Most low-income countries (including ex-HIPCs) have relatively little access to market-related financing. So when and how should they access non-concessional finance, without making their debt unsustainable and compromising growth, investment and spending on the Millennium Development Goals (MDGs)?

Graduation is generally gradual and applies to commitments. Therefore, given that projects can take 5-10 years to complete, concessional disbursements can continue for 10-20 years after graduation begins.

Graduation from concessional funding may also reduce the degree of conditionality on funding. In particular, a country no longer has to design a PRSP as the basis for new policy-based lending; and its allocation of funds is not based on a donor-designed system of assessing its policies and institutions. However, multilateral lenders’ policy conditions and other procedures are likely to remain more onerous than bilateral or commercial lenders. On the other hand, the untying of funds means that they can be procured more competitively and often provide higher value for money in projects than funds guaranteed by bilateral export credit agencies.

2) Bilateral Less Concessional and Non-Concessional Flows

Many OECD and non-OECD governments provide less concessional loans, or guarantee loans provided by commercial banks or suppliers. These generally finance suppliers, goods and services only from the country of the financing agency, and such tying increases project costs by 25-40%, unless the funds come from a low-cost developing country such as China or India. In the worst cases, tying can include all project labour, or links to investment or trade deals which are not beneficial for the LIC (eg goods exported are underpriced, goods imported are overpriced, or investment contracts are tax-free).

These loans are subsidised, making them less expensive than commercial loans from the same country. Many countries now offer subsidies in two ways:

- “mixed credits” in which a LIC receives a combination of a non-concessional or concessional loan or grant, providing a package of lending with a grant element of anything between 5% and 50%.
- “pre-packaged credits” in which an aid or commerce ministry subsidises the interest costs of a commercial loan, or subsidises the cost of goods supplied.

They also have fixed interest rates, protecting countries from interest rate risk. However, they may often involve non-transparent or hidden costs for the borrowing government, such as high upfront fees, secondary loans contracted to pay high implicit rates of interest, or undervaluation of goods used for repayment in countertrade deals. They are also sometimes a breeding-ground for corruption and poor-quality project execution, or for funding projects which are of low priority for national development.

The availability of OECD loans (also known as being “on cover”) has historically depended on an assessment by each Export Credit Agency (ECA) of the creditworthiness of a LIC to repay loans, as well as of prospects for growth in trade. This may vary for different borrowers or types of loans, so ECAs may provide loans which are only short-term; to the private sector; or for “self-financing” projects or government agencies which produce revenues to repay themselves. In the case of such offers, it is vital for the LIC to investigate respectively: any rollover risk of short-term borrowing; the capacity of the private sector borrower or government agency to repay (so that the budget does not bear any risk); and the effects of diverting project or agency revenues from the budget.

A recent OECD agreement links ECA lending to debt sustainability assessments for low-income countries. An earlier agreement limited ECA lending to “productive” sectors (to avoid military and white elephant funding): this has the advantage of focussing funds on infrastructure, but it is important for LICs to ensure that the exporters of the financing country’s ECA can provide good value for money.

3) Commercial Loans

These take the form of short- or medium-term loans from banks or suppliers. For most LICs, especially those emerging from debt problems or which are not “on cover” with ECAs, commercial loans available to governments are likely to be small and limited in their uses. The main unguaranteed loans available will be for:

- pre-financing exports or imports, so that loan repayment can be guaranteed by a proportion of the goods themselves; and
- “asset-based financing” (including letters of credit or leasing arrangements) for
individual large assets such as airplanes or ships, where the asset itself can be seized if necessary to pay the loan.

Loans may also be volatile, as lenders “herd” into or out of products, or adjust their limits for pre-financing in line with commodity prices, or for asset financing in line with asset prices. They also depend on wider market conditions (financial problems in the lending community or other emerging markets will cut loan availability or increase costs).

Commercial loans are relatively expensive (unless subsidised by ECAs). Interest rates have a “spread” or margin above commercial base rates of 3-4%, making rates for most G8 currencies in the range of 7-10%, and vary with commercial rates, exposing LICs to all interest rate risk. As a result, it is vital for developing country policymakers to analyse expected interest and exchange rates and compare them to likely project returns. Commercial loans may also include up-front fees (between 1% and 5%), and out of pocket expenses. Commercial loans may also be tied to deals with a particular supplier, pushing up costs dramatically.

Offers of large loans on apparently good terms should be treated with utmost caution, as they may be hiding high costs, or made by unscrupulous lenders - who may demand large up-front fees and then make no disbursements, involve officials in various forms of corruption, or supply goods or assets which do not fulfill their intended purposes.

4) Other Commercial Financing

Another option is issuing bonds on international markets. The first step here is generally a sovereign credit rating, from one of three international companies: Fitch, Moodys and Standard and Poors. This can cost a million dollars or more, but UNDP and USAID have been provided financing for LIC ratings in recent years. However, almost all LIC ratings are “sub-investment” grade, which makes bond costs high. As of end-2007, a sub-investment rating implied spreads above base rates of 2.5-5% (similar to bank loans and much more expensive than multilateral or bilateral loans). Ratings are also remarkably “sticky upwards” - in effect it is difficult to improve a rating to investment grade and bring down borrowing costs.

Therefore, debt management advisors interested in sustainable debt management by LICs have recommended delaying a credit rating until an investment grade is achievable.

One advantage of bonds is that they are most often issued at fixed interest rates (countries should avoid bonds with payments indexed to inflation or exchange rates because they involve excessive risk). Countries also incur considerable fees for investment bank services to launch bonds, and travel costs for multi-country “roadshow” tours to attract investors. An alternative can sometimes be to launch bonds on regional markets, as CFA Franc Zone countries have done in Abidjan, keeping issuance costs down by avoiding roadshow and investment banking fees.

The final issue is how to use bond proceeds. Best practice is to pay for key infrastructure projects (whose expected return is superior to the bond cost); or for repaying more expensive debt or clearing arrears. Using bonds as general budget finance is on the other hand likely to encourage irresponsible fiscal management.

5) Public-Private Partnership Contracts and Private Financing Initiatives

“PPPs” and PFIs have in recent years been used to finance infrastructure projects without direct budgetary debts or service costs. They consist of contracts between a government (or public sector agency) and private sector companies, under which the private sector is repaid using project revenue (such as road tolls or airport landing fees). A popular format in LICs is “Build, Operate, Transfer” (BOT), under which a private company builds and operates a project until it has received sufficient revenues to make it highly profitable, and then transfers it back to the government for long-term operation.

In recent years, several issues have led to questions about the desirability of PPPs/PFIs:

• private partners may often demand rates of return of 20%+ a year, making them much more expensive than other financing sources.
• they carry risks of poor-quality project execution (due to the private operator trying to maximize profits) resulting in sub-standard infrastructure handed back to the public sector; or of corruption (bribery of government officials to overstate potential project costs, understate revenues which will be foregone by the state, or fail to inspect the quality of the project execution)
• they may turn into actual fiscal liabilities. This can occur if the project cost is substantially underestimated, or the project revenues do not fully materialise, leading the private operator to demand further government compensation, or to go bankrupt and transfer its liabilities to government.

As a result, governments need to develop advanced legal and regulatory frameworks for such operations, as well as systems for project design and monitoring, procurement and accounting/auditing, and to start with small pilot projects so as to test these systems.

CONCLUSION

Governments should be highly prudent in accessing non-concessional external financing and charting a pathway back to markets. This means designing a national financing strategy which includes contingent liabilities such as PPPs in borrowing ceilings, and assesses potential impacts on debt sustainability, but much more importantly designing legal and institutional systems to regulate, assess, negotiate and monitor the finance and its results. Governments need to have excellent anti-fraud and project value-for-money checking systems to avoid fraudulent or low-result financing. They also need to prioritise projects carefully, based on their rates of return and contributions to development (discounting the optimism of project designers and financiers) to justify expensive funds. Most of all, governments need to focus on mobilising foreign financing sources which are non-debt creating and can transfer technology and skills (such as foreign direct investment), and on promoting national savings and investment by diversifying financial instruments and institutions (especially to non-bank institutions and micro-financing for the poor), which have been the key drivers of sustainable development worldwide.

For a more detailed analysis, including recent experiences of LICs and other countries with different types of financing, see the HIPC CBP briefing note on Non-Concessional Financing.
In November 2006, the Republic of Haiti reached its decision point in the Enhanced HIPC Initiative, based on a ratio of 176.7% PV/exports, above the threshold of 150%. It hopes to reach its completion point in September 2008, allowing it also to benefit from extra debt relief under the Multilateral Debt Relief Initiative (MDRI).

