfolio analysis reports have been produced every two years and served as the basis for policy, debt information is published in the budget, and Government is currently designing a comprehensive aid

management policy. Staff levels and IT are adequate.

However, the debt management law in Ghana is currently being updated to cover public enterprise debts and other new instruments; the ADMC could be further improved and meet more regularly; and newer staff need skills reinforcement. Above all, Ghana needs to approve and publish a debt strategy for which Government can be held fully accountable.

## Liberia

Debt management is mainly conducted by the Debt Unit at the Ministry of Finance and the Debt Management Unit at the Central Bank of Liberia (which externalises payments). Although existing legislation covers many aspects of debt management, it does not clearly specify division of labour among each institution – for example, new loans can be signed by the President, the Minister of Finance (or other Ministers if necessary) and does not assign to design and implement a debt strategy.

Coordination is via a Debt Management Task Force, which has mainly focussed on consolidating debt data. Due in large part to lack of data, little information has been circulated or published. There are staff and IT shortages in the Ministry, and a lack of technical capacity to design a national debt strategy (reflecting in part Liberia's more recent membership of the HIPC CBP).

## Nigeria

An autonomous Debt Management Office was established in 2003, reporting to the Vice President. It manages external and domestic debt, and provides general guidelines for borrowing. However, the Minister of Finance is the sole signatory of new loans, the Central Bank of Nigeria externalizes payments, and the Accountant General authorizes payments.

The legal framework is reasonably comprehensive, though some component laws are contradictory. There is a formal interagency debt committee, an annual strategy and portfolio analysis are published, new borrowing is approved by Parliament, and staff and training are adequate. However, the law does not oblige Government to set a borrowing limit, and coordination with macroeconomic policies and information flows could be improved.

## Sierra Leone

The Ministry of Finance plays the lead role in mobilising and restructuring loans. The Bank of Sierra Leone handles domestic debt and keeps records of external and domestic debt data.

Other institutions involved are the Accountant General's Office (reconciliation and authorization of debt service payments), Economic Affairs Unit (monitors disbursement and project implementation) and Budget Bureau. Debt management coverage includes public enterprise debt, information exchange among debt agencies is regular and comprehensive, debt strategy and portfolio analysis is conducted regularly, regular newsletters are published, and Parliament approves new borrowing. Staff levels are adequate but skills could be broadened and hardware and software updated.

In addition, the debt management law needs updating, interagency coordination and accuracy/timeliness of auditing could be improved, and Sierra Leone needs to design a comprehensive borrowing policy.

## Overall Lessons

- In all countries, a clear and comprehensive institutional and legal framework is critical to define responsibilities and coordination mechanisms as well as to promote transparency and accountability via publication and auditing. In most countries, the institutional and legal framework needs: (i) further strengthening through revised legislation and clear implementation decrees; (ii) clearer delineation of responsibilities among agencies; and (iii) stronger accountability through publication of debt management goals and audits.
- Coordination of debt management and macroeconomic policies is key. The governments should pay more attention to the medium-to-long term implications of economic policies and the resulting external financing needs for debt sustainability. Institutional and capacity constraints tend to undermine coordination.
- The low level of public or parliamentary oversight over new borrowing in most countries, and lack of systematic evaluation of new borrowing proposals are of great concern. Insufficient coordination with respect to public enterprise debt and other contingent liabilities is also problematic.
- Staff recruitment and retention is a serious issue. Many shortfalls originate in inadequate capacity of staff (numbers, qualifications or training) in the debt management units, as well as fast turnover of well-qualified and trained staff.
- Leadership at the highest political levels is critical to efforts to strengthen debt management capacity and ensure prudent external borrowing.

# DEBT SUSTAINABILITY INDICATORS JULY 2008

Countries	HIPC/ MDRI status <sup>1</sup>	Date of DSF	Risk of debt distress
Afghanistan <sup>4</sup>	Interim	July 2007	high
Angola	na	Oct 2007	Moderate
Benin	Post	Jan 2008	moderate
Bolivia	Post	July 2006	low
Burkina Faso	Post	May 2007	moderate
Burundi	Interim	Jan 2008	debt distress
Cameroon	Post	Aug 2007	low
Central African Rep.	Interim	Jan 2008	debt distress
Chad	Interim	Jan 2007	high
Comoros <sup>5</sup>	Pre	Oct 2006	debt distress
Congo, Dem. Rep. of	Interim	Sept 2007	debt distress
Congo, Rep. of	Interim	June 2007	high
Côte d'Ivoire	Pre	Sept 2007	debt distress
Ethiopia <sup>4</sup>	Post	July 2007	moderate
Gambia	Post	March 2008	high
Ghana	Post	June 2007	moderate
Guinea	Interim	Jan 2008	debt distress
Guinea-Bissau	Interim	Nov 2007	debt distress
Guyana	Post	March 2007	moderate
Haiti	Post	April 2008	high
Honduras	Post	Dec 2006	moderate
Lao PDR	na	Nov 2007	high
Liberia <sup>4</sup>	Interim	March 2008	debt distress
Madagascar	Post	July 2007	low
Malawi	Post	Jan 2008	moderate
Mali	Post	March 2008	low
Mauritania	Post	Feb 2007	moderate
Mozambique	Post	July 2007	low
Nicaragua	Post	May 2006	moderate
Niger	Post	Jan 2007	moderate
Rwanda	Post	July 2006	high
São Tomé & Príncipe	Post	May 2007	moderate
Senegal	Post	Sept 2007	low
Sierra Leone	Post	Jan 2007	moderate
Sudan	Pre	Oct 2007	debt distress
Tanzania	Post	April 2007	low
Togo	Pre	June 2007	debt distress
Uganda	Post	Jan 2007	low
Zambia	Post	Jan 2008	low

