The G8 meetings in Gleneagles (UK) led to major steps forward in commitments to provide aid and debt relief, to help HIPC s and other low-income countries attain the MDGs.

1) Aid Quantity

The aid commitments could potentially increase aid to Africa by US$25 billion a year by 2010, more than doubling disbursements since 2004. They could also lead to a US$50 billion increase to all developing countries. More specifically, by country:

- **EU Member States** had already pledged collectively (at an EU Finance Ministers meeting in June) to meet the UN target of 0.7% ODA/GNI by 2015, and 0.56% by 2010. The EU will nearly double its aid flows by 2010, an increase of $33 billion. At least 50% of this will go to Sub-Saharan Africa.
- **France** will reach 0.5% by 2007 and 0.7% by 2012.
- **Germany and Italy** will reach 0.51% by 2010 and 0.7% by 2015.
- **The UK** will reach 0.7% by 2013 (possibly sooner with the launch of the International Financing Facility pilot programme due shortly).
- **Canada** is doubling its aid from 2001 to 2010, and for Africa from 2003/04 to 2008/09. Much of the current increase is focussing on fighting killer diseases, public-private risk capital for private investments, and humanitarian support.
- **Japan** will increase its ODA by US$10 billion over the next 5 years. It will double ODA to Africa over the next three years, focussing especially on health sector and private sector assistance.
- **The US** will double aid to Africa by 2010, mainly through the Millennium Challenge Account, HIV/aids, malaria and humanitarian funding.

Though the public focus of the G8 meetings seemed mainly to be on Africa, the list of pledges above shows that aid will also be expanding rapidly to non-African countries. These aid commitments could provide many HIPC s – and other low-income countries – with large increases in aid flows, and make attainment of the MDGs much more feasible.

Of course, while all these pledges sound impressive at face value, they represent different levels of effort by each country. For example, even after these substantial increases, Canada, Japan and the US will remain very far away from meeting the 0.7% target.

2) Aid Quality

In addition, it is obvious that different G8 members have very different concepts of what represents high quality aid. The most obvious example of this is over conditionality, which the UK and many European donors are dramatically reducing, but some other donors are increasing. In spite of these differences, a week after the G8 meetings, donor representatives met in Paris to attempt to finalise the quality targets on which they will be monitored, to present to the UN Millennium Review Summit in September. Almost all of them have so far agreed in principle to 12 targets for the year 2010:

- 75% of developing ‘partner’ countries to have operational development strategies;
- half of partner countries to improve their public finance management systems and one third to improve their procurement systems;
- at least half of aid not reported on government budgets to be on budget;
- at least 50% of technical assistance to be provided through coordinated programmes consistent with national development strategies;
- for developing countries with good public finance management and procurement systems, that 90-100% of donors should use such systems;
- reduce by two-thirds the number of donors’ parallel project implementation units;
- halve the proportion of aid not disbursed within the scheduled fiscal year;
- continue progress in untying aid;
- provide 66% of aid through programme (budget/BoP/sector/other) support;
- make at least 40% of donor field missions and 66% of country analysis ‘joint’ to reduce time burdens on partner governments;
- increase the number of developing countries with performance assessment frameworks;
- Ensure 100% of developing countries have mutual assessment reviews in place.

The targets are expected to be finalised and disseminated to partner countries shortly.

3) Debt Relief

The G8 Summiteers reconfirmed the agreement by their Finance Ministers in June in London. This involves cancelling 100% of debts owed by post-completion point HIPCs to the African Development Fund, IDA and IMF. It is an important step forward in that it provides US$1.5 billion a year of debt service cancellation, admits that multilateral organizations can cancel 100% of debt without damaging themselves, and moves to relief based on massive needs to finance the MDGs (with the assumption that debt relief is an efficient way to provide aid) rather than economic calculations of ‘debt sustainability’.

However, post-completion point HIPCs will have their annual new disbursements reduced by the same amount as the debt service forgiven. Thereafter, they will receive some of this reduction back in additional disbursements from AfDF and IDA – but not all, because this money will be disbursed not just to HIPCs, but to all AfDF/IDA countries, based on their ‘performance-based allocation’ percentages of normal AfDF/IDA disbursements. While this is good news for non-HIPCs and pre-completion point HIPCs, which will get some more money for the MDGs, it means that the amount of additional resources post-completion point HIPCs will get for the MDGs will be only around one third of their cancelled debt service in the case of IDA. Nevertheless, this percentage should be considerably higher for AfDF, and IMF relief will be funded by using its own resources without reducing future disbursements.

Several important details of the agreement are still to be finalised, including:

- the cut-off date for eligible debt (preliminary documents suggest end December 2004);
- the agreement of non-G8 donors to AfDF, IDA and the IMF (expected by September);
- how the MDBs will account for this debt cancellation;
- how AfDF and IDA grant allocations will be affected (see Newsletter 23. Based on the current traffic-light system, the debt stock cancellation may result in current red light post-CP HIPCs (due to receive 100% grants) shifting to a green light (where they will receive 100% loans). There are serious implications for longer-term debt sustainability considerations and the BWIs/AfDF are therefore considering this impact closely;
- how AfDF/IDA project portfolios will be
affected. Where disbursements to countries fall, it is not clear whether planned projects/programmes will need to be funded from HIPCs’ own budget resources (i.e. debt service savings). For additional disbursements, it is not clear whether they will come as new projects or fund additional projects or – preferable for aid quality – arrive as budget support.

A more detailed assessment of the agreement, including preliminary calculations of the impact on IDA gross and net flows to each HIPC, is available on the CBP website at www.hipc-cbp.org.

Finally, the annex to the G8 communiqué also confirms that Russia is considering moving to 100% cancellation of HIPCs’ debts on non-ODA loans, a step which would reduce HIPC debts by US$750 million.

4) Reactions

Reactions to the G8 deal by developing country leaders were generally favourable – notably from President Obasanjo (Nigeria had also just reached agreement with the G8 on the principles of a debt reduction deal which will be finalized with the Paris Club in September). However, international coalitions of civil society organizations such as the Global Coalition Against Poverty (GCAP) have been less complimentary – because they had higher expectations. They generally wanted an immediate (not by 2010) doubling of aid and debt cancellation for 60 countries, as well as faster progress on fair trade for the poorest countries through the ending of OECD protectionism on goods from the poorest countries, and the abolition of agricultural subsidies. For details of their reactions, see www.eurodad.org; www.makepovertyhistory.org; and www.jubileedebtcampaign.org.uk.

HIPCs are likely to be pleased with the headline messages – but less pleased with the fact that debt relief will not translate into 100% additional resources for them, and that other multilateral organizations such as the Asian, Caribbean and Inter-American Development Banks are not included. They may also be sceptical about how easy it will be for donors and recipients to deliver the increased aid flows unless there is a quantum leap in the quality of aid. So the proof of the agreement will be in the commitment G8 countries show to implementing it fully.

The HIPC CBP 16th Steering Committee meeting took place in Dakar in May, hosted by the Central Bank for West African States (BCEAO).

The meeting discussed the latest evaluations of HIPC progress in improving debt management capacity, which indicated that the three-logframe targets in this area had been met. It was agreed that in future the HIPC capacity self-evaluations would be undertaken only once a year, and that the methodology will be updated for phase 4. The SC also discussed results-based strategic plans for methodology, distance learning, multi-regional products, and for the countries supported by each CBP implementing partner.

The meeting agreed on the broad outlines of the project document for the fourth and final phase of the HIPC CBP, which will last 4 years beginning in July 2005. These included a logical framework defining the objectives and results expected from the project, the work packages which will need to be executed in order to achieve these goals, and the roles and responsibilities of the members of the Steering Committee – donors, HIPCs and implementing partners. Among the important conclusions relating to HIPCs were that:

- phase 4 will be run using ‘results-based management’ techniques, meaning that every activity in the CBP will be expected to contribute to concrete results. As a result, funds are likely to be allocated to countries where stronger results are expected;
- the success of the programme will be judged more strictly by the number of HIPCs adopting and implementing their own debt strategies – as well as debt management capacity-building plans which will lead to sustainable capacity among their staff;
- the role of HIPCs in the SC will be strengthened through the establishment of systems for pre-SC consultation among HIPCs in each region, and post-SC reporting back;
- the core financing contributions from donors to the CBP will be reduced gradually during the phase, and be replaced by increasing financial/in-kind contributions from HIPCs themselves, as well as donor co-financing for work in individual countries. This means that HIPCs will need to play the primary role in deciding how future debt management support from implementing partners is funded.