In 2007, the Government of Haiti asked CEMLA if it could join the HIPC CBP, in order to build the capacity of its officials to manage the country’s debt. In response, following approval by the HIPC CBP donors, CEMLA organised the first stage of support through a Demand Assessment Mission, aiming to evaluate the Government of Haiti’s existing debt management capacity, and to define immediate and medium-term actions needed to reinforce this capacity. This mission took place from 3 to 12 December in Port-au-Prince, and was conducted by the Coordinator of the HIPC CBP in CEMLA as well as international and regional HIPC CBP experts. The evaluation was a joint work with policymakers and technicians from the institutions involved in debt management - mainly the Ministry of Economy and Finance (MEF), Bank of the Republic of Haiti (BRH) and Ministry of Planning and External Cooperation (MPCE). The local officials completed the self-evaluation questionnaire on debt management capacity which is used by the HIPC CBP, allowing them to have an overview of the debt management situation and to identify strengths and weaknesses, and the actions Government needs to take to improve debt management. On this basis, they designed a short- and medium-term support programme.

Main Results
Haiti has made considerable progress in building capacity in several debt management areas, notably renegotiations, recording and servicing of external debt. Nevertheless, the self-evaluation revealed several areas with important weaknesses, in which the Government needs HIPC CBP support, and defined an order of priority:

a) Priority 1 Areas (short-term):

I. Legal and Institutional Framework: The responsibilities of the institutions conducting debt management are not clearly defined, there are no clear coordination structures for supervising the contraction of debts, and there is room for reducing or eliminating duplication of functions. There is an overall law on publication of economic data, but not a specific one on debt data. Current regulations also do not include clear rules for providing guarantees or establishing public borrowing limits, or cover all necessary types of finance (domestic or external debt, grants, guarantees, and debts of local authorities or public enterprises).

II. Analytical Capacity: The main needs identified here are to reinforce capacity in debt sustainability analysis, wider debt strategy analysis including of new financing prospects, debt relief, and negotiations with creditors and donors. Government agreed on the need to establish a National Team responsible for designing a Debt and New Financing Strategy, to be approved by national policymakers. In addition, it was clear that the country needs to obtain computerised tools for debt management and analysis such as DMFAS and Debt Pro in all debt management institutions (currently DMFAS is in only the BRH), and train staff fully in how to use them.

The Republic of Haiti has shown strong capacity in renegotiating its external debt, with the Paris Club and some multilateral creditors. In many cases, this was done without external technical assistance, and led by officials of the BRH and MEF. Nevertheless, the experiences and results of these negotiations need to be fully documented and archived.

III. Domestic Debt Management: The self-evaluation showed a strong need to reinforce capacities to design a long-term strategy for developing the national financial market and issuing government domestic debts, to analyse domestic debt sustainability, and improve coordination with monetary and fiscal policy execution.

Moreover, there is only very limited current analysis of the impact of restructuring domestic debt on the budget, monetary policy or the domestic financial market, due to limited coordination on this issue.

The self-evaluation also underlined the need for domestic debt to be recorded in a specialist computer system. Currently, the BRH and MEF have databases only in MS Excel format. The legal framework is also not clear on how often these databases need to be updated or reports to be disseminated.

b) Priority 2 Areas (medium-term):
The needs identified are: I) designing a strategy for financing development; II) building capacities for preparing long-term (20-year) macroeconomic forecasts; and III) building capacities to conduct risk and portfolio analysis.

Programme of Support to Build Capacity
The mission assisted Government to design a programme of support to build debt management capacity, to be implemented over the next 3 years. The year 1 activities will concentrate on the priority 1 areas and include 2 institutional missions to cover legal and institutional issues and domestic debt management, and one National Workshop on Debt Relief Strategy (in the context of HIPC and MDRI). The activities for years 2 and 3 will be tailored to the priority 2 areas, and include 3 missions to train staff and reinforce institutions on issues covering mobilisation of new financing, macro-economic forecasts, and risk and portfolio analysis; and 1 National Workshop on Debt and New Financing Strategy, designed to cement all the analysis and strategy capacity acquired (and to include use of the Bretton Woods’ Institutions DSF-LIC framework). Haiti will also benefit from participation in the many regional and inter-regional CBP events, as well as the exchange of experiences among countries through the CBPs’ information products.
DEBT MANAGERS URGE PRIORITY TO DEBT MANAGEMENT

The seminar aimed at updating heads of debt management offices on recent developments and allowing them an opportunity to share and exchange experiences. This would facilitate adoption of best practices and contribute to implementation of necessary reforms to improve debt management. It involved presentations and discussions on a number of issues, including:

- Review of Recent Developments in Public Debt Management: the Debt Management Performance Assessment (DeMPA) Tool (Thomas Magnusson, World Bank);
- Debt and Macroeconomic Linkages (Maris Wanyera, acting Commissioner, Macroeconomic Department, Ministry of Finance, Planning and Economic Development, Uganda);
- Domestic Debt Sustainability Analysis: experiences from the E-Learning pilot project;
- Overview of Required Reforms in Public Debt Management in MEFMI countries;
- Overview of MEFMI’s Logical Framework Analysis: implications for member states;

Kenya and Zambia shared experiences on their current debt management reforms, while Swaziland and Uganda presented their projects on Borrowing Policy Implementation and Sovereign Liabilities Risk Management respectively.

Discussions after the presentations afforded the debt managers the opportunity to learn from each other’s experiences on the challenges/difficulties being experienced in improving debt management to meet international best practices. Critical in these discussions was the fact that debt management is still fragmented in many of the member states. Where DMOs have been established, there have been problems of retaining highly qualified staff, especially in Ministries of Finance, because they leave the government for greener pastures in the private sector or donor agencies, or transfer to other government departments due to civil service procedures.

OUTCOMES
The seminar provided debt managers an opportunity to understand and appreciate the following:

- The importance of undertaking reforms in Public Debt Management to address existing challenges. Such reforms include legal and institutional/organisational reforms to overcome problems which have contributed to past poor performance in debt management;
- The need to ensure institutional memory by introducing debt management procedures manuals, customising the MEFMI Public Debt Management Procedures Manual to country specific circumstances;
- The potential for introducing additional modes of capacity building, notably distance learning: The success of the pilot internet based training (‘e-learning on Domestic Debt Sustainability Model’) in 2007 by MEFMI with UNITAR support, as well as of the Distance Learning Programme under the HIP-CBP, have contributed to better understanding of the subject methodologies and enhanced capacity for the beneficiaries;
- The need for countries to design capacity building plans using a Log Frame Approach. This will assist MEFMI secretariat in measuring progress attained via its capacity building efforts.

Debt Managers produced a statement at the end of the workshop, calling for the following:

- That each member country must strive to establish a well functioning Debt Management Office (DMO) that will take into account the country’s specific circumstances
- That all member countries must aim to pursue best practices, including implementing national procedures manuals, drawing on the MEFMI Debt Management Procedures Manual which should be made available to all debt management offices;
- That member countries should develop clear debt management policies and strategies, that are approved by the authorities and implemented by the DMO
- That MEFMI must find a way of giving feedback to senior executives in each member state where it is felt that the debt management falls short of best standards and practices;
- That stakeholders (especially senior executives, but also parliaments) must be adequately sensitised about the need for and contents of debt management policies and strategies; and
- That each member country must recognise debt management as an important part of its broader macroeconomic policy.

The Managers felt strongly that implementation of the above recommendations will improve the effectiveness and efficiency in the management of public debt in their respective countries.

The seminar also produced recommendations for implementing international initiatives:

- Many countries do not currently participate in the LIC-DSF debt sustainability analysis conducted by IMF/World Bank country missions. It was therefore recommended that country capacities in using the DSF be enhanced, to allow them to fully participate in the analysis prior to and during BWI missions, and to assess their own debt sustainability as the basis for national debt strategies;
- Debt Managers were of the view that whilst the DeMPA tool is useful for a country to assess its own needs for debt management reforms, there is need for the World Bank to adapt the tool fully to the needs of countries, and to involve regional organisations such as MEFMI in the assessment missions given their knowledge of the countries they serve. In addition, the DeMPA should not become a tool for imposing conditionality on developing countries, but rather should allow countries to design independently their own debt management plans.

Finally, the debt managers worked in country teams to develop capacity building plans for the period 2008/09. These plans will feed into the HIP-C Debt Strategy and Analysis Capacity Building Programme schedule of activities for the remaining life of the programme.
This seminar aimed to sensitise the heads of Public Treasury and Debt Management structures in the Franc Zone, on the need to base the issuance of domestic debt on sound management of the public treasury (also known as “cash management” or “liquidity management”), in order to overcome some problems emerging from recent short-term debt issuance by the member states of the Franc Zone.