<sup>1</sup> Pre = pre HIPC decision point, Interim = between HIPC decision and completion points, Post = post-HIPC and post-MDRI, na = no longer eligible

<sup>2</sup> From DSF baseline scenario for public and publicly external guaranteed debt, excluding private and non-guaranteed debt.

<sup>3</sup> Applicable DSA thresholds for IDA 08 based on strong, medium or weak assessment of institutional strength and quality of policies

<sup>4</sup> Projections for fiscal year 2007/08

<sup>5</sup> Projections for 2006

\* No minimum requirement or not published

\*\* Hardened borrowing terms, not IDA-only

External debt ratios for 2007 <sup>2</sup>			Minimum grant element	Applicable DSA threshold <sup>3</sup>	Comments
PV/GDP	PV/exports	TDS/exports			
14.7	152.2	6.1	60%	weak	Assumes interim HIPC relief only
21.4	31.9	4.4	*	**	Central government debt only
9.2	80.8	6.3	35%	medium	Domestic debt/GDP is 4%
23.4	66.0	7.0	*	**	Private sector debt is about 10% of GDP
12.2	101.0	3.7	35%	strong	Data from Jan 2008 DSA not available
84.8	997.4	35.2	*	weak	Assumes interim HIPC relief only
3.8	16.2	1.4	35%	medium	Declining domestic debt burden to 9% of GDP
43.6	294.7	26.9	50%	weak	Assumes traditional and interim HIPC relief
16.7	30.7	2.2	35%	weak	Assumes HIPC completion point at end-2007
51.8	493.2	18.6	*	weak	Before any arrears restructuring
97.5	303.5	17.0	*	weak	Assumes interim HIPC relief only
74.9	86.7	8.7	50%	weak	Assumes interim HIPC relief only
58.9	121.7	8.2	35%	weak	Qualifies for HIPC on revenue ratio (302.6% in 2007)
6.6	40.6	1.2	*	medium	Excludes non-guaranteed public sector commercial loans
25.5	106.8	18.5	45%	weak	Large domestic debt burden of about 30% to GDP
19.0	53.6	3.9	*	strong	Domestic debt accounts for 15% GDP
41.0	159.8	16.4	35%	weak	Assumes interim HIPC relief only
229.8	574.3	28.6	50%	weak	Assumes interim HIPC relief only
61.2	75.2	4.0	*	medium	PV/revenue ratio of 184% in 2007
18.1	137.1	11.0	35%	weak	Assumes interim HIPC relief only
21.2	53.4	2.8	35%	**	Data from Jan 2008 DSA not available
44.9	140.4	6.1	*	weak	Negligible domestic debt
254.5	510.3	4.5	100%	weak	Assumes multilateral arrears clearance and interim HIPC relief
11.4	46.2	1.6	35%	medium	Domestic debt is about 10% of GDP
8.2	41.9	3.2	35%	medium	Domestic debt is about 15% of GDP
12.7	44.2	3.4	*	medium	Minimal private sector external debt and domestic debt
24.0	42.3	5.9	35%	weak	Assumes resolution of arrears problem in 2007
11.6	30.3	1.1	35%	medium	Private sector external debt is 16.3% of GDP
44.8	107.6	5.7	35%	strong	Significant domestic debt burden
8.8	46.5	2.3	50%	medium	Vulnerable to external shocks
8.8	82.9	1.1	50%	medium	Data from March 2008 DSA not available
21.0	79.5	5.9	50%	weak	Sensitive to commencement of oil production
12.8	52.0	5.0	*	medium	Private sector external debt is 25% of GDP
9.2	37.6	0.8	35%	weak	Private sector external debt is 29% of GDP
47.4	283.5	7.0	*	weak	Before any possible HIPC relief
15.5	58.4	3.7	35%	strong	Private sector external debt is about 0.7% of GDP
62.9	155.4	7.5	*	weak	Assumes PRGF reforms leading to HIPC and MDRI relief
4.6	30.8	3.9	35%	strong	Caution advised regarding non-concessional new borrowings
5.6	13.7	1.3	*	medium	Domestic debt accounts for about 2/3 total public debt

## Bretton Woods Debt Management Initiatives

During March-April, the CBP partner institutions participated in a conference of debt management institutions organised by the Norwegian Government and the World Bank in Oslo on 5-6 March, which involved all relevant stakeholders (including international, regional and private sector providers of capacity-building and technical assistance, as well as debt managers from developing countries and bilateral and multilateral donors), to discuss the various recent debt management initiatives by the World Bank (and the IMF in relation to the DSF and MTDS). The main conclusions of the meeting were that these initiatives were highly valuable in adding to the range of public goods already available to debt managers, and that this (as well as information exchange and coordination meetings) should be the focus of future work. On the other hand, there was no major problem of lack of coordination among providers of capacity-building assistance, and future assistance programmes should be executed via these providers, especially regional organisations owned and led by their member developing countries.