In separate meetings the CBP implementing partners agreed plans to extend the distance learning programme to a wider range of countries and including domestic debt strategy in its subject areas; and to develop more advanced methodology in various areas such as analysis of shocks/risks, long-term debt sustainability and macro/poverty forecasts.

Following the meetings, implementing partners have begun finalising the project document and budgets for phase 4. These were expected to be submitted to donors at the end of July. Once the document has been approved by donors it will be sent to all HIPC policymakers and senior officials so that we can all begin work together on phase 4.
Debt Relief International and the BCEAO/BEAC Regional Debt Management Training Unit organised an updated debt sustainability analysis (DSA) mission for Congo in Brazzaville from 6 to 11 June, in order to test the country’s eligibility for HIPC assistance and establish how the initiative could be implemented. DSA analysis had initially been carried out at a national workshop in May 2001, testing eligibility for 2002. The June 2005 mission tested eligibility once more, on the assumption that the decision point would be reached in 2005. This article therefore looks at the repercussions of the decision point being postponed from 2002 to 2005.

During the May 2001 workshop, debt sustainability analysis was carried out on the assumption that the decision point would be reached in June 2002. The analysis highlighted that the country’s external debt was unsustainable in terms of HIPC criteria, with a net present value (NPV) debt-to-revenue ratio of 431.5%, qualifying for debt relief of USD1,278 million (NPV). However, Congo’s eligibility in 2005 could see the country receiving debt relief of USD 1,388 million – in other words an increase of USD110 million (8.6%). It should be noted that between the two DSA analyses, Congo received debt relief assistance of approximately USD1,147 million following the agreement signed in December 2004 with the Paris Club and grants (NPV), following the agreement signed in December 2004 with the Paris Club and grants to clear the arrears owed to the AfDB.

Several factors explain the differences between the two analyses.

### Table 1: Congo – Comparative analysis of eligibility tests for 2001 and 2005

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated decision point</td>
<td>Year 2002</td>
<td>Year 2005</td>
<td>---</td>
</tr>
<tr>
<td>NPV debt-to-export ratio</td>
<td>142.7%</td>
<td>165.0%</td>
<td>+22.3 points</td>
</tr>
<tr>
<td>NPV debt-to-revenue ratio</td>
<td>431.5%</td>
<td>350.9%</td>
<td>-80.6 points</td>
</tr>
<tr>
<td>Estimated amount of HIPC debt relief assistance</td>
<td>USD1,278 m</td>
<td>USD1,388.1 m</td>
<td>+USD110.1 m</td>
</tr>
</tbody>
</table>

### Table 2: Congo – External public debt

<table>
<thead>
<tr>
<th></th>
<th>December 2001</th>
<th>December 2004</th>
<th>Variation</th>
<th>Contribution to stock variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>External debt stock arrears</td>
<td>5,724 (3,238)</td>
<td>7,235.2 (2,956.8)</td>
<td>1,511.2 (-281.2)</td>
<td>26.4%</td>
</tr>
<tr>
<td>1. Multilateral creditors arrears</td>
<td>615 (137)</td>
<td>484.7 (0)</td>
<td>-130.3 (-137)</td>
<td>-2.3%</td>
</tr>
<tr>
<td>2. Bilateral Paris Club creditors arrears</td>
<td>3,165 (1,557)</td>
<td>3,513.8 (50.9)</td>
<td>348.8 (-1506.5)</td>
<td>6.1%</td>
</tr>
<tr>
<td>3. Bilateral non-Paris Club creditors arrears</td>
<td>216 (177)</td>
<td>388.1 (370.9)</td>
<td>172.1 (193.9)</td>
<td>3%</td>
</tr>
<tr>
<td>4. Commercial creditors arrears (incl. interest for late payment)</td>
<td>1,727 (362)</td>
<td>2,648.7 (2,535.4)</td>
<td>1121.7 (2,173.4)</td>
<td>19.6%</td>
</tr>
</tbody>
</table>

### Table 3: Congo – Evolution of macroeconomic data (USD millions)

<table>
<thead>
<tr>
<th></th>
<th>December 2001</th>
<th>December 2004</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>2,082</td>
<td>3,598.8</td>
<td>+72.9%</td>
</tr>
<tr>
<td>Total revenue</td>
<td>704</td>
<td>1,375.8</td>
<td>+95.4%</td>
</tr>
</tbody>
</table>

### Table 4: Congo – Assumed discount rates and exchange rates of Congo’s main borrowing currencies

<table>
<thead>
<tr>
<th>Share of debt portfolio DSA performed</th>
<th>DSA performed in May 2001</th>
<th>DSA performed in June 2005</th>
<th>Variation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate (1 USD)</td>
<td>Exchange rate (1 USD)</td>
<td>Discount rate (1 USD)</td>
<td>Exchange rate (1 USD)</td>
</tr>
<tr>
<td>Euro</td>
<td>56.1%</td>
<td>6.25</td>
<td>1.07</td>
</tr>
<tr>
<td>USD</td>
<td>31.6%</td>
<td>7.19</td>
<td>1.00</td>
</tr>
<tr>
<td>SDR</td>
<td>2.6%</td>
<td>6.09</td>
<td>0.77</td>
</tr>
</tbody>
</table>

1. The debt stock has increased considerably, from USD5,724 million to USD7,235 million (see table 2.) This increase is due to the accumulation of commercial debt arrears and, to a lesser extent, the raising of new bilateral loans.

2. The improved macroeconomic aggregates were a result of strong oil prices, which saw the average cost of Congolese crude oil rising from USD 21.9 to USD 30 per barrel in 2004. This led to considerable improvement in the country’s reimbursement ability (see table 3.)

3. Interest rates for the main Congolese debt currencies and the US dollar exchange rate dropped significantly. Discount rates dropped by 22.9% for the euro, 30% for the US dollar and 23.8% for the SDR. These developments increased NPV debt. This was accompanied by a depreciation of the US dollar by 31.8% against the euro and 16.9% against the SDR, thus increasing the debt in US dollars.

The effects of these factors are mixed. Improved macroeconomic performance reduced debt relief requirements, while the fall in discount rates and depreciation of the US Dollar increased NPV and expected debt-relief assistance. On the whole, in terms of NPV debt relief assistance, Congo will benefit from postponement of the decision point. Nevertheless, the country is expected to experience a significant loss of income in terms of raising finance for poverty reduction.

Although the debt relief assistance obtained in 2004 will reduce debt pressure on budgetary liquidity and budget deficits, if the country had been eligible for the HIPC initiative in 2002 as initially planned this debt relief assistance would have been mainly channelled into poverty reduction programmes, in the same way as the debt relief assistance Congo would have received during the HIPC interim period.
CENTRAL GOVERNMENT DEBT SUSTAINABILITY ANALYSIS

1. Introduction
Debt sustainability analyses (DSAs) are studies of the debt situation of a country on the basis of which key indicators are evaluated in order to design a debt strategy from an external or fiscal perspective. These indicators are compared against benchmark levels and, depending on their trends, conclusions will be drawn as to whether the debt is sustainable. Bolivia qualified for the HIPC initiative under the fiscal window that significantly reduced the burden of the external public sector debt. However, the situation of the Central Government (CG), and in particular the Central Treasury (CT), meant that it actually did not. In Bolivia’s case, the DSA for the CG is of crucial importance because:

• it is at this level of government that almost the whole of the debt service must be honoured and automatic transfer made to subnational governments of the equivalent sum to the relief granted under the HIPC II initiative;
• as decentralisation proceeds, the CG can no longer have recourse to other levels of government in order to honour the debt and thus its effective capacity to make payments will depend directly on the current revenue of the CG;
• finally, it is the most important entity of the non-financial public sector (NFPS) in terms of expenditure and if the CG cannot meet the debt there are de facto problems of unsustainability, irrespective of the situation of the rest of the public sector.

To ensure that the analysis of the CT debt is accurate, the following methodological adjustments are made:

• clean the database to delete loans that are not the responsibility of the CT;
• extend the coverage of data relating to domestic debt, incorporating the intra-public sector debt (the debt owed by the CT to the central bank);
• quantify the actual debt relief for the CT;
• take into consideration future financing flows for the CT on the basis of freely available disbursements and other forms of financing;
• work out cashflow projections for the CT;
• adjust the denominator of the indebtedness ratios, quantifying the available liquid revenue for payment of the debt service (eliminating the co-participation of taxes which are automatically transferred to decentralised entities).