The participants were the directors of public treasury and debt management departments from all the Franc Zone countries, as well as the BCEAO, BEAC and observers from the Central African Financial Markets Commission (COSUMAF).

Methodology
The seminar benefited from technical support by the Agence France Trésor (AFT), the Treasury of the Kingdom of Morocco, BCEAO and BEAC. For three days, the participants discussed the legal and institutional framework for public treasury management, a range of operational management issues, how to design a short-term debt issuance strategy, how to manage risks, and post-market inspection of operations.

Current Treasury Management and Consequences for Debt Issuance
A comparative study of the tools and systems used for public treasury management in the Franc Zone, based on the presentations the country delegations made to the seminar, clearly shows the inadequacies of current legal and institutional structures and therefore also of practical treasury management, in the countries. In particular:

1) Treasury Management is still regulated by organic laws introduced in a context where central banks provided monetary financing to government. These limit treasury management to basic operations of encashing revenues and executing expenditures, based on the balance of resources available. They ignore the key role of honoring all the State’s commitments on time, resulting in an accumulation of short-term arrears (known as “restes à payer”) which turn into the longer-term arrears which for many countries are a high proportion of their domestic debt.

2) Current operational treasury management practice is inadequate largely because is it based on unreliable and volatile forecasts. These reflect the poor quality of statistics, weak links between government budget execution and treasury management, and the lack of a computerised network among the structures involved in treasury management. In many cases, poor treasury management has led countries to either contract amounts of short-term domestic debt which do not reflect their true financing needs, or to issue debt with maturities which do not match the timeline of their needs. As a result, they have not always managed to minimise the cost of mobilising resources.

Improving public treasury management
The participants examined international standards for treasury management, and practice in countries with advanced management systems, especially France and Morocco, to identify ways to improve treasury management in the Franc Zone. These include:

1) Reforming the institutional and legal framework for treasury management in order to adapt it to ending monetary financing, as well as taking formally into account new needs and functions for treasury management;

2) Improving the quality and availability of data, through more frequent collection and better centralisation, allowing treasury managers to make more reliable forecasts of liquidity;

3) Publication and dissemination of government economic, financial, budgetary and accounts information to guarantee transparency and make more predictable its operations on the domestic debt market;

4) Designing a strategy for issuing short-term debt, based on efficient treasury management, to ensure that the maturities and amounts of domestic financing to mobilise are correctly calculated.

The seminar ended with a session examining overall next steps needed to ensure that public treasury management in the Franc Zone meets international standards and best practices. The participants asked Pôle-Dette to work on designing a regional indicative framework for treasury management, building on the successful experience with the regional framework for public debt management policy, in the CEMAC and UEMOA region countries. Once this is adopted by all the member states, it would facilitate the rapid adoption of reforms to improve public treasury management, thereby reinforcing regional money and financial markets.
Why An MTDS?

According to the Bretton Woods Institutions, a major lesson from the global financial crises of the last two decades has been that international financial market swings can produce major fiscal and monetary costs for developing countries. In the 1980s, the Latin American debt crisis was triggered partly by misalignment of currencies in the debt portfolio vis-à-vis currencies of export earnings and reserves. The Asian crises of the 1990s showed that assumption by governments of contingent private sector liabilities, arising from banking sector collapses, can rapidly inflate public debt. In addition, local currency exchange rate depreciation, sometimes due to speculative attacks on foreign exchange markets, can dramatically increase public debt. These factors highlight the importance of including risk analysis in debt strategies.

An MTDS is also necessary because, while the HIPCs and Multilateral Debt Relief Initiatives have significantly reduced the debt burden of many low-income countries, at the same time, new potential creditors and opportunities to access non-concessional financing have emerged. These raise new risks and challenges. Countries are frequently faced with multiple new financing proposals, and lack a fully coherent framework to assess related risks and answer questions such as: what is the appropriate mix of multilateral and bilateral concessional debt? Is quasi-concessional financing appropriate? Should a country tap international capital markets? What are the cost-risk implications of extending the maturity of domestic borrowing? As many emerging market countries have experienced, poor financial choices, including of the terms and structure of new debt, can put debt sustainability at risk, and jeopardise macro-economic stability.

The BWI vision of a Medium Term Debt Strategy (MTDS) therefore seeks to

• operationalise the optimal cost-risk combination of debt management objectives - ensuring the government’s financing needs and payment obligations are met at the lowest possible cost and risk over the medium term.
• In the past, risk management has often focused too much on mitigating the risk exposure embedded in the existing debt portfolio (potential variation in debt service arising from changes in exchange or interest rates). Instead of this narrow focus, an MTDS will take into account a wide variety of potential risks, springing from balance of payments, fiscal, monetary and structural variables. These include exchange rate risks related to terms of trade shocks, aid dependency, current account deficits, trade liberalization, fiscal deficits and unanchored inflation expectations; interest rate risks arising from fiscal deficits or unanchored inflation expectations; macroeconomic volatility risks arising from aid volatility or dependence of government spending on aid, capital account liberalization, reduction of trade taxes and natural disasters; rollover risks arising from capital account liberalization or limited reserves; crowding out or other demand-related risks resulting from local financial market developments; and risks of reduced aid as GDP levels rise. All of these factors are already taken into account in CBP-supported debt strategies, but the BWI MTDS toolkit holds the potential to provide a more formal framework for analyzing relative risks.

An MTDS should ideally cover all sovereign debt: of the central government (budgetary, extra-budgetary and social security funds), the state and local governments, central bank, and non-financial public corporations - as is the case in the strategies designed under the CBP. However, the BWIs intend to begin their work by focusing on central government debt, because data are more readily available and the authority exists to implement the strategy, and to extend the coverage of the toolkit as data become available and where institutional arrangements allow a more comprehensive strategy to be implemented.

Benefits of Incorporating Risk Analysis in MTDS

A risk-incorporating MTDS provides a clear framework to set medium-term strategic goals, informing the authorities’ choice of preferred financing, by enabling them to:

• Identify cost-risk trade-offs: costs and risks associated with each financing option are clearly recognised and identified, avoiding decisions based on short-term needs.
• Manage risk: where risks have to be incurred, an MTDS will enable the authorities to monitor and manage them by, for example, maintaining cash or reserves buffers, establishing committed lines of credit, or developing local debt markets.
• Coordination: they will facilitate coordination between debt managers and fiscal, monetary and reserve managers, helping to reconcile their objectives and constraints. It will enable each to focus more clearly on their core objectives, helping to achieve greater clarity and accountability for debt management.
• Relax constraints: they will help identify the constraints affecting debt managers’ choices, allowing where possible, steps to be identified to ease those constraints.
• Lowering cost: they may lower debt service costs by providing a useful guide to investors, rating agencies and market developers on the degree of risk a country faces.

The design of an MTDS will involve the following steps:

1) Identifying objectives for debt management and scope of the MTDS;
2) Analysing cost and risk of the existing debt;
3) Identifying potential funding sources;
4) Assessing the outlook for key policy areas - fiscal, monetary and market;
5) Reviewing key longer-term structural risks;
6) Specifying the cost-risk trade-offs for alternative debt management strategies; and
7) Reviewing the implications of preferred debt management strategy with fiscal and monetary policy authorities, and those responsible for domestic market development.

The BWI toolkit as presented in the recent Oslo meeting of debt management stakeholders is designed to be a global public good available for use by countries and all organisations assisting them to develop debt management capacity. The CBP partners look forward to working with the BWIs to align the tools with countries’ existing debt strategies and needs, and to disseminating them in cooperation with the BWIs, as part of future CBP work.

\footnote{This article draws heavily from the document, “Guidelines for Medium Term Debt Strategy”, developed by the IMF and World Bank.}
The new methodology does not involve major changes from phase 3: rather it reorganises indicators into two categories: those linked closely to the CBP logframe goals (debt sustainability, debt strategy implementation, legal and institutional frameworks, trained personnel and capacity-building plans); and technical areas, separating out clearly the front, middle and back office outcomes relating to external debt, external new financing and domestic debt, as well as risk management, macroeconomic forecasting, poverty reduction programming and detailed implementation of Capacity Building Plans. This reorganisation allows countries and the CBP partners to identify action priorities even more clearly. As in the past, the self-assessment results are quality-controlled by the programme implementing partners, as well as the CBP donors, and have been found to be realistic by independent reviewers of the programme.