Subsequently, around and since the Spring Meetings of the IMF and World Bank, DRI, MEFMI and WAIFEM held meetings with the IMF and World Bank to clarify the precise implementation plans. In relation to the implementation of an initiative for a Debt Management Facility for Low-Income Countries (DeMFLIC), the World Bank reaffirmed its intention to continue working closely with and via CBP partner organisations to disseminate tools and organise training, as well as organising joint missions, and its intention to avoid DeMPA or DeMFLIC recommendations leading to conditionality.

## National Workshops

### Ghana Aid Policy Workshop Accra, 19-30 May



This event was co-financed by the African Centre for Economic Transformation (ACET), HIPC CBP and Government of Ghana. It allowed the government to design its own aid policy for development. Technical presentations were made on key issues in aid policy formulation; division of labour; aid

strategy and implementation; recent and expected aid trends in Ghana; and the Paris Declaration – progress and challenges. After this, the 40 participants were divided into three working groups to review aid trends, assess donor practices and set targets; and assess government practices and set targets. The workshop produced a comprehensive aid policy report that assessed the degree of aid alignment with government's development priorities and procedures and designed principles and indicators for increasing alignment.

### Guinea-Bissau Training Event for CNDP



Bissau, 21 April-2 May  
[See article on page 5](#)

### Malawi Debt Strategy Update Workshop



Lilongwe, 14-25 April

Malawi is already producing half year and annual reports on public debt management, and has adopted a national debt and aid policy outlining its financing needs, policies and procedures. As Malawi is post-MDRI, the focus of this workshop was on mobilising the most effective development financing, to maintain long-term debt sustainability. Malawi had set up a DSA team of experienced staff for the workshop, who were able to conduct most of the relevant tasks with relatively little support, but some new staff (especially in the macroeconomic group) required more advance preparation of data and training especially on the LIC-DSF methodology. The workshop produced an updated 2008 draft DSA report, which is now being finalised by the Debt and Aid Department in the Ministry of Finance. The results show that government needs to be highly cautious about any commercial borrowing if it is to keep its public debt sustainable, and to closely monitor growth of private sector external borrowing (which it is already doing through the FPC CBP). [See also article on page 6.](#)

### Nicaragua Debt and New Financing Strategy Update Managua, 7-14 April



The objective of the workshop, which was preceded by a preparatory mission, was to

update the national strategy on the basis of a public debt sustainability analysis, running different scenarios for contracting external and domestic debt. The activities included analysing and adjusting scenarios and closing budget financing gaps; writing the national strategy report in a new shorter format; and revising the draft Presidential Decree for approving the national strategy. In terms of duration, 83% of the participants thought the workshop was the right length, 81% said the technical and administrative organisation of the workshop was excellent, and 92% said that the skills acquired will be carried forward and used practically in their daily jobs.

### Sierra Leone Post-HIPC Debt and New Financing Strategy Workshop



Freetown, March 25-April 4

Following its Completion Point, Sierra Leone requested WAIFEM and DRI to conduct a workshop to define post-HIPC policy guidelines on future borrowings. The workshop included 30 officials from 12 institutions. The workshop combined the HIPC-CBP methodology (used in order to build more detailed and comprehensive financing and macro scenarios) with the LIC-DSF framework, to analyse all aspects of sustainability. The results confirmed that Sierra Leone remains at moderate risk of debt distress under the LIC-DSF (though baseline scenarios produce ratios below the country-specific policy dependent thresholds, some stress tests show unsustainable debt). These results are consistent with the tripartite DSA conducted in March 2008 by the Government and BWIs.

## Institutional/Follow-up Missions

### Institutional Mission to Mali Bamako, 12-16 May



Pôle-Dette's mission followed a joint Pôle-Dette/DRI mission in April 2007, during which the Malian authorities undertook to prepare a national debt strategy annexed to the budget law, and to take the steps necessary to reorganise the coordination of debt policy and management with monetary and fiscal policies, in line with the regional reference framework for UEMOA member states. This mission therefore provided legal

# FORTHCOMING ACTIVITIES

assistance to Mali to adapt the regional framework to its national legal situation. Its main conclusion was that the decree of 2004 establishing the national Public Debt Sustainability Analysis Committee should be transformed into a National Debt Management Committee, to expand its functions and include all units involved in debt management. It helped the government to finalise draft texts to support this change, and at the end of the mission the authorities undertook to adopt the texts rapidly.