2. Results for Bolivia
The DSAs for Bolivia, for the public sector and the CG, show the following results:

• Country analysis. From 2001, the ratio of present value of the external public sector debt/exports has been increasing (due to over-optimistic forecasts of export growth, the lowering of discount rates and a high level of new disbursements on non-concessional terms) to reach 155% in the 2004 financial year. Over the next two years this ratio will border on the critical level and then fall off up to 2012 when it will start to follow an upward trend once more. In view of these results the external public debt is unsustainable. The TPV/REV (total present value of debt/budget revenue) indicator shows a continuous rise due to the fact that the variation in the denominator does not compensate for the increase in the total debt.

Looking at the performance of the ratio external debt service to exports (EDS/XBS), Bolivia is likely to face liquidity problems in 2006. After this the situation will be contained up to 2011 when there will be a return to an upward trend. The movement of the other liquidity ratios should confirm the situation.

• Central Government analysis. The TPV/REV indicator shows an upward trend starting from 399% in 2004, rising to 471% in 2015 and ending up at the point of unsustainability of the CG debt when compared against the reference ratio (250%). The ratio service to fiscal revenue shows a permanent rise, confirming the likelihood of liquidity problems.

These apparently contradictory results must be analysed in the light of two concepts: the fiscal deficit which looks at the situation of the whole public sector without reflecting the different distortions with regard to debt management; and the financing gap associated with the CT cash-flow analysis that considers the debt-service profiles and imbalances in debt management.

3. Conclusions
In countries such as Bolivia, the DSA for the whole country would conclude that its debt is sustainable. However, when its actual capacity to pay is assessed through a fiscal analysis applied to the CG only, the opposite result is obtained. Thus, the DSA must take into account the specific characteristics of a country with emphasis on its fiscal aggregates.

The DSA of the CG (including the analysis of its fiscal accounts) explains to a large extent why Bolivia, even after receiving debt relief, is still facing fiscal problems and problems regarding its capacity to honour its debt. According to the assumptions incorporated in the analysis, future indicators of liquidity and solvency for the CG are so high that it will be impossible to deal with them without a considerable fiscal adjustment and major relief/financing.

The DSA as applied to the CG will strengthen the establishment of a debt strategy, with one of the implications being the need for major programme financing or debt relief that can guarantee debt sustainability and achievement of the Millennium Development Goals.

1 By Luis F. Saucedo G., Advisor, Bolivian Ministry of Finance
In June 2005, the Government of Uganda concluded a debt relief agreement with the Government of Libya, after long and at times difficult negotiations. The Government of Uganda first contacted the Libyans about negotiating debt relief in 2001, following its HIPC completion point in May 2000. However until recently its attempts failed, in part because it was not clear whether Libya was participating in the HIPC framework. Initially the Governor of the Central Bank of Libya indicated that Libya would participate. But subsequently the Minister of Finance denied this and wrote to the Bretton Woods Institutions, copied to Government of Uganda, withdrawing Libyan participation in HIPC. Although the Government of Uganda approached the IMF requesting assistance in negotiating with Libya, this was not successful.

Subsequently, however, the Libyans wrote to the Government of Uganda proposing bilateral negotiations completely outside the HIPC context. While negotiations resumed, the terms offered by Libya were not comparable to HIPC treatment and so the negotiations process stalled until recently.

Uganda’s debt to Libya was contracted as far back as 1975 and has been in arrears for many years. While the original amount borrowed was USD83 million, the total outstanding had risen to USD184 million, including overdue and penalty interest.

The main points of the agreement with Libya are as follows:
• cancellation of USD89 million of interest and penalty interest;
• debt-equity swap valued at USD20 million whereby Libya will take a 49% holding in a Ugandan public enterprise;
• repayment of the remaining USD74 million over 5 years.

On the basis of the current US dollar discount rate, this deal provides for the required PV reduction pledged under the HIPC framework. However the repayment element of the deal will result in a higher debt service in the next few years. It is hoped that this deal can provide a precedent for Libya to reach HIPC-comparable deals with its other HIPC debtors.

1. By Martin Nsubuga, Ministry of Finance and Economic Planning, Uganda

Malawi reached HIPC decision point on 22nd December 2000. It was anticipated that the floating completion point would be reached in December 2003 after meeting the trigger conditions that were jointly developed with the International Monetary Fund (IMF) and the World Bank. These include maintenance of macroeconomic stability and satisfactory implementation of a three-year PRGF-supported programme; implementation of the PRSP for one year; good governance; and other structural criteria on health, education and HIV/AIDS. However, completion point was not reached as scheduled mainly because of performance and policy slippages on the PRGF. These slippages meant that the first of the three reviews under the PRGF could not be completed until September 2003.

To enable the country to draw all the resources from the programme, the IMF Executive Board approved an extension of the PRGF to December 2004 and re-phasing of the programme reviews. It was, therefore, envisaged that completion point would be reached by end December 2004. However, performance and policy slippages continued and the PRGF programme was suspended in April 2004. To re-establish a track record of macroeconomic stability, the Malawi Government had to be on an IMF Staff Monitored Programme (SMP), which was successfully implemented from July 2004 to June 2005. It is expected the IMF Board will consider Malawi’s request for a new PRGF in August.

The effects of delays in reaching the HIPC completion point on the delivery of debt relief to Malawi by creditors include:
• suspension of relief by the African Development Bank amounting to USD13.7 million in 2004-05. The IMF also suspended relief for the whole of 2002 and for several periods (totalling around 18 months) in 2003-2005;
• the Government has ‘lost’ debt relief from some creditors (such as NDF, BADEA, IFAD, and Kuwait Fund), since they do not provide relief until completion point. The total amount of ‘lost’ relief in 2004-05 amounts to USD7.8 million;
• some Paris Club creditors started billing Malawi in January 2005. However, Malawi has not been servicing these debts as this would put extra pressure on the Malawi Government since these debt service payments were included in the calculations of HIPC debt relief. Overall, delay has therefore led to substantial cuts in relief to fund anti-poverty spending.
COMPLETION POINT DELAY: CONSEQUENCES FOR SIERRA LEONE

The IMF and World Bank approved Sierra Leone’s decision point in March 2002, and targeted December 2004 for reaching completion point. However, due to weak institutional capacity, a full Poverty Reduction Strategy Paper was completed only in January 2005 (and approved by the BWIs only in April). Since the PRSP must be implemented for one year before completion point, the date has slipped to mid-2006. In April 2005, DRI and WAIFEM assisted the Government of Sierra Leone, in a National Debt Strategy Analysis and New Financing Workshop, to analyse the consequences of this delay.

1) Impact on Debt Sustainability

The original relief calculations at Decision Point were based on a PV of debt of USD749 million, which translated into USD950 million of nominal stock relief (USD600 million of PV), with a common reduction factor of 80.2%.

Since decision point, external debt stock has risen by 42%, from USD1.2 billion in 2000 to USD1.7 billion by December 2004. This is considerably higher than projected at decision point. However, disbursements were actually somewhat less than projected. Instead, the higher debt is due to the depreciation of the US dollar; the trebling of debts owed to commercial creditors, as suppliers presented (and government recognised) claims for war-related military and contractor arrears; and a rise in Paris Club debt due to the addition of penalty interest and arrears during rescheduling.

PV is also higher than expected at decision point. Since 2000, discount rates for each loan currency have decreased following the trend in international interest rates, raising PV by USD80 million. Even though exports are likely to be higher than projected at decision point (USD236 million compared to USD204 million), the overall effect is a large rise in the PV/export ratio, to 212.4% at end 2005 after taking into account HIPC relief. So Sierra Leone looks likely to be entitled to substantial topping up at the completion point.

2) Impact on Delivery of HIPC Relief

- Multilateral Creditors

Most multilateral creditors delivered committed interim assistance up to December 2004. However, as the completion point slipped, some creditors including ADB suspended their assistance as the available interim relief became fully utilised. Also, the quantum of EC/EIB interim assistance was adjusted globally, reducing relief due in 2005. The IMF completed the Sixth review of the PRGF only in June 2005, after two extensions. As a result, relief due in March-May 2005 amounting to USD2.3 million was not delivered. Therefore, completion point delay resulted in net loss of HIPC relief of USD7.6 million.

- Bilateral Creditors

Delay has had no significant effect on Paris Club relief – or additional bilateral cancellations of service by Italy, Norway, Switzerland, the UK and the USA – because the Paris Club agreed to extend interim relief until the end of the PRGF. Nor has it reduced relief provided by non-Paris Club bilateral creditors. Most commercial creditors have been resistant to participate in HIPC and some have even instituted litigation to secure full settlement including costs. However, the World Bank has agreed a second IDA-Debt Reduction Programme to cancel the remaining commercial debt at completion point.