**Logframe Goals**

Indicator 1 (Debt Sustainability). Countries choose how they want to measure their sustainability according to their national circumstances, while being guided by international frameworks. They are therefore generally using HIPC Initiative indicators for external debt if they are still in the HIPC process and LIC-DSF indicators thereafter; HIPC CBP indicators for domestic debt; and regional convergence criteria in the CFA franc zone. As shown in Table 1, the average score for this indicator remains only moderate at 3.06, partly due to continuing high domestic debt burdens. Scores are relatively high in the CEMLA and MEFMI regions, due to the predominance of post-MDRI countries. Non-RO and Pole-Dette countries have lower scores as they are much less advanced in the HIPC process and many have large domestic debt arrears.

Indicator 2a examines debt strategies more comprehensively than in phase 3, looking beyond capacity to design a strategy, to measure whether it is approved and implemented. HIPC countries had virtually no capacity in this area when the CBP began in 1997, but have made major progress. Though this indicator scores highest of the logframe goals, some low scores reflect two aspects:

- technical teams have designed high-quality strategies but policymakers have failed to formally approve or implement them. The CBP is increasingly helping Governments to approve and implement strategies - which is not always easy post-MDRI, if Governments and donors act as though debt has been eliminated and is no longer a major policy issue (See also MEFMI article). These efforts explain why scores have increased from 2.87 the previous year to 3.18.
- strategies do not yet include some most advanced aspects, notably risk assessment and the planning of pathways back to less concessional financing (see article on page 2), because countries have decided that these are not priorities in an environment of very limited access to floating interest rate or commercial financing. However, the CBP is accelerating efforts to introduce these into country strategies, planning to cooperate closely with the BWIs on risk assessment issues.

Indicator 2b measures whether legal and institutional frameworks match international best practices by ensuring clear parameters for all front, middle and back office functions; for all types of debt, guarantees, onlending and contingent liabilities; and for coordinating debt management policy with other aspects of government financing and macroeconomic and poverty reduction policies. Average scores for laws and institutions have improved considerably since 2000, reflecting updating of laws and creation of debt management committees with enhanced powers. During the last year they rose from 2.65 to 2.94, partly reflecting the major regional initiative to update laws and coordination arrangements in the Pôle-Dette member states. The area which needs special attention in many countries “ensuring legislation includes clear parameters for contracting new financing”, notably borrowing ceilings and rules for new types of finance.

Indicator 3a measures the availability of personnel who can train others to perform debt strategy functions, thereby assessing a major aspect of the sustainability of technical skills. It has an overall average of 3.14 (up from 2.69 the previous year), which means that there is at least one trainer in each country in each technical area. The improvement shows a closer focus on training those who are permanent members of national debt strategy committees and therefore stay in position after training, reducing risks of staff rotation - but governments need to create such teams and motivate them by using their technical advice, in order to make this possible.

**TABLE 1: SUMMARY OF PERFORMANCE INDICATORS**

<table>
<thead>
<tr>
<th></th>
<th>Indicator 1 Debt Sustainability</th>
<th>Indicator 2a Debt Strategies</th>
<th>Indicator 2b Legal and Institutional</th>
<th>Indicator 3a Trained Trainers</th>
<th>Indicator 3c Capacity-Building Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pôle Dette</td>
<td>2.54</td>
<td>2.91</td>
<td>2.66</td>
<td>3.08</td>
<td>2.35</td>
</tr>
<tr>
<td>CEMLA</td>
<td>3.75</td>
<td>3.55</td>
<td>2.88</td>
<td>2.88</td>
<td>2.05</td>
</tr>
<tr>
<td>MEFMI</td>
<td>3.71</td>
<td>3.43</td>
<td>3.28</td>
<td>3.63</td>
<td>2.85</td>
</tr>
<tr>
<td>WAIFEM</td>
<td>3.33</td>
<td>3.30</td>
<td>3.60</td>
<td>2.67</td>
<td>3.07</td>
</tr>
<tr>
<td>Non-RO</td>
<td>2.80</td>
<td>3.16</td>
<td>2.76</td>
<td>3.00</td>
<td>2.40</td>
</tr>
<tr>
<td>OVERALL CBP</td>
<td>3.06</td>
<td>3.18</td>
<td>2.94</td>
<td>3.14</td>
<td>2.51</td>
</tr>
</tbody>
</table>
The weakest indicator is 3c, the quality of comprehensive long-term capacity-building plans (see article in issue 27 for contents of such plans). This is largely because the CBP has focused on designing such plans only since 2005, and because in many cases they have not yet covered the needs of each individual staff member (as opposed to units and agencies). However, scores are rising fastest here (from 1.51 to 2.51), and are expected to continue rising rapidly, reflecting enhanced efforts by implementing partners to produce capacity-building plans for each country.

In sum, the assessment indicates that the CBP is exceeding expected progress towards its phase 4 targets on debt strategies and legal/institutional reforms, and is on track overall on trainers and capacity-building plans, but could accelerate in some regions.

Analysis of Technical Areas
Table 2 below shows the summary scores by technical area by region:

- **External Debt** receives the highest score (3.51). This is due to: improvements in debt recording systems due to continuing work by the Commonwealth Secretariat, UNCTAD and the CBP regional partners; improvements in servicing due to arrears clearance and reduction of the service burden (so that post-MDRI countries had high scores); and, in the case of renegotiations, due to a strong rise reflecting CBP support on HIPC and related negotiations.

- **New Financing** is still scoring lower ratings (3.23) in front, middle and back office areas. Though disbursements are processed reasonably well in most countries, grant recording is still poor in many cases, and the weakest area is new financing policy. In spite of considerable improvements using the new financing strategy methodology developed in CBP phase 3, HIPCs still need strong support on new financing policy, analysing especially the quality and effectiveness of new finance rather than just its cost and risk, to keep debts sustainable.

- **Domestic Debt** had a lower score (3.13). Although the highest scoring sub criterion (3.25), recording is much worse than external debt, but this is now changing with new domestic debt modules in CSDRMS and DMFAS. Domestic debt issuance and servicing received the second highest score (3.11), and may be expected to improve further if many different TA programmes available in this area build national capacity to develop micro-structures of domestic markets. However, strategy formulation has the lowest score (2.89), reflecting a strong need for strategies based on monetary, fiscal and financial sector policies, which can be based on the CBP methodology introduced in phase 3.

- Among the other technical areas, **macroeconomic forecasting** has slightly higher scores at 3.14, but still requires much more investment in capacity-building by non-CBP programmes if countries are to sustain capacity to make long-term macro forecasts as the basis for debt strategies; **poverty reduction expenditure programming** (3.08) also needs further reinforcement if countries are to be able to forecast accurately their spending and financing needs for poverty reduction; and **portfolio and risk analysis** has the lowest score of any area (2.37), making the BWI initiatives to develop simple risk tools for LICs very welcome.

- The last area deals with **capacity building environments**. Though overall scores were relatively high (3.23), this reflected major progress on improving structures of agencies and units, and coordination among them. However, more work is needed at the Government level (reinforcing commitment to use national capacity rather than external TA, increasing interactions with civil society and parliament, and improving the quality and stability of civil service reform plans) and the individual level (providing job descriptions, career paths and training). In addition, Pôle-Dette and Non-RO countries score lower, reflecting weaker institutional structures and higher political/institutional instability.