## Joint Missions with World Bank on DeMPA Tool

During this period, at the suggestion of the country authorities, CBP partners participated in 3 joint missions with the World Bank – CEMLA to Honduras (4-25 April) and Pôle-Dette to Burkina Faso (7-17 May) and Mali (18-28 May), building on 2 earlier missions. The main objective of each mission was to assess the legal and institutional framework for debt management in each country through discussions with government officials and donors, using the World Bank Debt Management Performance Assessment (DeMPA) tool. The missions built on earlier HIPC CBP institutional missions, and CBP self-assessments by the countries of their debt management strengths and weaknesses as well as the design and implementation of debt management capacity-building plans. Each mission produced a report analysing current debt management performance and reforms already under way, in order to help donors to align their debt management support in a coordinated way behind the priorities of the country (without making recommendations for further actions, which will be the subject of a potential additional mission for a smaller group of countries, springing from the proposed DeMFLIC facility).

## Methodology, Distance Learning and Attachments

### Methodology

As part of the process of integrating the new BWI methodologies (the Debt Sustainability Framework (DSF) and Medium-term Debt Strategies (MTDS)) into CBP regional and national training events, the CBP partners

have been having discussions with the BWIs. On the DSF, CBP partners aim to ensure availability of training materials to HIPC officials, which are more comprehensive and tailored to their needs. Input into the MTDS is likely to begin later in the year once the BWI tools have been stabilised. In addition, the CBP has been communicating its methodology (especially on capacity-building plans) to the World Bank, so as to demonstrate the ability of CBP partners to design plans following up DeMPA mission recommendations.

In addition, the CBP has been extending the new external financing analysis conducted at its workshops, to deepen examination of government financing issues for the development of a government financing policy. These new training materials include analysis of the latest results of monitoring the Paris Declaration indicators. The CBP Donor Guide, which provides profiles of donor policies and procedures, continues to be extended to cover a wider range of bilateral and multilateral donors. To date 46 profiles have been prepared and will shortly be available on the technical resources pages of [www.hipc-cbp.org.uk](http://www.hipc-cbp.org.uk) (in the meantime contact DRI for a copy).

### Distance Learning Programme

The second Phase 4 intake of 36 students started their studies in May 2008, in many cases preceded by missions to identify national coordinators and students, and help prepare national data and documents. The participating countries include Burundi, Cameroon, CAR, Chad, Cote d'Ivoire, Ethiopia, Malawi, Nicaragua, Rwanda, Tanzania, Togo, Uganda and Zambia. Staff of MEFMI and Pôle Dette are also participating. There are 16 students studying domestic debt strategy, 12 studying new external financing strategy, 7 studying external debt restructuring and 1 studying debt data issues.

### Attachments

Staff of DRI, MEFMI, Pôle-Dette and WAIFEM attended DeMPA training in Washington in April.

## Future Activities

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

- 1 Inter-Regional Meetings:**  
15th Ministerial Meeting in Washington on October 10
- 2 Regional Workshops:**  
CEMLA Training for Trainers and New Financing; DRI PALOP Government Financing; Pôle-Dette New DSA Framework and Training for Trainers; MEFMI/WAIFEM LIC-DSF Training for Trainers.
- 3 National Workshops:**  
Ethiopia; Guinea; Honduras; Liberia; Mozambique; Tanzania and Uganda
- 4 Sensitisation Seminars:**  
Guinea; Liberia; Malawi; Mozambique; Tanzania; Uganda
- 5 Subnational Workshops:**  
El Alto, Bolivia.
- 6 Institutional/Follow-up Missions:**  
Congo; Ghana; Kenya; Liberia; Mozambique; Rwanda; Sao Tomé
- 7 Governance:**  
20th HIPC CBP Steering Committee Meeting in October in Tanzania
- 8 Attachments:**  
MEFMI and Pôle-Dette staff to DRI
- 9 Distance Learning Programme:**  
Residential Schools for French and Portuguese speaking programme countries
- 10 Information products:**  
newsletters 36 and 37, 3 listserves on latest debt management developments, and a publication on best Practices in Debt Management Institutions.

# DESIGNING AN FPC POLICY ACTION PLAN



**The goal of FPC monitoring and analysis is to contribute to national development and poverty reduction, by improving macroeconomic policy, and investment promotion and facilitation. High quality country-level analytical reports, data, and focused policy recommendations are essential to ensure this outcome. In phases 1 and 2 of the CBP, countries progressed strongly with compilation and analysis, but only partly implemented the policy recommendations.**

This reflected three main factors:

1. FPC recommendations were not always integrated with wider national, regional or international policy initiatives (eg regional investment treaties, Doing Business).
2. Policy makers have perceived the exercise as a data collection and analysis process, without taking full account of the policy implications – though once they see the value and quality of the analysis they become interested in policy recommendations.
3. The recommendations were not sufficiently clearly framed for implementation.

In phase 3, participating countries are placing much greater emphasis on designing Policy Action Plans (PAPs). This article outlines the content and steps to prepare a PAP.