3) Impact on Debt Service Payments

HIPC debt relief has had a positive impact on the foreign exchange and fiscal budgets. Debt service paid fell by 75% from 2001 to 2002. Scheduled service fell by 63% in 2002, 76% in 2003 and 58% in 2004. However in 2005, loss in HIPC revenue of about USD7.6 million has increased debt service and crowded out poverty reduction spending.

4) Impact on Government’s Poverty Budget

Following decision point, Government prepared a supplementary Contingent Poverty Budget based on HIPC relief amounting to Le75.3 billion. The spending was primarily on health, education, security and rural development. Relief freed resources to rehabilitate or reconstruct 13 district primary health units, 19 secondary health care services, tertiary health care services, over 30 primary and secondary schools, and police barracks, to purchase essential drugs, and to execute other key anti-poverty projects.

From 2003, however, the HIPC resources were subsumed into the consolidated budget, which had a special focus on fighting poverty, without any precise links between individual activities and HIPC resources.

Table 2 shows the use of interim debt relief from 2002 to 2004. Actual expenditures on poverty were lower than the budgetary allocation in all years. In 2002, this was because the Contingent Poverty Budget was prepared only in the second half of the year, so that Le36 billion of expenditure was rolled over to 2003. As a result actual poverty expenditure was almost at the mark in 2003. However, in 2004, actual spending fell by 4 percent from 2003. This was due to a significant shortfall in external budgetary support and higher than expected interest payments, coupled with weak implementation capacity in infrastructure projects, and wage pressures.

5) Prospects

At the Gleneagles’ Summit, the G8 agreed to cancel 100% of Sierra Leone’s debt to the IMF, World Bank and AID, when it reaches the completion point. This will result in additional debt service savings averaging USD40 million annually, increasing poverty related expenditures by the same amount. However, unless completion point is reached in 2006, debt relief will fall further, undermining the financing of the PRSP. It is therefore fundamental that Sierra Leone agrees a new PRGF and remains on track with its PRSP.

Table 1: External Debt Stock by Creditor Category (USD Million)

<table>
<thead>
<tr>
<th>Creditor</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multilateral</td>
<td>728.1</td>
<td>755.5</td>
<td>829.2</td>
<td>946.9</td>
<td>1,043.5</td>
</tr>
<tr>
<td>Paris Club</td>
<td>338.0</td>
<td>311.9</td>
<td>327.0</td>
<td>373.0</td>
<td>362.0</td>
</tr>
<tr>
<td>Non-Paris Club</td>
<td>58.2</td>
<td>59.4</td>
<td>64.3</td>
<td>64.6</td>
<td>53.7</td>
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<tr>
<td>Commercial</td>
<td>85.6</td>
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Table 2: Use of Interim Debt Relief in Millions of Leones

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<td>Poverty reducing actual expenditure</td>
<td>120,555</td>
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1 By Sahr L. Jusu, Head, Debt Management Unit, Ministry of Finance
## HIPC Initiative and PRSP Progress: July 2005

**Sources:** HIPC Governments, IMF & World Bank

### Countries

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<thead>
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<th>PRSP Dates</th>
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<td>7/00</td>
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**Dates for HIPC decision and completion points and PRSPs are those of final BWI Board approval. Most governments have published PRSPs several months before BWI approval.**
No Decision or completion point this quarter. Burundi should reach its decision point by end-July.

**Key Debt Relief and New Financing Issues**

- HIPC CBP: DSA shows ratios under HIPC thresholds
- Most creditors provide relief, unsustainable due to new borrowing
- Debt unsustainable after new borrowing: heavy fiscal debt burden

**Key Macroeconomic and Poverty Reduction Issues**

- Discussions for a new SMP on-going
- New PRGF to be negotiated. PRSP progress report due soon
- Stand-by agreement reviewed and extended (April 2005). New PRGF expected for 2006

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**Decision point document to be presented to BWI’s boards end of July and early August**

- Preliminary HIPC document presented to BWI boards in Jan 2005, decision point expected in May
- 79% buyback from IDA on commercial debt, 2 lawsuits. Paris Club consolidation period extended to Dec. 2004
- Political instability postpones HIPC timetable, multilateral arrears accumulating
- IMF grants additional interim assistance of US$2.1m. PC consolidation period extended to end-Sept. 2005
- High debt burden. HIPC timetable still uncertain
- IMF grants US$1.7m additional interim assistance (Jul.04)
- PC Cologne terms on stock. Participation of some Non-Paris Club and commercial creditors remains an issue
- IMF, ADB, PC interim relief suspended
- CP achieved in January 2004
- No WP lending since 1987. Probably unsustainable
- No agreement with non-Paris Club creditors. Taiwan won lawsuit
- CP reached on 13th April, topping up granted. Meets Paris Club in May
- Running out of ADF relief. CP delay
- CP reached. Cologne stock agreement signed with Paris Club
- Commercial lawsuats of US$35m. Running out of ADF interim debt relief. CP expected Jan. 2006
- Accumulating large arrears to creditors. No World Bank lending since 1991
- Donors’ conference to clear multilateral arrears planned in April
- Bulgaria, China and Kuwait have provided debt relief
- No current prospect of debt relief
- Ceiling on new borrowings, seeking more grants as debt is unsustainable
- Board report on HIPC eligibility due shortly
- Ratios under HIPC thresholds so Paris Club Naples stock treatment
- CP achieved in April 2005. US$3.3bn in debt service relief

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**Interim IMF relief lapsed, 2nd tranche Paris Club relief not implemented**

- CP topping up of $707m approved
- Interim IMF relief lapsed, 2nd tranche Paris Club relief not implemented
- PC Cologne terms on stock. Participation of some Non-Paris Club and commercial creditors remains an issue
- IMF, ADB, PC interim relief suspended
- HIPC CBP
- PC terms agreed; commercial lawsuit dropped
- Reached CP on 5th April. Expected to meet Paris Club creditors in June
- DSA shows ratios under HIPC thresholds. PC Houston Terms relief
- Despite eligibility, government does not wish to participate in HIPC I
- Debt stock estimated $3bn (600% of GDP), nearly all in arrears

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**DSA shows ratios under HIPC thresholds. PC Houston Terms relief**

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- Debt stock estimated $3bn (600% of GDP), nearly all in arrears
National Workshops

Chad. DRI and the BCEAO/BEAC Regional Debt Management Training Unit jointly held a National Workshop on Sustainable Debt Relief Strategy in Chad from 29 March to 9 April 2005. The workshop was attended by 34 finance and economics executives and officials from social sectors. Three financial strategies were drawn up, showing that Chad’s external debt could be rendered viable again following the HIPC initiative, starting from the interim period. However, the country would still face the following major problems:

- domestic debt servicing would represent 9.4% of budgetary revenue in 2005;
- public finances would remain weak several years on from completion point, with the ratio of debt servicing to total budgetary revenue ratio not expected to fall below the 15% mark;
- if there is no change in the policy for mobilising new external financing, the country could jeopardise the viability of its external debt in the longer term.

Ethiopia. The Update National Debt and New Financing Strategy Workshop held in Addis Ababa from 4 to 14 April, was conducted by DRI, with the assistance of two resource people from the MEFMI region and three national resource people, to consolidate the skills learned by Ethiopian participation at the WAFEM regional training of trainers workshop. A small team of 10 participants did the updated analysis from the relevant departments of the Ministry of Finance and Economic Development. The main results of the analysis showed that Ethiopia:

- needs to continue negotiating the maximum possible debt relief because without this relief its ratio of PV of debt/exports is about 25 percentage points higher, than it would be if maximum HIPC relief from all creditors.
- will benefit from the recent announced G8 debt relief initiatives, with a significant reduction in debt service payments.
- should seek only grants, and forego all loan financing to ensure a sustainable PV of debt/exports for the coming five years.
- ensure that all external resource flows are being captured in future debt and new financing analysis, including data on off-budget donor and NGO aid.
- should begin evaluating its new borrowing projections (both budget and balance of payments) on the basis of the impact of these new borrowings on the debt ratios – in particular the ratio of PV of debt/exports – in line with the new Breton Woods Institutions’ framework for assessing the long-term debt sustainability of low income countries.

Guyana. Workshop on New Financing and Sensitisation Seminar. On 4-12 April 2005 a seminar/workshop took place in Georgetown, Guyana with the aim of providing a comprehensive overview for officials of the Ministry of Finance of the government of Guyana of analysis and strategy for new financing, emphasising techniques of policy analysis and donor/creditor procedures and their prioritisation.