### Table 2: Summary of Technical Areas

<table>
<thead>
<tr>
<th>Technical Areas</th>
<th>Pôle Dette</th>
<th>CEMLA</th>
<th>MEFMI</th>
<th>WAIFEM</th>
<th>Non-RO</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Debt</td>
<td>3.18</td>
<td>4.23</td>
<td>3.83</td>
<td>3.59</td>
<td>3.28</td>
<td>3.51</td>
</tr>
<tr>
<td>Recording</td>
<td>3.63</td>
<td>4.35</td>
<td>3.89</td>
<td>3.80</td>
<td>3.48</td>
<td>3.77</td>
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<tr>
<td>Renegotiation</td>
<td>2.64</td>
<td>3.95</td>
<td>3.69</td>
<td>3.27</td>
<td>3.16</td>
<td>3.17</td>
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<tr>
<td>Servicing</td>
<td>3.26</td>
<td>4.40</td>
<td>3.91</td>
<td>3.70</td>
<td>3.20</td>
<td>3.58</td>
</tr>
<tr>
<td>New Financing</td>
<td>3.15</td>
<td>3.37</td>
<td>3.51</td>
<td>3.67</td>
<td>2.65</td>
<td>3.23</td>
</tr>
<tr>
<td>Recording</td>
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<td>3.63</td>
<td>3.70</td>
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<tr>
<td>New Financing Policy</td>
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<td>3.24</td>
<td>3.40</td>
<td>2.92</td>
<td>3.11</td>
</tr>
<tr>
<td>Disbursement</td>
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<td>3.66</td>
<td>3.90</td>
<td>2.80</td>
<td>3.34</td>
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<tr>
<td>Domestic Debt</td>
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<td>3.74</td>
<td>3.33</td>
<td>2.47</td>
<td>3.13</td>
</tr>
<tr>
<td>Recording</td>
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<td>3.43</td>
<td>2.65</td>
<td>3.25</td>
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<tr>
<td>Strategy</td>
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<td>3.08</td>
<td>3.14</td>
<td>3.10</td>
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<td>2.89</td>
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<tr>
<td>Issuance/Servicing</td>
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<td>3.97</td>
<td>3.47</td>
<td>2.45</td>
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<tr>
<td>Other Technical Areas</td>
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<td>Macroeconomic Projections</td>
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<td>3.04</td>
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<td>3.93</td>
<td>3.16</td>
<td>3.08</td>
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<tr>
<td>Portfolio and Risk Analysis</td>
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<td>2.13</td>
<td>2.32</td>
<td>2.37</td>
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<td>Individual Level</td>
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<td>3.37</td>
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<td>Agency Level</td>
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<td>3.89</td>
<td>3.53</td>
<td>3.16</td>
<td>3.40</td>
</tr>
<tr>
<td>Government Level</td>
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<td>3.80</td>
<td>3.20</td>
<td>3.04</td>
<td>3.16</td>
</tr>
<tr>
<td>OVERALL AVERAGE</td>
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<td>3.58</td>
<td>3.57</td>
<td>3.43</td>
<td>2.78</td>
<td>3.11</td>
</tr>
</tbody>
</table>
Regional Workshops/Seminars

CEMLA Long-Term Debt Sustainability Workshop (Mexico City, 10-14 December, jointly with IMF and World Bank). This workshop was targeted mainly at Caribbean countries, and therefore conducted in English. It aimed to build participants’ capacity in the field of foreign exchange, with a focus on low-income countries (DSF-LICs). The response to CEMLA’s invitation was very enthusiastic, resulting in the participation of 20 officials from 10 countries (Barbados, Bolivia, Dominica, Grenada, Guyana, Honduras, Mexico, Nicaragua, St. Lucia and Venezuela, and 2 regional institutions - the Eastern Caribbean Central Bank (ECCB) and the IMF Caribbean Regional Technical Assistance Centre (CARIFAC)). In the participant evaluation, all participants assessed that the skills acquired in the workshop will be very useful in their daily work. 75% considered the length of the workshop sufficient, 90% were very positive about the technical organization, and 85% about the administrative and logistical organization of the workshop.


PALOP Institute Meeting (Luanda, 2 February)

This inaugural meeting of the Institute for Financial and Economic Management for Portuguese Speaking Countries in Africa (IGEF-PALOP) was attended by delegations from 5 member countries - Angola, Cape Verde, Guinea Bissau, Mozambique and Sao Tome and Principe - as well as representatives from the ACBF, DRI, European Union, Portugal, the United Kingdom and the World Bank. Its objective was to sign the Intergovernmental Agreement to constitute the institute (including the statutes, location and financial contributions from member states). The country delegations signed these documents and took them back to their countries for ratification in the next few months. The Angolan Minister of Finance was selected to be the Interim Director General of the Institute, pending selection of the Director-General through a transparent process as soon as all governments have ratified the agreements. Lubango was agreed as the IGEF location, providing state of the art training facilities and student accommodation.

Pôle-Dette Seminar on Treasury Management and Domestic Debt Strategies (Douala, 12-14 February). For more details, see page 6.

WAIFEM Aid Management in Post-Conflict Countries (Monrovia, 10-14 December). Post conflict countries have low tax collection, meager foreign exchange earnings and high debt burdens, and therefore require substantial effectively delivered aid to address their development challenges including the MDGs. The course was designed to provide comprehensive training in managing aid, including recording, analysis, and policy formulation. It also provided a forum to share information on best practices, including legal and institutional frameworks. The course was conducted by the African Capacity Building Foundation (ACBF), and attended by 31 senior officials of public sector agencies, NGOs and the press. Participants recommended that the governments of Liberia and Sierra Leone should:

- establish a WAIFEM-coordinated community of practice to share experiences;
- formulate clear national policies on aid coordination and management, and disseminate such policies to all stakeholders, to ensure that aid is aligned with national priorities;
- reinforce public financial management systems to attract more budget support;
- accelerate development of centralised aid tracking mechanisms, including aid effectiveness aspects, to ensure donors honour their commitments;
- implement appropriate mechanisms to enhance predictability of aid inflows;
- strengthen their legal and institutional arrangements for public debt and aid management, especially loan and grant negotiation and re-negotiation;
- put in place appropriate modalities for aid approval including parliamentary oversight;
- implement strong policies for growth and economic stability, to attract higher aid.

National Workshops

Bolivia Subnational Debt Strategy Workshop (Camiri-Santa Cruz, 21-28 January). The HIPC CBP, GTZ and the Federation of Municipal Associations (FAM), partners in the Capacity-Building Programme for Subnational Governments, organized a workshop for the Municipal Government of Camiri. Thirteen officials participated, from the Alcaldía Municipal of Camiri (10), Alcaldía of La Paz (1) and Association of Municipalities of Santa Cruz (2). The workshop aimed to build the officials’ capacity to analyse their fiscal and financial policies, with particular emphasis on analysing the sustainability of Camiri’s debt. It compiled and organised fiscal and debt data, designed of scenarios and projections, and produced and analysed sustainability results. The outputs included a report containing micro- and macro-economic analysis of debt sustainability, a comprehensive database on debt and financial flows, an improvement in institutional coordination, and a self-evaluation of Camiri’s fiscal and debt management capacity using CEMLA’s methodology. In evaluating the workshop, 85% of participants considered it highly useful for their daily work, 92% that it was of the right length, 77% that it was well organized technically, and 92% that it was well organized administratively.

Cape Verde Training Workshop (Praia, 19-30 November). DRI conducted a training workshop financed by UNDP Cape Verde and the national authorities. The objectives were to assist Government in analyzing: a) the fiscal and budgetary, BoP and monetary impact of debt; b) the impact of debt servicing on Government spending on poverty reduction; and c) new mechanisms for accessing external finance given graduation from least developed country status. The workshop was conducted using the LIC-DSF, supplemented by more detailed tools for forecasting new financing developed by the HIPC CBP. The results showed that external debt will remain highly sustainable for 20 years. However, a high proportion (up to 25%) of budget revenue will be needed for public debt service, and therefore diverted from infrastructure and poverty reduction spending. Accordingly, the workshop helped the Government to analyse prospects for future development finance, including improving the quality and effectiveness of aid, and diversifying into less concessional sources (see page 2).

Mauritania Sensitisation Seminar (Nouakchott, 22 January to 4 February). This seminar discussed the National Debt Reduction and New Financing Strategy, as well as institutional, legal and capacity-building needs to reinforce debt management. The Minister of Economy and Finance chaired the seminar, attended by 23 policymakers including the Governor of the Central Bank, members of Senate and Parliament economy and finance committees, and the National Public Debt Committee (CNDP). The main conclusions of the seminar were that:

- debt is unsustainable after HIPC and MDRI relief, because debt to some Arab creditors (especially Kuwait) has not been relieved, so negotiating such relief is a top priority;
- recent aid pledges of US$2.1 billion imply a need dramatically to improve quality, effectiveness and absorbtion, through a national aid policy.
- given forthcoming oil revenues, Mauritania needs urgently to design, approve and implement a policy on non-aid forms of development financing.
- in spite of strong recent progress, Mauritania needs to maximise political leadership in legal and institutional reforms, and building capacity for managing debt and new financing.

The seminar was preceded by an institutional mission, which provided comprehensive assistance in designing legal and institutional reforms, in line with international best practices. Going forward, the CBP was asked to assist with information on Arab debt relief; how to improve aid effectiveness, notably of budget support; and designing a gradual transition to non-aid financing.
Nicaragua: Debt Pro Workshop (Managua, 26 November to 1 December). The national workshop on Debt Pro\textsuperscript{2} was organised to fulfil specific needs in Nicaragua’s Debt Strategy Capacity-Building Plan, and involved 10 officials from various units of the Ministry of Finance and Public Debt. It aimed to improve the technical capacity of the participants to undertake debt sustainability analysis using Debt Pro\textsuperscript{2}, especially their ability to analyse various scenarios for restructuring Nicaragua’s domestic debt. As a major advance in national ownership, the Ministry of Finance and Public Credit led the technical and administrative organisation, using training capacity already existing in Nicaragua, with only limited support from the HIPC CBP. In their evaluation, the participants assessed unanimously that the skills acquired in the workshop will be extremely useful in their daily work. Technical and administrative organisation was assessed as very good, although 60% of participants would have preferred a longer workshop.