## Types of Recommendations

Analytical reports generate recommendations in a broad range of areas:

- **Data dissemination:** how to enhance data quality and dissemination practices in line with international codes and standards and the needs of national agencies, and how to improve government publications' utility to investors.
- **Macroeconomic stability:** tax or other measures to encourage particular financing types (FDI debt and equity, portfolio debt and equity, and other borrowing long or short term), and to promote stability of the economy and longer-term flows.

- **Recent and intended flows:** information on recent and intended flows assists Central Banks to foresee balance of payments trends and manage foreign exchange reserves
- **Diversification:** measures for investment promotion agencies and line ministries to diversify source countries, sectors or regions of investment
- **Investment prospects:** a wide range of measures to promote domestic and foreign investment, including improving domestic financial systems, infrastructure, health, education and training, as well as legal and regulatory frameworks and the efficiency of government institutions.
- **Business contribution to development:** ways in which businesses may help to develop infrastructure, health, education, environment protection measures etc. These may be taken forward by investment promotion agencies, private chambers, multinationals or and line ministries.

It is also important to cross-check different sections of reports to ensure coherence (for example, do findings on investor perception agree with data on FAL?).

## Outlining a Policy Action Plan

A Policy Action Plan (PAP) seeks to structure policy recommendations more clearly to ensure their implementation. The table below is a sample template. Each policy recommendation should appear with an indication of its priority – High, Medium or Low (Column 1), the policy objective to which it relates (Column 2), the institution(s) responsible for implementing the policy (Column 3), the approval process (Column 4), and timeframe (Column 5). As bottlenecks may arise during approval or implementation, the status needs constant monitoring (Column 6), so that the timeframe may be revised.

Recommendation (Priority: H / M / L)	Policy Objective	Lead Institution(s)	Policy Approval	Policy Timeframe	Status
1 Finding: investment from neighbouring countries is growing fast. Recommendation: establish bilateral agreements with these countries (M)	Attract more investment and exchange of data on foreign investment	Ministry of Trade and Industry, Central Bank, Investment Promotion Agency	6-12 months (Note: does not need Parliamentary approval)	12 months to signature	Draft agreement under discussion between agencies
2					
3					

## Institutional Arrangements

CBP "National Task Forces" work on both technical and political levels. Technical staff writing the analytical report are well placed to draft the PAP, and present it for comment, approval, and implementation at the political level. It may be necessary to work with another agency (e.g. in cases where the Finance Ministry or a strategic line ministry is not a member of the NTF) or as part of a group established to implement another initiative.

## Integration with Other Initiatives

The Plan needs to take account of all relevant national, regional and international initiatives, and coordinate with the institutions implementing them, to ensure complementarity. For example, recommendations to promote investment into particular sectors or regions may need to be checked with chambers of commerce or line ministries; changes to methodology, tax or investment codes with regional organisations; and macro policy changes with the IMF. These initiatives are likely to include:

- IPA / Ministry of Trade and Industry investment promotion plans
- Sector or regional development plans of private chambers and line ministries
- Terms of reference of presidential special initiatives or public-private investment fora
- Poverty Reduction Strategy Papers/National Development Plans
- Strategy papers of regional organisations
- Data dissemination recommendations (IMF GDDS, SDDS, ROSC, STA missions...)
- World Bank Doing Business
- IMF PRGF/PSI recommendations

The FPC CBP is working with participating countries to write PAPs, to ensure that reports have maximum impact on policy and on growth and poverty reduction.

# THE GAMBIA: FDI BOOM IN REAL ESTATE

**T**his article presents key findings from The Gambia's recently completed census for 2003-04 (which also tracked investor perceptions for 2006). The initial register of 457 enterprises was cut to 214 during the fieldwork.

## Foreign Private Capital

The table shows that FDI was by far the most important source of FPC over the period, with stocks and transactions dwarfing portfolio equity, and debt from unrelated sources.

### Foreign Private Capital (US\$ million)

INSTRUMENT	Stock	Transactions 2004		Stock
	End 2003	Credits	Debits	End 2004
FDI	112.3	48.5	8.0	154.5
Equity + Reinvested Earnings + Reserves	89.5	41.2	0.1	131.6
Loans Short-term	3.3	1.1	1.8	2.8
Loans Long-term	19.5	6.3	6.1	20.1
Portfolio	0.1	0.1	0	0.4
Equity	0.1	0.1	0	0.4
Other	3.4	4.0	0.4	7.3
Loans Short-term	1.8	1.9	0.2	3.6
Loans Long-term	1.6	2.1	0.1	3.6
<b>Total</b>	<b>115.9</b>	<b>52.6</b>	<b>8.3</b>	<b>162.1</b>

## FDI

FDI mostly comprised equity, reinvested earnings and reserves, which increased by 38% in 2004 due to significant inflows. This could be positive for sustainability, if equity is less volatile than debt. The stock of FDI loans remained stable, so their share of FPC declined. These were mostly long-term, with flexible terms and conditions.