Twelve officials from the government of Guyana took part in this event, chiefly from the Ministry of Finance, Ministry of Foreign Affairs, Office of the Presidency and other areas related to poverty reduction. The seminar was run by local facilitators and supported by an international advisor from the CBP.

The principal conclusions from this event demonstrate the need to formulate and maintain a specific new financing policy with clearly defined guidelines on prioritising donors/creditors and on lending rates. At the same time initiatives to obtain financing from bilateral and multilateral donors need to be incorporated in the strategy, particularly to take advantage of revised IDA14 for future sources of funding.

The activities described culminated in a successful sensitisation seminar attended by H.E. the President of Guyana, various ministers of State and 18 other experts as well as high-ranking officials. There was an up to date review of the subjects covered in the areas of debt, quality of new financing and capacity building. The experts highlighted the usefulness and importance of the event and set out a series of conclusions and measures to be adopted to improve the management of debt and new financing in Guyana, including the setting up of a national task force to mobilise and analyse financing, the setting up of initiatives to diversify the donor base and carry out debt sustainability and new financing analyses as part of recurrent budgetary procedures.

São Tomé and Príncipe, DRI and the Government of São Tomé and Príncipe organised the National debt and New Financing Workshop that took place from 4 to 14 April. The workshop’s main objective was to provide comprehensive training to Sao Toméan officials in the analysis of debt strategy and financing issues, and to assist in establishing a sustainable Government team capable of updating debt strategy and new financing analysis regularly, for the foreseeable future, and with minimal external assistance. This event was the first National Workshop in São Tomé and Príncipe since 2000 and concentrated in updating the national strategy as well as looking forward into the financing needs after completion point under the HIPC initiative scheduled for next year. Twenty-two officials from different institutions such as Ministry of Finance, the Central Bank, Statistics Department, Education, Agriculture, Health, Foreign Trade, International Cooperation and Foreign Affairs were part of the national team. São Tomé and Príncipe is currently negotiating a programme with the IMF, and it is also likely to have major oil revenues starting in 2007. Therefore the scenarios focused on the need to reach completion point as soon as possible:

- the first scenario looked at the current situation where the country is running out of interim debt relief. Additionally since there is no IMF programme in place the amount of new financing is reduced and its quality worsened;
- another scenario was designed to show the fiscal advantages of signing the IMF programme such as extending interim debt relief from multilateral organisations, reaching completion point in 2006 and improving the quality and quantity of its new financing in order to achieve the MDGs;
- the national team produced a national strategy that was presented to the Minister of Finance to be discussed and approved at the Cabinet level.

During the workshop, the national team designed a capacity building plan that included all the different institutions that participated during the workshop.

Debt Advisors

Burundi. Two missions went to Bujumbura. The mission from the 2 to 14 May continued the macroeconomic analysis training, reviewed the implementation of the recommendations put forth in June 2004, and made proposals for improvement regarding institutional issues as well as that of the macroeconomic model INPLABU. The mission asserted that no action was undertaken to implement the recommendations made in June 2004. In spite of the actions provided by the HICP CBP, the needs are still important to allow Burundi to suitably assume its forthcoming participation in the HIPC initiative. So the mission put forth the main following recommendations:

- to clarify the institutional framework of the macroeconomic activity in Burundi;
- to promote the creation of the interdepartmental group of macroeconomic analysis while ensuring the involvement of all structures concerned in the adoption of the project’s terms of reference;
- to more involve Burundian officials in design and the follow-up of the budget;
- to establish a mechanism of prevention of trained staff turnover to avoid institutional instability;
to facilitate and encourage the participation of all involved structures in the macroeconomic framework designed by the Planning Ministry;

to take into account all social issues in the INPLABU model; failing this, to support the adoption of a model which integrates this parameter;

to encourage a co-operation between Afristat and Burundi and to seek the means of the country’s membership at this institution;

moreover, the mission made proposals for creating and organising a Forecast and Modelling Committee and a Debt Sustainability Committee.

The last of the six missions of the debt advisory and capacity building project was led from 22 to June 30 to give a basic training on external new financing and made a brief assessment of the impact of the project. The training revealed important needs for support to the structures in charge of aid management, characterised by the weakness of the institutional framework, problems of aid flows recording and a lack of knowledge regarding donors’ policies, practices and procedures. Recipients’ and authorities’ statements recorded a very positive assessment of the project. The mission noted a strong adhesion with the objectives of the project and important repercussions in the daily management of the structures. Nevertheless, the principal criticism made with the project relates to the duration of the missions and consequently the intensity of the trainings to suitably capitalise the received training. Moreover, the project encountered an institutional framework on standby of changes conditioned by the political situation of the country. The additional needs for support where noted: coordination and sensitisation, improvement of information systems, improvement of debt management operational framework, support to macroeconomic policy, assistance to the design of new financing policy, support to poverty reduction.

Guinea. A mission visited to Conakry from 16 to 29 May to assess the update of the debt database in CS-DRMS, train Guinean officials on rescheduling Paris Club debt in CS-DRMS, evaluate the progress on achieving the debt management procedures manual and the level of improvement of institutional coordination on the matter. Guinea signed an SMP with the IMF, and plans to accelerate its participation in the HIPC initiative. The mission noted very important progress within the debt management operational framework and recommended, for a powerful information system, the introduction of an assessment and audit system of the database and its security. Guinean officials adopted the debt management procedures manual after a complete review of the procedures and the examination of the job description forms proposed for each staff of the debt division. The institutional framework remains characterised by the lack of legal texts to correct the skews noted in flows of information between structures and a presidential instruction is initiated in this direction. The aspects that remain to be improved are external debt sustainability analysis, as well as domestic debt management.

Institutional Missions

Chad. Mission to assist the National Debt Analysis Committee (CONAD). Following the mission to assist the CONAD in 2002, and in order to help the Debt Sustainability Analysis Technical Team (ETAVID), and to benefit from the input of the recent national workshop on Chad’s debt strategy, a mission organised jointly by DRI and the Pôle-Dette took place in N’djamena from 11 to 16 April 2005. The mission focused on capacity building for ETAVID members. A guide to debt sustainable strategy was produced to assist ETAVID in the choice of a public borrowing strategy.

Comoros. An institutional mission visited Moroni from 6 to 17 June. The main objectives were: i) to introduce Comorans to domestic debt management techniques and evaluate the progress realised in creating a domestic debt database, ii) to further enhance their capacity in the use of the simulation software Debt-Pro, and to evaluate the progress made in finalising, validating and distributing the procedures manual. The mission organised capacity building sessions for all the staff of the Public Debt Directorate (PDD) to complete the first two tasks of the mission. Regarding the procedures manual, the country requested the mission to restructure the document drafted in 2004. After further discussions with the authorities to determine more precisely the objectives underlying that request, it was decided that the procedures manual would serve only the needs of the PDD and needed to be approved by the Minister of Finance through an internal directive and that the mission would draft an inter-ministerial note that would detail the functions and procedures that each institution involved in debt management needed to follow.

Congo. At the request of the Congolese authorities, DRI and Pôle-Dette organised a joint mission in Brazzaville from 6 to 11 June 2005. The main aim of the mission was to update the analysis of Congo public debt sustainability, its eligibility for the HIPC initiative, determine under what conditions this initiative could be implemented by Congo, and train a number of staff in debt sustainability analysis. This updated analysis confirmed that Congo meets the eligibility requirements for HIPC assistance.

Guinea-Bissau. In the run-up to the anticipated agreement with the Bretton Woods institutions that should see Guinea-Bissau reach HIPC completion point in 2007, DRI and the Pôle-Dette held a joint workshop on sustainable debt relief strategy, which brought together 31 finance and economics executives and representatives from social sectors from 23 May to 2 June 2005. Two financial strategies were drawn up during the workshop. The first strategy – optimistic – foresaw conclusion of an agreement with the Bretton Woods institutions in 2006, with HIPC completion point following in 2007, while the second strategy – more pessimistic – foresaw postponement of the HIPC completion point to 2009. It was observed that debt sustainability criteria remained well above the threshold, despite the anticipated HIPC debt-relief assistance. Several reasons explain the decline in Guinea-Bissau’s debt sustainability between the decision point and now:

• postponement of the completion point initially scheduled for November 2003 led to several bilateral and multilateral creditors suspending their assistance;
• increase in debt outstanding and disbursed, related to the raising of new financing;
• reduced commercial interest rates related to borrowing currencies and the significant drop in exports of goods and services compared to forecasts at the decision point.