Institutional/Follow-up Missions
Burkina Faso National Public Debt Committee Training Mission (10-14 March). This aimed to help the Committee members to design the debt strategy to be annexed to the budget law, in line with regional guidelines. The mission focused mainly on training in how to design future financing strategies, taking into account the different types of shocks to which the country might be exposed. This involved 1) simulating the impact of three macroeconomic scenarios and three external and domestic financing strategies, using the detailed CBP methodology and Debt Pro\textsuperscript{2}; and 2) using the results of the strategies to test external and public debt sustainability under various sensitivity tests using the LIC-DSF template of the Bretton Woods Institutions.

Burundi Debt Analysis Mission (14-19 January). A DRI mission trained officials to produce an analytical report on debt management, which is a performance criterion to reach HIPC completion point. After training, officials from the Treasury Department, central bank, Budget Department and Vice-Ministry of Planning compiled an annual report which will be approved by the Minister and disseminated. The mission also agreed with the authorities on a plan for producing monthly reports in 2008, to help ensure that the completion point is reached. It also verified government’s recent steps to strengthen institutions, notably: combining all economic ministries into a Ministry of Economy, Finance and Development Cooperation, including a Vice-Ministry of Planning; and improved organisation and clarification of job descriptions in the Treasury. In light of pledges of USD 666 million at the Round Table in May 2007, and agreement on an overall framework for aid mobilisation, Government has requested that the next CBP mission focus on how to implement aid and debt coordination, by organizing a seminar to harmonise legal frameworks and agree division of labour among units.

CAR DeMPA Mission (World Bank and Pôle-Dette, 7-17 February). This mission evaluated the legal and institutional framework for debt management, using the World Bank’s new tool, the DeMPA (Debt Management Performance Assessment Tool). This tool assesses fifteen indicators in six areas: i) governance and strategy development; ii) coordination with macroeconomic policy; iii) borrowing and related financing activities; iv) cash flow forecasting and balance management; v) operational risk management; and vi) debt records and reporting. The evaluation is conducted in cooperation with national governments and development partners. Its results are presented in a report underlying strengths and weaknesses as well as current reforms. However, the report does not make any recommendations or assessments of envisage reform measures and does not focus on capacity-building needs: governments need to design such programmes for themselves. Pôle-Dette’s participation in this mission has allowed it to understand this tool and plan cooperation with the BWIs for executing it in the Franc Zone.

Franc Zone Institutional Support Missions. These missions aimed to supply legal assistance to countries to implement in their own contexts, the legal and institutional changes required by the CEMAC and UEMOA regional regulations on public debt policy and management. Pôle Dette and DRI organised missions to: Burkina Faso (7-11 January); Cameroon (21-25 January); Benin and Comoros 18-22 February; Congo, Côte d’Ivoire and Togo (25-29 February); Central African Republic and Senegal (3-7 March); and Guinea Bissau (10-14 March). The work of the missions depended in large degree on the stage of execution of the regional regulations in each country. For example, Benin has already created a National Debt Committee, so the mission to Colonou focussed on ensuring that the Committee’s functions and work programme were in line with the guidelines. As a result of the mission, the Benin authorities agreed to finalise consultations and sign a decree clarifying the roles of units involved in debt management; sign a decree modifying the functioning of the National Debt Committee; and annex a national debt strategy to the 2009 budget law (which is to be produced in the second half of 2008).

Guinea (4-15 February). A DRI-assisted mission, of experts from BEAC and Mali, helped to finalise a CS-DRMS debt database for debt strategy analysis, in advance of a national debt strategy workshop, and to train government officials in key debt management concepts (such as debt restructuring and calculating penalty interest). The mission focussed on utilisation of the modules for debt restructuring, billing, and calculating penalty interest, as well as the “Report Writer” to design specialised reports. An evaluation of progress with finalising the database allowed users to overcome problems in entering, updating and managing data, to ensure that daily backup and security procedures were being followed, and to reduce the time taken to process data from 4 hours to 24 minutes. The Commonwealth Secretariat headquarters provided considerable long-distance assistance. The mission also examined the degree to which data were reconciled with creditors, and stressed the need to finalise this well before completion point. It also made recommendations for ensuring regular updating of all loan transactions, organising the collection and management of data in the context of new institutional structures, and full documentation of all procedures in a debt management manual.

Guyana Procedures Manual Mission (3-7 December). The final capacity building mission, funded by the EU, finalised the Procedures Manual prepared to strengthen debt management activities. It also prepared a note on future training requirements and available courses to build capacity in debt and aid management. In addition, the mission met the EU Delegation to brief them on the project outputs, which included a Review of the Institutional Framework, Procedures Manual, Annual Report on Debt and Aid Management, and extensive training of Government officials in debt and aid management techniques and analysis.

Haiti Demand Assessment Mission (Port au Prince, 3-12 December). See page 4

Methodology, Distance Learning and Attachments
Methodology. Based on the recent DLP residential schools, DRI has prepared a note on how to produce Debt-Pro\textsuperscript{2} reports analysing projections of domestic debt stock and service for fiscal and monetary policy purposes. The user can design different domestic entity codings for fiscal and monetary purchases of debt, to enter in the Debt-Pro\textsuperscript{2} reference sheet. This technical note will be available shortly on www.HIPC- cbp.org (in the meantime contact DRI for a copy).

Distance Learning Programme. The second residential school was held for Spanish speaking participants from Honduras at CEMILA in Mexico City from 14-25 January. Two students, Yadira Estrada Galvez and Roberto Carlos Ramirez Alvaranga, achieved distinctions in domestic debt strategy. They have shown the knowledge and skills to be resource people in regional and national workshops, and to

continued on page 14
COUNTRY PROGRESS
Countries have progressed as follows:
• After a successful awareness creation, experience sharing and training for trainers event held in Dakar in January (see page 13 for more details), and an attachment of the BCEAO Programme Manager to DFI in February, BCEAO and BEAC will launch projects in all 14 member states, with opening workshops for the second cycles in Burkina Faso and Cameroon and demand assessment missions to 5 additional countries taking place in Q2.
• Bolivia hosted a follow up mission to implement IMF ROSC recommendations and further improve its methodology.
• Botswana has agreed with the Commonwealth Secretariat on Comsec/CPB support.
• Zambia finalised its Cycle 2 database and analytical report for dissemination in Q2.
• Ghana (Cycle 2) hosted a GDDS mission and is expecting to launch in April.
• Malawi is finalising its Cycle 3 report and expects to launch Cycle 4 in Q3.
• Nicaragua is preparing dissemination of Cycle 1 results and launching Cycle 2 for Q2.
• Tanzania is finalising end-2006 data editing and checking for Cycle 4, with 86% response. It aims to produce a preliminary report in Q2.
• Uganda is finalising reports for 2004–5 for publication and dissemination in Q2. Fieldwork for Cycle 6 (covering 2006) achieved 85% response, and Uganda expects to release preliminary results in May. Cycle 7 covering 2007 is to be launched in June.
• Malawi is finalising its Cycle 3 report and is expecting to launch Cycle 4 in Q2.

INFORMATION PRODUCTS
• Newsletter 33 is now available online on the public pages of the website (visit www.fpc-cbp.org and link to “Newsletter”). The FPC pages are devoted to CBP progress and develop the theme of liaison with the private sector. For subscription enquiries, contact dfi@dri.org.uk
• Briefing #17 has been disseminated, and is available online (visit www.fpc-cbp.org and link to “FPC CBP Briefing”). It lists the latest developments in the CBP, and link to related international, regional and national initiatives, research, developments in codes and standards etc. For subscription enquiries, contact dfi@dri.org.uk
• The website continues to be updated every 6 weeks for latest developments in the CBP and related initiatives. The “What’s New” page was updated in February and updated Training for trainers material has been uploaded on the Member’s site, to which you can register by completing the registration form on the Member’s home page on www.fpc-cbp.org . A login name and password will be sent to you shortly afterwards for you to use the site.

SOFTWARE
• EIS progressed with generic software Technical Manual, to be completed in March.
• MEFMI conducted an expert retreat to start developing a regional “Private Capital Information System” in Entebbe, Uganda from 21 January to 1 February. The workshop reviewed requirements for the system, and developed database table structures and relationships. The objective is to have the system ready in Q1 2009.