In 2004, 70% of FDI stock was in two sectors: construction and real estate; and another 20% in finance and hotels. Real estate was most dynamic in 2004, accounting for two thirds of transactions. This reflected individuals resident in OECD countries, buying properties as second homes, for retirement or as buy-to-let investments. Construction (14%) and finance (11%) also grew, reflecting high profits. However, tourism, which is a key sector in the economy (the second most important non-farm employer with massive potential for poverty reduction), did not see growth, signalling a need for more development. Overall, the economy is becoming increasingly concentrated. It is striking that wholesale

and retail, so visibly a cornerstone of the Gambian economy, accounted for so little FDI, because most equity in this sector is held by domestic investors.

FDI from non-OECD sources is significant, accounting for over 60% of stock in 2003, although this declined to 50% by 2004, due to the OECD real estate boom.

Investing in The Gambia was highly profitable, yielding an average rate of return on equity of 20%. This masks strong sector variations. Finance (42%), real estate (38%) and wholesale and retail (27%) performed best. Transport, storage and communication

reported losses, as did tourism due in part to development costs of new projects.

## Portfolio

Portfolio equity almost doubled, but remains tiny, partly because there is no equity market. However, it may be that investment by non-residents in treasury bills (especially via funds) are not being tracked fully.

## Debt

Debt from unrelated sources was small relative to public debt stock, but significant in terms of service, showing that it is much more expensive. It grew significantly, evenly split between long and short-term. However, it remains much lower than debt from affiliated companies, reflecting difficulties for enterprises to obtain credit abroad.

## Investor Perceptions

Consistent with the profitability results, most respondents indicated willingness to expand their investment over the next 4 years, and their readiness to boost staff training and development, recruitment of Gambians,

diversification to other parts of the country, and a wider range of products and services.

Investors were initially motivated by domestic economic and political stability, rule of law, low corruption, regional political stability, and tax incentives. Currently, factors most favouring increased investment include telecommunications, road transportation, efficiency in banking services, and availability of trained staff. Key negative factors are political governance, slow decision making by key ministries and expensive electricity.

In terms of corporate responsibility, relatively few investors have gender-sensitive employment policies, or healthcare and/or medical insurance policies. Investors are also largely unaware of international responsibility codes or national best practices.

## Policy implications and future measures

It is imperative to raise FPC further in order to promote employment, growth, and technology transfer. Policies need to work within existing frameworks such as the PRSP, and sector-specific initiatives such as for tourism. Generally however, the policies needed to attract investment and increase its development impact will require:

- Continued macroeconomic stability through prudent monetary and fiscal policies
- Strengthening and deepening the financial sector via the development of leasing companies and venture capital for SMEs
- Reinforcing democratic institutions, judicial independence and efficiency, and public administration to address inefficiency and high cost of public services
- Continuing up-grades of infrastructure and utilities including energy, water, roads and telecommunications
- Improved service delivery in low-performing Government departments and municipalities (eg establishing a Board to accelerate land allocation to investors).
- Ongoing focus on education and training to ensure an adequate supply of skilled workers and professional staff
- Promotion of a more equitable gender balance in enterprise employment practices.
- Enhanced access to healthcare/insurance for enterprise staff and families
- Alerting a wider range of enterprises to CSR voluntary codes, and working with them to identify positive case studies for best corporate practice.

# NICARAGUAN INVESTMENT CONCENTRATED IN FREE ZONE

**A**t the end of 2007, the *Inter-Institutional Task Force (Grupo de Trabajo Interinstitucional – GTI)* finished the first cycle of the FPC CBP. This article presents the main analytical results.

The investor register for the survey was constructed using information from various public sector institutions. Initially, 813 enterprises were targeted, but 284 of these clarified that they had no foreign assets or liabilities, leaving the final list as 529. After two rounds of surveying, 349 enterprises supplied information, reaching a response rate of 66%. This rate was very positive given the circumstances prevailing when the survey was launched – national elections and political uncertainty, as well as a clash with the period when enterprises were finalising their annual accounts. Nevertheless, some of the largest enterprises did not reply to the survey, so one of the major challenges of a second cycle will be to ensure their replies are received.

The results show flows of foreign investment of US\$206.4 million in 2005, including intra-company loans. Of this amount, US\$53.4 million was from reinvested earnings, meaning that only a low proportion of capital or dividends were paid out to foreign

or domestic investors. This high level of reinvestment may either reflect confidence in the economy, or challenges in obtaining other types of capital such as debt. The survey also allowed Nicaragua to identify the stock of FAL.

The main destination of the FDI was the free zone, which received US\$77.1 million (37%). Other sectors attracting FDI were mining (22%), energy (15%), industry (9%), and trade and services (8%). The results indicate that the most attractive sectors are those which have the highest profitability.