Attachments

From Pôle-Dette’s region. Taking part in the Training for Trainers programme in the area of ‘Poverty reduction strategy and sustainable human development’, Mrs Yvette Houngbo was attached to DRI from 30 May to 10 June 2005. Her remit was essentially related to her research on ‘The impact of public expenditure on poverty reduction: a case study of expenditure on priority sectors in Benin’. During her time with DRI, Mrs Houngbo:

• defined and structured her research topic;
• reviewed the literature on models for poverty impact analysis;
• identified and planned activities related to training (and drew up a list of actions for immediate implementation).

On the whole, this training was very fruitful, particularly in terms of data collection, enabling Mrs Houngbo to refocus her research topic and envisage additional training.

From Cemla’s Region

Officials from Honduras and Nicaragua attached at the Bolivian Central Bank (BCB). From 9-13
FOREIGN PRIVATE CAPITAL CBP UPDATE

The FPC CBP began the Nicaragua project, held its 5th Steering Committee, adapted its methodology with BCEAO and BEAC, and further developed technical resources.

COUNTRY PROGRESS
Countries continued to progress as follows:

- **Bolivia** completed the fieldwork for its quarterly survey, and designed its own software. It is presently checking data quality with FPC CBP support, preparing an analysis mission.
- **Burkina Faso** and **Cameroon** officially requested that FPC CBP work begin in August.
- **The Gambia** is preparing an Opening Awareness/Training Workshop for September.
- **Ghana** has confirmed that the FPC CBP will be part of the multi-donor Financial Sector Support Programme, and is presently discussing start dates with the World Bank.
- **Malawi** will launch survey 4 in August, as soon as Treasury/EU funds are ready.
- **Nicaragua** received a CEMLA/DFI demand assessment mission in July.
- **Paraguay** is finalising funding to enter the FPC CBP.
- **Tanzania** is making data/software preparations to launch survey 3 in November.
- **Trinidad and Tobago** will host a FPC CBP follow up and training mission in Q3.
- **Uganda** held the survey 4 opening workshop in April, and has invited a MEFMI/DFI follow up mission for July, to focus on advanced data quality, including time series.

- **Zambia** (with support from a FPC CBP mission) revised its proposal, and submitted it to donors, expecting a positive answer and launch of the next cycle in August.

GOVERNANCE
This has been a busy period for programme governance, including DFID's annual output to purpose review, the fifth Steering Committee in Dakar in May (see box), preparations for the Phase 2 Review, for which terms of reference have been drafted and a consultant appointed, and a seminar for DFID on the analytical results of the FPC CBP:

FPC CBP 5th Steering Committee
BCEAO and DFI hosted the 5th Steering Committee in Dakar in May. Key outputs included:

- Presentation of DFID's annual review, which found that the FPC CBP was likely to achieve almost all its logframe goals. Areas for enhanced action included increased use of non-survey data mechanisms, and accelerated transfer to ROs.
- An outline implementation plan for the phase 2 review.
- Recognition that countries are leading the way on advanced data quality work, especially on sampling, uprating and time series.
- Agreement that it is important to coordinate with other international initiatives to improve data on private sector remittances, which are important in all FPC CBP regions.

METHODOLOGY AND INFORMATION PRODUCTS
The FPC CBP:

- Launched the new FPC CBP Website in June (www.fpc-cbp.org), which covers all partners, and enhances existing content on the open and member's pages.
- Input into the forthcoming DFI Group Website.
- Commenced a series of Listervs, expected every 6 weeks.
- Adapted its methodology to BCEAO and BEAC needs in Dakar in May.
- Produced new technical resources on constructing data time series.
- Progressed on three Publications.

DFI WELCOMES TWO NEW STAFF MEMBERS
- Gill Rogers, Researcher, formerly at the School of Oriental and African Studies; and
- Jeanette Lacuadi, Programme Administrator.

FORTHCOMING WORK PROGRAMME
During July to December, the FPC CBP should conduct the following:

- Demand assessment missions to Burkina Faso, Cameroon, Nicaragua and possibly Paraguay;
- Opening awareness and training workshops for the Gambia, Malawi and Zambia;
- Follow-up missions to Bolivia, Trinidad and Tobago, and Uganda;
- Extensive work with the phase 2 review team;
- Preparations for the Inter-Regional Seminar and Training for Trainers Workshop;
- Continued discussions on wider CEMLA Latin-American and Caribbean programmes;
- Updating the FPC CBP Website, finalising publications, and preparing newsletter 25.

HIPC CBP Activities from June to December 2005 (cont. from page 11)

May 2005 a staff attachment of officials from Honduras and Nicaragua took place in La Paz, Bolivia, involving officials from BCB and the Ministry of Finance of each country, with the aim of extending knowledge on the use of DMFAS and the process of transferring data to Debt-Pro. As part of the work carried out, participants were informed about the operation of the external debt area at BCB and about the new features of DMFAS 5.3. The major items of interest for the participants were the role of consultancy, report-writing, record-keeping, calculation of the NPV, completion of World Bank documentation, preparation of data and data export to Debt-Pro, projections and data validation. The participants expressed their general satisfaction with the execution, organisation and results of the attachment. Through this event they were able to build their capacity to improve their debt management, which should be of great use to them as regards their current responsibilities.

Officials from Honduras attached at International Debt Management (IDM). From 13-18 June 2005, two officials from the Government of Honduras were attached at IDM, in Washington, with the objective of building and adding to their capacities in their use of Debt-Pro. This event was also designed to help those officials to supervise the application of this tool during the forthcoming national workshop for Honduras. The event concentrated mainly on review of the debt strategy module. It looked at the different items contained in Debt-Pro; use of the Debt Sustainability Analysis module – an analysis of the continued on page 16
ACTIVE COUNTRIES IMPROVE CAPACITY SHARPLY

The fourth joint FPC CBP country capacity evaluation (CCE) methodology was implemented early in 2005 (for details of the methodology, see Issue 16). It showed sustainable capacity gains for countries actively participating in the FPC CBP (Bolivia, Malawi, Tanzania, Trinidad & Tobago, and Uganda), but not for others stalled until recently by funding delay.

Table 1 summarises the latest CCEs by evaluation area. At the time of their first demand assessment mission (‘Start’), countries averaged 1.86 out of a possible 5. By May 2005, capacity had advanced substantially, by 1.17 points, to 3.03.

Countries currently active in the programme had made even more progress. They started at 1.98, with a slightly higher degree of technical knowledge and human capital, and giving slightly more political priority and leadership to the FPC issues. This may partly explain why they have managed to mobilise donor funding and make even faster progress due to intensive work in phase 2, rising by 1.25 to 3.23 (with a rise of 0.11 in the most recent six months).

In contrast, a number of countries have wanted to continue work in the FPC CBP, but have had problems mobilising funds. After increasing capacity by 1.06 to reach 2.72 through earlier work, their capacity has recently fallen back slightly. As a result, the capacity gap between active and inactive countries has risen to 0.53.

The FPC CBP has also established bands using which participating countries and donors can judge whether a country’s capacity is sustainable. At the start of the FPC CBP, all the countries were in band C, which indicated unsustainable capacity, with scores below 2.45. By May 2005, 7 countries had moved up to band B (possibly sustainable capacity, between 2.46 and 3.44) and Uganda to band A (clearly sustainable capacity, above 3.45). Almost all the active countries are likely to reach band A soon.

In terms of areas, most progress has been made in conducting surveys, ‘Basic FPC analysis’, ‘Recording and compilation of data’, and ‘Compliance with international codes and standards’. However, more recently progress has accelerated on ‘Management, supervision and working environments’ and ‘Human resources’, due to improved staff motivation, compensation and levels; ‘Advanced analysis’, due to acceleration of training in these techniques, and ‘Political priority & leadership’. Greater commitment by countries (generated partly by the interest in results of previous cycles of the FPC CBP) has resulted in recent mobilisation of funding for The Gambia, Ghana and Zambia.

On the other hand, less progress has occurred in two areas:

- **Non-Survey Data Collection Methods.** Countries with liberalised capital accounts do not see this as a priority means of collecting reliable or comprehensive data, and have therefore placed almost all their efforts into surveys.
- **Design of Development Financing Strategy.** Though countries are increasingly using their findings to influence policy action, they are not doing so in the context of a comprehensive combined public and private sector financing strategy, projecting multiple analytical scenarios, to accompany their national development and poverty reduction strategies.