GOVERNANCE AND LIAISON
The CBP is continuing to work closely with the IMF GDDS2 project, especially on projects which fit together in the Gambia and Ghana. It has also been working with the Commonwealth Secretariat on methodology for recording private sector external debt, and in February held discussions with UNCTAD on closer collaboration.

FORTHCOMING WORK PROGRAMME
• Start the CBP work in Botswana (with the Commonwealth Secretariat), Congo Republic, Gabon, Ghana, Mali, Niger and Senegal
• Close current cycles and begin the next cycles in the Gambia, Malawi, Nicaragua, Tanzania and, Uganda.
• Conduct a further follow-up mission to Bolivia
• Continue to produce information products (newsletter, listserve, website) to schedule
• Finalise the generic software Technical Manual
• Complete methodology on Policy Action Plans and sustainability analysis
• Governance and liaison: submit its mid-year report to donors and continue liaison with other international and regional organisations.
FPC CBP EXTENDS TO ENTIRE FRANC ZONE

Building on successful pilot cycles in Burkina Faso and Cameroon in 2005-06, member states of the Franc Zone approved the extension of the FPC CBP to all 14 countries, to be implemented jointly by BCEAO, BEAC and DFI. A Francophone Regional Training for Trainers Workshop was therefore held from January 22 to February 1 at the BCEAO COFEB in Dakar, Senegal, to launch this process.

The seminar brought together 22 delegates from 14 countries, representing the national agencies of the Central Banks, statistics departments and investment promotion agencies or departments. Of the 7 resource people, 2 were from DFI but 5 were experts involved in the pilot cycles in Burkina Faso and Cameroon, underling progress achieved in building regional training capacity.

AIMS, OBJECTIVES AND METHODOLOGY
The workshop aimed to reinforce and widen the pool of experts from the Franc Zone, so that they may apply their skills as national and regional resource people, giving countries more autonomy in training national counterparts in forthcoming national events. The workshop was also designed to inform countries about international best practices, and assess countries’ existing capacity in relation to these, thereby producing important recommendations for improving monitoring, analysis and policy implementation on foreign private capital.

To achieve these objectives, the workshop had three parts:

1) Sensitisation. The first two days were devoted to sessions presenting international best practices in monitoring and analysing private capital. These were led by DFI, supplemented by major contributions from Burkina Faso and Cameroon highlighting their experiences in adapting these practices to their countries’ needs and circumstances during the pilot phase. They discussed in turn institutional arrangements, data compilation and management, and analysis and policy action plans.

2) Training of Trainers. The training stage of the workshop, led by regional experts from BEAC and country authorities, consisted of five modules: 1) an introduction to the project cycle of the FPC CBP; 2) preparing and conducting Demand Assessment Missions; 3) preparing and conducting Opening Awareness and Training Workshops; 4) preparing and leading Follow-Up Missions, and providing support to national officials in compiling, editing and checking data and conducting analysis of the data; 6) preparing a Policy Action Plan and conducting a Closing workshop.

Training was based on a TFT manual which comprised a trainers’ guide to lead each module and a participants’ manual with exercises, as well as the generic National Taskforce Manual (NTFM) containing methodological and reference material. Each module started with a presentation on key elements followed by working group exercises which allowed participants to be involved in conducting technical exercises, playing roles such as that of a mission chief meeting policymakers, or drafting documents. This method helped facilitate assessment of each participant’s capacity to conduct all CBP tasks.

3) Country Capacity Evaluation and Action Plans. The last two days of the workshop were devoted to an introduction to the FPC CBP methodology of country capacity self-evaluation and its importance in assessing country capacity development. This evaluation was then used to define countries’ priorities and design regional and national action plans which were presented at the end of the workshop by each sub-region.

CONCLUSIONS AND RECOMMENDATIONS
The main conclusions of the self-evaluations conducted during the seminar were that:

- BOP capacity varies depending on the length of service of staff in BOP units, and several countries lack formal investment promotion agencies, so there is sometimes a need for training in basic concepts and reinforcing investment promotion structures before launch.
- While most countries are strong on BOP, they are weaker on private sector debt issues, investor perceptions and corporate social responsibility, making these technical priorities.
- Apart from the pilot countries, all need to establish task forces which are built on their national balance of payments committees, to involve all relevant public and private sector agencies, and guarantee the success of monitoring, analysis and policy implementation.
- Though the legal framework for data collection is strong, it needs to be applied strongly enough to ensure high response rates to all statistical surveys.
- While personnel have high skills, especially in central banks, their numbers, training and working conditions often need reinforcing.
- There is a need to improve business registers, response rates, media campaigns and private sector sensitization in order to increase the quality and coverage of data and analysis.
- Non-survey sources (where reliable) need to be used more widely as survey cross-checks.
- More advanced software of the type used...
by the CBP is needed to allow advanced analysis.

- The FPC CBP will be highly welcome in allowing countries to beyond BOP reports by the central bank, to cover wider analysis and policy issues, especially on the macroeconomic sustainability of FPC, and investor perceptions and contributions to national development.

- There is a need to sensitise policymakers to the need for policy action plans in order more accurately to encourage stable and high-quality FPC for national development.

Participants also made many suggestions to ensure the success of the exercise in their countries. In particular, they suggested that it should as much as possible be combined from the start with the existing process of collecting balance of payments data; that there would be a need for more training on technical concepts and software issues; and that the creation of an efficient National taskforce would be essential for implementation and coordination at the national level.

Participants were asked to evaluate the workshop anonymously, and did so positively. Two-thirds suggested that it was vital to their daily working life and that they would be able to apply the skills learned in national cycles. Most of the training modules were considered easy to learn, although the technical tasks in modules 4 and 5 were more difficult for non-BOP specialists. The trainers were helpful and 75% of participants said they were capable of training on all aspects of the programme, while the remainder would need to be trained further.

**NEXT STEPS**

Based on each country’s assessment of its capacity to implement the program, it was agreed that:

- the programme will be launched in two groups, each containing 3 CEMAC and 4 UEMOA countries. The first wave will receive Demand Assessment Missions by end-June 2008, and the second by end-September, to ensure that during 2008 all countries begin the program.

- Cameroon and Burkina Faso do not need Demand Assessment Missions, but will produce national equivalents of DAM reports, and begin their cycles with Opening Workshops.

- BCEAO/BEAC will send a letter of sensitisation to the Minister of Finance of each country to inform them about the programme, the necessity to set up a National taskforce, the potential dates of their missions and workshops, and the relative financial and technical contributions needed from all partners to ensure the success of the programme.

**Future Activities**

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

1. **Regional Workshops**: CEMLA Training of Trainers; Distance Learning Residential Schools (Francophone and PALOPs); MEFMI Training for Trainers; PALOP New Financing; Pôle-Dette New DSA Framework, Parliamentary Sensitisation and Global Debt Strategies

2. **National Workshops**: Burundi; Côte d’Ivoire; Ghana; Guinea; Ethiopia; Liberia; Honduras; Malawi; Mozambique; Nicaragua; Sierra Leone; Uganda; Tanzania and Zambia

3. **Subnational Workshops**: El Alto, Bolivia

4. **Institutional/Follow-up Missions**: Burkina Faso; Chad; Côte d’Ivoire; Guinea; Guinea Blisssau; Kenya; Liberia; Mal; Mozambique (with Sensitisation Seminar); Niger; Uganda; Sao Tomé; Senegal and Togo

5. **Attachments**: various RO staff and consultants to DeMPA training in Washington

6. **Information products**: newsletters 35 and 36, 4 list serves on latest debt management developments and a publication on best Practices in Debt Management Institutions.

**continued from page 11**

mentor future students. The new financing strategy students, Sammy Castro Mejia and Raynel López Velasquez also performed well and completed the programme, and will take an active role in the national team conducting debt and new financing strategy analysis. The Francophone school is scheduled for June, to be followed by the PALOP school in the second half of 2008.

DRI and partners are finalising the student nominees for the second intake of Phase 4, to start by the end of April. DRI has conducted a demand assessment mission to Burundi, MEFMI to Tanzania, Uganda and Zambia, and WAFEM to Ghana. Pôle Dette has nominated officials from its training of trainers programme. Missions have had to place a number of students on a reserve list, as they have found in all countries overwhelming demand for distance learning.

**Pôle Dette Fellow Attachment**

To further develop HIPC CBP tools and manuals for macroeconomic forecasting, a BCEAO staff member from Senegal was attached to DRI and the IMF. This attachment developed more specific guidelines, a technical note and a computerised simulation tool for analysing the macroeconomic impact of exogenous or climatic shocks by examining their nature, size, duration, frequency, economic direction and degree.