**Figure 1: Foreign Direct Investment per Country of Origin (in percentage)**

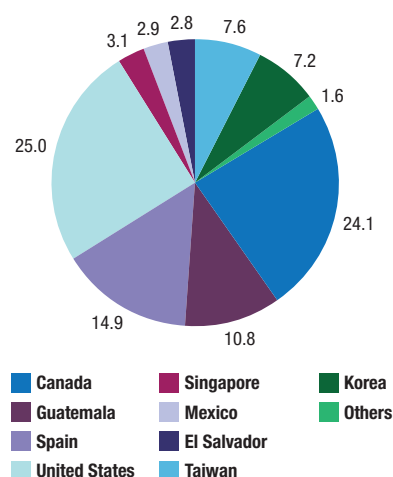


Figure 1 shows that three OECD countries (the USA, Canada and Spain) accounted for 64% of FDI. Though intra-regional investment was also significant (17%), this high concentration highlights the need to broaden investment promotion efforts, especially to non-OECD sources.

The table below shows that Nicaragua's private sector is heavily exposed to short-term borrowing, mainly in supplier credit from unrelated sources. Nevertheless, long-term borrowing (mainly from related companies) also rose by 20%. Private-sector debt merits much closer monitoring.

The investor perceptions form had a lower rate of response (58% of the reduced group) than the FAL form, partly because they were collected separately, and partly due to reluctance to comment on government performance. However, the investors expressed positive perceptions of most factors and the vast majority planned to expand or maintain their investment over the medium-term.

The Government of Nicaragua is currently preparing a proposal for donor funding and hopes in the next few months to launch a second cycle of the FPC CBP.

## Nicaragua's Private Sector External Debt (US\$ millions)

	Stock at 31 Dec 2004	Disbursed in 2005	Repaid in 2005	Stock at 31 Dec 2005
<b>By Term</b>	<b>1,801.9</b>	<b>3,678.7</b>	<b>3,590.4</b>	<b>1,890.3</b>
Long Term	333.6	434.2	369.1	398.8
Short Term	1,468.3	3,244.5	3,221.3	1,491.5
<b>By Instrument</b>	<b>1,801.9</b>	<b>3,678.7</b>	<b>3,590.4</b>	<b>1,890.3</b>
Supplier credit from unrelated sources	1,365.7	3,089.6	3,103.6	1,351.7
Other borrowing from unrelated sources	304.4	135.8	101.6	338.5
Borrowing from related sources	131.8	453.3	385.1	199.9

Source: Central Bank of Nicaragua

# FPC CBP ACTIVITIES UPDATE

**O**ver the last quarter, the FPC CBP launched the programme in Senegal, Mali, Congo and Gabon, new cycles in Burkina Faso, Uganda and Zambia, designed and presented new methodology on policy action plans, and finalised and disseminated Version 2.0 of the generic CBP software together with the first complete draft of the Technical Manual.

## Country progress

Countries have progressed as follows:

- Bolivia (Cycle 3) has been collecting data for 2007
- Botswana is discussing modalities of support with ComSec, MEFMI and DFI
- Burkina Faso has launched its second cycle with an Opening Workshop in June
- Congo hosted a Demand Assessment Mission in June.
- Gabon received a Demand Assessment Mission in June.
- The Gambia has finalised its analytical report for cycle 2
- Ghana (Cycle 2) is finalising contractual arrangements to rejoin the FPC CBP
- Mali launched its first cycle with a Demand Assessment Mission in April followed by an Opening Workshop in May
- Nicaragua is finalising its analytical report and proposal to donors for a second cycle
- Senegal held a Demand Assessment Mission in May, followed by an Opening, Awareness and Training workshop in June.
- Tanzania has finalised Cycle 3 and 4 data and analytical reports
- Uganda closed Cycle 6 (2006) and launched Cycle 7 (capturing data for 2007) with a results dissemination event followed by a training workshop in May.

- Zambia finalised its post-workshop technical preparations, and commenced its enterprise survey in May, collecting data for 2006 and 2007.

## Methodology

- **Policy Action Plans:** a cornerstone of Phase 3, the CBP revised the methodology and presented it in Uganda during Q2. It is being disseminated in this Newsletter (see page 12) and added to the National Taskforce Manual, available to countries on the members' pages of the website ([www.fpc-cbp.org](http://www.fpc-cbp.org): username and password required)

## Software

- **FPC CBP Generic Software:** EIS finalised Version 2.0 together with an updated User Manual, and a complete Technical Manual for software designers. The CBP is circulating the manuals to key users for comment, before uploading on the website.
- **MEFMI Private Capital Information System:** this regional software is making steady progress in programming and coding. MEFMI conducted its 3rd expert retreat in Malawi during Q2, and will organize a regional workshop to review and conduct initial tests with users in August, before launching the system in March 2009.

## Information products

- **Newsletter 34** is now available online on the open pages of the website (visit [www.fpc-cbp.org](http://www.fpc-cbp.org) and link to "Newsletter"). FPC articles include reports on



country progress, the extension of the CBP to the Franc Zone and building partnership with the private sector. For subscription enquiries, contact [dfi@dri.org.uk](mailto:dfi@dri.org.uk)

- Briefings #18 and #19 were disseminated in May 2008 and July 2008 respectively. Briefing #18 is available online (visit [www.fpc-cbp.org](http://www.fpc-cbp.org) and link to "FPC CBP Briefing"). It lists the latest CBP developments, as well as related international, regional and national initiatives, research, and developments in codes and standards. To subscribe, contact [dfi@dri.org.uk](mailto:dfi@dri.org.uk).
- The website continues to be updated every 6 weeks with a "What's New" round up of latest advances in countries and technical issues.