Overall, the FPC CBP is on track to attain its logframe goals for phase 2, with the active countries reaching sustainable capacity on average, and in virtually all areas of CBP intervention. However, these countries have generally had 3-4 years of constant assistance from the FPC CBP. Those countries that are only now joining or rejoining the FPC CBP may well require a similar period of assistance to reach sustainable capacity.

In Table 1 – FPC CCEs by Evaluation Area: Start, November 2004 and May 2005:

<table>
<thead>
<tr>
<th>Evaluation Area</th>
<th>Start</th>
<th>May 05</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Legal &amp; institutional framework</td>
<td>2.3</td>
<td>3.18</td>
<td>0.88</td>
</tr>
<tr>
<td>II. Human resources</td>
<td>2.2</td>
<td>3.39</td>
<td>1.19</td>
</tr>
<tr>
<td>III. Management, supervision &amp; working environment</td>
<td>2.1</td>
<td>3.4</td>
<td>1.3</td>
</tr>
<tr>
<td>IV. Conduct of surveys</td>
<td>1.8</td>
<td>3.53</td>
<td>1.73</td>
</tr>
<tr>
<td>V. Non-Survey reporting methods</td>
<td>1.5</td>
<td>2.09</td>
<td>0.59</td>
</tr>
<tr>
<td>VI. Recording and compilation</td>
<td>1.8</td>
<td>3.41</td>
<td>1.61</td>
</tr>
<tr>
<td>VII. Compliance with international codes &amp; standards</td>
<td>2</td>
<td>3.45</td>
<td>1.45</td>
</tr>
<tr>
<td>VIII. Basic FPC analysis</td>
<td>1.6</td>
<td>3.29</td>
<td>1.69</td>
</tr>
<tr>
<td>IX. Advanced FPC &amp; CSR analysis</td>
<td>1.3</td>
<td>2.61</td>
<td>1.31</td>
</tr>
<tr>
<td>X. Design of development financing strategy</td>
<td>2</td>
<td>2.56</td>
<td>0.56</td>
</tr>
<tr>
<td>XI. Political priority &amp; leadership</td>
<td>1.6</td>
<td>2.61</td>
<td>1.01</td>
</tr>
<tr>
<td>XII. Transparency, evaluation &amp; control</td>
<td>2.2</td>
<td>2.89</td>
<td>0.69</td>
</tr>
<tr>
<td>Overall Average</td>
<td>1.86</td>
<td>3.03</td>
<td>1.17</td>
</tr>
<tr>
<td>of which: active countries</td>
<td>1.98</td>
<td>3.23</td>
<td>1.25</td>
</tr>
<tr>
<td>inactive countries</td>
<td>1.66</td>
<td>2.70</td>
<td>1.04</td>
</tr>
</tbody>
</table>
POLICY IMPACTS OF THE FPC CBP

This article discusses the FPC CBP policy impact in three areas: improving national investment climate, reducing poverty and enhancing governance.

1) Investment Climate
The FPC CBP helps to improve the investment climate in seven ways, by generating analysis for enhanced policy making by government, the private sector and donors:

- Improving macroeconomic policy and reducing vulnerability to shocks. As reported in issue 18, countries are using balance of payments data to make more realistic macroeconomic projections so as to reduce vulnerability to shocks. In future, countries will use volatility, maturity and returns data to assess sustainability prospects.

- Analysing sector and company strength to assess detailed vulnerability. Most countries (see issue 19 on Zambia) have started to use disaggregated data to analyse:
  - the profitability of each sector to assess the sustainability of growth and investment;
  - the debt to equity exposure and financing structure of sectors and individual companies, to determine which might be vulnerable to sudden reversal of flows.

- Analysing concentration of investment. Assessing whether flows are excessively concentrated in particular companies or source countries, highlights vulnerability to shocks and areas where government needs to target diversification. In Ghana, for example, crisis in one large mining company caused a currency/reserves collapse in 2000.

- Targeting investment promotion. Survey data broken down by source country, sector, and domestic region allows government to better target those countries that are supplying investments to priority sectors and regions for poverty reduction. Investment agencies are using FPC results to improve targeting (the Uganda Investment Authority is a good example), and have provided sectoral data to line ministries for similar purposes.

- Responding to investor concerns. The survey asks which factors affect the decision to invest, and about expected medium term investor behaviour. It goes well beyond information on costs of doing business, looking at a wide range of governance, economic and social factors, and cost and efficiency of financial, physical and social infrastructure. Country analytical reports draw conclusions publicising positive factors to promote investment, but also recommend changes in policies to respond to investor concerns.

- Enhancing private sector analysis. Major private sector associations are very supportive, because they can improve research on behalf of their members (in Malawi, for example, the MCCI recruited officers to assist the NTF). They analyse competitiveness and profitability of investment by sector, and enterprise financing structures, to improve investment decisions and stability. Associations can also highlight their members’ key concerns about the investment climate on a more objective and comprehensive basis, and publicise the findings to influence government policy change.

- Enhancing donor and international organisation analysis. Donors can also enhance their analysis of foreign and domestic investment and tailor their interventions to improve the investment climate more accurately to representative analysis of investor needs.

2) Poverty Reduction
The FPC CBP contributes to poverty reduction in 3 ways:

a. At a macro or national level, greater knowledge about investor behaviour and responsiveness to their concerns, together with an enhanced investment climate, will yield larger, more profitable, and more sustainable investment (see above).

b. At a sectoral and regional level, the programme allows policymakers to monitor whether investment is going to key sectors and regions, and to design strategies and incentives to diversify the direction of flows. In Tanzania, for instance, agriculture (50% of GDP and 80% of the labour force) accounted for only 7 percent of the stock of FPC.

c. At an enterprise level, policymakers analyse investment’s contribution via impact on:
  - human resources: whether enterprises are labour or capital intensive, the gender and local/expatriate composition of employment (and whether the company has policies to change these) and type of jobs for locals (eg, management, skilled, unskilled);
  - technological transfer: whether this is really taking place, or more advanced value-adding stages in the production chain are occurring in other countries, and why;
  - the environment: whether enterprises are aware of, or abide by corporate social responsibility codes and standards and report on their compliance transparently;
  - economic and social infrastructure: whether enterprises actively promote better health, education, and physical infrastructure for their workforce and the community.

Almost all poverty reduction strategies lack a national development financing strategy. The CBP is now moving to assist countries to integrate public and private sector external and domestic financing analysis. They will design scenarios to develop the domestic financial sector, and improve the sustainability and reduce the volatility of foreign private capital. This will produce a draft strategy to mobilise the maximum amount of stable, low-cost, low-risk finance, which is of highest quality for growth and poverty reduction, going to priority sectors and regions, more sustainable and with maximum CSR results. This can be finalised in consultation with all stakeholders, integrated into PRSP dialogue, and disseminated regionally and internationally (see issue 21 for more information).

3) National Governance
Participation in the FPC CBP helps to improve governance in 5 ways:

a. At the macro level. Investor perception survey data (see issue 22) allow government to identify key policy changes necessary to improve governance and attract investments. These include the transparency, efficiency and speed of decision making of key government agencies, such as the NTF members, tax authorities, and the judiciary.

b. Management of foreign exchange. As government, private sector and donors collect more accurate information on the activities of commercial banks, foreign exchange bureaux, money transfer companies, and other investors, they can better track movement of private sector flows and improve reserve/foreign exchange management.

c. Consultation with the private sector. Regular consultation during programme execution, feeding representative private sector opinions into wider public-private fora, allow for a more transparent and open discussion of policy issues.

d. Corporate governance. Surveys also focus on corporate governance, asking whether they report transparently on financial and non-financial behaviour, how they prepare their accounts, and about their governance structures and procedures. The resulting analysis and dialogue encourage improvements in corporate governance.

e. Finally, at the programme level, the FPC CBP promotes transparency through inter-institutional memoranda at senior and technical level. It requires regular reporting by government to civil society and donors on programme results, self-assessments of progress in building capacity, and accounting on the use of donor funds. In line with FPC CBP targets, it also requires growing local financial and technical inputs over time, to enhance ownership, national sustainability and reduce reliance on external support. As such, it improves the reputation of participating institutions for governance of donor funding.

Conclusions
The FPC CBP is already having a major impact in all three areas, providing tangible benefits to countries. However, the priorities for future work are to train countries in even more advanced analysis to improve policy recommendations, the preparation of national development financing strategies; and work to ensure implementation of policy changes.
Countries have greatly improved the quality of data from individual surveys, using the techniques described in earlier newsletters. However this is only a first step, because for data to be acceptable to policy makers, international institutions and other users, it needs to be consistent over a time series of multiple surveys. Countries need to be able to correct differences due to changes in survey methodology (sample, response rate etc). This article outlines a general approach to producing credible time series.