**Arrival of the opening delegation**
MAKING FPC DATA ACCESSIBLE

Continuing the series of articles on building partnership with the private sector, this article looks at how countries meet international standards for accessibility of BOP and IIP data.

The IMF has prepared Reports on the Observance of Standards and Codes (ROSC) for data dissemination in most countries participating in the FPC CBP. The ROSC uses the “Data Quality Assessment Framework” (DQAF) as a means to assess quality against General Data Dissemination System (GDDS) or Special Data Dissemination Standard recommendations. The DQAF comprises six dimensions, of which the fifth is accessibility.

Definition of accessibility
Accessibility comprises the following three elements: data accessibility; metadata accessibility; and assistance to users. The DQAF assesses each element as follows:

5.1. Data accessibility
• 5.1.1. Statistics are presented in a way that facilitates proper interpretation and meaningful comparisons (layout and clarity of text, tables, and charts)
• 5.1.2. Dissemination media and format are adequate
• 5.1.3. Statistics are released on a pre-announced schedule
• 5.1.4. Statistics are made available to all users at the same time
• 5.1.5. Statistics not routinely disseminated are made available upon request

5.2. Metadata accessibility
• 5.2.1. Documentation on concepts, scope, classifications, basis of recording, data sources, and statistical techniques is available, and differences from internationally accepted standards, guidelines, or good practices are annotated
• 5.2.2. Levels of detail are adapted to the needs of the intended audience

5.3. Assistance to users
• 5.3.1. Contact points for each subject field are publicised
• 5.3.2. Catalogues of publications, documents, and other services, including information on any charges, are widely available

Assessment by country
The table shows results for CBP countries whose ROSCs were prepared under the revised (post-July-2003) DQAF.

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<tr>
<td>5. Accessibility</td>
<td></td>
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<td></td>
<td></td>
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<td>5.2. Metadata accessibility</td>
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<tr>
<td>5.3. Assistance to users</td>
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<td>0</td>
<td>LNO</td>
<td>LNO</td>
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<td>LNO</td>
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</table>

Key: O = practice observed; LO = largely observed; LNO = largely not observed; NO = not observed
Source: ROSCs available via the IMF website: www.imf.org/external/np/rosc/rosc.asp

As can be seen, according to the IMF assessments, most of the FPC CBP countries are observing or largely observing standards for assistance to users and metadata access, but several appear to be weak on data accessibility. However, these assessments are in some cases out of date, and also reflect assessments of all BOP data rather than FPC and IIP.

FPC CBP Applications and Priorities
As described in previous articles (see especially Newsletter #33), the FPC CBP endeavours to assist countries to build capacity in all the areas discussed above. Its experience has highlighted strong progress in most areas, as well as a few continuing challenges.

Data accessibility
• FPC CBP countries present data in line with BPM5 and wider requirements as reflected in analytical reports (5.1.1)
• Dissemination media and formats are adequate for analytical reports, but more work may be needed to use the same media and more easily comprehensible formats for economic reports containing officially accepted data (5.1.2)
• A pre-announced schedule for producing data remains a major challenge, due to delays in collecting and processing data, although countries are moving in this direction with more regular, more manageable smaller sample surveys (5.1.3)
• Simultaneous access to all is facilitated by uploading analytical reports to the websites of multiple government institutions as part of a wider dissemination strategy (5.1.4)
• Many central banks and investment authorities have put in place mechanisms to disseminate data responding to individual requests (though all data are routinely disseminated through CBP analytical reports) (5.1.5)

Metadata accessibility
• Countries detail sources and methods in their analytical reports, and post this information on their websites. However, there is scope to update the metadata which appear on the GDDS website with greater speed and frequency to take into accounts countries’ latest achievements (5.2.1)
• Analytical reports present the level of metadata (and data) needed by all relevant target audiences which have participated in or are interested in the survey results (5.2.2)

Assistance to users
• Countries alert investors of contact points during survey administration, and indicate them also on their GDDS website page and in their analytical reports, as well as on their institutional websites (5.3.1)
• Most countries list available information products on their websites, but only a few produce hard copy catalogues (5.3.2)

Conclusion
FPC CBP countries are performing strongly in almost all areas of data accessibility. More attention needs to be paid to pre-announcing and fulfilling dissemination schedules through better forward planning, and to gaining more rapid acceptance of data for publication in official reports and by the IMF and World Bank. However, it is also vital to remember that the FPC CBP focus exceeds DQAF standards, by stressing accessibility not only of data, but also of analysis and policy recommendations. This is because governments have found that analytical results are of much more use to business decision-making, and policy action plans to improve investment conditions improve the dialogue between government and private investors, making a much more important contribution to FPC stability than disseminating raw balance of payments and IIP data.
“It depends”, as the international community uses various different ways to define concessionality, as follows:

- For the purpose of defining ‘official development assistance (ODA)’ the OECD states that a loan is concessional when it has a grant element of at least 25%, calculated using a 10% discount rate. The uniform 10% rate applies irrespective of the currency of the loan.
- However, the OECD considers an export credit to be concessional if it has a grant element of at least 35% (50% for least developed countries), when using as a discount rate the market-related currency-specific Commercial Interest Reference Rates (CIRR). This discount rate is the same method as that used for HIPC Initiative calculations of present value of debt.
- The IMF uses the grant element calculation to monitor the concessionality of developing country new borrowings as part of a macroeconomic stabilisation programme. In doing so it uses a definition of concessionality similar to that used by the OECD for export credits (ie a grant element of 35% or more), but with a slight variation of methodology. For loans with a maturity of 15 years or more, the discount rate used is the 10-year average CIRR plus a margin related to the loan maturity; for loans with maturity of less than 15 years, the discount rate is the 6-month average CIRR. (The IMF has provided a concessionality calculator to compute the grant element using the IMF methodology on its website at www.imf.org/external/np/ppr/conc/index.htm).
- The IMF and the World Bank also use a different discount rate for calculating present value of debt for the purpose of assessing countries’ long-term debt sustainability, using the new Debt Sustainability Framework (DSF). In this case a fixed 5% rate is used regardless of currency, though this can vary upwards or downwards. The current 5% rate approximates the US dollar CIRR rate and it will be adjusted whenever the six-month average US$ CIRR rate changes by more than 100 basis points for a period of six months or more.

The lack of international agreement on how concessionality is measured has resulted in (particularly non-OECD) donors not knowing whether their loans are ODA or breach concessionality limits of Fund programmes. The need to agree an international uniform definition of concessionality has been raised by the previous Chair of the OECD DAC, but so far there has been no agreement on the way forward.

### Concessionality of Lending Terms with Different Discount Rates

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Loan Terms</th>
<th>Grant Element (%)</th>
</tr>
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<tbody>
<tr>
<td><strong>MULTILATERAL CREDITORS</strong></td>
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<td></td>
</tr>
<tr>
<td>AfDB</td>
<td>70.7</td>
<td>83.1</td>
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<tr>
<td>BADEA - to LICs</td>
<td>61.9</td>
<td>74.2</td>
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<tr>
<td>IDA (IDA-only countries)</td>
<td>66.7</td>
<td>86.5</td>
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<tr>
<td>IMF (PRGF)</td>
<td>33.0</td>
<td>49.1</td>
</tr>
<tr>
<td>IsDB - standard</td>
<td>23.9 - 46.0</td>
<td>41.0 - 63.7</td>
</tr>
<tr>
<td>OPEC Fund</td>
<td>61.0</td>
<td>76.3</td>
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<tr>
<td><strong>BILATERAL CREDITORS</strong></td>
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<td></td>
</tr>
<tr>
<td>OECD DAC creditors</td>
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<tr>
<td>Belgium (average terms)</td>
<td>55.5</td>
<td>72.9</td>
</tr>
<tr>
<td>France (average terms)</td>
<td>38.2</td>
<td>60.7</td>
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<tr>
<td>Germany (average terms)</td>
<td>41.0</td>
<td>53.1</td>
</tr>
<tr>
<td>Japan (average terms)</td>
<td>55.9</td>
<td>68.9</td>
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<tr>
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</tr>
<tr>
<td>USA (average terms)</td>
<td>53.1</td>
<td>65.7</td>
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<tr>
<td>Non-OECD creditors</td>
<td></td>
<td></td>
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<tr>
<td>China - Govt of China loans</td>
<td>62.5</td>
<td>75.1</td>
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<tr>
<td>India</td>
<td>38.6 - 46.6</td>
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<td>35.0 - 78.4</td>
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<td>12.4 - 70.4</td>
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<td>Thailand - Finance Ministry</td>
<td>48.7</td>
<td>63.5</td>
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*Administrative charge.
Sources: IMF, OECD and country documents