## Forthcoming work programme

### During the next quarter the CBP will:

- Prepare for the second wave of CBP work in new Franc Zone countries with launches in Benin, CAR, Chad, Côte d'Ivoire, Equatorial Guinea, Niger and Togo.
- Hold sensitisation seminars and training workshops in Cameroon, Congo and Gabon, as well as combined results dissemination and training workshops in The Gambia, Malawi and Tanzania, and follow-up missions to Bolivia, Mali and Senegal
- Relaunch the programme in Ghana with a Demand Assessment Mission
- Continue to produce information products (newsletter, listserv, website) to schedule

# DEBT RELIEF TECHNICAL QUESTIONS

## What types of assistance do southern donors and creditors provide?

**A**s shown in the table below, around 90% of the assistance provided by southern donors and creditors is in the form of project loans and grants and technical assistance.

Unlike northern donors, southern donors have not been providing significant amounts of budget or balance of payments support, although India has provided this type of assistance to Bhutan, Nepal and more recently Afghanistan (the latter through the performance-based multi-donor trust fund).

The Republic of Korea has indicated that it will in the future deliver a higher proportion of its assistance through programme-based approaches. The Arab multilateral funds (including the OPEC Fund) and the governments of Kuwait, Saudi Arabia, United Arab Emirates and Venezuela have provided balance of payment support to finance oil imports. Arab contributors are also known to have contributed significant budget support (about US\$450 million) to the West Bank and Gaza in 2006. Many Southern contributors notably China, India, the Republic of Korea, South Africa and the multilateral creditors have provided significant debt relief.

Many of the smaller Southern donors (for example Argentina, Chile, Egypt, Singapore and Tunisia) have focused almost entirely on technical cooperation. China and India also have a long history of providing technical cooperation, often as part of projects – India has provided over US\$3 billion of technical assistance to 156 developing countries. The Republic of Korea, Thailand and Turkey have also significant technical cooperation programmes. Technical cooperation is though a relatively small component of assistance provided by Southern multilateral institutions.

Bilaterals	
<b>Africa</b>	
South Africa	Currently, almost all South African aid is channelled through multilateral channels (including NEPAD, African Renaissance Fund, etc). Provides some debt relief.
<b>Asia</b>	
China	Most aid in form of projects, in-kind, Technical Co-operation and debt relief.
India	Aid fundamentally project oriented (including Technical Co-operation), with exceptions of Bhutan and Nepal and recently also Afghanistan (PBAs). Provides some debt relief.
Korea, Republic of	Technical Co-operation grants are 31%, project/programme grants are 22%, other grants 16%, and bilaterals loans are 31%. Full debt relief granted to HIPC.
Malaysia	Bulk of aid through Technical Co-operation, which does involve some project-type assistance.
Thailand	80% in the form of project lending, remainder is Technical Cooperation.
<b>Middle East &amp; North Africa</b>	
Kuwait	KFAED delivers mainly project and Technical Co-operation, with the Kuwaiti Gov't involved in budget & BoP support. Provides some debt relief.
Saudi Arabia	Saudi Fund gives mainly project-type assistance (but no Technical Co-operation), with programme aid historically 4% of total. Direct bilateral support includes some budget support and debt relief.
Turkey	Increasingly project & programme aid (30%), but still large part Technical Co-operation (26%). Also quite high is 'aid to refugees in donor countries'.
United Arab Emirates	ADFD offers aid in the form of projects and Technical Cooperation, with some debt relief given in 2006. Direct bilateral support includes some budget support.
<b>Latin America &amp; Caribbean</b>	
Argentina	Mainly Technical Cooperation, but moving towards more long-term institutional engagement (e.g. in Haiti). Still project focused however. Provides some debt relief.
Brazil	Brazilian aid mainly consists of Technical Cooperation. Provides also some debt relief and food/emergency assistance.
Chile	AGCI delivers aid entirely through Technical Cooperation and scholarships.
Venezuela	Venezuela's oil aid deals are essentially BoP support. Venezuela also gives some humanitarian assistance and project-type aid through BANDES.
<b>Multilateral Development Institutions (non-OECD)</b>	
BADEA	96% Project & programme aid (loans), rest Technical Cooperation (grants)
Islamic Dev't Bank	Net approvals for recent years have been around 50% trade finance and 50% projects, with Technical Cooperation less than 1%.
OPEC Fund for Int'l Dev't	Mostly Project & programme assistance (77%), and debt relief (13%).
<b>Other</b>	
Taiwan Province of China	Bilateral aid almost all projects and Technical Cooperation. Does provide some budget support.

Source: HIPC CBP