Existing FPC CBP materials describe how to make data internally consistent within each cycle (as described in the NTF Manual) by editing and checking each return; entering all data in a software; up-rating for non-response from enterprises surveyed; and updating from enterprises surveyed to the overall investor register. It is also possible to use these techniques to reconcile two survey cycles. If countries follow such techniques, this lays an easy foundation for adding later cycles.

However, if countries focus only on consistency within each survey, this results in growing data divergences between surveys, requiring a fundamental quality revision of all data after 2-3 surveys. Here, countries need to use both manual data re-editing for each survey, to estimate data missing for an enterprise or a particular line item; and software-based checks for consistency across all cycles. For very large data sets, where countries have good individual data sets, software checks are more applicable.

In addition, not all the enterprises surveyed in each cycle actually responded. Possible permutations are that the enterprise responded three times – in cycles 1, 2 and 3; twice (in 1 and 2, 2 and 3, or 1 and 3); once (1, 2, or 3); or not at all.

To create time series requires performing the following seven tasks:

**Step 1. Data storage and software**
Ensure all data is stored in the same software, to facilitate time series checks. The functionalities described here reflect the latest version of the FPC CBP software.

**Step 2. Consistent enterprise reference numbers over time**
Use the software to assign each enterprise the same reference number for all cycles.

**Step 3. Reconcile registers for cycles to be compared**
Select FAL responses for each cycle, and check for consistency across cycles. Then divide them into 2 categories, to treat them differently and avoid double-counting:
- If an enterprise is included in the register for all three cycles, then provided the stages of up-rating described above have been followed, their data should already be reflected in all edited datasets even if they did not respond fully or at all.
- If an enterprise is not included in the register for some of the cycles, check when the enterprise commenced FAL operations and up-rate accordingly.

**Step 4. Determining the difference at period t**
Data should not be significantly different for the same period t in two surveys. Even similar aggregate country data may hide a lot of such discrepancies by enterprise (and overall totals for an enterprise may hide differences for individual line items). It is therefore vital to determine the size of any differences, by individual question and enterprise reference number, and correct statistically significant differences, starting with the latest surveys and going backwards up to the last benchmark survey.

**Step 5. Consistent classifications over time**
If enterprises are not given the same industrial classification, region or source country over time, data may be erroneously interpreted. The FPC software can also investigate the incidence of this, by exporting for example a returns list of enterprise name and sector, then sorting by and correcting classifications. This technique can also check respondents are statistically representative of a sector, making uprating more accurate.

When examining a large amount of data (eg 3-4 surveys of 100+ enterprises in each), it may be easier to identify a core sample of enterprises (representative of sector spread, region, source country and size for all 3 cycles) and focus on correcting these.

**Step 6. Identify enterprises to be up-rated for time series**
There may be a large number of inconsistencies among registers or respondents, especially in initial cycles. Given the scale of work, it is recommended that the NTF prioritise enterprises to be up-rated based on size, sector, region and source country.

**Step 7. Up-rate enterprise data over time**
Steps for up-rating across cycles are the same as those for up-rating within cycles. The category of an enterprise (see table 1) determines how to conduct uprating.

More detailed technical versions of this article will appear shortly in the NTF Manual and on the website (www.fpc-cbp.org).
DEBT RELIEF TECHNICAL QUESTIONS

HOW DO COUNTRIES WITH DELAYED COMPLETION POINTS GET ADDITIONAL INTERIM RELIEF FROM THE AfDF?

To date six HICPs (Chad, Guinea-Bissau, Malawi, Rwanda, São Tomé and Príncipe, and Sierra Leone) have exhausted their AfDF interim relief before reaching their completion point. AfDF provides interim relief of 80% of annual debt service obligations, with a maximum of 40% of its total HIPC assistance being delivered in the interim period. AfDF interim relief approved at the time of a country’s decision point is based on the assumption of a 3-year interim period.

Guinea-Bissau was the first case to arise when it exhausted AfDF interim relief while remaining below the 40% ceiling. In June 2004, AfDF agreed to extend its interim relief to Guinea-Bissau over a longer period. The AfDF will provide additional interim relief, if the country has:
- been implementing reforms for at least 3 years,
- exhausted the interim relief approved at its decision point,
- received less than 40% of the total AfDF relief,
- been making significant progress towards reaching completion point.

While Rwanda achieved its completion point in April 2005 and does not need additional interim relief, Chad, Malawi, São Tomé and Príncipe, and Sierra Leone are not expected to reach their completion points until late 2005 or 2006, and will therefore be eligible for additional AfDF interim relief.

PARIS CLUB NEGOTIATIONS: TWO TRICKY DETAILS

Preparations for multilateral and bilateral negotiations with the Paris Club can be hectic since debtor countries have to prepare their debt data, Economic Memorandum and negotiating strategy in a short timeframe. However, it is important to remember the following key points:

1. In the multilateral round of negotiations, the ‘as of date’ – the date as of which the debt reduction and reorganisation will apply. This date does not necessarily coincide with the timing of the multilateral meetings at the Paris Club, but may be retroactive to be as close as possible to the last interest maturity date. The closer to the present the as of date is pushed, the higher the costs for interest charges accrued, thus reducing the value of debt relief provided. It is the prerogative of the debtor country to specify an as of date in making its request to the Paris Club for debt relief. In Guyana’s case, the as of date was 1st December 2003 even though the Paris Club meeting date was 14th January 2004.

This ‘as of date’ resulted in Guyana having to pay interest charges to the Russian Federation and Trinidad & Tobago (the two Paris Club creditors who did not fully write-off outstanding debts) totalling USD110,627.66, accruing for only 8 days from 23rd November (the last interest maturity date) to 30th November. Had Guyana chosen a date of 1st January 2004 (two weeks prior to the multilateral meeting), we would have had to pay these creditors accrued interest for 39 days. This would have resulted in Guyana having to pay USD600,650.11 in accrued interest, an extra USD489,982.45.

2. In the bilateral round of negotiations, some creditors may erode the benefits of their debt relief by charging administrative fees or margins above base interest rates. The Export Development Corporation (EDC) of Canada demands a one-time, non-refundable administrative fee as well as legal fees, travel expenses and documentation costs. The EDC is the only creditor that specifies in detail such fees, costs and expenses (other creditors tend to include them in a margin they request above the base interest rate).

It is important for debtor countries to seek a waiver or reduction of these fees or margins so that they do not erode the value of debt relief. In negotiating with EDC, it can be argued that no other creditor applies such specific fees, so paying them may be tantamount to offering more favourable treatment to EDC than to other Paris Club creditors. In negotiating with other creditors, maximum effort should be made to reduce or eliminate the administrative margins. If the creditor has agreed to provide a 100% write-off of outstanding debt, these fees and costs should also be cancelled. Such fees can be very expensive. In the bilateral debt negotiations in 1999 and 2004, the EDC had requested Guyana to pay a total of USD29,000 and USD2,000, respectively. However, Guyana succeeded in getting the EDC to reduce its fees from USD29,000 to USD3,000 in 1999. In 2004, the costs were cancelled with the debt.

† By Debt management Division, Ministry of Finance, Guyana

HIPC CBP Activities from June to December 2005 (cont. from page 12)

Data and scenarios involved in New Financing that will form the basis of the forthcoming workshop; and a general analysis of the situation of the country with regard to portfolio, renegotiation, assumptions and indicators.

Future activities. During the next semester, the HIPC CBP will implement the following activities:
- Attachment: MEFMI Fellows, WAIFEM and Pôle-Dette regions to DRI;
- CBP Partners: MEFMI HIPC Debt Managers Consultative Retreat, CBP staff result-based management training;
- Follow-up missions: Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo, Rwanda, Senegal;
- Institutional missions: Comoros, Côte d’Ivoire, Guyana, Niger;
- National workshops: Bolivia, Guinea, Honduras, Malawi;
- Regional workshops: 3rd Francophone Domestic Debt Workshop with Pôle-Dette, Inter-regional workshop;
- Sensitisation Seminars: Burundi, Mauritania;
- Governance: CBP participation in the BWIs 2005 Annual Meetings, 17th Steering Committee in Addis Ababa.

NEW WEBSITE AND E-MAIL FOR DEBT-PRO ANALYST

International Debt Management, developers of the debt strategy simulation software, have a new website. To download upgrades of Debt-Pro, please connect to: www.debt-pro.org. To obtain technical information or activation keys, please use their new e-mail address: info@debt-pro.org.

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